Corporate responsibility summary 2017
Our important mission relies just as much on our ability to work responsibly, ethically and efficiently as it does on the quality, competitiveness and innovation of the solutions we provide.

Our people, products and services are trusted by customers to provide vital capabilities and a technological edge where it counts, helping to protect national security and prosperity. It is a role we are proud to play as a key partner and supplier to governments and corporations around the world. Our important mission relies just as much on our ability to work responsibly, ethically and efficiently as it does on the quality, competitiveness and innovation of the solutions we provide.

Above all, our long-term success depends on the dedication and skills of our people. The safety and wellbeing of our employees and anyone who works at or visits our sites remains a key priority, and we continue to strengthen the health and safety culture across the Group. Our significant investment in recruiting, retaining and developing critical skills – including offering world-class early careers apprenticeships and graduate opportunities aims to maintain the capabilities our customers rely on to stay a step ahead of rapidly evolving technological change. That includes increasing our commitment to local recruitment and skills development – at our own operations and across our extensive supply chain – in many of the countries in which we operate. This helps to strengthen industrial capabilities and make enduring and significant contribution to prosperity in line with national priorities.

Increasing the diversity of our workforce in an inclusive, respectful workplace in which everyone can perform at their best is another important focus for the coming year.

Since taking over as Chief Executive in July, I have reaffirmed our strategy, and we are driving renewed focus on three strategic priorities that will drive our long-term success: operational excellence, competitiveness and innovation – including through the recent organisational restructuring which became effective at the beginning of 2018. Our core values – Trusted, Innovative and Bold – continue to provide a strong foundation for everything we do. Together with an unrelenting commitment to ethical and responsible behaviours set out in our Code of Conduct and Operational Framework, our values remain an important element of the high-performance culture we seek to uphold across our operations and activities.

This Summary sets out our performance and approach in seven key areas of corporate responsibility. It is an important element of our commitment to open and honest dialogue with our stakeholders and as ever, we welcome comments and feedback to help improve the quality of our reporting and performance. Our approach to corporate responsibility recognises that meeting and exceeding the expectations of all our stakeholders is not only the right thing to do, it is also critical to the long-term success of our business and the important role we play in helping our customers keep people and nations safe in an uncertain world.

Charles Woodburn
Chief Executive
The corporate responsibility landscape continues to evolve and, as such, the CR Committee monitors developments to ensure that our agenda remains relevant, whilst keeping a keen eye on the matters that have been our principal focus for some time. During 2017, we increased the intensity of our review of diversity and inclusion across the different areas of the business. We also looked at the way in which the Company interacts with suppliers and how the Company engages with employees. Safety continues to be a key priority for the Committee and we remain focused on making progress towards achieving world-class performance wherever possible.

In July, we welcomed Charles Woodburn to the Board in the position of Chief Executive. Charles has now taken on the role of Chairman of the Company’s Diversity and Inclusion Council, and he will be engaging with the Committee on the Council’s priorities and the progress that is being made to drive business performance. During 2017, we worked closely with the Chief Procurement Officer to review changes to the global Procurement Policy, the structure and role of the Procurement Council and the Supplier Principles, launched in January 2017. We paid particular attention to how we can be confident that our suppliers, and their supply chains in turn, are meeting similar responsible business standards to those we set for ourselves. This also included a review of the way we communicate with these organisations.

The Committee looked at employee communications in 2017. We wanted to understand how the company’s new ‘Agile’ employee survey system was being used to gain a quick response from employees on specific topics, as well as the management response. We were encouraged by the way management teams used qualitative and quantitative outputs from the surveys. During the year, we carried out a deep dive review of the safety performance of the US business to understand the factors driving these specific safety performance metrics. To ensure that we do not lose focus on this important area, the Board continues to prioritise safety in the business through the inclusion of a specific safety objective that is designed to be realistic, but stretching, and which forms part of our executive annual incentive scheme.

In 2018, we will continue to focus on the company’s broad approach to CR and take deep dives into areas of interest.

Ian Tyler, Chairman, Corporate Responsibility Committee
Our market environment is ever-changing, reflecting geopolitical and rapid technological shifts. We therefore need to be able to respond to current and future customer requirements.

BAE Systems’ advanced technology is designed to enable customers to deal with the pressures of a complex and changing world, protecting people and national security and keeping critical information and infrastructure secure.

Advanced engineering and research programmes provide customers with a competitive edge across air, maritime, land and cyber domains. A skilled workforce operating in over 40 countries, works closely with local partners to deliver for our customers and support economic development by transferring knowledge, skills and technology.

This significant international presence, one of the broadest in the defence industry, is supported by long-standing customer relationships, particularly with Governments and their agencies, allied to diverse capabilities across the Group. This mix of world-class engineering and systems expertise is increasingly in demand across the corporate sector, where it is used to protect business systems, processes and reputations. In all cases, BAE Systems aims to ensure that customers are equipped to face present and future challenges.

BAE Systems products are sophisticated and high-end and, given their scale and complexity, have to be designed for maximum utility. This entails working with our customers to enhance the lifetime of our products. A key focus is the potential for reuse and remanufacture of our products and the associated manufacturing processes.

A commitment to innovation and engineering excellence equips BAE Systems to deal with global challenges. This experience is carried over into the products and services that enable customers to meet the complex security and safety challenges of the 21st Century.

BAE Systems makes a major contribution to the UK economy

An independent report from Oxford Economics, a world leader in forecasting and analysis, highlights the £11.1bn contribution made by our business to the UK economy, equivalent to 0.6% of GDP.

Commissioned by BAE Systems and published in November 2017, the report also highlights the 35% increase in productivity achieved between 2013 and 2016 with a rate of £128,000 per employee – almost 80% greater than the UK average. In a UK market dominated by concerns over productivity, we have achieved this through our highly skilled workforce, our long-term commitment to delivering apprentice and graduate training programmes and our investment in technology which underpins and drives future concepts in product design and manufacturing.

Innovation and research and development are a key focus for BAE Systems, as highlighted in the report. We partner with leading universities to develop future technologies, with almost £10m invested with UK universities in areas such as novel materials, advanced manufacturing, artificial intelligence, maritime technologies, unmanned air vehicles and avionics testing. The company has made strategic investments in a range of evolving technologies including Reaction Engines Ltd and its hypersonic engine, as well as mixed reality cockpit technology, unmanned ground vehicles and rigid inflatable boats, and flapless flight technology.
BAE Systems has leading positions in its principal markets – in the US, UK, the Kingdom of Saudi Arabia and Australia – as well as established positions in a number of other international markets. We are one of the largest global defence companies.

**Supporting our customers**

Our strategy is focused on providing a vital advantage to our customers across US, UK and international markets. In particular, we have built strong positions aligned with our core defence platforms to support our customers in our four principal markets. These principal markets – the US, UK, the Kingdom of Saudi Arabia and Australia – have been identified as having a significant and sustained commitment to defence and security. BAE Systems has established strong and enduring relationships in these markets and is recognised as playing a key role in the industrial capability of each of these countries.

**Our unique position and capabilities**

Our strong position in the US through the Special Security Agreement, together with our standing as the leading defence contractor in the UK, provides us with unique capabilities that can be leveraged across the Group to support our customers.

In addition, our diverse portfolio, including leading cyber capabilities, provides us with a comprehensive offering for our customers, with cyber now recognised as a defence domain in its own right.

**Responding to a changing character of conflict**

Our business continues to respond to geopolitical and technology trends that will influence the future character of conflict and shape our customers’ requirements. Our excellence in complex engineering, developing cutting-edge technology and seeking innovative solutions enables us to respond to our customers’ requirements for greater agility, global reach, and advanced technology products and services.

