

# Responsible business

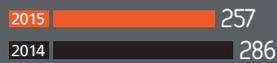
## Non-financial Key Performance Indicators

### Trust and integrity P48

#### Ethics enquiries<sup>1</sup>

1,148

#### Dismissals for reasons relating to unethical behaviour<sup>1</sup>

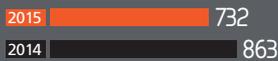


### Our people P48

#### Safety

732 Recordable Accident Rate (per 100,000 employees)<sup>1</sup>

15% improvement



**Target achieved**  
5% UK executive directors' annual bonus<sup>2</sup>

#### Diversity

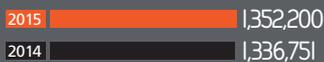


### Resource efficiency P51

#### Total greenhouse gas emissions (tonnes CO<sub>2</sub>e)<sup>1</sup>

1,352,200

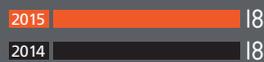
+1%



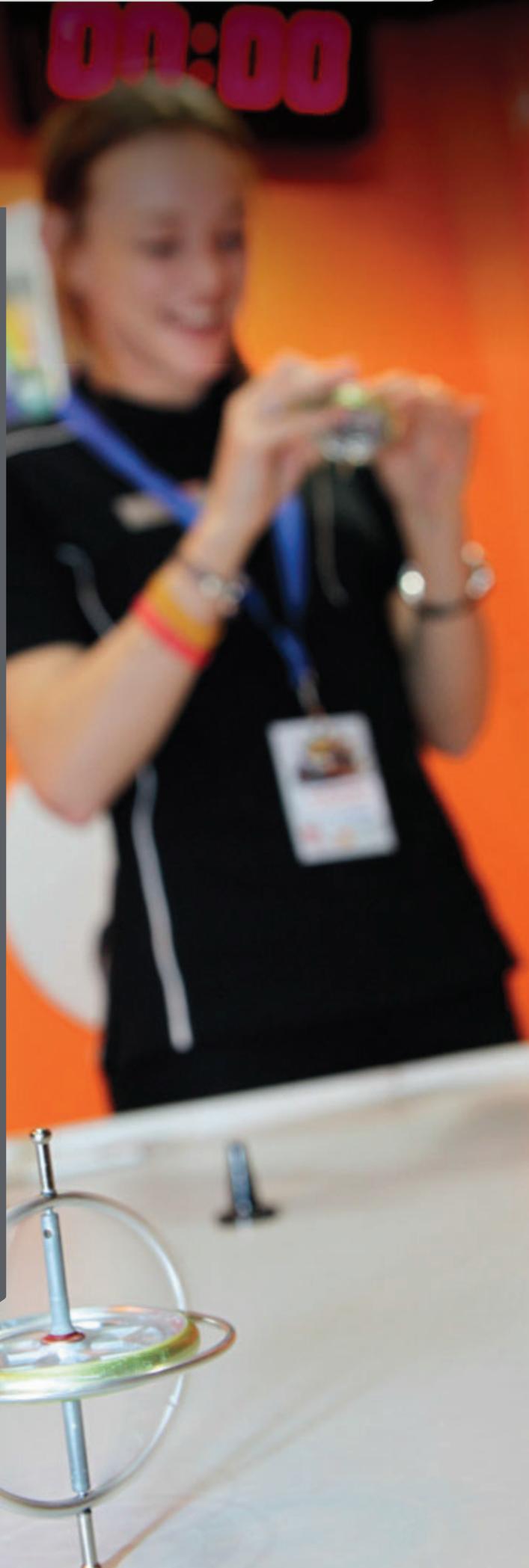
#### Total greenhouse gas emissions per employee<sup>3</sup> (tonnes CO<sub>2</sub>e)

18

0%



1. See summary of Deloitte LLP assurance on page 51.  
 2. 85% (including 80% relating to financial objectives – see page 16) of the UK executive directors' bonuses are based on the achievement of objectives aligned to certain Executive Committee objectives measured on Group-level quantitative key performance indicators, with the remaining 15% based on the achievement of personal objectives aligned to the delivery of specific elements of the Group's strategy measured using both quantitative and qualitative performance indicators (see page 76).  
 3. Excluding share of equity accounted investments.



