Corporate responsibility summary
2016
Guide to using this report

What you will find inside this report

Guide to using this report
This interactive PDF is designed to help you easily navigate the report and find the information you are looking for.

Guide to the navigation buttons:
- Return to contents
- Search
- Page back
- Page forward
- Return to previous page

Click on the dynamic links to access further relevant information within the report or online, and use the tabs at the top of the page to navigate between sections.

Guide to the dynamic link buttons:
- More information
- Download more information
- More information online

Where else can you find corporate responsibility information?
Corporate responsibility information is embedded in our Annual Report and Accounts 2016 and on our corporate website.

Overview of CR at BAE Systems

The big picture

Our approach

2016 in review

Contact us

Chief Executive's Review 03
Corporate Responsibility Committee 04
Chairman's Review 05
Market overview 06
Our business at a glance 07
The big picture 09
Deciding what matters 15
Governance framework 16
Responding to our stakeholders 17
Our people 19
Trust and integrity 26
Health and safety 29
Resource efficiency 33
Product stewardship 37
Suppliers and supply chain 39
Community 42
Contact us 47
At BAE Systems, our advanced defence technology protects people and national security, keeping critical information and infrastructure secure.

We search constantly for new ways to provide our customers with a competitive edge across the air, maritime, land and cyber domains. We employ a skilled workforce of 83,100 people (including equity accounted investments) in over 40 countries and work closely with local partners to support economic development by transferring knowledge, skills and technology.

Building trust is a fundamental part of our Company’s culture and values. We want our employees and shareholders to take pride in not just what we do, but how we do it. So we have worked hard to embed rigorous standards on business ethics and safety across the organisation.

We promote Science, Technology, Engineering and Mathematics (STEM) study at schools, colleges and universities across the world. We continue to invest in our award-winning UK apprentice programme and a further highlight was the opening of our £15.6m aerospace training and skills academy in Lancashire, UK. In 2016, we pledged to hire an additional 5,000 US veterans by 2020.

Our products are designed to operate in extreme and hostile environments; they could be significant engineering and construction projects with a high level of complexity and risk during manufacture and testing. Safety is therefore a strategic priority – for our employees, our contractors, suppliers and our customers.

We make a significant contribution to economic prosperity wherever we operate. The relationships established with local and military communities are deep, long-lasting and purposeful, for example, working with Combat Stress in the UK and Homes for Heroes in the US.
Overview of CR at BAE Systems

This section describes our business and the context for our approach to CR.
Chief Executive’s Review

We are a successful business because we are a responsible business. Our customers, employees and our communities would have it no other way.

They rightly expect us to operate to the highest standards, from the way we engage and motivate employees, to our product and service delivery, use of resources and treatment of suppliers. We embrace this challenge, to maintain and improve conduct across our diverse international operations.

As one of the world’s leading aerospace, defence and security businesses we are subject to scrutiny from a range of regulators and other stakeholders. We welcome questions about our approach to trust and integrity and diversity and inclusion. We want to help people make the right decisions within the business and across our supply chain. Without an open and inclusive culture, it will be hard to recruit talented people from across the world and satisfy the ever changing needs of our key markets.

Consequently, we invest in the culture and systems required to ensure that employees can operate in confidence, raise questions where necessary and feel that their views are valued. We firmly believe that having an ethical, efficient and rewarding organisation makes the work and lives of employees, suppliers and other partners more satisfying, which in turn is better for our customers.

This culture filters through an approach to safety that is constantly evolving through a commitment to generating and adopting best practice globally. It is a key determinant of our attitude to skills development, recruitment and retention. It fundamentally underpins our continued success at the forefront of engineering and technology innovation. It defines our need to support military veterans and the communities with whom we often have deep-rooted, historic connections.

Corporate Responsibility (CR) supports our business strategy, including our commitment to open disclosure. Our CR Summary report is an important part of this and describes our performance in 2016. Its aim is to explain our approach to ethics, people, safety, our suppliers, resource use and our community partners.

Our success or failure in these areas fundamentally influences our ability to deliver sustainable, long-term value in a rapidly changing world.
Corporate Responsibility Committee
Chairman’s Review

Another year of political and economic shifts highlights the importance of a strong and responsible business culture. This underpins our ability to respond to these shifts and maintain sustainable business growth.

The CR Committee has an important role in defining our business culture and ensuring that we operate to the highest ethical standards. In early 2016 we agreed a plan that specified a series of detailed reviews of safety, ethical behaviour, product safety and diversity and inclusion.

Having defined best practice in our sectors, we reviewed our approaches to safety, including targets and timescales. We were particularly interested in sharing best practice, implementing and embedding change and how we gather and act on data. We were pleased to note a reduction in the Recordable Accident Rate, in addition, our total number of major injuries also reduced. In September, we also carried out a deep dive into the safety culture in our Australian and Saudi Arabian businesses and were pleased at the progress made in both territories.

The Committee reviewed how decisions made are consistent with our integrity standards, as defined by our Product Trading Policy. A detailed study of our Applied Intelligence business highlighted how it takes account of the Policy in new business development. Governance procedures for working in overseas markets were also scrutinised, in particular the role of our regional business development teams. They assist our businesses with new commercial opportunities therefore we ensure that all teams are consistent with our ethical position.

A diverse workforce that feels valued is crucial for our long-term success. In 2016 we re-evaluated the Group’s diversity strategy. We noted a continued focus on nurturing and developing our talent pipeline, ensuring that the Group brings a diverse array of people into senior management positions. In 2017, we will take a deeper dive into diversity and inclusion strategies at a more detailed business unit level.

As in previous years, the Committee benefited from site visits to Group facilities. In 2016, we spent time on two UK sites – Samlesbury and Warton. During these visits we met with employees from our Military Air and Information business and discussed corporate culture, diversity and inclusion. We also visited the newly opened Academy for Skills and Knowledge at Samlesbury to review recruitment and training for apprentices.

The Committee looks forward to continuing its work in 2017, with further detailed analysis supported by site visits.

Ian Tyler Chairman, Corporate Responsibility Committee
Market overview

The market for aerospace, defence and cyber security products and services is global, driven by changes in geopolitics, technology, demographics and the natural environment.

The significant political shifts that we have experienced in 2016 will have a long-term impact on the shape of many industries. For example, recent high-profile cyber-security breaches have highlighted an industry that is set to be worth US$120bn in 2017, with US$655bn of expenditure between 2015 and 2020.

The value of the global expenditure on defence in 2015.

The UK aerospace, defence, security and space sales in 2015.

The MoD core spending increase in real terms over the four years from 2015–16 to 2019–20.

3.1%

10,400 apprentices and trainees in the UK aerospace, defence, security and space sectors.

340,000 people employed in the UK’s aerospace, defence, security and space sectors.

£35bn

UK aerospace, defence, security and space exports in 2015.

£65bn

UK aerospace, defence, security and space sales in 2015.

US$1.7tn

The value of the global expenditure on defence in 2015.

---

2. Business Insider (BI Intelligence), April 2016.
6. Figures refer to exchange rates at the time of the reports.
Our business at a glance

Sales by domain

BAE Systems has strong, established positions in the air, maritime and land domains, as well as a growing position in cyber security.

We search for new ways to provide our customers with a competitive edge across the air, maritime, land and cyber domains.

<table>
<thead>
<tr>
<th>Air</th>
<th>Maritime</th>
<th>Land</th>
<th>Cyber</th>
</tr>
</thead>
<tbody>
<tr>
<td>54%</td>
<td>25%</td>
<td>16%</td>
<td>5%</td>
</tr>
</tbody>
</table>

### Air
- Manufacture, development, upgrade and in-service support of Typhoon combat aircraft
- Workshare partner for the design and manufacture of major sub-assemblies and systems and provision of support for F-35 Lightning II combat aircraft
- Design, manufacture and support of avionics equipment for military aircraft
- In-service support of Tornado combat aircraft
- Design, manufacture and support of avionics equipment for commercial aircraft
- Design and manufacture of missiles and missile systems through a 37.5% interest in MBDA
- Manufacture, development, upgrade and in-service support of Hawk trainer aircraft
- Development of next-generation unmanned air systems and defence information systems

### Maritime
- Design and manufacture of complex warships
- Design and manufacture of submarines
- Provision of ship repair and modernisation services in the US
- Provision of in-service support to surface ships and facilities management in the UK
- Design and manufacture of naval gun systems, torpedoes, radars, and naval command and combat systems

### Land
- Design, manufacture, upgrade and support of tracked and amphibious combat vehicles
- Manufacture of ammunition and precision munitions for US, UK and other armed forces
- Design and manufacture of artillery systems and missile launchers for US, UK and other armed forces
- Design and manufacture of hybrid electric drive systems

### Cyber
- Supply of cyber, intelligence and security capabilities to US government agencies
- Supply of defence-grade cyber solutions for the commercial market
- Supply of cyber, intelligence and security capabilities to UK and other government agencies
Our business at a glance

Sales by destination
BAE Systems has leading positions in its principal markets in the US, UK, Saudi Arabia and Australia.

Sales by activity
BAE Systems has a diverse portfolio, broadly balanced between an enduring services and support business, long-term platform and product programmes, electronic systems, and activities in cyber and intelligence.

Sales by reporting segment
BAE Systems has five principal reporting segments which align with the strategic direction of the Group.

2016 sales
£19,020m

2016 revenue
£17,790m

1. Revenue including the Group’s share of revenue of equity accounted investments.
2. Includes £1.0bn (5%) of sales generated under the Typhoon workshare agreement with Eurofighter Jagdflugzeug GmbH.
We employ a skilled workforce of 83,100 people\(^1\) in over 40 countries, and work closely with local partners to support economic development by transferring knowledge, skills and technology.

\begin{itemize}
  \item **US**: 29,500
  \item **UK**: 34,600
  \item **Saudi Arabia**: 6,200
  \item **Australia**: 3,100
  \item **Other**: 9,700
\end{itemize}

1. Including share of equity accounted investments.
The big picture

We are one of the world’s leading defence, aerospace and security companies. This global footprint and wide range of product and services means that our markets are subject to significant shifts in geopolitics, cyber and engineering technology, public spending and security priorities.

We monitor and respond to these changes as part of our business operations and lead on developments in, for example, the rapidly moving area of cybercrime and intelligence.