**International growth aspirations**

Following a number of years of defence spend contraction, global defence markets are stabilising, with a number of nations returning to growth in response to an increasingly uncertain security environment. We continue to recognise the importance and requirements of our international customers. We have a significant international presence, one of the broadest amongst the defence primes, supported by long-standing customer relationships and diverse capabilities, leveraged across the Group.

**Accessible global defence markets**

Top ten global defence markets accessible for business by the Group ($bn)

<table>
<thead>
<tr>
<th>Country</th>
<th>Revenue ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>580</td>
</tr>
<tr>
<td>India</td>
<td>53</td>
</tr>
<tr>
<td>UK</td>
<td>51</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>50</td>
</tr>
<tr>
<td>Japan</td>
<td>47</td>
</tr>
<tr>
<td>France</td>
<td>46</td>
</tr>
<tr>
<td>Germany</td>
<td>35</td>
</tr>
<tr>
<td>South Korea</td>
<td>34</td>
</tr>
<tr>
<td>Australia</td>
<td>28</td>
</tr>
<tr>
<td>Brazil</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: 2016 US budget as shown in the Department of Defense Fiscal Year 2018 Budget Request and, outside the US, IHS Jane’s Defence Budgets (based on 2016 total defence budgets and constant 2017 US dollars).

1. Markets inaccessible for business by BAE Systems are excluded.

**BAE Systems’ global defence market position**

Top ten global defence contractors’ revenue ($bn)

<table>
<thead>
<tr>
<th>Contractor</th>
<th>Revenue ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lockheed Martin</td>
<td>44</td>
</tr>
<tr>
<td>Boeing</td>
<td>30</td>
</tr>
<tr>
<td>BAE Systems</td>
<td>26</td>
</tr>
<tr>
<td>Raytheon</td>
<td>22</td>
</tr>
<tr>
<td>Northrop Grumman</td>
<td>20</td>
</tr>
<tr>
<td>General Dynamics</td>
<td>20</td>
</tr>
<tr>
<td>Airbus</td>
<td>12</td>
</tr>
<tr>
<td>Elbit Technologies</td>
<td>9</td>
</tr>
<tr>
<td>Leonardo</td>
<td>9</td>
</tr>
<tr>
<td>Thales</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Defense News Top 100 for 2017 (based on 2016 numbers). Exchange rate applied to BAE Systems is $1.35/£1.
Corporate responsibility governance

Our values

Trusted, Innovative and Bold

Our values are at the heart of everything we do and provide the right focus and framework for the Company to aspire to and live by, now and into the future.

The Operational Framework is underpinned by the following:

Our Code of Conduct defines the expected standard of behaviour for all employees. We revised our Code of Conduct in 2017 and it went live in January 2018. The revision involved independent benchmarking by the Institute of Business Ethics and was developed through extensive consultation with employees and trade unions.

The Operational Assurance Statement (OAS) is a six-monthly process used to monitor compliance with the Operational Framework and policies. The OAS also requires a report showing the key financial and non-financial risks for each business, completed by the line and functional leaders.

The Internal Audit Director owns the OAS Policy, and is responsible for the consolidation and reporting of the OAS submissions from the businesses to the Group Audit Review Board, the Audit Committee and the Corporate Responsibility Committee. The Internal Audit Director reports functionally to the Audit Committee and, for day-to-day operations, to the CEO. The Corporate Responsibility and Audit Committees hold a joint meeting each year to review the OAS and assurance matters as both committees are concerned with both financial and non-financial risk.

The Board has overall responsibility for determining the nature and extent of the risk that the Company is willing to take, and ensuring that risks are managed effectively across the Group. The Board reviews risk as a regular agenda item and as part of its annual strategy review process. In 2017, the Board carried out a robust assessment of principal risks, including those that would threaten our business model, future performance, solvency and liquidity.

Our CR aims are:

- Continuously improving employee wellbeing and standards of safety for employees and those we work with, to ensure everyone goes home safely (see Health and safety, page 10)
- Developing an inclusive, diverse workplace to drive innovation and enhance the performance of our employees (see Our people, page 12)
- Engaging with our communities by supporting projects and employee volunteering (see Community, page 16)
- Supporting our employees in making the right decisions (see Trust and integrity, page 18)
- Managing the environmental impacts of our facilities and products to improve efficiencies and cost savings (see Resource efficiency and Product stewardship, pages 20 and 22)
- Working with our suppliers to deliver functional excellence and innovation to support our businesses in delivering on their objectives (see Our suppliers, page 24).

Our CR Committee focused on the following during 2017:

- Define world-class safety performance, review risk elimination and mitigation, and increase the integration of a workplace and product safety culture
- Review health and wellbeing programmes and initiatives
- Review and revise our Code of Conduct and define a process for the provision of Business Conduct Training for all employees
- Progress diversity and inclusion (D&I) programmes and embed the CEO D&I Council.

The CR Committee is chaired by a non-executive director and the Managing Director Operational Governance attends all meetings. It meets and reports to our CEO on a quarterly basis.

More online
https://investors.baesystems.com

Link to Strategy

Link to Governance

Link to Policies

The Corporate Responsibility (CR) Committee

Our CR aims are:

- Continuously improving employee wellbeing and standards of safety for employees and those we work with, to ensure everyone goes home safely (see Health and safety, page 10)
- Developing an inclusive, diverse workplace to drive innovation and enhance the performance of our employees (see Our people, page 12)
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- Managing the environmental impacts of our facilities and products to improve efficiencies and cost savings (see Resource efficiency and Product stewardship, pages 20 and 22)
- Working with our suppliers to deliver functional excellence and innovation to support our businesses in delivering on their objectives (see Our suppliers, page 24).
Stakeholder feedback ensures that we are addressing relevant CR issues across the business globally. We engage regularly with our stakeholders and 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. The table outlines a sample of our stakeholders, examples of how we engage and areas of interest.