We are a business that operates responsibly and with integrity, delivering on customer requirements – a trusted partner.

**Responsible business priorities**

2015 priorities	2015 progress	2016 direction
<p><b>Trust and integrity</b> Roll out refreshed Code of Conduct.</p> <p>Implement Ethical Leadership Group (NAVEX Global) recommendations to ensure continued improvement.</p> <p>Continue to drive alignment and integration of the business conduct programme with human resources, legal and audit activities.</p>	<p>Refreshed Code of Conduct rolled out across the Group via face-to-face briefings.</p> <p>Continued to progress Ethical Leadership Group (NAVEX Global) recommendations to drive continuous improvement of business conduct programme.</p> <p>Integrated business conduct training and reporting with Human Resources, Legal and Internal Audit departments.</p>	<p>Roll out Code of Conduct refresher training across the Group.</p> <p>Continue to instil responsible behaviour across the Group.</p> <p>Further integrate the business conduct programme across Group functions.</p>
<p><b>Our people</b> Continue drive towards a world-class level of safety performance.</p> <p>Achieve a 10% reduction (15% stretch target) in the Recordable Accident Rate.</p> <p>Maintain focus on, and management and reduction of, significant safety risk.</p> <p>Continue to drive a strong safety culture through communication, awareness and visible leadership.</p> <p>All businesses to continue to drive a diversity and inclusion agenda to address business needs and strategic aims.</p>	<p>Sadly, during 2015, there were two air incidents that resulted in seven fatalities, four of our employees and three from other companies.</p> <p>The Group achieved a 15% reduction in the Recordable Accident Rate<sup>1</sup>.</p> <p>The number of major injuries<sup>1</sup> across the Group increased by 21% (see page 49).</p> <p>All businesses set diversity and inclusion plans to address specific issues or strategic aims.</p>	<p>Continue to drive towards a world-class level of safety performance.</p> <p>Achieve a 10% reduction in the Recordable Accident Rate.</p> <p>Continue to focus on management and reduction of significant safety risk.</p> <p>Continue to drive a strong safety culture through communication, awareness and visible leadership.</p> <p>All businesses to continue to drive a diversity and inclusion agenda to address business needs and strategic aims.</p>
<p><b>Resource efficiency</b> All businesses to continue to drive improvements in management of materials and resources.</p>	<p>All businesses set and met improvement targets for energy, water and waste, except where additional work opportunities and extremes of climate impacted.</p>	<p>All businesses to continue to drive improvements in management of materials and resources.</p>



For further information, see our Corporate responsibility summary [www.baesystems.com/crsummary](http://www.baesystems.com/crsummary)

**Responsible business in action**  
Increasing the recruitment talent pool

## Global support for STEM education

Engineering skills are vital to BAE Systems and companies in the global supply chain. The Group is reliant on a pipeline of young talent having studied Science, Technology, Engineering and Mathematics (STEM) subjects. BAE Systems has introduced a number of initiatives which support the promotion of STEM subjects and careers for young people in the markets in which it operates.

In 2015, the US businesses continued to support the National Math and Science Initiative and invested in hands-on activities to engage and inspire students, including ongoing support of FIRST Robotics team competitions.

In the UK, BAE Systems has committed £80m a year to skills development and is supporting the 'Your Life' campaign, a partnership between educators, industry and government to boost female participation in technology and engineering. In addition, over the last two years, the Group has taken its schools roadshow into 500 schools, engaging with 120,000 young people aged 10 to 13.

In Saudi Arabia, BAE Systems has developed close ties with King Saud University, working with it to create an extensive scholarship programme. We also sponsor a graduation award for engineering students and support a lecture series on advanced manufacturing led by our engineers.