- Technology shifts – cybercrime, big data and social media
- Rapid urbanisation and demographic shift
- Security and insecurity
- Changing patterns of extreme weather and natural disasters
- Heightened stakeholder expectations
- A greater focus on corporate ethics and governance
Technology shifts – cybercrime, big data and social media

The World Economic Forum says a significant portion of cybercrime goes undetected, particularly industrial espionage where access to confidential documents and data is difficult to spot. (Forbes, January 2016)

The issue

Gartner predicts that by 2020, there will be 20.8 billion connected devices monitoring weather, temperature, vehicles, industrial processes, domestic appliances and a host of other ‘things’ (Gartner Symposium, November 2015). This ‘Internet of Things’ has the capacity to transform the way we live and work, however, it comes with a huge challenge around data management, communications and security. At the same time, low cost access to the internet and mobile networks has helped to drive the rise of smartphone adoption and access to digital and social media. For example, the top five social media platforms, including Facebook, WhatsApp and WeChat claim five billion members, with a steady increase in monthly users between 2011–2016 (Smart Insights, Global Social Media Research Summary 2016).

This rapid digitisation of home life and workplaces will see the cost of cybercrime increase to US$2.1 trillion by 2019, four times higher than in 2015 (Juniper Research, The Future of Cybercrime & Security: Financial and Corporate Threats & Mitigation, May 2015). The UK’s Office for National Statistics estimates that there were 2.46 million cyber incidents and 2.11 million victims of cybercrime in the UK in 2015. These incidents included the creation and spread of malware for financial gain, hacking to steal sensitive personal or industry data and denial of service attacks to cause reputational damage (National Crime Agency, Cyber Crime Assessment 2016).

Most breaches of security come through existing IT systems, but the growth will derive from attacks on mobile and sensor networks. The types of threats are constantly evolving and within the past few years, malware creation software has become more ubiquitous, there is greater use of ransom-ware that locks devices, while there has been a decline in casual hacking and an increase in targeted, professional attacks.

These different techniques and patterns of behaviour reflect the individuals behind the incidents. For example, they may be leading players linked to nation states, casual criminals or professionals whom have built a career in cybercrime. The traditional approach to security, in the form of firewalls and anti-virus software, is proving inadequate against Advanced Persistent Threats; therefore organisations need to have a much better way of monitoring activity across all of their operations.

Our response

We are increasingly taking the techniques, analytics and intelligence systems developed for governments into the corporate world. In essence we bring military-class capability to bear on the protection of business systems, processes and reputations. For example, our e-mail security products prevent data loss, monitor compliance or provide secure communications and encryption. We are seeing a significant growth in demand for these services and expertise and are recruiting accordingly. For example, 80 of the 235 graduates joining our UK businesses in 2017 will work in our Applied Intelligence business.

This same expertise is applied to our own networks in order to protect our business and employee information. As a large global enterprise, we are used to dealing with ‘big data’ covering a wide array of processes, from human resources to contracts and product specifications. Our Company Marking Standard classifies all of this data into four levels, from general day-to-day information through to the highly sensitive. It specifies how the data should be handled and defines restrictions on use for each level. It may also be subject to Government Security Classifications, export control laws and/or data protection legislation.

Link to Principal Risks

1. Defence Spending
9. Information Technology Security

1. Our Principal Risks can be found in our 2016 Annual Report pages 60-63.
The issue
Since 1800, the proportion of the global population living in cities has increased from 2% to more than 50% in 2016. This rapid rise has generated many infrastructure challenges, including temporary housing, poor public transport, inadequate supplies of clean water and intermittent energy. These in turn have created significant health and environmental impacts. While cities occupy only 0.5% of the world’s land surface, they consume 75% of its natural resources (PwC, Rapid urbanisation, 2015/2016) and by 2020, urban dwellers will generate 2.2 billion tonnes of waste per annum (World Bank, What a Waste – A Global Review of Solid Waste, 2012).

Alongside urbanisation, we are seeing significant shifts in age demographics, with the number of people aged 60 or over expected to reach two billion by 2050 (from 606 million in 2000). The proportion of older people in less developed countries will be smaller than in developed economies (World Employment and Social Outlook – Trends 2015, ILO). The former has also seen a growth in the working age population double that of the advanced economies.

Rapid urbanisation and changes to the working age population have far reaching consequences for governments and international businesses.

Our response
Significant changes to population distribution and demographics influence our recruitment, retention, diversity and skills strategies. As a global business, we have opportunities to access new talent across our main markets. For example, we work with education providers across the world to promote study and career choices in Science, Technology, Engineering and Mathematics (STEM). We also invest a great deal of energy in diversity and inclusion in order to attract people from a wide range of backgrounds, cultures, beliefs and capabilities – crucial in a global business context.

Link to Principal Risks
8. Pension Funding
10. People

Rapid urbanisation and demographic shift

"1.5 million people are added to the urban population every week."
(United Nations Department of Economic and Social Affairs, Population Division, 2012)

0.5%
While cities occupy only 0.5% of the world’s land surface...

75%
...they consume 75% of its natural resources

1. Our Principal Risks can be found in our 2016 Annual Report pages 60-63.
The issue
In 2015, there were 40 active armed conflicts in the world leading to 167,000 fatalities and contributing to the 12,100,000 refugees (IISS, Armed Conflict Database Index 2015). This picture continually changes in line with geopolitics, social and ethnic tensions, environmental factors and economic stress.

Our response
Our defence exports are subject to strict regulations and are approved by relevant governments, and we require all of our people to uphold strict ethical standards.

Our internal systems are designed to ensure that we are working with responsible customers, suppliers and partners. Key guidelines include our Operational Framework, Product Trading Policy, Responsible Trading Principles, Pursuit of Export Opportunities, Export Control, Procurement and Commercial policies and our Supplier Principles – Guidance for Responsible Business.

Link to Principal Risks
1. Defence Spending
3. International Market
9. Information Technology Security

Changing patterns of extreme weather and natural disasters

Scientific studies indicate that extreme weather events such as heat waves and large storms are likely to become more frequent or more intense with human-induced climate change.

US Environmental Protection Agency, Climate Change Indicators

The issue
Human induced warming of the climate made the mean temperature in the period 2012–2016 the highest on record. To reinforce this, 2016 was the warmest on record, representing an increase in planetary temperatures of 1.1°C above pre-industrial levels. (World Meteorological Organization, Statement on the State of the Global Climate in 2016.) While high temperature events and droughts are common, such changes to the climate, along with cyclical events such as the El Nino oceanic phenomenon, are contributing to major flood events.

Weather extremes such as these, as well as, earthquakes and volcanic activity can affect our operations and disrupt our customers and supply chains.

Our response
Our business continuity and resilience programmes account for extremes of weather and natural disasters.

Our products are designed to operate effectively in extreme environments.

Link to Principal Risks
1. Defence Spending
9. Information Technology Security
The big picture
continued

Heightened stakeholder expectations

The issue
Questions continued to be raised in 2016 about the ethics and behaviour of "big" business. In the UK, changes have been proposed to the governance of large companies and questions remain over the application and scope of EU reporting and governance rules.

Our response
Our key "transparency" initiatives in 2016 include:
– Developed a response to the UK Modern Slavery Act
– Our new Supplier Principles – Guidance for Responsible Business

See Responding to our stakeholders on page 17.

Link to Principal Risks
5. Laws and Regulations

A greater focus on corporate ethics and governance

The issue
Customers, regulators, communities, employees and investors all have a legitimate interest in the behaviour of companies as well as their financial results. This is often expressed as Environmental, Social and Governance (ESG), for which reporting demands continue to grow, for example, the EU Non-Financial Reporting Directive.

Ethical behaviour and governance is given a high priority by all stakeholders as it is seen as a key measure of a company's licence to operate.

Our response
Our Operational Framework requires all of our people to meet high standards of ethical behaviour. This is supported by our Code of Conduct, plus mandated policies and processes.

Our employees and the Board are trained in the Code of Conduct. Our 24/7 Ethics Helpline and Ethics Officers ensure that everyone understands how to raise concerns, the process for doing so and that they will be taken seriously.

We set our expectations for suppliers within our Supplier Principles – Guidance and Responsible Business which drives standards in ethical conduct, health and safety, environment and human rights for suppliers and business partners.

Link to Principal Risks
4. Competition in international markets
5. Laws and Regulations
10. People

1. Our Principal Risks can be found in our 2016 Annual Report pages 60-63.
Our approach

At BAE Systems, our advanced defence technology protects people and national security, keeping critical information and infrastructure secure.

We search for new ways to provide our customers with a competitive edge across the air, maritime, land and cyber domains. We employ a skilled workforce of 83,100 people¹ in over 40 countries, and work closely with local partners to support economic development by transferring knowledge, skills and technology.

¹ Including share of equity accounted investments.
Deciding what matters

Defining priorities
Our commitment to Corporate Responsibility (CR) is fundamental, driven from the top, delivered across the business and measured for effectiveness.

Our Group Board of Directors is supported by a CR Committee that sets and reviews our ‘responsible business’ priorities, in the form of trust and integrity, our employees (including safety, diversity and inclusion) and resource efficiency.

Our business units and operational sites can devise their own ways of addressing CR priorities, taking approaches that are innovative and relevant to local conditions. This is both a cultural and practical decision, given the diverse geographic and sectoral spread of our business. A prime example of this is the emphasis placed on the employment of US veterans.

Measuring performance
Our 2016 CR performance can be found in the ‘2016 in Review’ section of this report.
Governance framework

What we do as a business is crucial, but so too is why we do it and how we do it. We have created a culture of openness that encourages our employees to ask these questions in order that they can make the right decisions and feel part of a team.

Ian King, Chief Executive, BAE Systems, Our Conversation podcast, 2016

Our Operational Framework guides all aspects of the business. It is brought to life for employees by the Code of Conduct and all key policies, guidelines and procedures. We constantly monitor the Code’s effectiveness and amend it where necessary. The current version was updated in January 2015 and an update to the Code is underway and the new version will be rolled out to employees in 2018.

As a strategic priority, our Chief Executive ensures that we operate as a responsible business – meeting our own standards and the expectations of stakeholders. He is supported by our Managing Director (MD) Operational Governance with input from the Board, via the CR Committee, which is chaired by a non-executive director.

Safety performance, a key element of our CR strategy, is built into the annual reward package for our Group Chief Executive, Group Finance Director, Chief Operating Officer and President and CEO of BAE Systems, Inc.

Our Code of Conduct and Responsible Trading Principles guide employee behaviour, supported by policies on, for example, fraud prevention, offset, export control, health and safety and environment. These policies ensure that we take account of the laws and standards applicable in our countries of operation. For example, we have defined and released our response to the UK’s Modern Slavery Act 2015.