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Examples of how we engage</th>
<th>Example areas of interest</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Academia</strong></td>
<td>Community initiatives</td>
<td>Health and safety</td>
</tr>
<tr>
<td><strong>Employees</strong></td>
<td>Surveys</td>
<td>Business conduct</td>
</tr>
<tr>
<td><strong>Communities</strong></td>
<td>Employee networks, training and reviews</td>
<td>Community initiatives</td>
</tr>
<tr>
<td><strong>Trade unions</strong></td>
<td>Internal and external communication tools</td>
<td>Diversity and inclusion</td>
</tr>
<tr>
<td></td>
<td>Strategic partnerships</td>
<td>Developing talent</td>
</tr>
<tr>
<td></td>
<td>Trade union forums and meetings</td>
<td>Research and development</td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td>Ongoing dialogue</td>
<td>Health and safety</td>
</tr>
<tr>
<td><strong>Governments</strong></td>
<td>National and international policy/economic forums</td>
<td>Business conduct</td>
</tr>
<tr>
<td><strong>Regulators</strong></td>
<td>Contracts</td>
<td>Compliance</td>
</tr>
<tr>
<td><strong>Investors</strong></td>
<td>Roadshows and conferences</td>
<td>Community</td>
</tr>
<tr>
<td><strong>Shareholders</strong></td>
<td>Briefings</td>
<td>Diversity and inclusion</td>
</tr>
<tr>
<td></td>
<td>Annual reports and results</td>
<td>Environmental matters</td>
</tr>
<tr>
<td></td>
<td>Focus groups</td>
<td>Product manufacturing</td>
</tr>
<tr>
<td></td>
<td>Questionnaires and reviews</td>
<td></td>
</tr>
<tr>
<td><strong>Industry</strong></td>
<td>Collaborate and share best practice through industry organisations:</td>
<td>Business conduct</td>
</tr>
<tr>
<td></td>
<td>• AeroSpace and Defence Industries Association of Europe</td>
<td>Health and safety</td>
</tr>
<tr>
<td></td>
<td>• Aerospace Industries Association of America</td>
<td>Environmental matters</td>
</tr>
<tr>
<td></td>
<td>• Global Principals of Business Ethics for the Aerospace and Defence Industry</td>
<td>Sharing best practice</td>
</tr>
<tr>
<td></td>
<td>• UK Institute of Business Ethics</td>
<td>Supply management</td>
</tr>
<tr>
<td></td>
<td>• US Defense Industry Initiative</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• International Forum on Business Ethical Conduct</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• ADS Group for companies in the UK Aerospace, Defence, Security and Space Sectors</td>
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<tr>
<td></td>
<td>• International Aerospace Environmental Group</td>
<td></td>
</tr>
<tr>
<td><strong>NGOs</strong></td>
<td>Ongoing dialogue</td>
<td>Business conduct</td>
</tr>
<tr>
<td></td>
<td>Focus groups</td>
<td>Defence industry</td>
</tr>
<tr>
<td></td>
<td>Network feeds</td>
<td>Environmental matters</td>
</tr>
<tr>
<td><strong>Suppliers</strong></td>
<td>Supplier management – performance reviews</td>
<td>Compliance</td>
</tr>
<tr>
<td></td>
<td>Supplier principles</td>
<td>Business conduct</td>
</tr>
<tr>
<td></td>
<td>Supplier programmes, conferences, forums and events</td>
<td>Performance management</td>
</tr>
<tr>
<td></td>
<td>Due diligence for supplier approvals</td>
<td></td>
</tr>
</tbody>
</table>
This section describes performance across seven key areas of our business. Our approach and expected standard of behaviour are guided by policy statements and guidelines, designed to ensure compliance with our Operational Framework and Code of Conduct.

<table>
<thead>
<tr>
<th>Area of our business</th>
<th>Page number</th>
<th>Group-wide policies</th>
<th>Other important guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health and safety</td>
<td>10</td>
<td>Health and Safety, Environmental</td>
<td>Code of Conduct</td>
</tr>
<tr>
<td>Our people</td>
<td>12</td>
<td>People</td>
<td>Code of Conduct</td>
</tr>
<tr>
<td>Our community</td>
<td>16</td>
<td>Community Investment</td>
<td>Community Investment Strategy</td>
</tr>
<tr>
<td>Trust and integrity</td>
<td>18</td>
<td>Advisor, Gifts and Hospitality, Conflict of Interest, Facilitation Payments, Export Control, Offset, Lobbying, Political Donations and other Political Activity, Pursuit of Export Opportunities</td>
<td>Code of Conduct, Investigations Governance</td>
</tr>
<tr>
<td>Resource efficiency</td>
<td>20</td>
<td>Health and Safety, Environmental</td>
<td>Code of Conduct</td>
</tr>
<tr>
<td>Product stewardship</td>
<td>22</td>
<td>Health and Safety, Environmental, Product Trading</td>
<td>Sustainable Procurement Handbook</td>
</tr>
<tr>
<td>Our suppliers</td>
<td>24</td>
<td>Procurement</td>
<td>Supplier Principles, Sustainable Procurement Handbook</td>
</tr>
</tbody>
</table>

MEMBER OF
Dow Jones Sustainability Indices
In Collaboration with RobecoSAM
Health and safety

We operate a highly diverse business encompassing everything from large-scale, complex engineering projects to fast-paced software development. In all cases, the safety and wellbeing of our employees is paramount.

2017 priorities

• Aim for world-class 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

2017 progress

• Our Recordable Accident Rate\(^3\) in 2017 was 564 per 100,000 employees, compared to 580 in 2016 and 732 in 2015
• There was a 3% reduction in the Recordable Accident Rate
• The number of major injuries\(^1\) was 28 in 2017, compared to 39 in 2016 and 53 in 2015

2018 direction

• Achieve world-class safety performance
• Improve management and reduction of safety risk
• Improve safety culture and leadership
• Target a 10% reduction in the Recordable Accident Rate

Our approach

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 Managing Director Operational Governance supported by leaders from each of our markets and senior Safety, Health and Environmental personnel.

Our approach is shaped by the many and varied safety risks across the Group. These include slips, trips and falls, work in confined spaces, machinery operation and explosion risks associated with the manufacture of munitions, amongst others. We monitor and aim to reduce these and other risks, where possible. Where appropriate, we provide employees exposed to these hazards with health surveillance, which allows us to understand and make their working environment as safe as possible.

The Group-wide Health and Safety Policy is the key guide and the Operational Assurance Statement is used to track compliance.

Performance

The Recordable Accident Rate is our key metric. This, along with the number of major injuries, is linked to an element of our executive bonus package (see Annual Report). There were zero fatalities\(^2\), a 3% reduction in the Recordable Accident Rate and a 28% reduction in the total number of major injuries recorded in 2017. We have adapted our definitions of major injuries to be in line with the UK RIDDOR\(^3\) requirement.

Recordable accident rate per 100,000 employees\(^3\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>564</td>
</tr>
<tr>
<td>2016</td>
<td>580</td>
</tr>
<tr>
<td>2015</td>
<td>732</td>
</tr>
<tr>
<td>2014</td>
<td>863</td>
</tr>
<tr>
<td>2013</td>
<td>965</td>
</tr>
</tbody>
</table>

Wellbeing at work

Our employee wellbeing programmes range from exercise and fitness promotion to occupational health checks. Good mental and physical health contributes to better decision making, greater productivity and higher levels of employee satisfaction. We encourage employees to take personal responsibility in reducing the health factors associated with common health problems.

More information online


1 Occupational Health and Safety Assessment Series.
2 The definition of Major Injury changed for the 2017 reporting year to more closely reflect the definitions of major injuries within the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2014 (RIDDOR). 2016 figures have remained aligned to the previous definitions in use at that time due to the resource implications of re-visiting data that is not held on our central recording database.
Our ship design, building and repair operations are complex and potentially hazardous working environments. We are continuously focused on maintaining and improving safety performance.

Naval Ships, part of our UK Maritime business was presented with a Five Star Award in Occupational Health and Safety, after an audit in December 2016 by the British Safety Council. This has led to a prestigious Sword of Honour, one of only 57 such awards made worldwide, also by the British Safety Council. This accolade is for demonstrable excellence in the management of health and safety risks at work. In 2018, Naval Ships will be subject to a Five Star Integrated Audit that also takes account of environmental management.

BAE Systems Australia focused on energy management within its Safety Improvement Plan in 2017, including generating a new and safer way to isolate sources of energy utilising a safer method of ‘Lock Out, Tag Out’.
Recruiting and retaining the best people from the widest possible talent pool is a key priority for BAE Systems. We value our 83,200 employees and the contribution they make, and we are committed to creating an inclusive culture where everyone can achieve their best. This is essential if we are to attract and retain talented people, and drive creativity, innovation and our ability to solve our customers’ complex challenges.

Our approach

Our human resources strategy prioritises employee welfare and development, empowerment and knowledge transfer. Our Group Human Resources Director reports directly to our Chief Executive and chairs a Human Resources Council to ensure that our strategy supports the Integrated Business Plan and People Policy.

Our Total Performance Leadership Framework is designed to promote a diverse and inclusive working culture. In the UK, a Transgender Policy was launched in 2017. We also have a UK Work-Life Integration Policy. In addition, our revised Code of Conduct has a greater focus on diversity and inclusion. The Group’s strategy is dependent on its ability to recruit and retain people with appropriate talent and skills, and we have identified this as a strategic imperative.