In Australia, BAE Systems is a major sponsor of two FIRST Robotics teams. As well as technical skills, students develop teamwork, problem solving and critical thinking skills through the programme.

In the United Arab Emirates, BAE Systems recently formed a five-year Student Co-operative Agreement with Mubadala to offer Emirati students an intensive 18-week aerospace and security internship programme in the UK. In Oman, Qatar and Bahrain, groups of our graduates and apprentices have been leading STEM workshops with schools and universities.

More online  
[baesystems.com](http://baesystems.com)

1. See summary of Deloitte LLP assurance on page 51.

# Responsible business continued

## Introduction

The Group views Corporate Responsibility (CR) as an important enabler in achieving sustainable growth in shareholder value by:

- instilling responsible behaviour to be a trusted partner;
- supporting customer confidence in our business by continuously improving standards of safety for employees and those using our products;
- developing an inclusive, diverse workplace to drive innovation and performance; and
- proactively managing the environmental impacts of our facilities and products to improve efficiencies and cost savings.

These key enablers are supported by good relationships with our customers, business partners and communities.

The Group also has programmes in place to support sustainable long-term performance by managing non-financial risks that can impact delivery of contracts, reputation and shareholder value.

We set CR priorities for the Group, which are enacted at local level. These translate into business conduct, safety, diversity and environment objectives.

## Trust and integrity

Managing our operations responsibly and conducting our business in an ethical way supports the Group in earning and maintaining our customers' trust. Our governance system is fundamental to how we do business and guides the Group in how to conduct business responsibly.

We continue to instil responsible behaviour across the Group by supporting employees to make the right ethical decisions. The launch, in early 2015, of our revised Code of Conduct gave managers an opportunity to engage directly with employees on ethical dilemmas that can take place every day. The Code was rolled out to employees via face-to-face briefings. Employees also received compliance training throughout the year appropriate to their job role, including training on export controls.

We expanded our Ethics Officer network, which supports our Ethics Helpline by providing employees across our sites with guidance and support or somewhere to report concerns. During 2015, we received 1,148 ethics queries via our Ethics Officer network and helpline<sup>1</sup>, with the number of queries being raised face-to-face via our Ethics Officer network at 51%. The total number of queries raised is a good indicator that policies and

processes are working and highlight awareness created via the Code of Conduct and compliance training. The number of queries raised directly with Ethics Officers and the Group's anonymity rate indicates that employees feel more comfortable raising concerns and that they have trust in the Group's system for addressing concerns.

Our governance framework covers the products we make and export. Our Responsible Trading Principles, Product Trading Policy and Pursuit of Export Opportunities Policy help employees to make informed decisions about the business opportunities we pursue and to address any responsible trading risks. Our Procurement Policy specifically addresses ethical standards in the Group's supply chain.

During 2015, the Group continued to progress recommendations from NAVEX Global's 2014 independent assessment of our business conduct programme, focusing on supporting middle managers in developing the right culture to drive responsible behaviours and integrating functional programmes on responsible behaviour to leverage engagement opportunities with employees.

BAE Systems is committed to respecting the human rights of our employees in the workplace. We will encourage our suppliers and business partners to adopt the same or similarly high standards of ethical behaviour.

## Our people

The diversity, skills and innovation of our people drives performance across the Group.

We are committed to creating a diverse and inclusive work environment where a diverse range of talented people can work together to ensure business delivery. We are creating this environment by striving to build a diverse workforce from entry level to senior management which reflects the populations that we recruit from.

Engaging and developing our workforce for current and future business is key to successfully delivering our strategy and customer commitments. We are continuously looking to attract, recruit, develop and reward people of the highest calibre.

