

“We are continuing to embed a culture of Total Performance.”

Deborah Allen

Managing Director,
Corporate Responsibility



Responsible Behaviour means doing business in a way that reflects our values – Trusted, Innovative and Bold. It is a key element of Total Performance and works in harmony with the other three elements: Customer Focus, Programme Execution and Financial Performance. Responsible Behaviour is embedded within our business through delivery of our corporate responsibility (CR) strategy.

Our CR strategy covers the issues that have been identified as having the most potential to affect the sustainability of the Group, by directly impacting the Group's reputation or ability to operate. These priorities are outlined below.

We are committed to progressing our CR strategy by embedding it into all areas of our business. It supports the delivery of our Group strategy (see page 14), and helps build and maintain strong relationships with our stakeholders, including customers, regulators, investors, suppliers, employees and communities. It enhances our reputation, contributes to greater operational productivity and efficiency, and reduces risk to our business.

Our priorities

Business conduct and safety continued to be our two key CR priorities in 2010. Executive bonuses (see page 107) and management objectives (see page 12) linked to performance on these issues support driving the Group towards our desired leadership position.

We are increasing our focus on diversity and inclusion, and environmental performance. Both issues have the potential to impact the long-term sustainability of the Group: diversity and inclusion affects our ability to recruit, engage and retain the best people; and environmental management from increased awareness of impacts, growing customer interest, increasing regulation and cost.

During 2010, business conduct, safety, and diversity and inclusion were part of the Executive Committee objective on progressing towards a recognised leadership position in Responsible Behaviour (see page 12). Environment has been added to this objective in 2011. Our 2011 objectives for business conduct, safety, and diversity and inclusion are covered on page 46, and for environment, on page 52.

Governance

During 2010, CR key performance indicators, including business conduct, safety, and diversity and inclusion, were reviewed by the Executive Committee alongside financial and operational performance. The CR Committee, chaired by non-executive director Paul Anderson, provides independent oversight, advice and strategic direction on CR issues, and reviews progress against our CR objectives quarterly (see the Committee's report on page 92). Selected CR performance information, reported on pages 46 to 53, is also subject to external assurance by Deloitte LLP (see their assurance statement on page 54).

BAE Systems' CR strategy is driven by the Chief Executive and the Executive Committee. An element of senior executives' (i.e. the top 250 employees in the Group) remuneration in 2010 was directly linked to CR performance with up to 15% of potential annual incentive payment dependent on meeting objectives in the priority areas of business conduct and safety. All Group level targets relating to these priority areas have been met. The performance of the operating groups in respect of the Group's safety KPI is included in pages 66 to 72.

The Managing Director, Corporate Responsibility (MD CR) reports directly to the Chief Executive and leads our global CR team, which provides support in embedding aspects of CR throughout the Group. A cross-functional CR Forum, led by the MD CR, enables us to raise employee awareness, share best practice and drive improvements across the Group.

Performance in 2010 and objectives for 2011

Business conduct

2010 OBJECTIVES

All Line Leaders and Functional Directors are required to submit to the Chief Executive the level of implementation of core policies in their areas of responsibility through the twice yearly Operational Assurance Statement (OAS). In cases where a policy is judged not to be fully implemented a plan is required setting out the milestones to full compliance. The objective agreed for 2010 is that by December all of the milestones have been met and any future milestones are on track to be met.

PROGRESS

Line Leaders and Functional Directors confirmed progress following the revisions made to the core policies resulting from the Woolf implementation programme, through their six-monthly OAS.

2011 OBJECTIVES

Implementation of the Group's programme to address the Woolf recommendations to be complete by May 2011 and confirmed through external assurance at the end of 2011.

Safety

2010 OBJECTIVES

Continue the progress towards a world class level of safety performance:

- All businesses and BAE Systems' controlled sites with more than 150 personnel to attain Level 4 of the Safety Maturity Matrix (SMM), and those at Level 4 to show progress towards achieving Level 5 by the end of 2011.

- Deliver at least a 20% improvement in the Lost Work Day Case Rate compared with 2009.

PROGRESS

- Sites with more than 150 personnel (other than those acquired during 2010) have now progressed to Level 4 on the SMM.

- An overall 31% improvement in the Lost Work Day Case Rate was achieved, exceeding our target of 20%.

2011 OBJECTIVES

Continue to progress towards a world class level of safety performance:

- Demonstrate continued progress towards SMM Level 5. SMM clarification:
 - a. Level 5 achievement: All sites at Level 4 in 2009 to achieve Level 5 by the end of 2011;
 - b. Level 5 progress: All sites at Level 4 at the end of 2010 to demonstrate progress to achieve Level 5 by the end of 2012;
 - c. Level 4 achievement: All remaining sites to achieve Level 4 by the end of 2012.

- Continue to demonstrate year-on-year improvement in the Lost Work Day Case Rate.