Our People Policy sets out our people management expectations, including with regard to diversity and inclusion, training and development, reward and employee engagement.

Diversity and inclusion (D&I)

We are committed to creating an inclusive environment with a diverse workforce, which reflects the communities in which we work. Our Chief Executive leads the Company’s Diversity and Inclusion Council which has three priorities:

• build a culture of inclusion and inclusive leadership globally;
• drive a heightened awareness and education of diversity and inclusion across the organisation; and
• foster diversity and inclusion throughout the organisation.

Our markets are tasked with developing strategies and programmes that support these priorities and implementing accountability measures to track progress and drive commitment. Across our global company we have many local D&I Councils and Working Groups. Our D&I leads share information through global monthly calls with Australia, Saudi Arabia, the UK and US.

We are determined to bridge the historical gender gap in our industry by encouraging more young women to enter STEM fields, recognising the achievements of our women engineers and promoting development to increase the number of women in senior executive positions.

We have Employee Resource Groups and networks including those for women, veterans and people with disabilities and caring responsibilities. We also have employee-led Lesbian, Gay, Bisexual and Transgender (LGBT) and Allies support networks, such as OutLink in the UK and US.

<table>
<thead>
<tr>
<th>2017 priorities</th>
<th>2017 progress</th>
<th>2018 direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>• All markets to continue to drive a diversity and inclusion (D&amp;I) agenda to address business needs and strategic aims</td>
<td>• D&amp;I Leads, Enterprise, and Local D&amp;I Councils, Steering Groups and Working Groups in place across the business</td>
<td>• We will continue to drive a D&amp;I agenda to address business needs and strategic aims</td>
</tr>
<tr>
<td></td>
<td>• Seven active Employee Resource Groups (ERGs) in the US including the Women’s Inclusive Network; inter-generational workshops, promoting mental health awareness through Great Minds and launch of Enabled, our disability ERG in the UK, launch of ABLE for individuals with disabilities in Saudi Arabia; and extending gender equity roundtable discussions into a subsequent Women’s ERG in Australia</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Recognised as a disability and LGBTQ employer of choice on the Disability Equality Index and Corporate Equality Index for the second consecutive year. Also supported UK and US Pride events</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Focused on diversity in the pipeline including Indigenous STEM student tours in Australia, recruiting at outreach associations representing diverse engineers in the US and engaging with girls and young women in schools and communities through more than 200 events in the UK</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Supported several regional initiatives including the Women Empowerment Committee in Saudi Arabia</td>
<td></td>
</tr>
</tbody>
</table>

More online


1 Including share of equity accounted investments.
Employee development and reward

We support our employees in reaching their full potential through a structured career plan backed up by comprehensive training and development programmes. Skills transfer is an important part of our strategy, allowing employees to work across the business, building and refreshing their skills.

We offer a competitive reward package aligned with responsibilities and performance. We celebrate success through schemes such as the Chairman’s Awards with D&I programmes being put forward in the Embracing Responsible Behaviour category from several regions. We offer share schemes and retirement plans in a package that is fair and competitive.

Our Employee Survey Tool, launched in 2016, enables leadership teams to generate surveys customised for their sector, geography or particular issues, supported by a comprehensive question and knowledge library and analytical capabilities. More than 30 such surveys were conducted in 2017.

We seek to maintain constructive relationships with our trade unions in Australia and the UK, and our labour unions in the US. 55% of our UK employees are members of a Trade 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. We have agreements with unions and consultative bodies in countries where collective bargaining is standard legal practice, supported by employees.

Gender diversity

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board1</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Senior managers2,3</td>
<td>300</td>
<td>50</td>
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Age diversity4,5

<table>
<thead>
<tr>
<th></th>
<th>50-59 years</th>
<th>60 years and older</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>23,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Female</td>
<td>15,000</td>
<td></td>
</tr>
</tbody>
</table>

Gender pay gap

The UK government has introduced gender pay gap reporting regulations for companies which employ more than 250 employees. For 2017, the average gender pay gap for our UK workforce was 11.2%, which is lower than the current UK national average of 18.1%. We have a gender pay gap because we employ around four times more men than women and a greater proportion of our senior leadership team is male. This trend is not unusual for companies like ours which employ large numbers of people with qualifications in science, technology, engineering and mathematics (STEM) related fields. With the number of women who study and work in these fields significantly less than the number of men, we recruit from a much smaller pool of female talent. We continue to work hard to increase the number of females we employ to improve our gender balance and become a more diverse organisation.

Identifying and recruiting talent

We need to recruit a diverse range of professionals to help solve our customers’ challenges, including engineers, designers, software developers and project managers. We look to draw people from a wide range of backgrounds and cultures. Our recruitment focus is on the next generation to replace the skills and experience we are losing. As our aging workforce retires, to mitigate STEM skills shortages, and to accelerate diversity within our leadership.

We have strong and deep relationships with education providers globally to promote STEM and other subjects. For example, our flagship UK Schools Roadshow, delivered with the Royal Air Force and Royal Navy, engaged more than 420 schools and approximately 130,000 young people in 2017.

Our apprenticeship and graduate programmes are highly regarded in our industry, and more widely. In the summer of 2018, for example, we will be opening a £25m Central Training Facility for 1,000 apprentices supporting our UK submarine design and build capability in Barrow-in-Furness, Cumbria, UK. In Samlesbury, UK, our Academy for Skills and Knowledge has been operating for over 12 months, developing the skills of our young employees.

Our 2017 apprentice intake figures provided our best ever D&I statistics, with 27% female and 5% black, Asian and minority ethnic. From a social mobility perspective, in 2016 (our most available numbers), 18% of our apprentices were recruited from the top 20 most economically disadvantaged parts of England.

We recognise the value that former service personnel can bring to our business. We therefore match their experience to our needs and actively recruit from across the military services of Australia, Saudi Arabia, the UK and US.

Training and employee development

We support employee development through our comprehensive career frameworks, development programmes and the breadth of our operations. We want every employee to reach their full potential. Continual improvement of competence and skills transfer helps us to continue to develop world-leading technologies that give our customers a critical advantage.

Our focus on inclusive leadership and professional development throughout our employees’ careers supports their personal and professional growth, and ensures that we have the skills to meet our customers’ current and future requirements.
Building a diverse and inclusive business

The geographic and sectoral diversity of our business is mirrored in the range of skills, interests, cultures, backgrounds and education of our people. In 2017, our success in encouraging and nurturing diversity and inclusion within the business was exemplified by the following:

Sophie Dent, an engineering graduate at BAE Systems Submarines was named in the Top 50 Women in Engineering list, compiled by the Women in Engineering Society and Daily Telegraph newspaper. Sophie, along with her colleagues Lauren Eastburn and Beth Howarth-Henry picked up a Chairman’s Gold Award for Embracing Responsible Behaviour. The team developed ‘Clever Cogs’ – the first engineering challenge badge for the Girl Guiding community. Sophie said: “I was in a minority throughout university, but I am hopeful that this will not be the case for girls in future. I am so passionate about engineering and if I can break down some barriers and change perceptions of the industry, I’ll be very happy.”

In the UK, we published a Transgender Policy, supported by a Transitioning at Work Guidance document containing information about the support available. This policy recognises that transgender people have a gender identity or gender expression that differs from the sex they were assigned at birth (independent of sexual orientation). It was developed by our HR teams, working alongside our LGBT employee resource group, OutLink UK, with support from Stonewall and the Gender Identity Research and Education Society. Our vision is that all colleagues, managers and the executive leadership are ready and able to engage, understand and support transgender employees and those going through transition.

"If I can break down some barriers and change perceptions of the industry, I’ll be very happy.”

