

BAE SYSTEMS RESPONSE TO THE WOOLF COMMITTEE RECOMMENDATIONS - 2011

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RECOMMENDATION 1 - ASPIRATION OF THE COMPANY

The Board of Directors should decide and communicate the Company's strategic aspiration and intention to be a leader in standards of ethical business conduct among global companies.

BAE Systems is committed to becoming a recognised global leader in business conduct. This aspiration has been articulated by the Board and is integrated into our Group Strategic Framework through our commitment to Total Performance - of which Responsible Behaviour is one of four key elements. We have also communicated it in our external Corporate Responsibility and Annual Reports since 2008.

We have supported this commitment by integrating key policies on ethical conduct into our Operational Framework (OF) our central system of governance, and embedding a culture of responsible business conduct across the company. We launched a global Code of Conduct in January 2009 and all relevant policies and processes were agreed by the Executive Committee and incorporated into the OF, at the beginning of January 2010 (see our response to recommendation 9).

The Board Charter has been amended to include the Board's responsibilities for ensuring high standards of responsible business conduct across the company. The remit of the CR Committee has also been extended to include its responsibility for oversight and reporting against those standards.

RECOMMENDATION 2 - OPENNESS AND TRANSPARENCY

The Company should be an advocate of its own ethical standards and must adopt the principle of openness and transparency. All ethical business conduct policies and procedures must be publicly available and easily accessible. The Company should be open about the actions it has undertaken to investigate allegations of unethical behaviour and about the outcomes.

We act as an advocate of the high ethical standards we have set ourselves by participating in government consultations, external conferences and industry initiatives on ethical issues (see our response to recommendation 21).

We have committed to be as open as practicable about our business with external stakeholders (see our response to recommendation 22). We opened up our company to the Woolf Committee, enabling them to review and scrutinise our approach to provide expert views on best practice in ethical business conduct. We have publicly reported our progress against the Committee's 23 recommendations each year since 2008.

The key elements of our ethical business conduct policies and procedures are summarised in our Code of Conduct, which is publicly available on our website. Information on how we apply our policies in practice is also published in our Annual Report.

We have a Code of Conduct that sets out the standards to which every employee is required to work. New employees receive a copy of the Code of Conduct and introductory training during their induction period. Employees receive regular refresher training on our Code of Conduct and ethical standards. (see our response to recommendation 20).

We investigate reported allegations of unethical behaviour and publish data on enquiries to our Ethics Helpline and the number of employees dismissed for unethical conduct in our Annual Report. Data for 2010 can be found in our Annual Report (see our response to recommendation 18). We plan to make 2011 data available to review in our 2011 Annual Report.

RECOMMENDATION 3 - A GLOBAL CODE OF ETHICAL BUSINESS CONDUCT

The Company should develop, publish and implement a global code of ethical business conduct. The Board should ensure the proposed global code is comprehensive and reflects the high standards of ethical business conduct consistent with the aspiration and intention to become a leader among global companies.

We have a Code of Conduct that sets out the principles and standards to which every employee is required to work wherever they operate. It includes practical guidance to help employees deal with ethical dilemmas that may arise and underlies all our policies related to specific aspects of business conduct.

New employees receive a copy of the Code of Conduct and introductory training during their induction period.

Employees receive regular refresher training on our Code of Conduct and ethical standards. (see our response to recommendation 20).

The Code of Conduct is regularly reviewed to keep it aligned with leading practice, at least every three years. The second edition of the Code was launched in July 2011.

RECOMMENDATION 4 - ROLE OF THE BOARD OF DIRECTORS

The Board should develop its increasingly proactive role in ensuring high standards of ethical business conduct in all the Company's activities. It should be a standing item on its agenda. There should be an explicit assessment of ethical and reputational risks in all business decisions taken by the Board. Board members should themselves be exemplars of the standards set out in the global code and receive regular briefings on emerging issues in business ethics.

The Board Charter has been amended to include the Board's responsibilities for ensuring high standards of responsible business conduct across the company.

The Chief Executive leads the CR agenda providing clear and visible leadership in responsible business conduct.

The Managing Director Corporate Responsibility reports directly to the Chief Executive and the Executive Committee reviews CR key performance indicators, including business conduct.