Diversity and inclusion

2010 OBJECTIVES

Develop a global working climate which embraces diversity and inclusion:

- Create a plan to deploy the Diversity & Inclusion Maturity Matrix (D&IMM) by the end of the first quarter and meet the 2010 milestones towards desired end state to be achieved by the end of 2015.

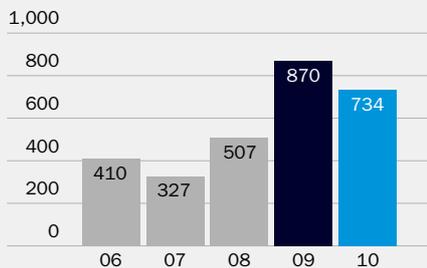
PROGRESS

- Each business deployed the matrix by the end of the first quarter. Business units have developed plans and milestones against the D&IMM reflecting their individual starting points and cultural context.

2011 OBJECTIVES

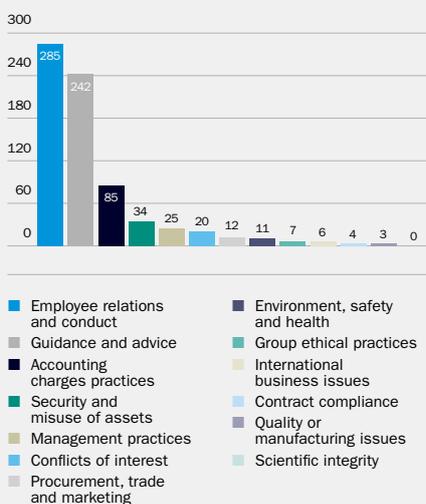
Continue to utilise the global D&IMM to achieve an improved level of performance for 2011.

EMPLOYEE ENQUIRIES TO ETHICS HELPLINE¹

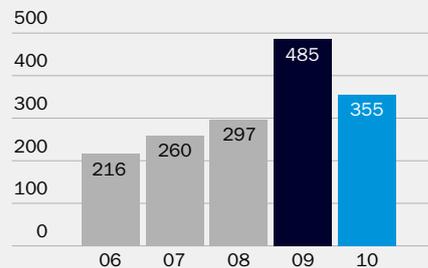


Our Ethics Helpline enables employees to request information and advice or raise any concerns about business conduct confidentially wherever they work and whatever their role¹. In 2010, employees made a total of 734 enquiries to the Helpline. All concerns raised with the Ethics Helpline were reviewed and reported either to the Ethics Review Committee or, in BAE Systems, Inc., to the Ethics Executive Oversight Committee.

2010 EMPLOYEE ENQUIRIES TO ETHICS HELPLINE¹



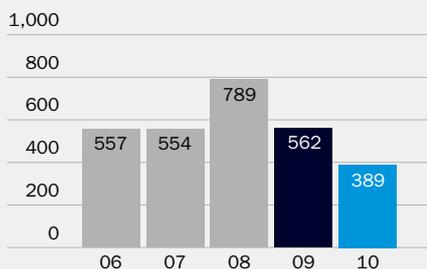
DISMISSALS FOR REASONS RELATING TO UNETHICAL BEHAVIOUR^{*}



If an employee is found to be in breach of our Code of Conduct or any other relevant policies, appropriate disciplinary action is taken. In 2010, 355 employees were dismissed for reasons relating to breaches of our standards and policies.

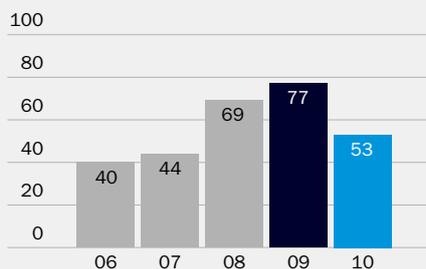
LOST WORK DAY CASE RATE (PER 100,000 EMPLOYEES)^{*}

KPI



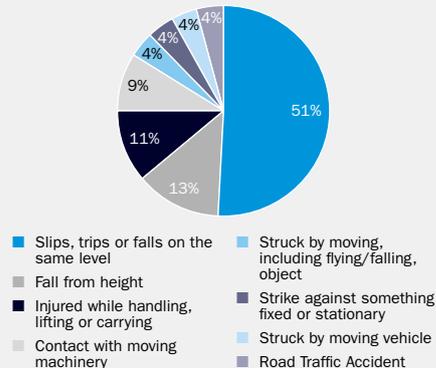
The Lost Work Day Case Rate fell from 562 in 2009 to 389 in 2010, equivalent to a 31% decrease, exceeding our target of 20%. In 2011, we will continue to monitor the number of incidents resulting in days lost to injury and take action to minimise the risk to the Group's employees and its operations, and drive continual performance improvement.