Sophie Dent, engineering graduate at BAE Systems

Diversity is a strategic priority in Australia

BAE Systems Australia has increased the proportion of women in its graduate intake using ‘Gender Decoder’ and ‘Textio’, software tools that analyse job adverts to recommend gender-neutral language. The use of these tools identified wording in existing adverts as ‘highly masculine’ and led to a change in their tone and content. As a consequence the proportion of female graduates in the latest intake was 34%, compared to 19% in the previous year. This work, alongside unconscious bias training for all executives and in particular those involved in recruitment, supports BAE Systems Australia’s aim to have a 30% female workforce by 2020.

34%

The proportion of female graduates in the latest intake was 34%, compared to 19% in the previous year.

30%

BAE Systems Australia aims to have a 30% female workforce by 2020.
Embracing Diversity and Inclusion in our Military Air business

Throughout 2017, our Military Air business has made significant progress in embracing and embedding positive behaviour in relation to D&I. The vision was to promote inclusivity and a sense of belonging as the norm and the right thing to do. The D&I Journey 2017 achievements have been recognised with an Executive Committee Chairman’s Award.

Specially convened inclusion sessions with the Board included lived experiences of LGBT and disabled colleagues. Inclusive Leadership Workshops for senior executives across our businesses set the right tone from the top. Groups such as the ENabled Disability Network and Inspiring Women in Military Air were launched, OutLink UK celebrated IDAHOBIT (International Day Against Homophobia, Biphobia and Transphobia) across all sites and successfully launched the Allies programme.

In parallel, our Early Careers team engaged with girls and young women in schools and communities through more than 200 events, including ‘Girls in Engineering’, leading to a significant increase in gender and cultural diversity amongst the apprentice and graduate cohort.

We also had a regular communications drumbeat and wider awareness raising initiatives, including Deaf Awareness Workshops, Dyslexia Week, Wheelchair Day, Autism Week, Mental Health Week and National Carers Week. Throughout the year, our employees shared their stories and lived experiences with colleagues and the wider industry. For example, workshops were led by employees with Autism/Asperger’s at the UK Inclusive Engineering Conferences.

Education for solving the world’s greatest challenges

Every year we invest approximately £90 million in the UK on education and skills programmes around the STEM curriculum. These investments support all young people, regardless of background, to consider a career in engineering and other technical disciplines. They also emphasise the opportunities open to young women, as it is often difficult to attract them to such careers. We have increased the number of women in management posts to 16% in 2017.

We also recognise that there are young people that may be having difficulty getting onto education programmes and may feel excluded. The Movement to Work scheme organised by The Prince’s Trust, provides work experience for such young people. In addition to our own success, we have also enlisted a further 43 employers, who have pledged to provide more than 500 placements under Movement to Work. We have supported the scheme for a number of years and in 2017, our efforts were recognised with a ‘Talent Match Mark’.

Our apprenticeship programme is one of the biggest and most progressive in the UK and is rated ‘outstanding’ by the Office for Standards in Education (Ofsted). In 2017 we recruited 576 apprentices and trainees and 190 graduates. By the end of 2017, we had almost 2,000 apprentices in training across our UK business, which is almost 6% of the UK workforce. These programmes provide excellent career opportunities and future-proof our business, particularly where we are central to long-term defence projects. For example, in Australia, we have submitted a tender on the Federal Government’s SEA 5000 Future Frigate programme, which will require a steady supply of expertise in mechanical, electrical, materials and other technical disciplines.

Partnerships are also crucial to our STEM programme, in particular, working with universities and other education providers.

Our people
Our community

It is important to us and our employees that we give back to the communities where we have a presence and can make a positive difference.

Our approach

Our Global Community Investment Strategy aims to build and nurture mutually beneficial relationships between our business, our people and local stakeholders.

We collaborate with organisations that can demonstrate a positive impact locally and encourage our employees to volunteer in support of their work. These include not-for-profit organisations and education providers. Our businesses are much more attuned to local priorities and challenges and have the freedom to decide where investments are made. This is in line with the strategy and with guidance from our community investment team.

Our primary focus areas are:

- **Customers** – supporting active service personnel, veterans and their families;
- **Education** – inspiring young people to consider STEM subjects and careers; and
- **Local community** – working to support the community in which we operate.

We specify that community investments are not made to third-party fundraisers or directly to individuals. We do however donate to charities that are vetted via a credible third party with knowledge of the local conditions. All community investments are tested against the general principle that they do not, and do not appear to place actual or potential customers, suppliers or government officials under any obligation to our business.

All such expenditure and any associated employee fundraising is reported through an online system and validated by an external assurance provider.

Our impact

In 2017 our community investments totalled more than £11m. We use the London Benchmarking Group methodology to define the value of our support and its impact on our community partners, in comparison with our peers and other organisations.

As well as donations, sponsorship and employee fundraising, we develop and support structured education programmes and enable our employees to volunteer their skills and time. Our communications team also supports awareness raising efforts, promoting projects and community causes through our website, intranet and media outlets.

An important strand of our investment strategy is support for armed forces charities and organisations that assist serving personnel, veterans and their families. In the UK we are proud to be a founder donor (£5m over five years) to the Defence and National Rehabilitation Centre which is due to open in 2018. It will greatly improve the lives of injured veterans and is expected to lead to advances in the clinical rehabilitation medicine field worldwide.

Volunteering remains an important part of our employees’ career journey and can be pursued as a personal development goal. In KSA and the UK, our education ambassadors have offered their time to encourage school age children to pursue STEM subjects and careers.

We also match the contributions made by our UK and US employees to charities that support our customer, community, education and skills agenda. In the US, during the 2017 Military Appreciation Month integrated campaign, ‘Remember. Honor. Support.’, employee donations were double-matched by the Company (up to $5,000 per employee) for a total of nearly $180,000.

1 See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancestatement.
Our community

Supporting forces personnel and their families

Our working relationships with the armed forces of Australia, KSA, the UK and US are long standing based on respect, trust and a high quality of service. People are at the heart of these relationships, which is why we take our support of armed forces charities extremely seriously. This is exemplified in the US by our recent Defending 22 Challenge, aimed at helping serving and veteran military personnel. Over 22 days, employees were challenged to complete a health and wellness goal to serve as a daily reminder of the veterans who continue to take their own lives. In return, the company made a donation to one of three veterans’ mental health and wellness organisations. More than 8,700 employees accepted the challenge, raising more than $130,000.

In 2017, we retained our Gold Award in the Employer Recognition Scheme, managed by the UK Ministry of Defence. The scheme, first run in 2014, is the highest accolade for organisations that have signed the Armed Forces Covenant and demonstrated outstanding commitment to active and former service personnel. As a winner, we demonstrated a proactive commitment to advocate and support our armed forces, a positive attitude towards service personnel during recruitment and full support of employee reservists.

In the UK, we were a major contributor to Armed Forces Day activities in June, recognising the crucial work of armed forces personnel. Our employees across the UK businesses celebrate during the week long ‘Proud to Support’ celebrations with open days, fundraising, competitions, charity events and expeditions, all match funded by BAE Systems.

8,700 employees accepted the Defending 22 Challenge, raising more than $130,000.
We aim to be a recognised leader in business conduct. We want our employees and stakeholders to take pride in what we do and how we do it. We work hard to embed rigorous standards on business ethics across the Group.

Our approach

All employees are expected to act at all times in accordance with the requirements of the Group’s policies, including our Code of Conduct. Our Business Conduct team has responsibility for our Code of Conduct, Business Conduct Training, the Ethics Helpline and our network of Ethics Officers. We provide all of our employees with the ability and opportunity to ask for advice or raise concerns, anonymously if preferred.