The Corporate Responsibility Committee (CRC), a standing Committee of the Board, monitors and reviews performance of the business conduct programme and provides oversight and reporting on standards of ethical business conduct and the management of reputational risk. The Chair of the CRC briefs the Board after each Committee meeting.

The Board of Directors and senior leadership review risks including compliance and reputation issues and have implemented a formal risk assessment process across the company. We extended our risk management policy to include non-financial risks in 2010.

Our formal risk assessment process is used to structure and inform our business conduct programme and includes the Operational Assurance Statement process. Specific areas identified as having high risk potential are prioritised.

RECOMMENDATION 5 - ROLE OF THE CORPORATE RESPONSIBILITY COMMITTEE

The Board Corporate Responsibility Committee (CRC) should have primary responsibility for oversight and reporting on standards of ethical business conduct and the management of reputational risk. This role should be performed as the Audit Committee performs its task of managing financial risk.

The Corporate Responsibility Committee (CRC), chaired by a non-executive director, is the primary committee responsible for monitoring and reviewing performance of our business conduct programme, and its remit has been expanded to provide oversight and reporting on standards of ethical business conduct and the management of reputational risk.

The CRC is responsible for appropriate policies, systems, reporting structure and metrics are in place and reviews the effectiveness of policies and procedures related to business conduct. The Managing Director Corporate Responsibility attends CRC meetings and has direct access to the CRC Chairman.

Throughout the three year period of implementation of the Woolf Programme, the CRC has monitored progress of the Company's business conduct programme and commissioned an independent external assessment conducted by the Ethical Leadership Group in 2011 (see our response to recommendation 23).

The oversight functions of the Audit Committee and CRC are appropriately coordinated. The Head of Internal Audit attends CRC meetings and reports regularly on corporate responsibility-related work undertaken by the Internal Audit function and the key findings from this. The CRC holds a joint meeting with the Audit Committee each year to review work undertaken by the Internal Audit function and agree the programme of audit work for the following year.

RECOMMENDATION 6 - ROLE OF INTERNAL AUDIT FUNCTION

The Company's Internal Audit function should ensure that ethical business conduct and the management of reputational risk is specifically assessed in all audit reports and the results, and progress made against recommendations, provided to the CRC. The additional skills and resources required for Internal Audit should be provided to achieve this. The CR and Audit Committees should hold at least one joint meeting a year to decide on the preparation of the annual internal audit programme.

In 2009 and 2010, our Internal Audit team worked with The GoodCorporation to establish a methodology for assessing responsible business conduct and non-financial risk as part of internal audits. This was implemented during 2011.

The Head of Internal Audit attends CRC meetings and reports regularly on CR-related work undertaken by the Internal Audit function and the key findings from this audit activity.

The CRC and the Audit Committee hold a joint meeting each year to review work undertaken by the Internal Audit function and, as set out in their terms of reference, jointly approve the programme of internal audits for the following year.

RECOMMENDATION 7 - THE ROLE OF SENIOR EXECUTIVES

Members of the senior executive team and heads of business units have both a personal and collective responsibility to demonstrate high standards of ethical business conduct and to achieve effective implementation of the global code. Both should be reflected in their performance appraisals and in the variable element of their remuneration.

The Chief Executive and the Executive Committee are highly visible champions of our corporate responsibility (CR) strategy, leading the CR agenda and briefing employees on business conduct and our Code of Conduct.

In 2011, for the top 250 employees in the Group (including senior executives and heads of business units), an element of their remuneration continues to be directly linked to CR performance with a percentage of potential annual incentive payment dependent on meeting objectives in the priority areas of business conduct and safety.

RECOMMENDATION 8 - THE ROLE OF SENIOR EXECUTIVES

There should be a senior executive, supported by a sufficiently resourced team, reporting to the CEO and with direct access to the Chair of the CRC, who has responsibility for the programme to ensure and assure there are high standards of ethical business conduct across the Company.

The Managing Director Corporate Responsibility supports line leaders in promoting and implementing the CR agenda, including ensuring high standards of ethical business conduct across the Company. The role reports directly to the Chief Executive, attends CRC meetings and has direct access to the CRC Chairman.

