

Corporate responsibility



Corporate responsibility is a key enabler for our business, supporting sustainable long-term performance by managing non-financial risks that can impact reputation and shareholder value.

Introduction

Our corporate responsibility programmes focus on:

- developing an inclusive, diverse workplace to drive innovation and performance (see page 22);
- instilling responsible behaviour to be a trusted partner (see page 55);
- supporting customer confidence in our business by continuously improving standards of safety for employees and those using our products (see page 56); and
- proactively managing the environmental impacts of our facilities and products to improve efficiencies and cost savings (see page 57).

We set global corporate responsibility priorities, which are enacted at a local level. These are incorporated into objectives and programmes for diversity and inclusion, business conduct, safety, and the environment.

Corporate responsibility in action
Continuously improving standards of safety

External recognition for health and safety performance

Naval Ships, part of our UK Maritime business, was awarded a Five Star Award in Occupational Health and Safety following a British Safety Council audit in December.

The audit involved an in-depth examination of our entire health and safety management systems and associated arrangements, focusing on key aspects of our approach to managing occupational health and safety. Naval Ships exceeded in four out of five of the best practice indicators, achieving 94%, which is rated as excellent and equates to the maximum five star award.

As a Five Star organisation, Naval Ships will be eligible to apply for the 2017 Sword of Honour award, which recognises the best of the best in health and safety management.

Trust and integrity

We aim to be recognised as a leader in business conduct. This helps us to earn and maintain stakeholder trust and sustain business success.

We continue to build a culture where our senior leaders and employees are empowered to make the right decisions and to know where to go for help. Our Code of Conduct sets out clear expectations on ethical conduct and we offer training and support to help people understand the right thing to do.

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

Our Ethics Officers are appointed across our business and provide face-to-face advice and support on how to understand policies, resolve issues and report concerns.

Employees also have access to our 24-hour Ethics Helpline to ask for support or report concerns anonymously. There were 1,121¹ calls to the Ethics Helpline in 2016, broadly consistent with the number of calls in 2015, and our anonymity rate compares favourably with peer companies. 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.

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.

Our governance framework sets out the way we do business and covers the products we make and export, and our relationships with business partners, including advisers and suppliers.

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 require evaluation and approval of trading risks.

Our policies and procedures require that all advisers are approved via our due diligence process and authorised by an external panel. Advisers with whom businesses have an ongoing relationship go through this process every two years.

We depend on 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. Our Procurement Policy specifically addresses ethical standards in our supply chain. We set our expectations for suppliers within our contracts and Supplier Principles – Guidance for Responsible Business, including standards on ethical conduct, health and safety, environment, and human rights.

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

We continue to work with peers across the defence industry to improve ethical standards. During 2016, we continued to participate in the International Forum on Business Ethical Conduct's Council and worked with the Institute of Business Ethics to set up a UK Defence Ethics Network.

2017 priorities

We will continue to build a culture of responsible behaviour by engaging employees in annual ethics training and supporting them in making the right decisions. We will also be reviewing and refreshing our Code of Conduct for launch in 2018.

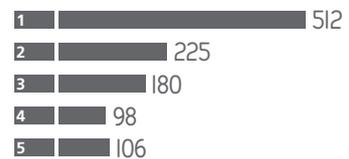
Enquiries to Ethics Helpline¹



Anonymity rate



2016 enquiries to Ethics Helpline¹



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

Dismissals for reasons relating to unethical behaviour¹



For further information, see our Corporate responsibility summary baesystems.com/crsummary

1. See summary of Deloitte LLP assurance on page 57.

Corporate responsibility continued

Health and safety

The safety of our employees, and those who work on, or visit, our sites, remains a priority for the Company. Our safety culture and our customers demand extremely high standards for all aspects of health and safety. Many of our employees operate heavy equipment, work at height or do physically-demanding work in high-risk environments and confined spaces.

We aim to mitigate or manage safety risks by finding new ways to enhance safety standards, increase awareness and continually drive a strong safety culture. Managers across our businesses are supported by teams of health and safety specialists who provide expert advice, training and tools to put our safety policies into practice.