We revised our Code of Conduct during 2017, and launched it in January 2018. Our revised Code reflects current best practice, new regulations and policies. Our revised Code guides employees in making the right decisions and helps them decide where they should go with concerns.

All employees, in all positions, are encouraged to ask questions in order to resolve issues and make better decisions. Our network of over 160 Ethics Officers provide face-to-face advice and guidance on responding to policies, resolving issues and reporting concerns.

All employees are made aware of the Ethics Helpline which allows them to raise a concern via email, online or a 24/7 multi-lingual phone line. In 2017, there were 1,280* ethics enquiries, an increase of just over 14% of the number of contacts in 2016, and our 2017 anonymity rate of 24% compares favourably with international benchmarks.

We believe this year-on-year increase is a positive trend reflecting the success of our efforts to encourage people to speak up, and we will continue to widely communicate the methods of making contact.

In 2017, 53% of the ethics enquiries received were requests for guidance and advice, which we believe reflects our employees coming to us before a situation has worsened and requires investigation. We encourage employees to contact us as early as possible when a potential incident can still be prevented by timely advice.

All enquiries requiring any investigation were reviewed and reported either to the Ethics Review Committee or, in BAE Systems Inc., to the Ethics Review Oversight Committee. This process is guided by our Investigations Governance document. In 2017, the most common investigations were related to employee relations and conduct, management practices, accounting practices and company ethical practices.

To assist our Ethics Officers in their role, we hold annual two-day training conferences for our Ethics Officers, one in the UK and one in the US, involving internal and external speakers and workshops. Ethics Officers are vitally important to our business, so we have introduced quarterly update webinars, newsletters and a website to allow sharing of communications material and best practice advice. We have strengthened our Business Development teams with additional Ethics Officers in Eastern Europe, the Middle East and Asia. In 2017, we also launched a new handbook for Ethics Officers, defining their role and providing further support under the themes ‘Ask me’, ‘Tell me’ and ‘Broadcast’.

We learn from the types of concerns raised and advice given by Ethics Officers and through the Ethics Helpline. In 2017, many of our businesses have requested further information about how and why employees are using the Ethics Officers and Ethics Helpline to help them better understand employee concerns.

For each business we provide a dashboard showing the number of cases per 1,000 employees, tracked over time, providing the anonymity rates and the number of approaches to Ethics Officers and the Ethics Helpline. The businesses also receive heat maps combining ethics cases, safety data, disciplinary actions and grievance cases, giving a location-by-location health check.

Anonymity rates are a good indicator of employee sentiment, for example, businesses with higher anonymity rates indicate a need to address concerns about the consequences of public comment.

Both the Executive Committee and the Corporate Responsibility Committee review the quarterly outputs of the ethics dashboard. In addition, the Ethics Review Committee (BAE Systems plc) and the Ethics Review Oversight Committee (BAE Systems Inc.) receive regular updates.

Total ethics enquiries* |
| 2017 | 1,280 |
| 2016 | 1,121 |
| 2015 | 1,148 |
| 2014 | 1,037 |
| 2013 | 1,043 |

1 See Deloitte LLP assurance statement at www.baesystems.com/deloitteassurancestatement.
Trust and integrity

Advisers

Our Business Development Adviser Panel assesses and approves all external advisers to the business. The Panel reviews their performance every two years.

Export Compliance

We provide defence equipment, training and support to other countries under government-to-government agreements with the United Kingdom. The UK maintains one of the most stringent export control regimes in the world and our activities and exports are subject to UK government approval and monitoring.

Human Rights

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. In 2017, we published our response to the UK Modern Slavery Act.

Offset

Offset arrangements are agreements made with export customers, designed to create employment, generate capability and/or add economic value in the export territory. Many countries have published offset regulations, which often form key criteria for the award of defence contracts. We have offset commitments in a number of countries and through these programmes we seek to support customers’ economic and development goals, and deliver long-term sustainable benefits.

Public Policy and Lobbying

All government focused lobbying is summarised and reported annually to the CR Committee. BAE Systems does not contribute or donate to political parties. Employees in the US can contribute to the BAE Systems Political Action Committee, which operates in accordance with US Federal law.

Taxation

Our Group tax strategy states that we:
- Ensure compliance with all applicable laws and regulations
- Manage tax expense consistent with our values and legal obligations in all relevant jurisdictions

The Group does not tolerate activities designed to facilitate tax evasion offences.

Promoting speaking up: a real life example

An aircraft assembly worker accidentally dropped a small item into an aircraft section during assembly, unseen by others. The worker knew it was going to be a lengthy and expensive process to disassemble the section and remove the item.

It was unlikely the item would have been detected. However, the employee immediately spoke to his supervisor about what had happened. Work was then stopped while the section was disassembled and the item removed. If the employee had felt unable to speak up, there could have been potential adverse consequences to the aircraft.

Speaking up when you have a concern or have witnessed misconduct is not always easy. At BAE Systems, managers are responsible for creating a positive work environment where their team feels comfortable raising concerns and asking for advice. Retaliation against those who have spoken up in good faith will not be tolerated.

More online baesystems.com

More online baesystems.com
Our approach

Our approach to resource efficiency is guided by our Environmental Policy.

Environmental Policy

As a major manufacturer, we recognise that our operations have an impact on the environment – from the energy and resources we use to the waste that we generate. We are committed to minimising the environmental impact of our operations and products, reducing our environmental footprint and in turn, decreasing our operational costs.

The Policy is also supported by our revised Code of Conduct that reiterates our commitment to environmental management and the need for every employee to contribute to the efficient use of resources and to comply with the relevant practices and policies.

Environmental performance is reported to our senior management team through the Quarterly Business Review. Compliance with the Policy is directed by environmental teams across the Group and monitored through the bi-annual Operational Assurance Statement.

The Policy states our commitment to reducing our Group environmental impact and each of our business units devises their own ways of achieving this core aim. Due to differences in geography and function, each business unit sets its own environmental targets which broadly focus on materials resilience, energy and climate change and waste, emissions and discharges.

Materials resilience

We aim to comply with all relevant materials use and management regulations. Our aim is to reduce the number and quantity of hazardous materials used in our products and processes.

Energy and climate change

We work to improve energy efficiency and de-carbonise our energy supply. This is a constant challenge as we operate many different processes, from large-scale, complex manufacturing operations over long lead times to intense digital services. Consequently, each of our businesses are tasked with setting their own efficiency and reduction targets.

In the twelve months to 31 October 2017, Group-wide greenhouse gas (GHG) emissions have decreased by 8%.

Our 20 largest sites account for 83% of our GHG emissions, averaged over 2014 to 2016. All of these sites operate an environmental management system, with 18 certified to ISO14001, with an aim to reduce their direct and indirect GHG emissions.

A full ‘Basis of Reporting’ on our GHG emissions is available on our website.

Waste, emissions and discharges

Waste, emissions and discharge reduction goals, as set by each business, reflect the scale and maturity of their facilities and the nature of activities. In all cases we aim for efficient use of resources and a decrease in waste in order to reduce our environmental footprint and generate cost-savings.

This work applies to the full lifecycle of our products – from design, through to manufacturing and use. We also look at the end-of-life phase of our products, from reconditioning and reuse through to re-manufacturing and recycling.