RECOMMENDATION 9 - DECISION MAKING WITHIN THE COMPANY

The Company should develop formal processes to ensure business decisions are only taken following an explicit consideration of ethical and reputational risks. Where such risks are identified, the process should ensure any decision to proceed is taken at the appropriate level, and should include ratification by the Board.

Our Responsible Trading Principles require us to make informed assessments and responsible decisions about the nature of our products and the business opportunities we choose to pursue. This requires careful consideration of products and services to ensure that neither BAE Systems nor our customers are exposed to reputational risk.

Ethical and reputational risks are included in our formal risk assessment process and the management and mitigation of these risks is embedded into our core business policies and procedures. Policies relating to responsible business conduct are now integrated into every section of our Operational Framework, the set of mandated policies, charters and processes that guide everything we do. To achieve this, we added a number of new policies and strengthened existing policies, including those relating to Advisers, Conflicts of Interest, Facilitation Payments, and Gifts and Hospitality (see our response to recommendation 13 and our response to recommendation 14).

Line leaders and functional directors report compliance against each part of the Operational Framework to the Chief Executive twice a year through our Operational Assurance Statement, which assures compliance with mandated policies and processes.

The Lifecycle Management Framework used in all our major projects has been revised to reflect the four elements of our Total Performance approach, including Responsible Behaviour. This framework requires, for example, that reviews carried out at the start of projects now include consideration of responsible trading risks.

RECOMMENDATION 10 - REVIEW OF KEY ETHICAL POLICIES AND PROCEDURES

Policies and procedures in areas of potential ethical risks should be regularly reviewed, with particular attention to the areas of greatest risks. The planned programme of reviews by the Company should ensure a consolidated and comprehensive suite of policies consistent with the global code, providing employees with a clear pathway to understanding how the Company's standards of ethical conduct can be applied in day-to-day business situations.

We are committed to review our Code of Conduct and all relevant policies at least every three years to ensure they remain current and continue to reflect the standards expected of a leading global company.

The first review of the Code of Conduct was completed in 2010, following its introduction in 2009. The review aimed to ensure it remains aligned with leading practice and included an external benchmarking report produced by the Institute of Business Ethics. The second edition of the Code of Conduct was launched in July 2011 and addresses gaps associated with revised policies since the Code's launch as well as feedback received from employees.

To help employees apply the policies in practice, we provide training on the Code of Conduct for all employees - asking them to think about how they should respond to a series of ethical dilemmas that they might encounter in day-to-day business situations - and more detailed training on key policies for employees in relevant roles (see our response to recommendation 20).

RECOMMENDATION 11 - SELECTION, APPOINTMENT AND MANAGEMENT OF ADVISERS

The Company should ensure that the new process for selection, appointment and management of advisers is fully codified and integrated into the mandatory policy and procedures of the operational framework, and that appropriate guidance and training in the process is provided to all relevant employees. This should make explicit:

- a requirement to undertake face-to-face interviews, involving a company lawyer, as part of the due diligence process with all advisers whose activities require the interaction with potential customers;
- a general presumption that the identity of such advisers will be made known to potential customers; and
- endorsement by the Board of the adviser panel's recommendations and their explicit approval of any decision to make an appointment contrary to the panel's advice.

BAE Systems engages advisers for a number of purposes. These include: to give guidance on dealings in particular territories to help us prepare and undertake marketing and sales campaigns and to advise on the strategic aims and objectives and the political context of the business.

We reviewed and updated our approach to selecting, appointing and managing advisers in 2007. This is now incorporated into our revised Advisers Policy which is integrated into our Operational Framework. The policy requires that:

- The company must only appoint advisers of known integrity and they must comply with our standards of conduct at all times
- The appointment process for advisers must confirm that there is no apparent risk that the adviser will engage in corrupt or unethical behaviour, and that any issues of potential concern are satisfactorily resolved through appropriate due diligence enquiries
- There is a clearly demonstrated business case for retaining the adviser and compelling justification for the remuneration proposed.

The appointment of advisers for business development, security, offset and lobbying activities (with the exception of certain domestic lobbyists in the US whose appointment is subject to separate legislative controls) is reviewed and assessed by our Business Development Adviser Compliance Panel, chaired by independent lawyers. All such advisers appointed in 2010 were appointed in accordance with our global adviser policy.