Our governance framework extends to our suppliers, whom we assist in adopting similarly rigorous ethical standards. We also set our expectations for suppliers within our Supplier Principles – Guidance for Responsible Business, which drives standards in ethical conduct, health and safety, environment and human rights.

CR Committee priorities in 2016

Define a profile of world-class safety performance and how this can be achieved across all areas of the business, including sharing best practice, implementing and embedding change, recording and learning from data.

Review the processes that ensure we only take on business that is consistent with our standards of integrity.

Visit key manufacturing sites in the UK – Samlesbury and Warton.

Review the integrity of our supply chain and the effectiveness of the Product Safety Policy.
Responding to our stakeholders

Our stakeholders include our employees, customers, suppliers, governments, investors, Non-Governmental Organisations (NGOs), communities and regulators. We listen and inform in equal measure through formal mechanisms and ongoing dialogue, always conscious of the need to find a balance between openness and governmental or commercial security.

Maintaining a formal dialogue with our stakeholders

Formal, structured dialogue underpins the ongoing engagement with our stakeholders. Our regular focus groups with NGOs, investors, academia and industry bodies offer insights into perceptions and experience of our conduct, corporately and through individual engagements.

Our employees

Our employees are invited to respond to ongoing ‘Pulse’ surveys about their working experience. Employee networks also play an important communications role and help to maintain a culture of openness and honesty. These networks include OutLink, our Lesbian, Gay, Bisexual and Transgender network, our Multicultural Network and Women’s Inclusive Network. Our employees are also encouraged and supported to volunteer and involve themselves with our community and charity initiatives.

55% of our employees in the UK are members of a Trades Union with 69% covered by a collective bargaining agreement. In the UK, we retain excellent relationships with the main organisations involved and organise regular meetings through our Corporate Consultation Committee. Internationally, we have agreements with unions and consultative bodies in countries where collective bargaining is standard legal practice, supported by employees.

Suppliers

We work closely with our suppliers on joint projects and significant bids. In order to develop the right relationships with our suppliers we ask each supplier to ensure familiarity with our Supplier Principles and relevant policies. In the UK, the JOSCAR programme sponsored by our Maritime Services business is proving to be an excellent model of extracting industry-standard supplier compliance information (see Case Study on page 40), amongst other things we use this tool to positively confirm that suppliers have read and understood our Supplier Principles.

Governments and NGOs

We play an active part in dialogue with governments and NGOs around issues and best practice within the defence, aerospace and security sectors.

Our industry

Globally, we are an active proponent of our industry, working through, for example, the AeroSpace and Defence Industries Association (ASD) of Europe and the Aerospace Industries Association of America (AIA). We have played a lead role in the adoption of the Global Principles of Business Ethics for the Aerospace and Defence Industry and are a member of the UK Institute of Business Ethics, the US Defence Industry Initiative and the International Forum on Business Ethical Conduct (IFBEC). At a country and local level, we also collaborate with industry partners and share best practice on ethical business practices.
2016 in review

This section details our CR priorities.

Our people
Trust and integrity
Health and safety
Resource efficiency
Product stewardship
Suppliers and supply chain
Community
Our people

Every employee is a vital contributor to our success and equally valued.

We strive to offer a stimulating, challenging, inclusive and friendly workplace. We know from experience that this is essential if we are to attract and retain the best and brightest people and enable them to fulfil their potential.

We also know that a diverse and inclusive workplace encourages creativity, drives innovation and equips us to solve complex challenges.

Our performance

<table>
<thead>
<tr>
<th>2016 priorities</th>
<th>2016 progress</th>
<th>2017 direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>All businesses to continue to drive a diversity and inclusion (D&amp;I) agenda to address business needs and strategic aims.</td>
<td>During 2016, our Chief Executive established a global council on diversity and inclusion to provide oversight and support to the businesses’ agenda.</td>
<td>We will continue to drive a D&amp;I agenda to address business needs and strategic aims.</td>
</tr>
</tbody>
</table>

Our approach

Our HR strategy prioritises employee welfare and development, empowerment and knowledge transfer through diverse teams working in a productive and inclusive environment. It starts with the encouragement of STEM education, along with the identification of talented people and their recruitment. Further, it encompasses all aspects of employment, in particular training and development (both personal and professional). A key element is continual improvement of competence and skills transfer, responding to rapidly changing markets.

Oversight is provided by our Group HR Director. She reports directly to our Chief Executive and chairs an HR Council that agrees policy and ensures that our HR strategy supports the Integrated Business Plan. The strategy is brought to life by a team of HR professionals across the business.
Identifying and recruiting talent

Guidelines: People policy.

Oversight: Group HR Director.

In practice: Our skills requirement is wide and ever growing. We are looking for a diverse array of professionals, including engineers, designers, software developers, project managers, human resources and finance specialists. Our strategy dictates that we draw people from a wide range of backgrounds, countries, cultures and experience.

We provide the first step in a long and successful career for many young people, therefore our relationships with schools and universities are vitally important. This enables us to promote and support the study of Science, Technology, Engineering and Mathematics (STEM) subjects and to nurture young talent. On joining our business, our employees can access high-quality training and skills development.

Championing science, technology, engineering and mathematics

We need scientists and engineers to help solve many of the pressing challenges facing the world in the 21st Century. Our business is at the forefront of many of these efforts; therefore, it is vital we can continue to employ bright and motivated individuals with relevant skills. That is why we devote time and resources to promoting and facilitating STEM subjects. Some of these initiatives are described below.

Oman and Bahrain

Our UK and Omani engineering graduates ran STEM workshops at Sultan Qaboos University, Caledonian College of Engineering and the Higher College of Technology in Oman. They covered innovation, technology and STEM as a career path for women. The programme had the full backing of the Oman Ministry of Education’s National Career Guidance Centre.

Other engineering graduates promoted the benefits of a STEM education amongst 600 students from 20 schools in Bahrain (with Bahrain Polytechnic, the Ministry of Education, British Council and British Embassy). ‘The Theory of Flight’ workshops explored aerospace engineering with the help of a real Supermarine Spitfire aircraft.

US

Our US business is a long-standing supporter of FIRST (For Inspiration and Recognition of Science and Technology), an organisation that promotes science and technology amongst young people.

UK

In September 2016, our Applied Intelligence business, along with Her Majesty’s Government Communications Centre (HMGCC) and Cyber Security Challenge UK, hosted a unique national cyber forensics competition. Candidates assumed the role of government contractors investigating a mock attack on the web server of a fictional secure payments app. The winners progressed to a Master class final, with the chance to become Cyber Security Challenge UK champions.
Training and employee development

**Guidelines:** People policy, training and development pathways.

**Oversight:** Group HR Director, managers.

**In Practice:** Our training and development programmes encompass e-learning, classroom-training and partnerships with schools, universities, colleges and industry. Knowledge and skills transfer are an important part of our strategy, allowing employees to transfer across the business in order to expand and refresh their skills.

Our ‘Leading for Total Performance’ programme is tailored for employees with the desire and potential to take on more senior roles and drive the business forward.

**New talent, fresh ideas, the future of the business**

In the UK we invest more than £80m per annum in skills development and transfer. Our work in this area includes strategic partnerships with the Royal Navy and Royal Air Force that takes a road show to 350 schools across the UK, bringing engineering and technology to life through an interactive theatre show.

Our apprentice programme is rated ‘outstanding’ by OFSTED, the UK Government’s educational inspectorate. As in previous years, our investments in the programme have paid dividends with the recruitment of 667 apprentices in 2016.

In December 2016, we announced that we would be recruiting 235 graduates into our UK businesses in early 2017. Significantly, 80 of these graduates would be joining our Applied Intelligence business, reflecting the rapidly rising demand for our cyber security services.

In the US we invest an average of $25m per annum in learning and development and an additional $6m in tuition reimbursement programme to ensure our employees have the knowledge and skills needed to drive our success. Included in this investment are educational programmes for all people managers targeting the importance of diversity and inclusion to employee engagement, retention, and building the cultural competence needed to ensure an inclusive workplace for all.

There is a concerted effort to recruit interns and entry level talent at national conferences with specific focus to expand the diversity in the business. Examples of these include the National Society for Black Engineers (NSBE), Society of Hispanic Professional Engineers (SHPE) and the Society of Women Engineers (SWE) and, in addition to the conferences; we work with their local regional chapters. To build interest in STEM and expand the awareness of BAE Systems in the marketplace we invest in Women in Technology, For Inspiration and Recognition of Science and Technology (FIRST) and Fostering Opportunities for Inspiration and Recognition of Science and Technology (FOCUS) as well as local partnerships with community organisations.

Our seven employee-led ‘Employee Resource Groups’ are supported by the President and CEO of BAE Systems Inc. and the most senior level leaders in the Company. They allow employees to extend their understanding across different cultures and support important business objectives such as knowledge transfer, career and leadership development, and the recruitment and retention of diverse talent.

Our business in Saudi Arabia had 18 Saudi nationals on secondment in the UK in 2016 and had a graduate intake of 25 young people.

**A new training academy**

In December 2016 we unveiled our new £15.6m training academy at the Samlesbury Aerospace Enterprise Zone in Lancashire, UK. It represents the single biggest investment in skills within the UK aerospace sector.

The Academy for Skills and Knowledge sits alongside our military aircraft advanced manufacturing centre. It will train all of the apprentices and graduates in our Military Air and Information business and support life-long learning and skills development for all employees over the next decade and beyond.

The Academy will also be a hub for collaboration across the engineering and manufacturing sectors in the North-West of England. It will also offer five to 14 year olds the chance to learn in a technologically advanced learning environment. This includes leading edge manufacturing systems found across our business, including robotics, 3D printing, virtual reality, a composite clean room, electronics and welding facilities. Our apprentices will also gain access to a Hawk jet trainer to accelerate their knowledge of advanced air combat systems and airframes.

Our new £15.6m training academy is the latest world-class company hub for collaboration across the engineering and manufacturing sectors in the North-West of England. It will also offer five to 14 year olds the chance to learn in a technologically advanced learning environment. This includes leading edge manufacturing systems found across our business, including robotics, 3D printing, virtual reality, a composite clean room, electronics and welding facilities. Our apprentices will also gain access to a Hawk jet trainer to accelerate their knowledge of advanced air combat systems and airframes.