MAJOR INJURIES RECORDED^{*}



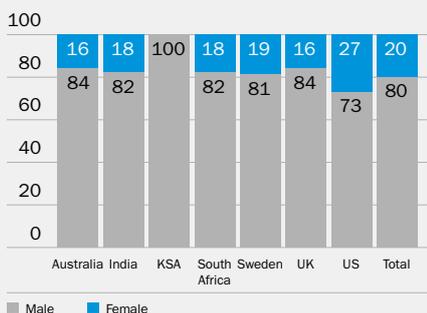
The number of major injuries recorded in 2010 has fallen to 53, a decrease of 31% on 2009 data. The normalised rate of major injuries per 100,000 employees has also decreased to 53 in 2010*. This demonstrates an overall improvement in our safety performance which reflects efforts to embed a 'safety first' attitude across the Group.

2010 CAUSE OF MAJOR INJURIES RECORDED (% OF TOTAL CAUSES)

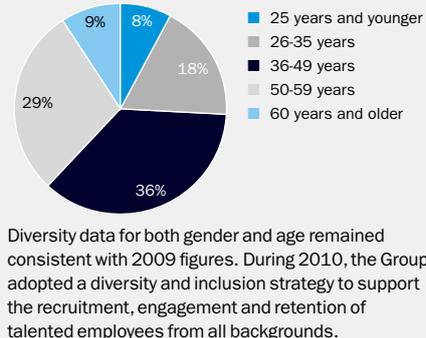


Slips, trips and falls on the same level were the main causes of major injury in 2010, accounting for over 50% of the total. Accidents that result in injury are investigated and solutions identified to help prevent future occurrence.

2010 GENDER DIVERSITY (%)*



2010 AGE DIVERSITY (%)*



2010 ETHNIC DIVERSITY^{*}

In Saudi Arabia, less than 40% of our employees are expatriates, representing our commitment to 'localising' business talent. We continue to focus on skills transfer and increase the number of local nationals in our workforce. In South Africa, we are working towards improving workplace diversity, in line with the business's transformation objectives and the South African government's Broad Based Black Economic Empowerment (BBBEE) initiative. Currently, 41% of our workforce in South Africa is black. In the US, minority group representation is 25% and, in the UK, it remains low at 3%.

We do not collect ethnic diversity data for Australia, India and Sweden.

¹ * See Assurance statement on pages 54 and 55.
 1 In countries where there are no legal restrictions on the implementation of our helpline.

Business conduct

Goal

BAE Systems is committed to becoming a recognised global leader in business conduct by continuing to embed policies and processes across the Group, and integrate them into day-to-day business practice.

Strategy

We are placing business conduct at the heart of our business through implementation of our global Code of Conduct, our comprehensive response to the Woolf Committee Report, and our commitment to Total Performance.

The Group's Code of Conduct sets out the principles and standards we require all our employees to adopt. Used in conjunction with our Responsible Trading Principles (see page 33), it supports our business activities.

2010 performance

Training to ensure employees understand and comply with the Code of Conduct forms a core part of raising awareness and developing a culture of Total Performance throughout the business. This includes an induction for newly hired staff and regular refresher courses for employees. We have also issued the latest version of the Group's Integrity in Business Dealing training, an online course covering our Gifts and Hospitality, Facilitation Payments, Company Giving and Conflicts of Interest policies that is required to be taken by executives.

We are on schedule to meet our three-year commitment to address the 23 recommendations of the Woolf Committee – an external, independent committee appointed by the BAE Systems Board which reported its findings in May 2008. As well as guiding us towards a culture of responsible business conduct,

the recommendations have helped the Group review and strengthen policies and processes as part of our governance structure and integrate them into day-to-day business practice. An update on progress will be available at www.baesystems.com/corporateresponsibility/⁺

The Ethical Leadership Group, an ethics consultancy, has been commissioned to carry out an independent assessment of the Group's Business Conduct programme and to review the work undertaken in response to the Woolf Committee recommendations. This is based on a document review, interviews with the Chairman, the Chief Executive, the Chairman of the CR Committee and senior managers in each home market, and over 60 employee focus groups across our businesses. This review covers the Group's global operations and is expected to be completed by April 2011.

Putting policies into practice

The Responsible Trading Principles introduced at the beginning of 2010 are designed to ensure that the Group makes informed decisions about the business opportunities we pursue. Opportunities are assessed according to the level of risk associated with the type of product, its intended use, the end user and the country of sale. The Principles are also being used in the procurement process to assess major suppliers. Additional guidance is also being introduced on anti-bribery and anti-corruption.

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



Embedding Responsible Behaviour

In 2010, we have focused on integrating Responsible Behaviour into our core business policies and procedures, and ensuring that these fully reflect all four elements of Total Performance.

Policies relating to Responsible Behaviour are now integrated into every section of the Operational Framework (OF), the set of mandated policies, charters and processes that guide our work. This has included adding a number of new policies and strengthening existing policies, including those relating to Gifts and Hospitality, Facilitation Payments and Conflicts of Interest.

Line leaders report compliance against each part of the OF twice a year through the Operational Assurance Statement.

Our Lifecycle Management Framework (see page 32), used across all our major projects, has also been revised to reflect the four elements of Total Performance. This means, for example, that reviews carried out at the start of projects now include consideration of responsible trading risks.