Employees involved directly in dealings with advisers must undergo training on our policy.

Compliance of this policy is monitored through our Operational Assurance Statement process.

RECOMMENDATION 12 - OFFSET POLICY

Advisers engaged to assist in Offset arrangements in export contracts should be subjected to the same due diligence and approval process as Advisers on the principal export contract. Offset contracts should be subject to a due diligence process requiring an explicit assessment of ethical and reputational risks and be capable of being audited for this. The Company should also be proactive in encouraging greater scrutiny and transparency by governments of the Offset elements of defence contracts.

Offset arrangements are agreements made with export customers designed to generate work, or to create capability or economic value, in that customer's country.

The appointment of offset advisers is governed by our Advisers Policy. It is subject to the same due diligence and approval process as for all advisers, including review by our Business Development Adviser Compliance Panel (see our response to recommendation 11).

Our Offset Policy, revised in January 2011, requires us to ensure robust procedures are in place for assessing and committing to all offset agreements. It sets out the underlying principles applicable to all of our Offset activities:

- They must be undertaken in accordance with our Code of Conduct
- They must have clear line management ownership and executive oversight
- They must be consistent with the customer's offset policies and proportionate to the value of related contracts
- Financial and non-financial risks must be clearly assessed and mitigated

Our Offset Policy requires that due diligence for proposed partners is undertaken. Compliance with the Offset Policy is monitored via our Operational Assurance Statement process and performance against our offset commitments is reported via our Quarterly Business Review process.

We provide briefings or training courses to employees involved in negotiating, planning, delivering or assessing offset activities.

RECOMMENDATION 13 - FACILITATION PAYMENTS

The Company should continue to forbid facilitation payments as a matter of global policy. While it may not be possible to eliminate such payments immediately in some countries, management and employees in those countries need to be supported to ensure all such payments are reported to senior executives and to the Board, and the means developed to eliminate them completely over time.

Our Facilitation Payments Policy clearly states that employees must not make facilitation payments of any kind (or allow others to make them on our behalf), irrespective of whether or not these are permitted by local laws. The stand-alone policy was introduced in 2010, building on the clause on facilitation payments previously included in the Gifts & Hospitality Policy.

Under the policy, employees must decline any requests for facilitation payments and report such requests to their local legal department.

We recognise that in some countries, the health and safety of an employee or their family members could be at risk if they do not make a payment to an official or a third party. Requests for such payment are in effect extortion; the policy contains guidance for employees on what to do if such a situation arises and makes clear that disciplinary action will not be taken if a payment is made in these circumstances as long as the payment and the nature of the situation is reported promptly.

The policy includes a commitment that we will seek to eliminate the practice of facilitation payments in the countries where we do business.

RECOMMENDATION 14 - GIFTS, HOSPITALITY AND DONATIONS

The Company should implement central registers (by individual country) to enable information to be collected and monitored on aggregate spend on gifts and hospitality to individuals and overall to each customer.

Aggregate spend by individual country on gifts and hospitality should be reported annually to the CRC. The policy on gifts and hospitality should be circulated to customers, contractors and suppliers and the Company should agree and document acceptable standards and expectations of behaviour with each customer government. A global policy on corporate donations should be developed, consistent with the global code and the policy of openness and transparency.

Our Gifts and Hospitality Policy, sets out clear requirements for employees to ensure that gifts and hospitality are open, proportionate, in good faith, lawful, and not connected in any way to obtaining inappropriate advantage or benefit. In accordance with the policy, gifts over £25 (or US\$50) and hospitality over £50 (or US\$100) in value must only be offered, given or received if they are justifiable, approved in advance by a senior manager and recorded in the gifts and hospitality register. Gifts or hospitality over £250 (or US\$500) in value must only be offered, given or received in exceptional circumstances.

We have developed Gifts and Hospitality Guidance to help employees understand how to apply our policy. Compliance is monitored through our Operational Assurance Statement process.

Our Company Giving Policy provides guidance on all donations, including support for registered charities, as well as sponsorships of customer-focused and stakeholder events and activities. This states that BAE Systems shall support, sponsor and contribute to the activities of other organisations where the activities are aligned with our principles of responsible business conduct.