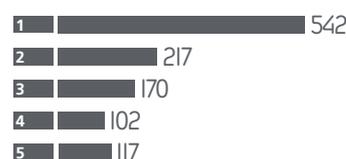
We want every employee to fulfil their potential while contributing to the success of the Group. We do this through our career frameworks, comprehensive development programmes and the breadth of our operations around the world that enable employees to make the most of their talents. Our focus is on continuous professional development that supports personal and professional growth.

## Enquiries to Ethics Helpline<sup>1</sup>



All enquiries reported to Ethics Officers and via the Ethics Helpline were reviewed and reported either to the Ethics Review Committee or, in BAE Systems, Inc., to the Ethics Review Oversight Committee.

## 2015 enquiries to Ethics Helpline<sup>1</sup>



- 1 Guidance and advice
- 2 Employee relations and conduct
- 3 Management practices
- 4 Accounting charges practices
- 5 Other

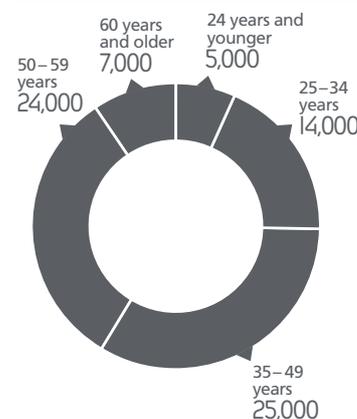
Almost half of the ethics contacts received are requests for guidance and advice. We encourage employees to contact us as early as possible when a potential incident can still be prevented by timely advice.

## Anonymity rate

26%

The percentage of employees raising ethics queries anonymously compares favourably with peer companies.

## Age diversity<sup>1,2</sup>



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

The Group has a number of programmes in place to improve diversity and inclusion across the business, including Executive Committee sponsored work streams to foster a culture of inclusion, accelerate the development of high-potential women and increase leadership diversity. This is underpinned by activities across the Group to improve diversity and inclusion locally.

To support our operations and the industry sectors, we partner with the education system in countries to ensure the future workforce has the core skills and capabilities to develop careers and support industrial strategies. We place particular emphasis on encouraging young people to pursue careers in Science, Technology, Engineering and Mathematics (STEM) (see page 47).

The safety of our employees, and anybody who works on, or visits, our sites, remains a priority for the Group. During 2015, the Group continued to focus on raising awareness of employees' role in identifying, managing and reducing safety risks. Throughout the year, employees were encouraged to review work processes to design out potential accidents and suggest improvements to drive standards of safety across the Group.

The Group uses the Recordable Accident Rate to measure workplace injuries. This metric, along with the number of major injuries, is used to determine an element of executive bonus (see page 76). During 2015, the Recordable Accident Rate<sup>1</sup> decreased by 15%, consistent with the stretch target set.

This progress represents the eighth consecutive year of improvement. However, major injuries are not decreasing at the same rate, with the severity of injuries increasing. During 2015, the number of major injuries<sup>1</sup> increased by 21%. The Group is reviewing root cause analysis of major injuries and will continue to focus on risk reduction and embedding safety culture to drive improvements.

We are saddened to report that, during 2015, there were two air incidents that resulted in seven fatalities, four of our employees and three from other companies. We have been supporting investigations with air accident authorities in Saudi Arabia and the US, and are carrying out internal reviews into the incidents.

We are committed to creating environments that enable employees to contribute to improving business performance through our engagement activities, including regular feedback to support their success, and drive responsible behaviour and safe working practices. We seek to listen to employees' views and opinions, and keep them informed about what is happening across the business through a variety of media, including e-enabled channels, leadership blogs, newsletters, management and team meetings, monthly team briefs, and the intranet. Employees also have the opportunity to provide feedback via our engagement surveys.

The Group welcomes employees becoming shareholders in BAE Systems and offers a number of employee share plans to support this.