⁺ See Assurance statement on pages 54 and 55.

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.

Following the settlement reached with the US Department of Justice in February 2010, the Group has appointed Lord Gold, former Senior Partner at Herbert Smith LLP, as an independent corporate monitor for a period of up to three years. As part of his role, Lord Gold will serve as an ex-officio non-voting member of our Business Development Adviser Compliance Panel, review and evaluate certain of the Group's policies and procedures, and submit periodic reports to the Group's Board and the US Department of Justice.

The Group is currently reviewing its policies and procedures in preparation for the implementation of the new UK Bribery Act 2010. We believe our business conduct policies, including those covering advisers, facilitation payments, gifts and hospitality, conflicts of interest, offset and lobbying, will comply with the requirements of the Act.†

Working to improve industry standards

As a member of the Aerospace Industries Association of America and the Aerospace and Defence Industries Association of Europe, we are working with other companies to continue to embed the Global Principles of Business Ethics for the Aerospace and Defence Industry, that were agreed in 2009, and to raise standards of business conduct across the sector.

Code of Conduct

Following the introduction of the Code of Conduct and initial training in 2009, the focus in 2010 has been to further embed the Code throughout the Group. Employees are required to attend refresher training during the 12-month period to May 2011 – more than 50%[^] had already been trained by the end of 2010 (see KPI on page 19). New employees receive a copy of the Code and are required to complete training as part of their induction.

Business conduct survey results

We conduct a comprehensive Group-wide employee opinion survey every two years. The survey is designed and administered by an external company, Towers Watson. The survey includes questions on business conduct. In 2010, the survey results showed an improvement for the comparable questions on business conduct from 2008. The responses demonstrated that our employees have a good awareness of the business conduct standards we expect of them. We are pleased to be making progress but recognise that there is still much work to be done. We will continue to improve business conduct training and employee engagement to maintain high standards within our working culture, and support our people in speaking up and challenging any inappropriate behaviour they observe. Further analysis of the responses to the business conduct employee opinion survey questions can be found on www.baesystems.com/corporateresponsibility/†

Training on the Code of Conduct

Training on the Code of Conduct in 2010 emphasised employee engagement, leadership and embedding a culture of Responsible Behaviour throughout the Group. This built on training in 2009, designed to raise awareness and understanding of the Code.

The training is designed to prompt and promote discussion around ethical dilemmas during face-to-face sessions led by managers. Sessions include a team discussion looking at a series of potential ethical dilemmas employees could face in their work. An e-learning option is also available for those working remotely to ensure that training reaches everyone in the Group. Supporting articles in our internal newsletters have been used to reinforce messages from the training as well as position it as an important global activity for employees to participate in.

- For more information about:
- Code of Conduct
 - Progress against Woolf Committee recommendations
 - How our business works
- VISIT: www.baesystems.com/corporateresponsibility/



Safety

Goal

We aim to ensure consistently good safety management across the Group and, over time, to drive performance to a level comparable with the best performing global companies by continuing to progress towards Level 5 on our Safety Maturity Matrix (SMM).

Strategy

Protecting the health and safety of employees is a fundamental responsibility. Embedding a commitment to safety across the business is a priority for the Group. Education and awareness campaigns remind employees that they must put safety first in all their activities and speak up on safety issues.

Our safety management systems cover a wide range of risks associated with our manufacturing operations and diverse global business. The Group's Senior Safety Steering Group brings together business leaders who are responsible for driving BAE Systems towards a comparable level of safety performance with the best performing global companies.

Progress at site level is measured using our five-level SMM to help us drive safety performance. Businesses are required to assess safety risks associated with projects as part of the Lifecycle Management process (see page 32).

2010 performance

Improvements in safety performance during 2010 reflect continued efforts to embed a 'safety first' attitude and improve safety management in line with the Group's SMM. Sites with more than 150 personnel (other than those acquired during 2010) have now progressed to Level 4 on the matrix, demonstrating a proactive approach to safety across our sites. Businesses have also delivered a 31% improvement in the Lost Work Day Case Rate (see KPI on page 19) and a 31% reduction in major injuries.

During 2010, a benchmarking exercise was carried out which compared our safety performance in 2009 with other large global engineering and manufacturing companies with a proven track-record of world class safety performance. This benchmark has helped us to identify the gap in our performance against these companies to help us drive improvements for 2011.

Product safety

In October 2009, the Haddon-Cave report into the loss of Nimrod XV230 was published. After carefully studying the report, in December 2009, Ian King announced a review of the Group's approach to product safety in the UK businesses. Nigel Whitehead, Group Managing Director, Programmes & Support, led that review, which examined current policies, processes, governance, actions and behaviours associated with product safety. The review has developed a set of four principles of product safety which are being tested with the Group's businesses in the UK and across the world.