Corporate donations are reported to the Corporate Responsibility Committee. Charitable donations data is published in our Annual Report (view 2010 data). We plan to make 2011 data available to view in our 2011 Annual Report.

RECOMMENDATION 15 - ACQUISITIONS, JOINT VENTURES AND CONTRACTORS

The Company should:

- for all new majority joint ventures require the adoption of its global code and associated policies and procedures, or equivalent standards;
- for all new minority joint ventures, mergers and acquisitions, undertake a due diligence assessment of standards of ethical business conduct compared to those of the Company, and ensure to the extent possible that equivalent standards are put in place;
- for all new key contractors, require the adoption of its global code and associated policies and procedures, or equivalent standards in all of its collaborative activities; and
- for all existing relationships, implement a programme to achieve the above.

Mergers, Acquisitions & Disposals

Our mandated Mergers, Acquisitions & Disposal process was revised in January 2010 to include the formal assessment of non-financial risk. This includes the assessment of the parties to a potential transaction as well as an assessment of an acquisition target's key business conduct policies and governance framework.

On completion of the acquisition of a wholly owned business, such business is required to comply with our Operational Framework which includes our Code of Conduct and Responsible Trading Principles. An appropriate programme is agreed to achieve this together with the requisite training to be delivered in a timely manner.

We aim to select joint venture partners who share our values and who have standards in place equivalent to our own, including a code of conduct.

Although we cannot require our joint ventures to adopt our specific standards and policies, our Operational Framework requires employees appointed to the management boards of joint ventures to exert influence to encourage the adoption of equivalent policies and processes to our own.

We are also strengthening our approach to governing existing joint ventures. We conducted an audit in 2010 to benchmark our approach against the Dow Chemical Six Pillar model best-in-class approach. We identified a number of examples of good practice as well as some areas for improvement which we will address by January 2012. These areas include:

- Introducing a Joint Venture handbook that provides guidance on how policies and processes within our Operational Framework are applied to the formation, management and disposal of joint ventures
- Strengthening the approval process for changes to joint venture agreements
- Including all joint ventures in our Integrated Business Plan annual review process and updating the Operational Assurance Statement process for joint ventures
- Amending the Audit Committee's terms of reference to include Joint Ventures
- Establishing clear guidance for BAE Systems personnel responsible for managing joint ventures

Suppliers

We cannot require our suppliers to adopt our specific standards and policies, but encourage them to adopt the same or similarly high standards of ethical behaviour, including putting in place an appropriate Code of Conduct. Criteria relating to business conduct, safety and environmental management have been integrated into supplier selection criteria and our supplier management process. We have also introduced guidance to help our procurement teams apply our Responsible Trading Principles during supplier selection and management. We assess supplier performance, including on business conduct, through our Lifecycle Management Framework.

RECOMMENDATION 16 - EMPLOYEE ETHICS HELPLINE

As part of the programme to ensure that equivalent standards are in place for joint ventures and with key contractors, the Company should extend to them appropriate access to its ethics helpline.

Contractors, suppliers, employees in our joint ventures and other third parties can access our Ethics Helpline. Contact details for the Helpline (including local telephone numbers and a global email address) are available on our website.

These details are publicised in our Code of Conduct - also available online - which is distributed to employees in our majority owned joint ventures and our top 1,000 suppliers.

RECOMMENDATION 17 - GOVERNMENT RELATIONS AND LOBBYING

The Company should ensure an explicit assessment of proposed lobbying positions or campaigns against the values and standards in the global code, and that regular reports on this are submitted to the CRC.

We engage in lobbying activities to communicate with, and inform, legislators and government decision-makers on matters relating to our business. Our Lobbying & Political Support Policy states that BAE Systems will not make any corporate political contributions or donations and requires that all lobbying be consistent with our ethical principles and standards as defined in the Code of Conduct.

The Group Business Development Director submits an annual report to the Corporate Responsibility Committee which outlines: the issues on which the company has lobbied and campaigned; who has undertaken this activity including employees and any third parties; the bodies which have been lobbied; the cost of lobbying activity; and the activity of the BAE Systems Inc. Political Action Committee (to which eligible Inc. employees can contribute).