**BAE Systems has become the latest world-class company to support our plans to build a Northern Powerhouse.**

The new flagship academy will offer excellent opportunities to our young people from the area.

**Andrew Percy MP, the UK Government Minister with responsibility for the ‘Northern Powerhouse’**

£80m invested per annum in the UK in skills development and transfer

235 graduates to be recruited in 2017

350 schools reached by our roadshow
I believe it’s not simply that people are our best asset – ultimately, they are an organisation’s only asset. Engaging employees in the mission and purpose of the Company and empowering them to do the job as effectively as possible, lies at the heart of successful organisations and sustainable business success.

Nigel Whitehead, BAE Systems Managing Director for Programmes and Support

Training and employee development

Advancing towards increased productivity

Since 2008, the levels of productivity growth in the UK and most advanced economies have remained low in line with a sluggish economy. By the end of 2015, productivity was 14% lower in these economies than it would have been if economic growth had continued at its pre-downturn trajectory. As a consequence, the UK government and major business groups have come together to define solutions to this challenge.

One outcome from this work is ‘Productivity through People’, a new employer-led programme for business professionals that focuses on raising productivity in the advanced manufacturing sector. We are proud of our role in developing the programme and a pilot that will commence in January 2017 with 24 delegates drawn from advanced manufacturing Small and Medium Sized Enterprises (SMEs) across the North-West of England. The curriculum focuses on the links between employee engagement, the latest innovations in working practices and improved productivity. What they learn in the classroom can then be shared with others in their business and networks, supported by mentors and online content delivered by Lancaster University Management School. The aim is to create a group of peers and drive productivity improvements and innovation across the advanced manufacturing sector.

By the end of 2015, productivity was 14% lower in these economies than it would have been if economic growth had continued at its pre-downturn trajectory

24 delegates drawn from advanced manufacturing Small and Medium Sized Enterprises (SMEs) across the North-West of England
Our people

continued

Diversity and inclusion

Guidelines: People policy.
Oversight: Diversity and Inclusion Council.

In Practice: We recruit from a wide range of backgrounds, across the business globally with the stated aim of being an inclusive employer with a diverse workforce. This is a senior management priority and one that is respected and understood.

We aim to increase the proportion of women in senior roles by fostering a culture of inclusion through unconscious bias training, mentoring, increasing the diversity of our leadership teams and measuring our performance.

A Diversity and Inclusion Council is chaired by our Chief Executive. Executive Committee sponsored work streams foster a culture of inclusion, accelerate the development of high-potential women and increase leadership diversity. This is underpinned by local plans and initiatives.

Our US business pledged to hire an additional 5,000 military veterans between 2016 and 2020. In 2016, we made significant progress, hiring 1,150 veterans. Our commitment to support the White House’s Joining Forces initiative was mentioned at a press conference with the then First Lady Michelle Obama and Dr. Jill Biden.

1,150

veterans hired by our US business in 2016

Our workforce demographic is similar to comparable business sectors. We sustain our workforce capabilities by attracting high-calibre people with a diverse range of experience, growing their skills and knowledge.

1. Senior managers are defined as employees (excluding executive directors) who have responsibility for planning, directing or controlling the activities of the Group or a strategically significant part of the Group and/or who are directors of subsidiary companies.
2. Excluding share of equity accounted investments and rounded to the nearest thousand employees.

Gender diversity

<table>
<thead>
<tr>
<th>Board</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Senior managers</td>
<td>283</td>
<td>52</td>
</tr>
<tr>
<td>Total employees</td>
<td>61,000</td>
<td>15,000</td>
</tr>
</tbody>
</table>

Age diversity

- 50–59 years: 23,000
- 60 years and older: 8,000
- 24 years and younger: 5,000
- 25–34 years: 15,000
- 35–49 years: 25,000
- 50–59 years: 23,000

Diversity is a strategic priority in Australia

Our business in Australia is a strong supporter of National Aborigines and Islanders Day Observance Committee (NAIDOC) Week. We coordinate a number of events to recognise NAIDOC Week, together with many other activities as part of our Reconciliation Action Plan (RAP) to raise cultural awareness and strengthen inclusion in the business.

Our Australian business is also taking a high profile lead on promoting gender diversity. In 2016, Chief Executive, Glynn Phillips was a guest of the Diversity Council of Australia forum, covering issues such as ‘words at work’, career pathways, stereotyping, role models, flexible work practices and continued dialogue. This commitment is paying dividends with the proportion of female executives increasing from 13% to 20% between 2013 and 2016.
Diversity and inclusion continued

Fostering respect and inclusion

Employee Resource Groups (ERGs) are voluntary and employee-led, with the aim of promoting diversity and inclusivity in the workplace.

Such ERGs have been established at BAE Systems to promote our diversity and inclusion goals. Our experience shows that they enhance the employee experience and build loyalty and morale, as well as improving health and wellbeing, which has a positive effect on business performance.

Our ERGs operate through an employee elected leadership team with an executive sponsor. One such ERG is the Outlink groups in the US and UK that works to promote respect for our Lesbian, Gay, Bisexual and Transgender (LGBT) employees and their allies. These ERGs raise awareness and understanding of LGBT issues, offer support and advice, celebrate diversity and provide a safe and supportive environment for sharing experiences and socialising. They are also working with similar networks in organisations such as the UK MoD, RAF, Barclays and Ernst & Young.

Our Outlink UK Group manages its own private social network to share ERG updates and provide a safe and confidential medium for discussing LGBT issues. It offers online access from multiple devices and a secure email account. The ERG also interacts with our Occupational Health provider in the UK to provide access to independent and confidential counselling for any employee, whether a member of the ERG or not.

Outlink is not exclusive and is open to non-LGBT members who wish to demonstrate their support for the ERG. Research has shown that such ‘allies’ can be transformative for LGBT employees who may have concerns and associated wellbeing issues linked to concerns about attitudes to their private life.

Taking a lead on Women in Defence

Amelia Gould and Vaughan Meir were recognised at the 2016 Women in Defence awards, with Amelia being awarded the Promotion of Gender Diversity award. Vaughan and Amelia were among more than 200 nominees in the awards that recognise those in our sector who have actively encouraged women to succeed, and encourage talent at all levels to join our industry.

Amelia is a former Royal Navy weapons engineering officer and joined our business in 2013. Amelia is passionate about promoting engineering as a career and is an active Science, Technology, Engineering and Mathematics (STEM) ambassador and school governor. Vaughan has worked in the defence industry for more than 30 years and is also a STEM ambassador, a member of the Dorset and Solent Region Apprentice Ambassador Network and a stalwart champion for gender diversity both within the Company and externally.

Both work within our Maritime business based in Portsmouth, UK.
See Potential

BAE Systems is pleased to be a partner of the UK Government’s See Potential campaign which encourages employers to think differently about how they recruit and recognise the potential within people regardless of their background.

See Potential aligns with our corporate strategy to inspire and develop a diverse workforce to further drive success. We utilise our Movement to Work programme to attract diverse candidates to consider careers with BAE Systems and have experienced a wide variety of benefits by welcoming talent from all backgrounds into our business. We are proud to be helping young people who perhaps were previously unclear about their futures, take the first steps in their careers.

Supporting young people into the workplace through Movement to Work is additive to existing traditional recruitment strategies. Helping to grow a more diverse and inclusive workforce and recruit individuals with a fresh and different approach to solving problems, further strengthens our business.

Movement to Work

Movement to Work is a registered charity and collaboration of the UK’s leading employers, providing work experience placements to young people who are not in education, employment or training, giving them the skills and confidence to take the first steps into their careers.

BAE Systems holds a pivotal role in Movement to Work as a Lead Employer and has driven growth of the Movement through Chief Executive level chairmanship of employer recruitment.

Through working with our suppliers, business networks and local employer communities BAE Systems has recruited 40 new employers. These employers have collectively pledged to provide 420 placements annually within their organisations, helping to deliver impact at scale towards reducing youth unemployment.

BAE Systems is committed to offering 100 work placements annually within our own business and has successfully delivered 241 to date. 110 of the candidates who have completed the programme, have secured employment within BAE Systems, local employers or returned to education.

We are proud to position Movement to Work as a pipeline of diverse talent for our apprenticeship programme and are pleased to have welcomed 61 Movement to Work graduates into BAE Systems apprenticeships.

We are proud to support Britain’s talent from all backgrounds, helping them make the first steps in their career futures. A more inclusive is a better workplace.

Ian King, Chief Executive BAE Systems

More information online
www.MovementToWork.com

“Movement to Work changed my life. I had no sense of purpose or direction and my confidence was so low I genuinely believed I didn’t deserve any sort of job at all. Everyone involved in the scheme helped me to see my potential and as a result I’m on my way to building a successful career.”

Anastacia Jamfrey, Business Apprentice BAE Systems.

More information online
https://seepotential.campaign.gov.uk
Trust and integrity

Building trust is a fundamental part of our company's culture and values. We want our employees and shareholders to take pride in not just what we do, but how we do it. So we have worked hard to embed rigorous standards on business ethics, safety and environmental performance across the organisation.

We promote a business culture that encourages our senior leaders and all employees to ask questions in order to improve decision making.

Our culture is fortified and codified in our governance framework – defining how we do business and what products and services we provide.

We are committed to respecting human rights. This applies equally to our employees, our suppliers and business partners, all of whom are expected to adopt the same or similarly high standards of ethical behaviour.

We play an active part in our industry, promoting corporate responsibility and ethical standards.

Our performance

<table>
<thead>
<tr>
<th>2016 priorities</th>
<th>2016 progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roll out Code of Conduct refresher training across the Group</td>
<td>During 2016, we rolled out face-to-face ethics training that covered dilemmas based on real issues faced by employees. Employees also received additional training linked to their role.</td>
</tr>
<tr>
<td>Continue to instil responsible behaviour across the Group</td>
<td>We will continue to build a culture of responsible behaviour by engaging employees in annual ethics training and supporting them in making the right decisions. We will also be reviewing and refreshing our Code of Conduct for launch in 2018.</td>
</tr>
<tr>
<td>Further integrate business conduct programme across Group functions</td>
<td></td>
</tr>
</tbody>
</table>

Our approach

The CR Committee works through a rolling three-year programme, including Quarterly Business Reviews covering areas such as business conduct, health and safety, and environment. The MD Operational Governance attends all meetings, chaired by a non-executive director, and reports back to our Chief Executive.