Although originally UK-specific, the principles are intended to be recognised by all business units as a sound basis for product safety. The review has now handed over to the Product Safety Implementation Project, which will ensure that the principles are translated into policies and processes.

Fatality

We are deeply saddened to report the death of one of our employees at our York facility in the US*. We have reviewed the cause of this accident and co-operated fully with the regulatory investigation. The regulatory authority was unable to determine a cause for the accident or identify any non-compliances during the course of its investigation and, as a result, has taken no further action. Any lessons learnt from this incident will be applied across our global business.



Safety First

Safety First is helping BAE Systems' businesses develop a common safety culture by encouraging employees to challenge unsafe practices and promote safe behaviour. Examples include:

- Submarine Solutions has established safety and environmental management systems for all its operational sites in line with the occupational health and safety standard OHSAS 18001 and environmental management standard ISO 14001. Safety, health and environment advisers have been appointed and additional training provided for employees. Safety systems have also been standardised to ensure a consistent approach is taken across Submarine Solutions' different UK sites.
- Military Air Solutions launched 'Think Safety First - Everyone's Responsibility' to raise safety awareness across its operations. The programme focuses on all aspects of safety and includes an employee guide providing information and advice on what employees should do if they have a safety concern.

For more information about:

- Our approach to safety
- Safety Maturity Matrix

VISIT: www.baesystems.com/corporateresponsibility/

* See Assurance statement on pages 54 and 55.

Diversity and inclusion

Goal

We are working to create an inclusive work environment where all individuals are respected, and where diversity is managed effectively via our Diversity & Inclusion Maturity Matrix (D&IMM), to improve business performance and enhance competitive advantage.

Strategy

A focus on diversity and inclusion encourages innovation and enhances productivity by helping us to recruit, engage and retain the best people. It is increasingly important to achieving business success in the diverse locations and cultures in which we operate.

The Group adopted a diversity and inclusion strategy in 2010 to support the recruitment, engagement and retention of talented employees from all backgrounds. It will help us to build a workforce that more closely reflects the diversity of the local population in each of our markets and will underpin the future sustainability of our business.

Our strategy also encompasses our education programmes (see page 34), which focus on supporting the teaching of science-based subjects and encouraging greater numbers of young people to study science, technology, engineering and mathematics. This is designed to ensure the Group has the right skills to remain competitive and operate successfully over the next decade, into 2020 and beyond.

A D&IMM is used to measure progress. It establishes a consistent benchmark to help our businesses chart progress from legal compliance (Level 1) to creating a culture that embraces diversity as a source of competitive advantage (Level 5).

The matrix provides sufficient flexibility within each home market for our business units to adapt their approach to meet operational characteristics and respect local cultures.

2010 performance

A communications plan was implemented to help employees understand the importance of diversity and inclusion, and how it contributes to Total Performance. This included a series of features in our internal newsletters and intranet sites, and a workshop at which senior leaders discussed and agreed the business benefits of diversity and inclusion. BAE Systems' Chief Executive, Ian King, signed the UK Resource Centre for Women in Science, Engineering and Technology's (UKRC) CEO Charter on Diversity, making public our commitment.

During 2010, in Australia and the UK, we reviewed our approach to external recruitment, including briefings to recruitment and advertising companies, to ensure that our recruitment processes support our commitment to diversity and inclusion.

Gender diversity

Achieving greater gender diversity remains a challenge for the defence and engineering sector. In the UK, for example, women account for just 10% of engineering graduates. Our education and early careers programmes are aimed at encouraging women to consider science, engineering and technical careers (see page 34).

We participate in and sponsor events organised by external organisations, including the UK Confederation of British Industry's First Women Awards and, in Europe, the International Women of Excellence. In the US, the Group is a member of the Society of Women Engineers, which promotes engineering as a desirable career option, whilst supporting females in advancing their careers in the field of engineering.

The Group's Women's Global Virtual Forums provide development and networking opportunities for female employees, complementing efforts by our business units to improve female representation at executive level through career planning and creating more flexible work cultures.



Integrating diversity and inclusion

Our businesses are taking steps to improve diversity and inclusion at all stages of employment. Examples include:

- Land & Armaments has integrated diversity and inclusion goals into succession planning and recruitment processes for its South African, Swedish, UK and US businesses, and developed diversity and inclusion training for line managers. The businesses will use a metrics dashboard to track progress and performance via quarterly business reviews.
- Military Air Solutions has published a briefing pack, launched a website and held a series of events to help employees understand the business case for diversity and inclusion. It introduced a Maternity Leave Workshop, to support mothers returning to work, and launched a Lesbian, Gay, Bisexual and Transgender Awareness Network.
- BAE Systems Australia's diversity and inclusion strategy, launched in 2010, is focused on increasing representation of women by promoting flexible working, increasing the number of part-time roles, and introducing talent management plans, women's networks and mentoring.

For more information about:

- Our approach to diversity and inclusion
- Our Diversity & Inclusion Maturity Matrix

VISIT: www.baesystems.com/corporateresponsibility/

Environment

Goal

We aim to improve the environmental performance of our products and operations by developing and launching an environmental sustainability programme.