In some cases, we commission third parties to lobby on our behalf. External lobbyists must be appointed in accordance with our Advisors Policy (see our response to recommendation 11) with the exception of certain domestic lobbyists in the US, who are subject to separate legislative controls.

Individuals engaged in lobbying or political support activities are briefed on and are required to comply with our Code of Conduct.

RECOMMENDATION 18 - INVESTIGATION AND DISCIPLINARY PROCEDURES

The Company should make explicit its commitment to take a proactive approach to instigating internal investigations into allegations of unethical behaviour and to the disclosure of any material findings to the relevant authorities. Aggregate information on disciplinary actions for unethical behaviour should be included in internal and external publications.

We take allegations of unethical behaviour very seriously and we are committed to investigate reported concerns.

Employees are encouraged to report any concerns or suspected cases of misconduct to their manager, their local Ethics Point of Contact, their local human resources or legal contact, or via our Ethics Helpline. The helpline can be used by employees, suppliers and other third parties, anonymously if required. The contact details for the Helpline (telephone number and email address) are publicised in our Code of Conduct, on our intranet site and on our external website (see our response to recommendation 16).

All concerns raised with the Ethics Helpline are given a unique reference number, so individuals can monitor the progress of their call or e-mail.

Internally, allegations of unethical behaviour, investigations and related disciplinary actions are reviewed by the Ethics Review Committee, and, in the US, by the BAE Systems Inc. Ethics Oversight Committee.

Our Code of Conduct makes clear that any failure to comply with the Code or our other policies may result in disciplinary action. We publish the number of enquiries made via our Ethics Helpline and the number of employees dismissed for unethical conduct in our Annual Report.

2010 data on ethics calls and dismissals can be viewed [here](#). Data on the number of enquiries includes calls and emails to our Helpline. We plan to make 2011 data available to view in our 2011 Annual Report.

RECOMMENDATION 19 - SECURITY DIVISION

Any proposals for the appointment of third parties to provide the Company's Security Division with information should be subject to the same process (including Panel review) as for advisers. Regular reports on the activities of the Security Division, and compliance with ethical policies and procedures, should be provided to the CRC.

The Security Division, reporting to the Group HR Director, is responsible for ensuring the safety and security of employees, property. The division may engage security advisers to gather, receive, process or analyse third party information or data for security purposes - to provide assistance in assessing a security threat to the business, for example. To date, no such advisers have been added to the Company's adviser register in 2009, 2010 or 2011.

The appointment of third parties to provide the Security Division with information is reviewed and assessed by our Business Development Adviser Compliance Panel, chaired by independent lawyers. This is the same process used for advisers engaged in other parts of the business and is governed by our Advisers Policy (see our response to recommendation 11).

RECOMMENDATION 20 - TRAINING

A well-resourced training programme, in which every person in the Company participates, should be undertaken as part of the implementation of the global code and revised and repeated at regular intervals. Specific training modules should also be developed for senior executives and business unit leaders. Systems for monitoring these programmes should be developed so that they are able to provide the necessary assurance to the CRC as to their effectiveness.

Our Operational Framework requires that all new employees must receive a copy of the Code of Conduct and introductory training as part of their induction, and employees receive refresher training on our Code of Conduct and ethical standards.

The Code of Conduct was first communicated to employees in 2009 through team briefings designed to explain how it applies to employees in their daily work lives. The briefings aimed to create an environment where employees feel they can speak up, ask questions and raise any issues relating to responsible business conduct. Employees were required to undertake either online or classroom-based training on the Code.

To support the approach for regular training, refresher training on the Code and our ethical standards has been rolled out. For most employees through face-to-face sessions led by managers. These sessions included a team discussion exploring potential ethical dilemmas employees could face in their work. An e-learning option was available for those working remotely to ensure that training reaches everyone in the company.

In addition to the Code of Conduct training, specific training modules have also been introduced for senior executives and business leaders. For example, executives, other than those based in our Inc. business are required to complete the Group's Integrity in Business Dealing training, an online course covering our policies on Gifts and Hospitality, Facilitation Payments, Company Giving and Conflicts of Interest.

RECOMMENDATION 21 - LEADERSHIP IN COLLECTIVE ACTION BY THE DEFENCE INDUSTRY

The Company should take a more proactive leadership role in its engagement with the defence industry, governments, NGOs and other external interest parties to develop initiatives that will address the key ethical and reputational issues affecting the defence industry.