Our CR team monitors compliance with the Code of Conduct and operates the Ethics Helpline and network of Ethics Officers. CR performance is communicated through a six-monthly Operational Assurance Statement and the Quarterly Business Reviews.

Our employees work to our Responsible Trading Principles, Product Trading Policy, Pursuit of Export Opportunities Policy, our Code of Conduct and other key policies.

We set our expectations for suppliers within our Supplier Principles – Guidance for Responsible Business which drives standards in ethical conduct, health and safety, environment and human rights.
Trust and integrity

continued

Ethics

Guidelines: Our Code of Conduct, policies and new Supplier Principles, define how the business expects our employees, contractors and partners to behave. This is guided by external, independent standards. For example, we are a member of the International Forum on Business Ethical Conduct (IFBEC) and follow its Global Principles of Business Ethics for the Aerospace and Defence Sector.

We have also made a commitment to a number of UK and US-based industry schemes. These include the UK Institute of Business Ethics (a charity that promotes a positive ethics culture and high standards of behaviour), UK Aerospace, Defence and Security (ADS) and the US Defense Industry Initiative (a non-profit that promotes business ethics and integrity in dealings with the US Department of Defense).

Oversight: Our Ethics Review Committee in the UK and our Ethics Review Oversight Committee in the US has oversight of our ethics programme including our Ethics Officer network and our Ethics Helpline.

In practice: Our Ethics Officers, of which there are more than 160 across the globe, ensure that all employees are aware of our standards. They also offer an open route for queries and concerns about any integrity issues. The Officers network is also supported by our independently run 24/7, multi-lingual Ethics Helpline, available via a free phone number, e-mail or online. In 2016 there were 1,121 enquiries logged by the Helpline (compared to 1,148 in 2015). The proportion of anonymous enquiries decreased from 26% in 2015 to 21% in 2016. This compares favourably with the 59% rate in the NAVEX Global 2016 benchmark.

Training

During 2016, we rolled out face-to-face ethics training that covered dilemmas based on real issues faced by employees across the business. Employees also received additional training related to their role.

All enquiries reported to Ethics Officers and the Ethics Helpline were assessed by our Ethics Review Committee or the Ethics Review Oversight Committee of BAE Systems, Inc.

Public policy and lobbying


Oversight: Group Business Development.

In practice: Lobbying activity carried out at the senior government and political level must be recorded in line with our Lobbying, Political Donations and other Political Activity Policy and reported annually to the Corporate Responsibility Committee.

Anyone engaged in lobbying activities on behalf of BAE Systems, from within or outside the Company, must:

– Behave in accordance with our Code of Conduct and in compliance with local laws and regulations
– Act with honesty and integrity, and ensure the information they provide in their lobbying activities is factually correct and fairly represented
– Be open and transparent in dealings with governments.

BAE Systems does not make corporate contributions or donations to political parties. Eligible employees in the US can choose to contribute to the BAE Systems Political Action Committee, which must operate in full compliance with US federal laws and regulations.

1. See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancestatement
2. NAVEX Global’s 2016 E&C Hotline Benchmark Report

1,121
ethics enquiries1
(1,148 in 2015)

21% The percentage of ethics queries raised anonymously compares favourably with our peers

227 dismissals for reasons relating to unethical behaviour1 (257 in 2015)
Trust and integrity

Offset

**Guidelines:** Operational Framework, Code of Conduct and Offset Policy.

**Oversight:** Operational Assurance Statement, Quarterly Business Reviews and internal audits.

**In practice:** Offset involves arrangements made under or in connection with a contract between the Company and an export customer (or a contractor to an export customer) to generate work, create capability or add economic value, in that customer’s country. Currently around 80 countries operate offset regulations and these are often an important element of the evaluation process for defence contracts.

We have offset arrangements in a number of countries and through these programmes we seek to support customers’ economic and development goals, and deliver long-term sustainable benefits.

Advisers

**Guidelines:** Operational Framework, Code of Conduct and Adviser Policy.

**Oversight:** Operational Assurance Statement, Quarterly Business Reviews and internal audits.

**In practice:** Performance is reviewed a minimum of every two years by The Business Development Adviser Panel, chaired by an external independent lawyer. All candidates must be approved in line with our standards and authorised by the Panel.

Our Adviser Policy governs the appointment, management and payment of all third parties engaged to guide, influence, promote, assist and support our sales and marketing efforts or advise on the strategic development or the political context of our business or aspects of security.

The policy governs our process for selecting, appointing, managing, paying and terminating advisers. It requires that:

– We must only appoint advisers of known integrity and that advisers must comply with our standards of conduct at all times

– The appointment process for advisers confirms that there is no apparent risk that they will engage in corrupt or unethical behaviour, and that any issues of potential concern are satisfactorily resolved through appropriate due diligence enquiries prior to appointment

– There is a clearly demonstrated business case for retaining the adviser and compelling justification for the remuneration proposed.

Taxation

**Guidelines:** Tax strategy that mandates compliance with applicable laws and consistency with our values.

**Oversight:** Board, Group Finance Director, audit and tax authorities.

**In practice:** The Group’s tax strategy is to:

– Ensure compliance with all applicable tax laws and regulations;

– Manage the Group’s tax expense in a way that is consistent with its values and its legal obligations in all relevant jurisdictions.

The Group promotes collaborative professional working with tax authorities in order to build open, transparent and trusted relationships. As part of this, the Group engages in open and early dialogue to discuss tax planning, strategy, risks and significant transactions, and discloses any significant uncertainties in relation to tax matters. Queries and information requests by tax authorities are responded to in a timely fashion and the Group ensures that tax authorities are kept informed about how issues are progressing. The Group seeks to resolve issues in real-time and before returns are filed where possible. Fair, accurate and timely disclosures are made in tax returns, reports and documents that the Group files with, or submits to, tax authorities. Where disagreements over tax arise, the Group works pro-actively to seek to resolve all issues by agreement (where possible) and reach reasonable solutions. In the UK, the Group is subject to an annual risk assessment by HM Revenue & Customers and strives to achieve as low a risk rating as can be achieved by a group of BAE Systems’ size and complexity.

The Group endorses the statement of tax principles issued by the Confederation of British Industry in May 2013.


You can find further information on our Tax Strategy on page 30 of our 2016 Annual Report.

Human rights

**Guidelines:** Code of Conduct, Responsible Trading Principles, Pursuit of Export Opportunities Policy, Product Trading Policy, People Policy and Supplier Principles.

**Oversight:** Operational Governance Department.

**In practice:** We remain committed to respecting the human rights of our employees in the workplace and encourage our suppliers and business partners to adopt the same or similarly high standards of ethical behaviour. During 2016, we undertook work to understand our human rights impacts and this will continue into 2017. We have also responded to the UK Modern Slavery Act. Our statement can be found on www.baesystems.com.
Health and safety

The safety of our employees, and those who work on, or visit, our sites, is a strategic priority. Our safety record is a key measure of executive performance.

We continually review and improve standards, increase awareness and strengthen our safety culture. We aim to create a healthy working environment and promote a healthy lifestyle. Our wellbeing programmes encourage personal responsibility and address risk factors such as heart disease, diabetes and cancer.

Our performance

**2016 priorities**
- Continue drive towards a world-class level of safety performance
- Achieve a 10% reduction in the Recordable Accident Rate
- Continue to focus on management and reduction of significant safety risk
- Continue to drive a strong safety culture through communication, awareness and visible leadership

**2016 progress**
- Our Recordable Accident Rate in 2016 of 580 per 100,000 employees compared favourably with 732 in 2015 and bettered our target reduction of 10%. The number of major injuries also decreased from 53 (2015) to 39 (2016).

**2017 direction**
- We will continue to drive towards a world-class level of safety performance; focus on the management and reduction of safety risk; and drive a strong safety culture through communication, awareness and visible leadership. We will target a 10% reduction in the Recordable Accident Rate.

Management approach

**Governance**
Our safety performance is embedded within our Operational Framework and Code of Conduct. Strategy is set by our Safety Steering Group, which is chaired by our MD Operational Governance supported by leaders from each of our markets and senior Safety, Health and Environmental (SHE) personnel.

We always aim to achieve world-class levels of safety across our global business. Consequently, all of our sites must comply with the SHE Policy, including risk assessment, compliance, monitoring, scope, design and products, best practice and resourcing.

The policy is brought to life by safety management systems, which define roles and responsibilities and address all key risks.

Our key indicator is the Recordable Accident Rate and our performance is linked to senior executive bonus payments.
Health and safety continued

Safety and health performance

We continued to build the capacities of our employees and contractors to assess and remove safety risks from their day to day work. Our Recordable Accident Rate\(^1\) in 2016 of 580 per 100,000 employees compared favourably with 732 in 2015 and bettered our target reduction of 10%. The number of major injuries\(^1\) also decreased from 53 (2015) to 39 (2016).

Health and safety is prioritised at a local level, reflecting a wide range of working environments and systems. These include large scale, complex ship and submarine building facilities, involving hazardous materials, heavy equipment and working at height. In our Military Air and Information business in the UK, our employees and contractors are involved in modular, precision manufacturing in highly regulated ‘clean’ facilities. Further complexity is injected in the nature of the work, from long-term projects developing new state-of-the-art products such as the Typhoon jet, to shorter-term refurbishment work.

Our safety programmes therefore reflect this variety and complexity of working environments. Some of the more notable examples in 2016 include:

- A Signal Mutual Indemnity Association Safety Leader Award for US Ship Repair’s 15% improvement in Recordable Accident Rate over the previous 12 months
- Land (UK)’s active contribution to National Safety Month through awareness raising programmes, adopting best practice, cyber-safety initiatives and better recording of incidents
- ‘Your Safety, My Purpose’ talks in the UK, delivered by Kina Repp. Kina tells how she lost her arm in a conveyor belt accident as a means of motivating and teaching others about safety. Her message is about turning adversity into positive energy and success
- OSI Radford, US achieved 1.7 million hours worked (one year) without a workday lost due to an accident
- Our Employee Assistance Programme (EAP) that helps employees and their families address personal concerns and issues through face-to-face consultation, 24/7 telephone support and advice on personal matters.

Maritime safety is best practice

Maritime Services UK investigated, developed and now operates a safer system of work called LOTO (lock off, tag out) on-board ship. This enables the safe isolation of energised systems whilst working on-board and protects employees, Ship’s Company and contractors, keeping them safe from harm during work and maintenance on any energised system.