We use 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 87). There was a 21% reduction in the Recordable Accident Rate in 2016, representing an improvement against target. In addition, there was a 26% reduction in the total number of major injuries recorded in the year as we continued to focus on reducing risk and embedding safety culture to drive improvement.

We want our employees to be healthy at work which depends on good health at home too. We operate wellbeing programmes to address this, which may include health risk assessments and campaigns to encourage employees to take responsibility for their health, including addressing risk factors for health problems such as heart disease, diabetes and cancer.

Our Employee Assistance Programme is a confidential service available to employees and includes support and advice on personal matters.

2017 priorities

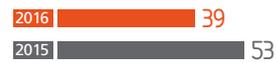
We will continue to: drive towards a world-class level of safety performance; focus on the management and reduction of safety risk; and drive a strong safety culture through communication, awareness and visible leadership. We will target a 10% reduction in the Recordable Accident Rate.

Recordable Accident Rate (per 100,000 employees)¹



KPI
BONUS

Major injuries recorded¹



BONUS

Corporate responsibility in action Promoting good mental health in the workplace

Employee wellness and wellbeing



We are committed to reducing the stigma of mental ill-health in the workplace and we provide a range of support services and initiatives. During Mental Health Awareness Week in the UK, we raised awareness of the help the Group provides to employees through the services of occupational health, the Employee Assistance Programme and flexible working policies. In Australia, we support the 'R U OK?' suicide prevention campaign. This year, we held a series of 'R U OK?' events to encourage our employees to regularly reach out to and make time for other people. These included breakfasts, morning teas and mental health information sessions.

More online
baesystems.com

BONUS 5% of the UK executive directors' bonuses are based on the achievement of safety KPIs (see page 87).

1. See summary of Deloitte LLP assurance on page 57.

Strategic report

Directors' report

Financial statements

Resource efficiency

We are committed to minimising the environmental impact of our operations.

Resource efficiency is an important measure of business effectiveness at BAE Systems and is embedded within our Environment Policy. As a major manufacturer, our operations have an impact on the environment – from the energy and resources we use to the waste that we generate. Minimising this impact shrinks our environmental footprint and reduces our operating costs.

Each of our businesses sets annual targets to use resources as efficiently as possible with a focus on energy, water and waste.

We are improving energy efficiency and de-carbonising our energy supply to reduce greenhouse gas emissions. The nature of our business, with large-scale projects and fluctuations in orders, makes it challenging to set a global emissions reduction goal. We set energy targets at business level that contribute to an overall reduction.

The majority of our greenhouse gas emissions come from the energy we use across our facilities. The Group's total greenhouse gas emissions decreased by 4% in the 12 months to 31 October 2016.

We use our engineering expertise to improve resource efficiency and make our products more sustainable. We work to reduce environmental impacts at every stage of their lifecycle – from concept, design and manufacture through to use and disposal.

2017 priorities

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

Community investment

Globally, we and our employees, through the Community Investment programme, contributed more than £11m¹ during 2016 to local, national and international charities and not-for-profit organisations.

Deloitte LLP assurance

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

Diversity – total employees split by gender and age;

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;

Environment – greenhouse gas emissions (total, and Scope 1, 2 and 3); and

Community – total value of Community Investment programme donations.



More online

To see Deloitte LLP's unqualified assurance statement visit baesystems.com/deloitteassurancestatement

To see our Basis of Reporting 2016 visit baesystems.com/2016crdata

Greenhouse gas emissions data from 1 November 2015 to 31 October 2016 (tonnes CO₂e)

Combustion of fuel within BAE Systems facilities and vehicles (Scope 1)¹

2016 579,880
2015 596,515

Electricity and steam purchased for BAE Systems use (Scope 2 – location-based)¹

2016 571,859
2015 607,876

Business travel in non-BAE Systems vehicles (Scope 3)¹

2016 146,511
2015 147,809

Total greenhouse gas emissions¹

2016 1,298,250
2015 1,352,200

Total greenhouse gas emissions per employee²

2016 17
2015 18

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/

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

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

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

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

Emissions from joint ventures and pension scheme properties not occupied by the Group are not included. Where a business or facility is acquired during a reporting year, it will be included in our reporting in the next full reporting year after the change.

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

1. See summary of Deloitte LLP assurance above.

2. Excluding share of equity accounted investments.