We participate in a number of initiatives designed to raise standards across the defence sector and to address issues that could affect the reputation of the industry.

Examples include:

- BAE Systems participated in the International Forum of Business Ethical Conduct for the Aerospace and Defence Industry, which agreed common Global Principles of Business Ethics for the Aerospace and Defence Industry in 2009. The Global Principles bring together key elements of the US Defence Industry Initiative on Ethics and Business Conduct and the Common Industry Standards for European Aerospace and Defence.
- BAE Systems is supporting the development of an international Arms Trade Treaty by:
 - Convening an informal UK industry group to interact with the Government and non-governmental organisations to develop a strategy on the treaty
 - Acting as one of two industry members of the FCO Arms Trade Treaty group, meeting regularly with government officials and NGOs to agree a UK position on the scope and content of the treaty
 - Being the UK representative of the ASD's sub group on the Arms Trade Treaty which aims to develop a European industry consensus on an approach to the treaty and liaises with EU authorities
- BAE Systems is a member of the Aerospace and Defence Industries Association of Europe and our MD CR is an active member of its Business Ethics Committee which aims to promote common industry standards on the prevention of corruption and promote the Global Principles of Business Ethics for the Aerospace and Defence Industry (see above)
- BAE Systems Inc is a member of the Aerospace Industries Association of America and the President and Chief Operating Officer of BAE Systems Inc is on its board of governors
- BAE Systems is a member of the UK trade organisation for Aerospace, Defence, Security and Space industries (ADS) and chaired its Business Ethics conference in February 2011
- BAE Systems chairs the UK Offset Strategy Group, formed in 2009 to establish a strategic partnership between Government and defence companies in the UK relating to offset, countertrade and industrial participation policy issues.

We also participate in initiatives that address ethical conduct within and beyond the defence sector. For example, BAE Systems, together with other leading multinationals, supports the Centre for Law and Ethics at University College London. The Centre, established in 2009, aims to stimulate debate on business ethics and help companies promote an ethical corporate culture. Our Chief Counsel, Compliance and Regulation, sits on the Centre's Advisory Committee and our legal team is helping to develop a course on Ethics and Law and providing speakers.

RECOMMENDATION 22 - EXTERNAL COMMUNICATION

The Company should be as open and transparent as possible in communicating all of its activities. Where this is not possible the Company should explain the reasons why.

We aim to communicate openly and transparently with stakeholders on our business activities and our approach to responsible business conduct. In some cases, we are limited in how much we can say by, for example, confidentiality agreements with customers or ongoing legal proceedings, but we have committed to being as open as practicable with external stakeholders. Examples include communicating:

- Our progress in implementing the recommendations made by the Woolf Committee each year - in 2009, 2010 and in this final report in 2011 - via our website.
- Our business and corporate responsibility (CR) strategy, performance and activities in our Annual Report
- Our approach to CR issues and how our policies on key issues such as business conduct and safety are put into practice via our dedicated CR website
- About specific issues such as business conduct through face-to-face briefings with individual stakeholders including non-governmental organisations and socially-responsible investors
- Our approach to CR issues and responding to feedback through focus groups with opinion formers and pressure groups
- About key issues relevant to the defence sector through our participation in industry initiatives (see our response to recommendation 21).

RECOMMENDATION 23 - ASSURANCE AND REPORTING

The Board/CR Committee should commission and publish an independent external audit of ethical business conduct and the management of reputational risk in the Company within three years and at regular intervals thereafter.

We commissioned the Ethical Leadership Group (ELG) to conduct an independent assessment of our business conduct programme and assess our progress to date in meeting the Woolf Recommendations. ELG is the expert advisory practice of Global Compliance, a leading global compliance advisor that aims to help companies build and strengthen cultures of integrity.

ELG's in-depth review of our business took more than six months and covered our global operations. Their findings are based on a review of programmes and communications, interviews with 42 leaders in the company - including the Chairman, the Chief Executive, the Chairman of the CR Committee and senior managers in each home market - and a series of focus groups involving over 600 employees. Their assessment included a review of our process for assessing non-financial risk.

The key findings are published on our website.