Strategy

Reducing our use of resources and the waste we produce will improve operational efficiency, reduce costs and help us to comply with changing regulatory requirements. The environmental performance of our products is of increasing importance to our customers.

Environmental impacts including greenhouse gas emissions, material and solvent usage, waste products, and emissions to the atmosphere are managed by individual business units.

Our commitment to reduce the environmental impacts of our operations and products is outlined in our Environment Policy, and other key documents including our Code of Conduct.

2010 performance

An Environmental Sustainability Steering Group was established in 2010, comprising senior business and functional managers. It is chaired by the Managing Director, Corporate Responsibility, and sponsored by Executive Committee member, Nigel Whitehead, Group Managing Director, Programmes & Support. The Executive Committee has agreed goals and targets for the business in 2011 as part of an overall objective to improve environmental performance.

Our carbon footprint is calculated annually by the Coefficient Company. We also monitor and manage other environmental impacts.

The Group has made a number of improvements in the accuracy and expansion of data collection systems to include energy use from coal in the US and estimated data for a further 102 sites representing small offices across the markets in which we work. These data collection improvements and business acquisitions, plus a slight increase in energy use, increased our reported carbon footprint by 14% in 2009. 2010 data was not available at the time of this report, but will be available on our website in 2011.



Seal of Sustainability

BAE Systems has been awarded the Seal of Sustainability by the Sustainable Business Institute for progress at its Greenlawn site in New York. This recognises the site's achievements including:

- Participation in PowerPay! NY, a smart grid programme that manages energy demand
- Adoption of a recycling programme
- Water conservation efforts
- Use of renewable energy systems including a solar water heating system

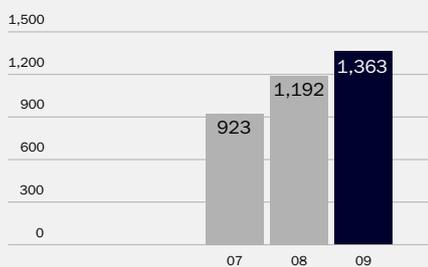
The seal is awarded to companies that demonstrate a continuous commitment to sustainable practices and helps the public to identify businesses that promote sustainability. Each company is evaluated against criteria relating to the economy, society and environment. Applications are reviewed by the US National Pollution Prevention Roundtable, a non-profit membership organisation.

2011 objectives

Develop and launch an environmental sustainability programme:

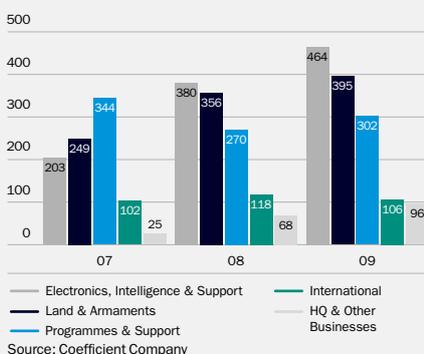
- Agree and implement an Environmental Sustainability Maturity Matrix (ESMM).
- Businesses to confirm a 2010 baseline, and set 2011 targets for energy, water and waste.

TOTAL CO₂ EMISSIONS (THOUSAND TONNES)



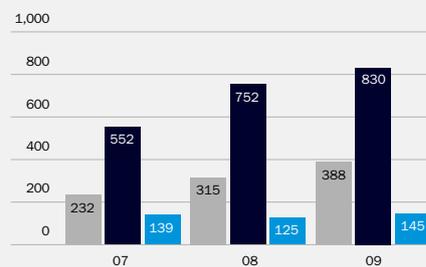
Source: Coefficient Company

TOTAL CO₂ EMISSIONS BY OPERATING GROUP (THOUSAND TONNES)



Source: Coefficient Company

TOTAL CO₂ EMISSIONS BY SCOPE (THOUSAND TONNES)



Source: Coefficient Company

Our 2010 global carbon footprint will be externally compiled by the Coefficient Company.



For more information about:

- Our Environmental Management System
- 2011 goals and targets

VISIT: www.baesystems.com/corporateresponsibility/

Community

Goal

Our goal is to support charities that make a positive contribution to the communities in which we operate.

Strategy

The BAE Systems Company Giving programme, which is underpinned by our Company Giving Policy, includes donations and other support for local, national and international charities and not-for-profit organisations. We focus on four areas that are relevant to our business:

- the armed forces and their families;
- science, technology, engineering and maths education;
- local communities; and
- employee volunteering.

Our approach is implemented locally to reflect the different needs of the communities in which we operate.

Charity Challenge is our Group-wide employee fundraising and volunteering programme. Employees in Australia, the UK and the US elect partner charities for a two-year period. Selected charities must fit within one of our core themes to be eligible for partner status. As well as fundraising and volunteering support from employees, partner charities receive supplementary funding from our Company Giving programme.