The system of work combines an innovative process with a physical lock to prevent tampering and accidental re-energising of systems that can cause injury or harm, and damage to the ships’ systems. The business made a significant investment in both resources and equipment, including the purchase of a range of locking equipment, and even commissioned their own apprentices to design and manufacture bespoke parts to use on some of our customers’ older ships.

Nominated for a Chairman’s Gold Award in 2015, the safe system of work has been so successful that the Royal Navy is rolling the system out across the Portsmouth flotilla, and further into the rest of the fleet. Other BAE Systems businesses in Saudi Arabia, Australia and the US are also looking to roll out the system in their respective areas.

Navy Safety Day in the Gulf

Each year, the Royal Saudi Naval Force (RSNF) organises a safety day. In 2016, we created and distributed material at the event to promote Safety, Health and Environmental Awareness to employees, contractors and visitors to our facilities.

“...This is a great opportunity to engage with our customers and to demonstrate our commitment to our values and our goals.”

Andy Carr, Managing Director of BAE Systems Saudi Arabia and Chief Executive Saudi Arabia

1. See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancestatement
2. 85% (including 80% relating to financial objectives) of the UK executive directors’ bonuses are based on the achievement of objectives aligned to certain Executive Committee objectives measured on Group-level quantitative key performance indicators, with the remaining 15% based on the achievement of personal objectives aligned to the delivery of specific elements of the Group’s strategy, measured using both quantitative and qualitative performance indicators.
We promote health and wellbeing locally through a wide variety of programmes, ranging from exercise and fitness promotion to regular occupational health checks. Where appropriate, we look to go beyond minimum compliance, as we know that good mental and physical health contributes to better decision making, greater productivity and higher levels of employee satisfaction.

**Healthier in Holston**

The team at our Holston plant in Kingsport, Tennessee embraced healthy living and working to achieve significant improvements in productivity and employee satisfaction. The Kingsport/Bristol area had been ranked externally as the third unhealthiest city in the US, with high levels of obesity, cancer and smoking – a significant motivator.

The senior team knew that any wellness programme needed to be affordable and accessible. Based on a budget of $500 per person per annum, the resultant programme featured on-site fitness centres, supported by discounted rates at local gyms, on-site walking routes, tobacco free areas, health coaching, fitness advisers and group exercise classes.

The approach worked, with an initial participation rate of 70% rising to 90% within months of its launch (with 86% of spouses also taking part). While the health, wellbeing and motivational benefits are clear, this is also a financial success for the company with the $500 investment generating savings of $1,100 per person in reduced absences and higher productivity. The initiative won a Chairman’s Gold Award for Embracing Responsible Behaviour.

**RU OK?**

In September 2016, our business in Australia supported the national RU OK? Day, which promotes mental health and wellbeing at work. RU OK? events encourage employees to have strong relationships with colleagues and make time for them by starting conversations if you sense someone is not in a good place.
Wellbeing at work
continued

Raising awareness of mental health

In May 2016, our UK businesses joined forces to support National Mental Health Awareness Week. We highlighted our occupational health services, Employee Assistance Scheme and flexible working policies. One of the most powerful stories to emerge came from Rachel Anchors (pictured left) at our Radway Green plant. Rachel said: “I am the first to say that I did not talk openly or really understand mental health until I lost my mother to suicide. I had used terms such as ‘pull yourself together’ lightly, but on the day of the inquest I decided that I needed to pay tribute to her by raising awareness of mental health issues that can have tragic consequences. My work was recognised by the business and they asked me to become an Employee Champion for mental health, which I felt was a great privilege. I also suffer from anxiety, so know how important it is to share concerns and worries with colleagues. Feeling alone is one of the most difficult aspects of mental health, therefore, knowing that people will listen without judging is so important. One in four of us will experience a mental health problem at some point in our lives, with one in six experiencing issues in the workplace. It’s time to change this… and definitely time to talk!”

Feeling alone is one of the most difficult aspects of mental health, therefore, knowing that people will listen without judging is so important. One in four of us will experience a mental health problem at some point in our lives, with one in six experiencing issues in the workplace. It’s time to change this… and definitely time to talk!

Rachel Anchors at our Radway Green plant

I in 6
people will experience mental health issues in the workplace

1 in 6 people will experience mental health issues in the workplace

Feeling alone is one of the most difficult aspects of mental health, therefore, knowing that people will listen without judging is so important. One in four of us will experience a mental health problem at some point in our lives, with one in six experiencing issues in the workplace. It’s time to change this… and definitely time to talk!

Rachel Anchors at our Radway Green plant
Resource efficiency

We minimise the environmental impact of our operations. Resource efficiency is a key measure of business effectiveness. Our businesses set annual targets for waste, water and energy.

**Our performance**

- **2016 priorities**
  All businesses to continue to drive improvements in the management of materials and resources.

- **2016 progress**
  A variety of resource efficiency targets were set across our businesses that suited the diverse nature of our operations. The majority of these targets were met, resulting in efficiency improvements in our use of energy, water and materials.

- **2017 direction**
  We will continue to drive improvements in the management of materials and resources across all businesses.

**Management approach**

**Governance**
Our businesses set environmental and resource efficiency objectives. Ongoing performance is then reported to our senior management team through the Quarterly Business Reviews.
Adherence to our Environmental Policy is monitored by our environment teams in all of our businesses and via our Operational Assurance Statement.

**Management systems**
Working to the corporate objectives, each of our businesses has responsibility for defining their own environmental and resource efficiency procedures and targets. This reflects the fact that these businesses differ geographically and functionally, from large-scale engineering projects in the Naval Ships business in the UK through to cyber intelligence.
While the priorities and targets differ locally, our businesses are tackling resource efficiency challenges that are global in nature, chiefly waste and recycling, air quality, energy efficiency, greenhouse gas (GHG) emissions and materials security.
Operational efficiency and conservation

Our resource efficiency efforts focus on three main areas – energy for heating and lighting, water and solid waste from production and assembly.

Each business sets targets that reflect the scale and maturity of their facilities and the nature of their activities. While reducing our environmental footprint is the right thing to do, we also recognise the cost saving benefits and opportunity to engage employees with a pro-active approach to energy and materials efficiency.

An ‘Environmental Eagle’ in Sweden

Our Hagglunds business in Sweden was awarded an ‘Environmental Eagle’ award from the municipal government for the establishment of the solar array at its plant in Ornskoldsvik. This is the largest façade-mounted array in Scandinavia, consisting of 1,465 panels on two building façades. All together, they generate an estimated 312 megawatt hours of electricity per year – enough to power 40 houses.

A green upgrade for Land (UK)

Our Land (UK) manufacturing facilities have recently undergone a £206 m investment. This work has resulted in improved energy and resource efficiency with key buildings designed to meet the Building Research Establishment Environmental Assessment Method (BREEAM) ‘very good’ standard. Specific improvements include a new purpose built resource-efficient facility at Washington, the removal of a coal fired boiler house at Radway Green, the installation of new effluent treatment plants at Washington and Radway Green and rationalisation of the steam supply system at Glascoed.

Texan by Nature

Our site in Austin, Texas partnered with Texan by Nature, a conservation charity founded by former First Lady, Laura Bush. A key programme is the Monarch Wrangler project that aims to create habitats for the Monarch butterfly and pollinators across corporate campuses and domestic yards and gardens. Our employees embraced the challenge of transforming the site into one covered with native species that conserve water and provide zones for migrating species and pollinating insects. It has been such a success that our Austin team has increased recycling rates and uses reclaimed water in its air conditioning systems, saving millions of gallons per year.

From chart to map

Our Military Air and Information business in the UK has launched a heat mapping tool that is helping to identify and prioritise energy efficiency measures across its sites. This builds on the work undertaken at our Warton site to reduce the energy consumed in its computer room (see case study – Increasing energy efficiency).

Increasing energy efficiency

Our Warton site in Lancashire, run by Military Air and Information (MAI), is the hub for work on the Typhoon and Hawk Advanced Jet Trainer. The critical testing and production work relies on computing infrastructure that uses significant amounts of energy, for example, in air conditioning (AC) systems.

Working with our partner Airedale Applied Thermal Innovation, we set out to enhance cooling performance with a much higher level of energy efficiency, while keeping the computer systems fully operational.

Joule Consultants helped us to see how we could reduce the energy consumption of the AC units in the computer room by up to 80%. Airedale’s control division devised a bespoke approach, linked to the existing Building Management System (BMS), involving new fans, chilled water valves and controls on more than 70 AC units (installed over 12 months). This resulted in an estimated 70–80% reduction in energy consumption, reducing carbon emissions and an approximate saving of £350,000 per annum. We expect to recoup the full costs of the project within 15 months.
Greenhouse gas emissions

Our main GHG emissions derive from the energy generated and purchased at our facilities. These emissions across our Group business, decreased by 4% in the 12 months to 31 October 2016.

A solar farm the size of eight football pitches is helping to power the production of key components for Typhoon and F-35 Lightning aircraft at Samlesbury in the UK.

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combustion of fuel within BAE Systems facilities and vehicles (Scope 1)^1</td>
<td>579,880</td>
<td>596,515</td>
</tr>
<tr>
<td>Electricity and steam purchased for BAE Systems use (Scope 2 – location-based)^1</td>
<td>571,859</td>
<td>607,876</td>
</tr>
<tr>
<td>Business travel in non-BAE Systems vehicles (Scope 3)^1</td>
<td>146,511</td>
<td>147,809</td>
</tr>
<tr>
<td>Total greenhouse gas emissions</td>
<td>1,298,250</td>
<td>1,352,200</td>
</tr>
<tr>
<td>Total greenhouse gas emissions per employee^2</td>
<td>17</td>
<td>18</td>
</tr>
</tbody>
</table>

1. See Deloitte LLP assurance statement at www.baesystems.com/deloittearssurancestatement
2. Excluding share of equity accounted investments.

Methodology

The greenhouse gas emissions data is reported in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard ‘Operational Control’ approach, and emission factors for fuels and electricity are taken from the UK government’s Department for Environment Food & Rural Affairs (DEFRA), published at www.ukconversionfactorscarbonmart.co.uk/

The CO2e associated with carbon dioxide, methane and nitrous oxide is reported. Greenhouse gas emissions associated with hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride are estimated to be immaterial to total emissions and are, therefore, not reported.

The principal record of the Group’s worldwide facilities is its legal department’s Global Property Database.

Greenhouse gas emissions are primarily calculated from energy consumption records reported via the Group’s global environmental database. Where actual usage data is not available for facilities and residences within the Global Property Database, an estimated consumption is used based on the type of building.