### Gender diversity data as at 31 December 2015

	Number of males	Number of females	Total number	Male %	Female %
<b>Board</b>	7	2	<b>9</b>	<b>78</b>	<b>22</b>
<b>Executive Committee</b>	9	2	<b>11</b>	<b>82</b>	<b>18</b>
<b>Senior managers<sup>3</sup></b>					
Employees in senior executive positions <sup>4</sup>	244	38	<b>282</b>	<b>87</b>	<b>13</b>
Directors of subsidiary companies (excluding employees in senior executive positions)	79	12	<b>91</b>	<b>87</b>	<b>13</b>
<b>Total senior managers<sup>4</sup></b>	323	50	<b>373</b>	<b>87</b>	<b>13</b>
<b>Total employees<sup>1,2</sup></b>	<b>60,000</b>	<b>15,000</b>	<b>75,000</b>	<b>80</b>	<b>20</b>

1. See summary of Deloitte LLP assurance on page 51.  
 2. Excluding share of equity accounted investments and rounded to the nearest thousand employees.  
 3. Senior managers are defined as employees who have responsibility for planning, directing or controlling the activities of the Group or a strategically significant part of the Group and/or who are directors of subsidiary companies.  
 4. Excludes executive directors.

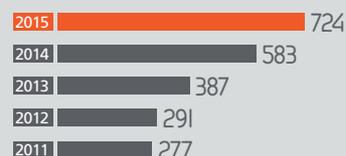
### Responsible business in action

Increasing the recruitment talent pool

## Investing in skills in the UK

During 2015, we recruited 724 apprentices and higher-level apprentices, and 292 graduates to support the talent pipeline in the UK.

### UK apprentice and higher-level apprentice recruitment



There has been significant growth in the last two years in apprentice recruitment. This relates in particular to growth in apprentice recruitment at our Submarines business linked to the Successor submarine programme and growth in higher/degree apprenticeships (which comprised 123 of our record 724 intake in 2015).

### UK graduate recruitment



BAE Systems' graduate recruitment has remained relatively stable over the last five years, with our Applied Intelligence business taking approximately half our intake each year.

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## Responsible business continued

### Responsible business in action

Improving environmental performance

## Cost and energy saving initiatives



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Almost 12,000 solar panels are now live at three BAE Systems sites in the UK and Sweden, reducing the Group's carbon footprint and delivering savings for customers.

In Portsmouth, UK, almost 2,000 solar panels have been installed as part of a project to create an energy-efficient base for the Royal Navy. The solar panel system will transform buildings into clean energy producing facilities and is expected to generate energy savings of more than £1m over the next 20 years.

In Samlesbury, UK, where components for Typhoon, Hawk and F-35 Lightning II aircraft are manufactured, nearly 9,000 solar panels have been installed.

The panels will provide nearly a fifth of the facility's peak electrical consumption and will eliminate 1,500 tonnes of carbon emissions each year. The panels are part of an extensive programme of investment in renewable technology that has gone into the development of the advanced manufacturing centre.

Solar panels have transformed the new headquarters of the Swedish business at Örnsköldsvik into a powerful solar generator. At 2,500m<sup>2</sup>, it is the largest façade-mounted solar plant in Scandinavia. The 1,465 solar panels will generate an estimated 370 kW at peak production, thus annually producing an estimated 312 MWh of energy and reducing carbon emissions by 187 tonnes.

### Key relationships

Strong business relationships with suppliers, business partners and local communities are key to our success.

We depend on almost 27,000 suppliers to support our business and provide innovative and cost-effective products. Our relationships with suppliers are often long term due to the length of our product lifecycles, so we aim to build relationships with suppliers who share our values and who embrace standards of ethical behaviour consistent with our own. The Group sets expectations for its suppliers within contracts and within its Supplier Principles – Guidance for Responsible Business being launched in 2016, including standards on ethical conduct, health and safety, environment, and human rights.

We also require our suppliers to comply with local legislation. Compliance to required standards is evaluated during the supplier selection process and, for existing suppliers, as part of ongoing quality and approvals assurance.