2010 performance

In 2010, our total community investment was more than £3.3m*. This includes donations in cash as part of our Company Giving and Charity Challenge programmes.

Our partner charities included: Make a Wish Foundation in Australia; Operation Homefront in the US; and armed forces charities, including Soldiers, Sailors, Airmen and Families Association (SSAFA), The Royal British Legion and The Army Benevolent Fund, in the UK.



Community involvement

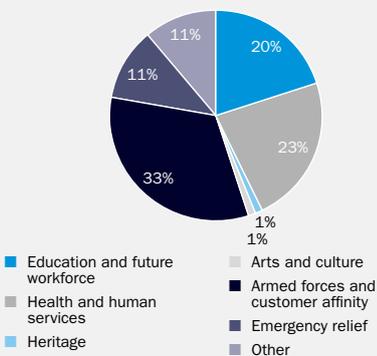
In the UK, BAE Systems is a founding supporter of the uk4u Thanks! 2010 Christmas Box campaign, which supports 22,500 boxes full of festive cheer being sent to servicemen and women across the world on active duty who are working away from their families during the holiday season. To support this activity closer to home, our UK employees donated items for Christmas parcels for veterans, and hospitals and care homes where injured soldiers receive treatment for their injuries while also spending Christmas with their families.

BAE Systems, Inc. employees were so moved by the destruction and suffering in Haiti following the earthquake in January 2010, that they donated \$436,000 (£282,000) to the American Red Cross's Haiti Relief and Development Fund and the International Response Fund. The Group matched employee contributions dollar for dollar, to donate a total of \$872,000 (£564,000). In addition to the cash donations, BAE Systems employees at sites across the US volunteered their time helping pack over one million dehydrated meals for the Kids Against Hunger programme. The Group also offered material support to the American Red Cross in the form of technology and systems. For example, FirstIntercom®, a first responders' radio system, was offered for use in the relief efforts.

The devastating floods in Australia have had a shattering impact on most people in Queensland and Northern New South Wales, including some of our employees, their families and many customers. In January 2011, the Group donated A\$200,000 (£119,000)¹ to the Queensland Premier's Disaster Recovery Relief Fund. Our employees have also supported fundraising efforts and some have volunteered supporting emergency services.

1 This figure is not included within 2010 community investment totals or the chart below.

COMMUNITY INVESTMENT SUBJECT FOCUS (%)



The Group uses the London Benchmarking Group methodology for calculating community giving.

The focus of our community investment activities includes Company donations and employee fundraising through Charity Challenge and payroll giving programmes.

Our total community investment in 2010 is made up of more than £2.6m in Company donations, and more than £715,000 in employee fundraising and payroll giving.



- For more information about:
- Our approach to community relations
 - Our employee fundraising and volunteering activities
- VISIT: www.baesystems.com/corporateresponsibility/

* See Assurance statement on pages 54 and 55.

Assurance statement

Independent assurance report by Deloitte LLP to BAE Systems plc on the Corporate Responsibility section in the Directors' Report: Business Review of BAE Systems' Annual Report for the year ended 31 December 2010

What we looked at: scope of our work

BAE Systems plc ('BAE Systems') has engaged us to provide assurance on:

Limited assurance:

- The Group level business conduct, safety, diversity and inclusion, and community performance indicators on pages 47 and 53 indicated with a *
- Their statements on progress towards the Group level corporate responsibility (CR) objectives on page 46

Reasonable assurance:

- Their statements on business conduct made under the heading 'Business conduct' on pages 48 and 49, excluding all forward-looking sentences indicated with a +
- Their statement on safety strategy made under the heading 'Strategy' on page 50
- The business conduct performance indicators on page 47 indicated with a ^

What standards we used: basis of our work and level of assurance

Our work was carried out by a multi-disciplinary team of CR and business ethics assurance specialists in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000).

For the business conduct, safety, diversity and inclusion, and community performance indicators we planned and performed the work to provide limited assurance as to whether the BAE Systems' data on pages 47 and 53, indicated with a *, is not materially misstated. For the corporate responsibility objectives, we planned and performed the work to provide limited assurance as to whether the BAE Systems' statements on page 46 under the heading 'Performance in 2010 and objectives for 2011' are not materially misstated. This provides less assurance and is substantially less in scope than reasonable assurance.

For the statements on business conduct and safety strategy we planned and performed the work to obtain reasonable – not absolute – assurance as to whether the statements on business conduct on pages 48 and 49, excluding all forward-looking sentences indicated with a +, and on safety strategy on page 50 are a fair description of the activities undertaken. For the business conduct performance indicators we planned

and performed our work to obtain reasonable assurance that the business conduct indicators on page 47, indicated with a ^, are fairly stated.

The qualitative and subjective nature of non-financial information poses a number of inherent limitations for assurance engagements. The basis of reporting for each indicator marked with a * or a ^ is provided at www.baesystems.com/reporting/ and should be read in conjunction with statements made in this Annual Report.