Greenhouse gas emissions related to business travel include air travel data for the majority of the global business and rail data for business units operating in the UK and US. These data are taken from travel suppliers’ procurement records. Emissions from joint ventures and pension scheme properties not occupied by the Group are not included.

Where a business or facility is acquired during a reporting year, it will be included in our reporting in the next full reporting year after the change.

The Scope 2 greenhouse gas emissions associated with the Greenhouse Gas Protocol ‘market-based’ method have been calculated as 638,772 tonnes CO2e. Supplier-specific emission factors have been sought for our most significant operating regions, but were either deemed of insufficient quality to use at present or were unavailable. Therefore, in line with the Greenhouse Gas Protocol guidance, this figure has been calculated using residual-mix emission factors where available for our UK and US operations. In our other significant operating regions, residual-mix emission factors are either unavailable or within the margin of error of the standard grid average emission factor and, therefore, the latter has been used.
Resource efficiency partnerships

Industry globally is challenged by changes to the availability and cost of raw materials as well as growing pressure on traditional methods of waste disposal. We therefore view resource efficiency as both a risk and an opportunity for the business. By taking a systematic and active approach we make our business more cost and process efficient, reduce risk in the value chain and play a role in tackling global resources and waste issues.

As a consequence, we need to look beyond our own production and operations to partner with our customers and other stakeholders to address shared resources challenges. For example, we are an active member of the UK MoD’s Industry Sustainable Procurement Working Group, which embeds sustainability principles into purchaser and supplier operations.

We also engage with the wider industry on environmental challenges where appropriate, through trade association working groups such as the ADS working groups on environmental management design for environment, carbon management, and hazardous materials.

40% The all-electric Nissan vans will contribute to a 40% reduction in carbon dioxide emissions at the base

Replacing nearly half of the transport fleet at the naval base reiterates the Company’s commitment to creating more energy efficient ways of working and adopting the latest technologies.

I am very pleased to welcome these electrical cars to the base. It’s great for the Royal Navy, great for Portsmouth and great for the environment.

Commodore Jeremy Rigby, Portsmouth Naval Base Commander

Portsmouth has welcomed a fleet of a different kind with the arrival of 48 electric vans to support BAE Systems’ work for the Royal Navy at its base in the city.

The vehicles reflect the Naval Base Commander’s commitment to green and efficient energy. They will be used by BAE Systems’ personnel to move stores, engineering and load-lifting equipment.

The all-electric Nissan vans will contribute to a 40% reduction in carbon dioxide emissions at the base and save the Ministry of Defence (MOD) an estimated £360,000 in fuel and other costs over the duration of the contract, which runs for two years with an option to extend into a third.

The agreement with Nissan and Lex Autolease will also involve a network of vehicle charging points and 28 designated parking bays for the vans. BAE Systems has already introduced cost-effective, energy efficiency measures such as solar panels, LED office lighting, LED street lighting, air-source heat pumps and intelligent control systems.
Product stewardship

We apply engineering knowledge to improve the efficiency of our production processes and associated products.

We aim to reduce the environmental impact of our products through concept, design and manufacture to use, recycling or disposal.

The environmental impact of our products is important to our customers, regulators and other stakeholders.

Our products are designed and built for intense use over a long period of time. We therefore collaborate with customers and suppliers to find a balance between fitness for purpose and long-term environmental impact.

Our performance

The three key elements of product stewardship are adherence, innovation and integrity to international conventions across the product lifecycle.

Adherence

The Group operates in a highly-regulated environment across many jurisdictions and is subject, without limitation, to regulations relating to both the way in which it operates as a business and how it designs, builds, maintains and supports its products. It is important therefore that the Group maintains a culture in which it focuses on embedding responsible business behaviours and that all employees act in accordance with the requirements of the Group’s policies, including the Code of Conduct, at all times.

Innovation

BAE Systems have developed some of the world’s most innovative technologies and we continue to invest in research and development to generate future products and capabilities. The Company-funded research and development often leads to customer-funded development activity as requirements mature. We spent £1.4bn (2015 £1.3bn) in 2016 on R&D, of which £206m (2015 £168m) was funded by the Group.

Integrity

The Company sets out four principles that define its approach to the safety of Products: Accountability; Level of Safety; Conforming Products; and Learning and Sharing Information. They apply throughout the life of the Product and throughout the supply chain.

Certain responsibilities for the safety of our Products can continue well beyond the contractual life of most Projects. Adherence to well thought out Product Safety Management Systems reduces the risk of unintentional harm to people, property and the environment.

The level of safety required for each Product is achieved through the application of robust processes and the thoughtful and responsible attitudes and behaviours of many individuals who are alert to the safety implications of their actions whilst working within a Product Safety Management System.

To improve safety standards, we focus upon raising awareness of our employees’ roles in identifying, managing and reducing safety risks.

Management approach

Our Lifecycle Management Framework defines our approach to Product Stewardship. The Managing Director Operational Governance ensures that this approach is taken throughout the product lifecycle. Our environment teams develop guidance, oversee performance and share best practice, following the Environmental Policy and Product Environmental Management Handbook.

Product stewardship is a means of finding a balance between design, innovation, fitness for purpose and environmental impact. We take a through-life approach, which means helping customers to enhance the lifetime of products, maximise the recycling potential and identify the most environmentally benign means of disposal.

£1.4bn* BAE Systems R&D expenditure 2016

* of which £206m was funded by the Company.

Overview of CR | The big picture | Our approach | 2016 in review | Contact us
Our product lifecycle encompasses design, specification, manufacture, testing, deployment, maintenance, refit and end of life. Many of our naval ships or military aircraft are in service for at least 30 years and we aim to minimise the environmental impact of their manufacture, use and disposal.

Environmental impacts through the lifecycle

These impacts may include:
- Emissions that may have localised impacts or contribute to climate change
- Residual ordnance that has the potential to cause contamination
- Hazardous waste materials from manufacture and maintenance.

The table summarises our key resource efficiency and environmental initiatives.

<table>
<thead>
<tr>
<th>R&amp;D</th>
<th>Manufacturing</th>
<th>Use</th>
<th>Disposal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Designing submarines</td>
<td>Installing low-carbon energy</td>
<td>Providing customers with</td>
<td>Responsibly disposing of hazardous materials</td>
</tr>
<tr>
<td>with better waste</td>
<td>generation and efficiency measures</td>
<td>a through-life service</td>
<td>from ships, aircraft and military vehicles at</td>
</tr>
<tr>
<td>compacting systems to</td>
<td>at our facilities.</td>
<td>upgrading products during</td>
<td>the end of their life.</td>
</tr>
<tr>
<td>comply with the Prevention</td>
<td></td>
<td>use so they last longer.</td>
<td></td>
</tr>
<tr>
<td>of Pollution From Ships (MARPOL) legislation.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finding alternatives to</td>
<td>Maximising the use of</td>
<td>Reducing carbon emissions</td>
<td></td>
</tr>
<tr>
<td>substances that are</td>
<td>intelligent systems to make our</td>
<td>and air pollution from</td>
<td></td>
</tr>
<tr>
<td>prohibited for use by</td>
<td>buildings operate more efficiently.</td>
<td>aircraft by running test</td>
<td></td>
</tr>
<tr>
<td>regulations such as</td>
<td></td>
<td>flights through a simulator</td>
<td></td>
</tr>
<tr>
<td>REACH which aim to prevent</td>
<td></td>
<td>and thereby using less fuel.</td>
<td></td>
</tr>
<tr>
<td>related environmental issues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>from the manufacture, use</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>and disposal of products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>or residual ordnance.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For new products, we endeavour to avoid using hazardous raw materials and to reduce emissions.

Implementing techniques to minimise waste and maximise recycling.

Helping customers understand the true energy cost of military platforms in use, including infrastructure for supplying and fueling a military operation over time.

A transparent approach

A product’s environmental footprint can be complex, from design to end of life. Analysis clearly shows that our aircraft, naval platforms and land vehicles generate the largest environmental impact (including carbon emissions) during their use, rather than during manufacture.

The environmental footprint of products is of growing interest to our customers, therefore, we work closely with our customers to help them reduce carbon emissions and waste associated with our products. For example, in the UK, we work with the MoD to achieve its Sustainable Procurement Strategy.

Saving 15 million gallons of fuel with HybriDrive

In November 2016, a contract from Reseau de transport de la Capitale (RTC) in Quebec took our cumulative orders of hybrid electric bus drive trains to 7,000. RTC is using hybrid drive trains as a bridging technology to their future state of a fully electric powered fleet since our hybrid technology uses the same components as our fully-electric solution. The design of our series hybrid system allows it to transition to an all-electric system by removing the diesel engine and increasing the energy storage capacity of the batteries. Common core components also allow for a smoother transition of maintenance regimes as operators move towards more electric systems. Today our fully electric buses are operating in London, Paris, Palm Springs, Boston and Flint (Michigan), and each year all 7,000 of our units combined are helping us save 15 million gallons of fuel and reduce CO2 emissions by 160,000 tonnes, compared to standard diesel units.
Suppliers and supply chain

We create great products and deliver high-quality services through collaboration with over 24,000 suppliers.

Our relationships with suppliers are often long term due to the length of our product lifecycles, so we aim to build relationships with suppliers who share our values and who embrace standards of ethical behaviour consistent with our own.

Our policy is to identify and select suppliers who meet our standards during selection and throughout the lifecycle of any commercial engagement.

Management approach

Our wide product and service portfolio requires close collaboration with more than 24,000 suppliers, guided by our Procurement Policy and our Supplier Principles – Guidance for Responsible Business, which was launched in 2017. The Principles provide detailed guidance to our suppliers on expected behaviour (see ‘Treating our suppliers fairly and with respect’).

Our Business Leaders and the Global Procurement Council oversee compliance with the policy and principles. The Council comprises of our key procurement and supply chain directors, to provide coordination for procurement capability, with specific focus on Company-wide collaboration to deliver functional excellence and innovation to support our business leaders to deliver competitive advantage in winning business, reducing costs and support business plan objectives. Our procurement teams assess suppliers against anti bribery and corruption criteria. This assessment process is aided by a set of responsible trading questions which cover ethical standards, environmental impact, safety, export controls, human rights and legal adherence. After selection we continue to engage with our suppliers for ongoing assurance at all stages of a project.