Combustion of fuel within BAE Systems facilities and vehicles (Scope 1)\(^2,3\)

<table>
<thead>
<tr>
<th>Year</th>
<th>CO2e (tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>525,032</td>
</tr>
<tr>
<td>2016</td>
<td>579,880</td>
</tr>
<tr>
<td>2015</td>
<td>596,515</td>
</tr>
<tr>
<td>2014</td>
<td>585,233</td>
</tr>
<tr>
<td>2013</td>
<td>590,451</td>
</tr>
</tbody>
</table>

1 Tonnes CO2e.  
3 To view the 2017 Greenhouse Gas Emissions methodology statement please see page 65 of our Annual Report.
Energy savings and security across our sites

In 2017, the first of the UK’s Queen Elizabeth Class aircraft carriers arrived at its operational home, Portsmouth Naval Base. This will significantly increase the energy and resource demands at the base, therefore we are investing £12m in a Combined Heat and Power (CHP) plant that it is estimated could save the UK Ministry of Defence (UK MoD) up to £3.2m per year in energy costs. CHP is a proven technology that produces electricity and heat from a single fuel source – retaining and re-using the excess heat from the process that would otherwise be lost. As well as the cost savings, CHP also generates reductions in carbon emissions thanks to the lower demand for fuel to generate both electricity and heat.

Where we are expanding or building new facilities, it affords opportunities to bring in the latest energy and resource efficient systems, materials and construction techniques. This is exemplified by the $11.8m investment in a new 12,000sq ft testing and research facility at our Sterling Heights site in Michigan, US. The facility offers a state-of-the-art energy and technology profile and further enhances our ability to compete in US and global defence projects.

In 2015, we commissioned a 2.6MW solar farm at our Samlesbury site in the UK. In that time, the farm has performed beyond expectations, reducing demand on the national grid, providing power to the site and generating income from the UK government’s ‘Feed-in Tariff’ scheme. By the end of 2017, the farm had generated £1m of revenues and savings and is on target to return its investment within eight years and beyond, thanks to its 25 year plus lifespan.

Building a legacy at Bishopton

Our masterplan to redevelop the former Royal Ordnance Factory site at Bishopton, near Glasgow, UK, took further strides in 2017. The project, covering 1,900 acres, is the largest brownfield regeneration project in the UK and the plan runs to 2034 with the development of a new garden village, Dargavel.

We are working closely with the local community, Scottish Government, Renfrewshire Council and regulators to create 4,000 new homes, improved transport links, retail outlets and a health centre, extensive parkland, a primary school and community centre. The remaining 1,300 acres will be a country park with a range of ecosystems, flora, fauna and extensive tree cover. This build phase has followed from an extensive programme of planning, preparation and remediation, all undertaken in partnership with local stakeholders.

Electricity and steam purchased for BAE Systems use (Scope 2 – location-based)\(^{1,2,3}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (KWh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>528,411</td>
</tr>
<tr>
<td>2016</td>
<td>571,859</td>
</tr>
<tr>
<td>2015</td>
<td>607,876</td>
</tr>
<tr>
<td>2014</td>
<td>594,866</td>
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<td>2013</td>
<td>630,522</td>
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</table>

Business Travel in non-BAE Systems vehicles (Scope 3)\(^{1,2,3}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>147,125</td>
</tr>
<tr>
<td>2016</td>
<td>146,511</td>
</tr>
<tr>
<td>2015</td>
<td>147,809</td>
</tr>
<tr>
<td>2014</td>
<td>156,652</td>
</tr>
<tr>
<td>2013</td>
<td>172,673</td>
</tr>
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</table>

Total GHG emissions\(^{1,2,3}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (tCO(_2)e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1,200,568</td>
</tr>
<tr>
<td>2016</td>
<td>1,298,250</td>
</tr>
<tr>
<td>2015</td>
<td>1,352,200</td>
</tr>
<tr>
<td>2014</td>
<td>1,336,751</td>
</tr>
<tr>
<td>2013</td>
<td>1,393,646</td>
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</table>

Total emissions per employee\(^{4}\)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (tCO(_2)e)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>16</td>
</tr>
<tr>
<td>2016</td>
<td>17</td>
</tr>
<tr>
<td>2015</td>
<td>18</td>
</tr>
<tr>
<td>2014</td>
<td>18</td>
</tr>
<tr>
<td>2013</td>
<td>18</td>
</tr>
</tbody>
</table>

1 Tonnes CO\(_2\)e.
3 To view the 2017 Greenhouse Gas Emissions methodology statement please see page 65 of our Annual Report.
4 Excluding share of equity accounted investments.
We have developed some of the world's most innovative technologies and we continue to invest in research and development (R&D) to generate future products and capabilities.

**Product stewardship means that we:**
- Observe the requirements of external regulations and our Code of Conduct when designing, manufacturing and selling our products
- Consistently invest in research and innovation around our products and associated services
- Maintain and enhance the integrity of our products through-life, in particular around their safety, quality conformance and environmental footprint
- Our company-funded R&D often leads to customer-funded development activities. In 2017, our R&D spend was £1.6bn (of which £238m was funded by the Group), compared to £1.4bn in 2016 and £1.3bn in 2015.

**Our approach**

Product stewardship is overseen by the Managing Director Operational Governance. Our approach is set within a Lifecycle Management Framework (LCM) that covers the conception, design, manufacture, use and disposal of our products. Our Engineering and Manufacturing teams are also guided by the Environmental Policy and Product Environmental Management Handbook.

Our products operate in hostile environments and, given their scale and complexity, have to be robust and designed for maximum utility. We therefore work closely with our customers to enhance the lifetime of products, maximise the recycling potential and identify environmentally sound means of disposal. We are constantly looking at ways to maximise the potential for reuse and remanufacture of our products and associated manufacturing processes.

We operate environmental management systems linked to our policies and overseen by our LCM. The Policies, LCM and related guidance support a consistent approach to the management of environmental risks throughout the product lifecycle. The LCM assurance framework is broader in scope than a traditional environmental ‘lifecycle assessment’, and is focused upon programme, procurement and commercial risk management as well as technical, safety, quality and environmental risk management.

Product lifecycle assessments are embedded within our engineering lifecycle, from concept, through to disposal. Engineering specialists in all of our businesses ensure that the risks linked to environmental impacts are assessed and appropriately addressed throughout the product’s life. Some of our product lifecycles can extend up to 50 years, including their design, build, manufacture, support and disposal. During this lifetime, products will often be upgraded to maintain their effectiveness and resilience and to operate using the latest materials, systems and technology.

This approach to product stewardship requires us to work closely with our partners in the upstream and downstream supply chain. For example, we sit on a number of industry working groups:
- ADS Environmental Working Group and Hazardous Materials Sub-Group and Design for Environment Sub-Group
- International Aerospace Environment Group
- Aerospace Industries Association
- NATO Working Group which addresses means of reducing the environmental impact associated with the acquisition and use of critical materials

**Materials resilience**

We operate in highly-regulated environments in many jurisdictions. In all cases, regulations define how we operate as a business and how we design, build, maintain and support our products. Our approach to ‘design for recycling and reuse’ is appropriate to each product, as they are generally bespoke and usually have very long lifespans.

An important environmental management issue for us is the responsible use and disposal of chemicals and hazardous materials, as regulated under the EU Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) legislation. Robust environmental management systems are in place across all our businesses to mitigate the associated legislative compliance and materials obsolescence risks.

**Energy and climate change**

Maximum energy efficiency is a key requirement of our products in use. We therefore design for efficiency and are often involved in the maintenance and servicing of products through their life.

While we design endurance and resilience into our products and services, many will, by their very nature, be resource intensive when in use. In all cases, we continue to explore and apply the latest thinking and techniques around resource and energy efficiency. For example, our Hawk Advanced Jet Trainer features the latest in advanced simulation for radar, weapons and defensive aids training, which support our customer’s aim of reducing flying hours. In practice, this allowed our customer to achieve the same high quality training outcomes, with increased use of flight simulation and fewer flying hours – achieving a 50/50 split between the two approaches.