What we did: key assurance procedures

Considering the risk of material error, we planned and performed the work to obtain all the information and explanations considered necessary to provide sufficient evidence to support our assurance conclusion. The key procedures we carried out were:

- Interviewing senior managers at BAE Systems in relation to activities undertaken during 2010 regarding responsible business conduct and CR performance reporting;
- Interviewing managers at BAE Systems' head office, including the CR and Safety, Health and Environment (SHE) team, and those with responsibility for CR management and reporting systems;
- Gaining an understanding of BAE Systems' own process to collect information from issue owners, and the process for collation and validation of performance data at Group level by the Group CR team;
- Analysing and reviewing on a sample basis the key structures, systems, processes, procedures and controls relating to the Group level collation, validation and reporting processes of the Annual Report, including:
 - the selection of issues to be reported on, related key performance indicators and other matters to be reported on;
 - the collection, collation, validation and reporting of selected safety, diversity, community and business conduct performance data at the year end; and
 - undertaking questionnaires and interviews with a limited purpose non-statistical sample of sites to gain an understanding of key processes and controls for reporting selected performance data to the Group CR team. Sites were selected based on safety performance, materiality to the Group and inherent risk of the location. We did not perform any site visits during our work.
- Interviewing members of BAE Systems' Legal department to understand the process followed to monitor compliance with

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the Business Development Adviser Policy during 2010 and to prepare for compliance with the Bribery Act 2010;

- Performing limited purpose non-statistical sample testing to verify that a selection of advisers added to the BAE Systems' Approved Adviser Register during 2010 were appointed in compliance with the BAE Systems Adviser Policy;
- Interviewing members of BAE Systems' management to understand the scope and coverage of Code of Conduct refresher and induction training activities during 2010;
- Performing limited purpose non-statistical sample testing to verify the nature and extent of the roll out of Code of Conduct training for new and existing employees;
- Interviewing members of BAE Systems' management to understand the process followed to capture, investigate and report employee enquiries to the Ethics Helpline;
- Performing limited purpose non-statistical sample testing to verify that a selection of employee enquiries to the Ethics Helpline were appropriately captured, investigated, categorised and reported to the Ethics Committee;
- Examining underlying documents to corroborate interview outcomes and to inform our assessment of the subject matter to be assured; and
- Reviewing the CR section of the Annual Report against the findings of our work whilst assessing that the Annual Report has been compiled as described on page 55 in the section 'Scope and data'.

The scope of our work did not include the provision of assurance over whether BAE Systems' programme of work is adequately designed to, or will, meet the requirements of the Woolf Report.

What we found: our assurance opinion

Limited assurance conclusion:

- Based on the assurance work performed nothing has come to our attention to suggest that the business conduct, safety, diversity and inclusion, and community performance indicators on pages 47 and 53, indicated with a *, are materially misstated.
- Based on the assurance work performed nothing has come to our attention to suggest that the progress towards the Group level corporate responsibility objectives on page 46 is materially misstated.

Reasonable assurance opinion:

- BAE Systems' statements on business conduct made under the heading 'Business conduct' on pages 48 and 49,

excluding all forward-looking sentences indicated with a +, are, in our opinion, in all material respects fairly stated as at 18 February 2011.

- BAE Systems' statement on safety strategy made under the heading 'Strategy' on page 50 is, in our opinion, in all material respects fairly stated as at 18 February 2011.
- The business conduct indicators on page 47, indicated with a ^, are, in our opinion, in all material respects fairly stated.

Responsibilities of directors and independent assurance provider **BAE Systems' responsibilities**

- The directors are responsible for the preparation of the Annual Report, and for the information and statements contained in connection with it. They are responsible for determining BAE Systems' objectives in respect of CR performance, and for establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived.

Deloitte's responsibilities

- Our responsibility is to independently express conclusions on the reliability of management's assertions on the selected subject matters as defined within the scope of work above.
- This report is made solely to BAE Systems plc in accordance with our letter of engagement for the purpose of the directors' governance and stewardship. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than BAE Systems plc for our work, for this report, or for the conclusions we have formed.
- Our multi-disciplinary team of CR and business ethics assurance specialists performed the engagement in accordance with Deloitte's independence policies, which cover all of the requirements of the International Federation of Accountants (IFAC) Code of Ethics and in some areas are more restrictive. We confirm to BAE Systems that we have maintained our independence and objectivity throughout the year, including the fact that there were no events or prohibited services provided which could impair that independence and objectivity in the provision of this engagement.

Deloitte LLP

London, United Kingdom

18 February 2011

Scope and data

The data and performance measures in this report cover the period January to December 2010 with the exception of environment data which covers the period January to December 2009. Qualitative information and quantitative data for the report are provided by individuals across our business. Quantitative data is recorded on centralised systems, and content and data are reviewed at head office.

Unless otherwise explained, the data in this report cover the Group's major operations globally, excluding those acquired or divested during the year.