Our policies and procedures require that we only work with advisers who have been approved via our due diligence process and authorised by an external panel. Advisers with whom the Group has an ongoing relationship go through this process every two years. We continue to work with peers across the defence industry to improve ethical standards. During 2015, we continued to participate in the International Forum on Business Ethical Conduct's industry working group.

We continue to strengthen relationships and invest in the communities in which we operate. This is done via local recruitment and employment, contracting with local suppliers where possible, the taxes we pay and by supporting local charities and not-for-profit organisations.

Globally, we and our employees, through the Community Investment programme, contributed more than £11m<sup>1</sup> during 2015 to local, national and international charities and not-for-profit organisations.

1. See summary of Deloitte LLP assurance on page 51.

### Resource efficiency

The Group is committed to minimising the environmental impact of our operations, whilst innovating to strive to minimise the environmental impact of our products.

We have 82,500 employees<sup>1</sup>, across over 500 sites internationally, so our focus is to proactively manage the impact of our operations on the environment. Our primary impacts relate to energy used for heating and lighting of our facilities. We do not manufacture raw materials, so have relatively few energy-intensive processes.

Each of our businesses sets clear targets to use resources efficiently with a focus on reducing energy and water consumption, and waste generated. Environmental management systems are used to monitor and manage targets and impacts. Reducing these impacts will reduce the Group's environmental footprint and cut costs from purchased energy, raw materials and waste.

During 2015, businesses across the Group identified projects to improve environmental performance, including the installation of solar energy panels (see page 50), new LED lighting and water efficiency systems.

The majority of our greenhouse gas emissions come from the energy we use across our facilities. The Group's greenhouse gas emissions<sup>2</sup> increased by 1% in 2015 largely due to increased activity at some of our larger sites. This includes the bi-annual running of a high-energy test facility at Barrow-in-Furness, UK, and diesel usage for sea trials of the Landing Helicopter Dock in Australia.

From designing submarines with better waste compacting systems to helping customers make vehicles last longer, our engineers work to reduce environmental impacts across the product lifecycle. This includes reducing the environmental impacts of our products during design, research and development, minimising waste materials during manufacturing, and helping to reduce the impact of our products when they are used, upgraded or disposed of.

### Deloitte LLP assurance

Deloitte LLP has provided limited assurance on the following performance indicators at Group level:

**Ethics** – employee and third-party enquiries to Ethics Helpline and dismissals for reasons relating to unethical behaviour;

**Safety** – Recordable Accident Rate and the number of major injuries recorded;

**Diversity** – total employees split by gender and age;

**Community** – total Community Investment programme donations (£); and

**Environment** – greenhouse gas emissions.

#### More online

To see Deloitte LLP's Unqualified Assurance Statement visit [www.baesystems.com/deloitteassurancestatement](http://www.baesystems.com/deloitteassurancestatement)

To see our Basis of Reporting 2015 visit [www.baesystems.com/2015crdata](http://www.baesystems.com/2015crdata)

### Greenhouse gas emissions data for the period 1 November to 31 October (tonnes CO<sub>2</sub>e)

#### Combustion of fuel within BAE Systems facilities and vehicles (Scope 1)<sup>2</sup>

2015	596,515
2014	585,233

#### Electricity and steam purchased for BAE Systems use (Scope 2)<sup>2</sup>

2015	607,876
2014	594,866

#### Business travel in non-BAE Systems vehicles (Scope 3)<sup>2</sup>

2015	147,809
2014	156,652

### Methodology

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

The CO<sub>2</sub>e associated with carbon dioxide, methane and nitrous oxide is reported. Greenhouse gas emissions associated with hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride are estimated to be immaterial to total emissions and are, therefore, not reported.

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

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

Greenhouse gas emissions related to business travel include air travel data for the majority of the global business and rail data for business units operating in the UK and US. These data are taken from suppliers' procurement records.

Emissions from joint ventures and pension scheme properties not occupied by the Group are not included.

1. Including share of equity accounted investments.  
2. See summary of Deloitte LLP assurance above.