Our key supplier and procurement policies are compliant with national and international laws.
Suppliers and supply chain
continued

Working with Small and Medium-Sized Enterprises (SMEs)

In 2016, we had contracts with over 24,000 suppliers, with a global spend of almost £9bn.

Our suppliers, including SMEs are selected on their capability and capacity to meet technical, quality, cost, delivery and regulatory requirements, whilst demonstrating flexibility, innovation and acceptable financial and non-financial risk. Our Standard Conditions of Purchase help to streamline routine purchases and are the baseline for more complex commercial arrangements. We operate direct subcontracting relationships and promote collaboration and ease of access to our business through ‘Meet the Buyer’ events, technology conferences, supplier forums and a supplier portal. We also encourage knowledge sharing and issue open calls to encourage high-quality research. Such initiatives help fund and support innovative SMEs.

JOSCAR – industry leading supply chain collaboration

After a review of its own procurement systems, our Maritime Services business successfully supported the implementation of JOSCAR (Joint Supply Chain Accreditation Register). This initiative was designed by ourselves and ADS Group to help suppliers demonstrate that they are fit for business, in the aerospace, defence, security and space sectors, vital to the UK’s growth agenda. It is currently the only scheme of its type in the UK defence sector and provides corporate customers with a single source of accurate and high-quality information on suppliers, reducing the time to qualify and assess their suitability.

Suppliers that signed up for JOSCAR are reporting positively on the programme. They like the idea of providing their accreditations, capabilities and services in a ‘one-stop shop’, which greatly reduces the resources required for tendering. They also appreciate its potential for winning new business, by providing such information to selected JOSCAR sponsors.

Maritime Services is benefiting from improved risk management through its supply chain. It is also promoting collaboration between the 8,000 suppliers currently registered on the system.

JOSCAR is currently by invitation only, but other companies are asking to join the register and Maritime Services is also sharing its experiences with other parts of our business that are looking at different models of procurement.
Suppliers and supply chain

Helping Indigenous SMEs achieve their goals

The Indigenous Defence Consortium (IDC) and BAE Systems Australia have been working together to identify opportunities for Indigenous SMEs in the Australian supply chain. IDC helps Indigenous businesses to work with the defence sector, offering many products and services, including project management, ship loading, commercial law, work wear, medical equipment, waste management, cleaning, fleet management, demolition and civil works.

Sustainability in the supply chain

Oversight: Operational Governance Department, Global Procurement Council.
In practice: We collaborate with our suppliers to minimise energy, waste and use of water, promote reduction and recycling of packaging and other materials, as well as reducing emissions during transportation.

Treating our suppliers fairly and with respect

Guidelines: Our Supplier Principles clearly define ‘best practice’ expectations.
Oversight: Procurement and Supply Chain teams and Ethics Helpline.
In practice: Our new Supplier Principles cover a range of issues including anti-corruption, international trade compliance, anti-trust and competition, conflict minerals, counterfeit components, conflicts of interest, workplace/employee engagement, environment and timely payment. We remain committed to respecting the human rights of our employees in the workplace and encourage our suppliers and business partners to adopt the same or similarly high standards of ethical behaviour. During 2016, we undertook work to understand our human rights impacts and this will continue into 2017. We have also responded to the UK Modern Slavery Act. Our statement can be found on www.baesystems.com. The Principles also include contact details for all of our Ethics Helplines.
Community

We are committed to strengthening relationships and investing in the communities in which we operate. We support programmes that are closely connected to our business, from working with charities that support our customer community, to encouraging young people to study STEM subjects and pursue engineering and technology careers.

We strive to maximise the impact of our community investment and work closely with the London Benchmarking Group to assess, measure and improve the effectiveness of our programmes.

Management approach

Our corporate programmes and employees make a significant and positive impact on many communities, not-for-profit organisations, education providers and NGOs. These programmes are managed by our Community Investment team.

There are many ways in which we as a company and our employees support our community partners, from donations, fundraising and sponsorship through to structured education programmes, volunteering and use of our expertise. In order to maximise engagement with our partners and promote their work, we make full use of our communications resources and engage a wider audience through our website, intranet and media outlets.
Investing for long-term impact

Guidelines: Community Investment policy.

Oversight: Around 120 individuals support Company community investment activity globally.

In practice: In 2016, our Community Investment programme provided in excess of £11m of support to local, national and international charities and not-for-profit organisations. This ranged from one-off projects through to our Relationship Charity Awards that support organisations for up to three years.

We use a methodology developed by the London Benchmarking Group to build an accurate picture of the value of our support and its impact on our community partners. Our aim is to make a difference in communities, such as veterans’ organisations, education providers and local charities that support young people and the wider communities in which we operate.

Supporting the armed forces

We have strong ties with the armed forces in many countries. We provide support for armed forces charities and organisations that assist serving personnel, veterans and their families.

Our work in the UK

In the UK, we have strong ties with five leading armed forces charities – Soldiers, Sailors, Airmen and Families Association (SSAFA); ABF – The Soldiers Charity; Combat Stress; RAF Benevolent Fund and the Royal Navy and Royal Marines Charity (RNRMC). They work with the Royal Navy, British Army, Royal Air Force, Reservists, veterans, and their families. We also support and volunteer for the Royal British Legion and have been a long-standing donor to the National Memorial Arboretum as well as sponsoring all three cadet forces.

Our work in the US and Australia

In the US we have maintained strong relationships with a number of organisations who support our customer, veterans and their families, to include the United Service Organizations (USO), the Tragedy Assistance Program for Survivors (TAPS) – providing support to bereaved families, and the Military Child Education Coalition – providing educational support for children from military families.

BAE Systems is proud to support Soldier On, an Australian charity that supports men and women who are physically or psychologically affected by military service. Soldier On works to support the reintegration of serving and ex-serving men and women. To achieve this, Soldier On supports those who have served by focusing on their physical and mental health, their family, their community, and their future.

BAE Systems Australia has supported Soldier On for the past three years with over AUD150,000 generously donated. This money allows Soldier On to continue to provide these invaluable services and support for our serving and ex-serving men and women.

Supporting reservists

Our Australian business is one of the first Defence, Aerospace and Security companies to provide additional support for Australian Defence Force (ADF) Reservists. It builds on our existing support for the 30 ADF reservists in our workforce. Under the Memorandum of Understanding, we will work together to jointly leverage the benefits of sharing resources to develop our people and support the defence of Australia and its national interests.
Community
continued

Supporting the armed forces
continued

Supporting Combat Stress across the UK

BAE Systems has been supporting Combat Stress for almost ten years, with combined corporate donations and employee fundraising totalling around £100,000 each year. Combat Stress is the employee charity of choice at many UK sites, with individuals and teams taking part in a range of fundraising activity including 45-mile cycle challenges and a site to site walk between Warton and Samlesbury totalling 17.5 miles.

The Company’s corporate funding has significantly contributed to the costs of employing a Head of Psychological Services, a role that is vital in supporting the treatment of ex-service personnel with Post-Traumatic Stress Disorder (PTSD) and other mental health issues.

“I’d like to thank everyone at BAE Systems who has raised money for Combat Stress. With their generosity, we can help more veterans, something which is hugely important as we have seen a 71% increase in referrals over the last five years.”

Garry Burns, Combat Stress Corporate Sponsorship and Partnership Manager

£100,000
Combined corporate donations and employee fundraising each year
Volunteering – a personal expression

Volunteering is important to us as a business and to our employees, so much so that it can be identified as a personal development goal. In 2016 it included:

– Careers advice session in schools and colleges
– Health and safety training for local charities
– Environmental conservation work in local communities
– Fundraising for youth development and veterans’ charities
– Mentoring of STEM students.

Our US and UK employees have access to matched funding, when raising money for charities that support our customer community and education and skills.

In the US, employees are encouraged to contribute their charitable giving through our Matching Gifts Programme. This online system allows employees to streamline the process of making donations and sending eligible organisations matching company contributions on a dollar for dollar basis, up to $2,500 per year, per employee.

$2,500

This meets their contribution dollar for dollar, up to $2,500 per year, per employee.

Community Investment builds team spirit

In 2016, our Land (UK) business used community investment as a way to develop team spirit and strengthen its business culture. A main focus was the creation of an adventure playground in a deprived area of Bristol where both Land (UK) and the MoD have sites. More than 250 people from across our business and MoD sites, contributed 2,000 hours of their time to create a much needed resource for children in the area.

Our Early Careers team also designed and built a log-cabin outdoor classroom for school children in North Somerset.

The facility was fully accessible and opened up many opportunities for outdoor education including the chance for young people to see what a career in Science and Technology can offer. For example, we built STEM into the projects through a new bicycle maintenance area that explains the maths and science behind gearing up and access to computers.

Both projects contributed to the local community and benefited our business through extended personal networks, team-working and enhanced leadership skills.

““

For a lot of people it was a step into the unknown. Some wondered how leaving the office could help us work better together, but all those that took part told us it was one of the most rewarding work experiences that they have ever had.

““

Jennifer Osbaldestin, Managing Director of our Land (UK) business
Volunteering – a personal expression

Platforms & Services (US) builds homes for veterans

Our Platforms & Services (US) employees have helped to build new homes in the San Diego, California; Kingsport, Tennessee; Sterling Heights, Michigan; and Minneapolis, Minnesota metropolitan regions. Working through Habitat for Humanity, our volunteers gave up some of their Saturdays to join the house building squads and create homes for veterans and their families. In May, they also repaired a military veteran’s home during National Military Appreciation Month.

Our team at Electronic Systems has also been supporting veterans through its support of Building Homes for Heroes – a national charity that creates or modifies homes for military personnel and their families. The homes are adapted for mental and physical impairments and greatly ease the financial burden for veterans and their families.

Building Homes for Heroes was selected as the Electronic Systems sector’s charity partner for 2015 and 2016. During that two-year period, the sector supported the charity’s work through donations of over $260,000, which included employee and corporate donations, as well as company matching funds. Our employees are also enthusiastic volunteers, helping with new home dedication ceremonies among other volunteer activities.

During the period, the organisation gifted 29 homes in 2016, and 28 homes in 2015. One of these 2015 homes was gifted in San Antonio to a decorated US Army Sergeant who was injured in Afghanistan in 2011, followed by years of painstaking rehabilitation and therapy.

Our impressive accomplishments would not have been possible without the strong support of terrific sponsors like BAE Systems.

Carolyn Paske from Building Homes for Heroes, commenting on this and other projects.
Contact us

corporate.responsibility@baesystems.com