**Waste, emissions and discharges**

We apply our engineering expertise to improve product and process resource efficiency. We also take account of specific legal requirements within the LCM. For example, in the Maritime domain, we ensure that our products fully comply with the International Convention for the Prevention of Pollution from Ships (MARPOL).

**Product safety**

Our Product Safety Policy defines our approach in this area. This policy applies to product safety through the lifecycle and across the supply chain, focusing on four key principles: Accountability; Level of Safety; Conforming Product and Learning and Sharing of Information.

Our Product Safety Management Systems reduce the risk of unintentional harm to people, property and the environment, even beyond the terms of our contractual support for products in use. We continually work to improve safety standards, by raising awareness of our employees’ roles in identifying, managing and reducing safety risks.
Resilience is built-in

Virtual Reality (VR) technology is playing a vital role in designing the next generation warship for the UK Royal Navy. Type 26 Global Combat Ship engineers are utilising VR technology to improve safety, not only during the design and build process but in support of future in-service operations.

A laser tracking system and interactive wand allows operators to fly through a ship’s design from any angle and the ability to inspect and examine specific areas, equipment and systems, quickly and easily. This means potential concerns can be identified and addressed in real time, whilst enabling greater collaboration and engagement with suppliers and customers, bringing them into the design process at an earlier stage.

Smart transportation for smart cities

To date, we have over 8,000 hybrid-electric systems in service on buses from London to California. Each year, these buses transport over one billion passengers, whilst saving 17 million gallons of fuel and eliminating 170,000 tonnes of CO2 from entering the atmosphere.

Using BAE Systems’ hybrid and electric systems, transit bus agencies around the world are taking initiatives to clean up their cities and provide commuters with sustainable, quieter options for public transportation. In alignment with these initiatives, we have introduced a next-generation hybrid, our Series-ER, which extends the electric driving range and brought to market a new battery and direct drive motor to compete in our European markets. We are prepared to respond to the market demand for zero-emissions with our Series-EV technology, full-battery electric solution and our hydrogen fuel cell technology solution.

We have taken our proven green bus technology to the water with the introduction of three hybrid and electric solutions; HybriGen® provides hybrid power for boat accessories and cleaner, quieter vessel propulsion; HybriGen® Zero addresses the inland towboat market with hybrid power; saving fuel, space and maintenance costs; and Hybrid Assist uses parallel hybrid configuration to drive a vessel on electric power at low speeds with a boost of power for high speeds when required.
We create best in class products and services through extensive collaboration with more than 22,000 suppliers worldwide.

These relationships are usually long-lasting due to the complex nature of our products and their long lifecycles. We work with suppliers who share our values and who embrace standards of ethical behaviours consistent with our own.

Management approach

The way we perform our procurement activities and manage risks with our suppliers is defined in our Procurement Policy, supported by our Lifecycle Management Framework and Supplier Principles – Guidance for Responsible Business (published in 2017). The latter defines the behaviour expected of our suppliers and what they can expect from us. The Principles also specify compliance with all relevant national and international laws.

The main themes covered by the Policy and Principles are:

Supplier selection and approval – identifying suppliers that share our values and meet all necessary regulations and standards.

Supplier management – ensuring compliance, managing performance and risks, implementing best practice and identifying opportunities, for example, collaboration to reduce costs and minimise energy, waste and water use.

Prompt payment – in 2017 we reconfirmed our commitment to the enhanced UK Government Prompt Payment Code and were one of the inaugural signatories to the Australian Small Business Supplier Payment Code.

Compliance with the Procurement Policy and adoption of the Supplier Principles is managed by our business procurement teams, and monitored by our Global Procurement Council, comprised of procurement and supply chain directors from across our businesses. Procurement supports management teams in winning business, reducing costs and achieving business plan objectives.

Procurement is responsible for communicating the Principles to their suppliers and conducting ongoing risk assessments. These assessments cover issues such as anti-bribery and anti-corruption measures, environmental impact, safety, export controls, human rights, modern slavery and legal adherence. These risks are monitored throughout all stages of projects and contracts.

We have published responses to the UK Modern Slavery Act and the California Transparency in Supply Chain Act.

Our commitment to Small and Medium-Sized Enterprises (SMEs)

We select suppliers based on merit, for example, technical capability, quality, cost, scheduling, capacity, flexibility and risk (financial and non-financial). Although SMEs must meet the same minimum standards as our larger suppliers, and must compete on a similar basis, we endeavour to remove barriers to contracting, resulting from SMEs’ limited resources and smaller scale operations.

Our Standard Conditions of Purchase and timely payment terms help to streamline routine purchases and are the baseline for more complex commercial arrangements. We promote collaboration with SMEs through ‘Meet the Buyer’ events, technology conferences, supplier forums and supplier portals. We encourage knowledge sharing and invest in high-quality research. Such initiatives help fund support and innovative SMEs, and allow them to grow their business.

Through our Global Access Program (GAP) in Australia, we participate in the Federal Government’s Global Supply Chain initiative. GAP seeks out opportunities for Australian industry to participate in our global enterprise’ supply chain as well as providing SMEs access to Company resources for advice and business mentoring to be successful in the international defence industry.

SMEs are key to the delivery of major programmes, for example, we have contracts with approximately 2,200 UK-based SMEs, out of a total of 7,000 UK suppliers. We share with the UK Government and our customers the objective of ensuring a healthy, agile and vibrant supply chain, and support our SMEs to help us achieve this.

Our US business is a key member of the small business programme, operated by the Defense Contract Management Agency, an arm of the US Department of Defense. It ensures that procurement programs are delivered on time and to budget and that meet the necessary quality standards. The Small Business Programme ensures that prime defence contractors are allowing such businesses to access sub-contracts.

Streamlining the supply chain

In collaboration with ADS Group, the aerospace, defence, security and space industries trade association; we created the Joint Supply Chain Accreditation Register (JOSCAR). This industry-wide management system, standardises data collection and due diligence across the UK supply chain. BAE Systems and other defence contractors can access a single, shared source of information about individual suppliers, relieving pressure on these companies to respond to multiple requests from different customers to provide the same information. It dramatically reduces due diligence times for both customer and supplier and is greatly improving standards and levels of risk management.

Maritime Services is currently using the system, and Air, Maritime and Electronic Systems have already joined JOSCAR and are in the process of implementation.

Maritime Services has used JOSCAR to roll out our Supplier Principles and record individual supplier commitments to the Principles. In 2017, 93% of the Maritime Services supply base engaged through JOSCAR have acknowledged and agreed to the Principles.

Non-US managed businesses also use the Dow Jones Supply Chain Compliance Toolkit as part of anti-corruption due diligence checks for both new and existing suppliers.
In 2017, our Saudi Arabian and UK teams digitally transformed supply chain management. Traditionally, the data and information on suppliers was held in different systems, leading to sub-optimal communication and inefficiencies. As a consequence, our Saudi Arabian and UK businesses designed and implemented a new, single software based system for managing the supply chain and supporting our customers. The new system, 'Countermeasure', was introduced in April 2017, with immediate improvements in the way we process and access supply chain, engineering, financial and export control data. The system has also made it easier to define roles and responsibilities and build standardised training programmes.
Case studies

Health and safety
Mental Health Awareness
Safety leads the way in Australia

Our people
Engineering an education in the UK
Graduation of Saudi technical trainers in Dhahran

Community
Building community resilience and inspiring young people
Academy for Skills and Knowledge a huge success
Recruiting the next generation
New life to cancer centre in KSA

Resource efficiency
Water infrastructure upgrade at Warton
Diverting waste from landfill

Product stewardship
Augmented reality for enhanced experience and reduced footprint
Creating an innovation laboratory in Australia
Achieving compliance in a changing operating environment

Suppliers
Diversifying the supply chain in Australia

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