

A culture of Total Performance



INTRODUCTION

Welcome to the ninth annual BAE Systems Corporate Responsibility (CR) Report.

CR is an integral part of BAE Systems' Total Performance approach. Total Performance is about every aspect of the way we do business: Customer Focus, Financial Performance, Programme Execution and Responsible Behaviour.

To reflect this, we aim to increasingly integrate our reporting of financial and CR performance in the Annual Report.

This report covers the Company's CR activities in the 2009 calendar year. It focuses on our strategy and performance in key areas of responsible business conduct, safety, environmental sustainability, workplace and community. The report also includes case studies from our businesses

around the world that demonstrate our approach in practice.

More information on CR and how our business works is available online at www.baesystems.com/corporateresponsibility/.

Assurance

Independent assurance of this report is provided by Deloitte LLP (see page 20) on the following basis:

- Limited assurance of the CR Report compilation process;
- Limited assurance of selected group level business conduct, safety, and diversity performance data;
- Reasonable assurance of selected group level business conduct performance data (see page five); and
- Reasonable assurance of our statement on business conduct made under the heading 'Responsible Business Conduct'

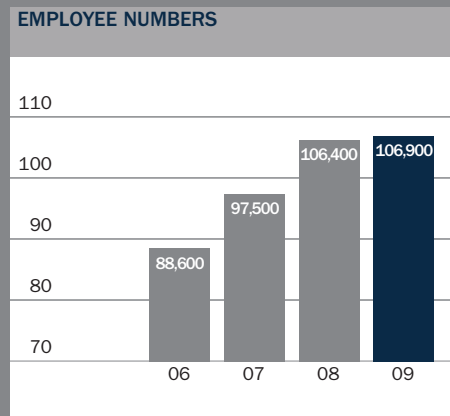
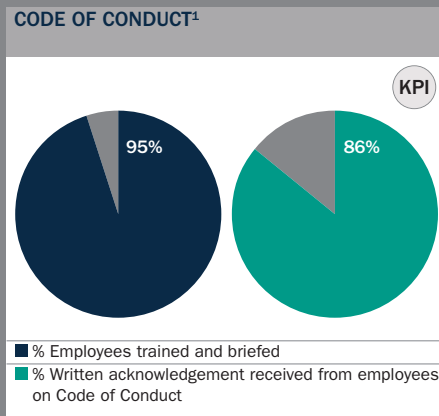
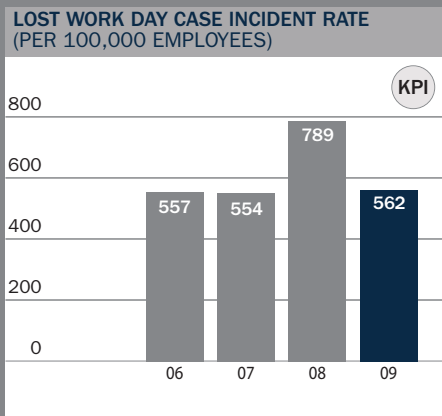
on pages five to eight, excluding the table headed 'Dismissals for reasons relating to unethical behaviour' on page five which has been subject to limited assurance.

Scope and data

The data and performance measures in this report cover the period January – December 2009 with the exception of environment data which covers the period January – December 2008. 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 Company's major operations globally, excluding those acquired or divested during the year.

BAE Systems: A snapshot for 2009



KPI FOR MORE INFORMATION ON OUR KPIS SEE OUR ANNUAL REPORT 2009 PAGE 26

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FURTHER INFORMATION



FOR MORE INFORMATION ON OUR APPROACH TO CR AND HOW OUR BUSINESS WORKS VISIT: WWW.BAESYSTEMS.COM/CORPORATERESPONSIBILITY/



FOR MORE INFORMATION ON OUR PERFORMANCE SEE OUR ANNUAL REPORT OR VISIT: WWW.BAESYSTEMS.COM/AR09/

YOUR FEEDBACK

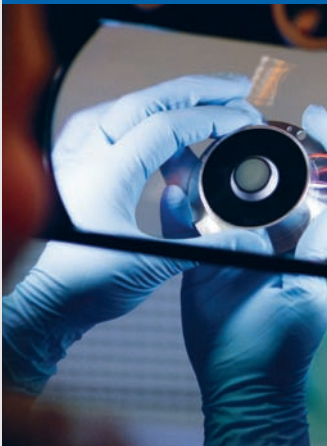
WE WELCOME FEEDBACK ON ANY ASPECT OF OUR CR REPORTING AND PERFORMANCE. EMAIL US AT: CRFEEDBACK@BAESYSTEMS.COM

1. As at 31 December 2009 – wholly-owned subsidiaries only, excluding employees on long-term absence.

WHAT WE DO

BAE Systems is a global defence, security and aerospace company with 106,900² employees worldwide. The Company delivers a full range of products and services for air, land and naval forces, as well as advanced electronics, security, information technology solutions and customer support services. In 2009 BAE Systems reported sales of £22.4 billion (US\$36.2 billion).

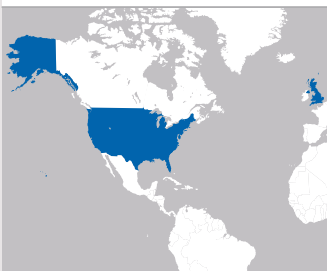
Electronics, Intelligence & Support



The Electronics, Intelligence & Support (EI&S) operating group designs, develops, produces and services systems and subsystems for a wide range of military and commercial applications.

- Electronic Solutions
- Information Solutions
- Platform Solutions
- Support Solutions

Main operating locations



Number of employees
32,000^{2,3}

FOR MORE INFORMATION VISIT
WWW.BAESYSTEMS.COM/BUSINESSES/EIS/

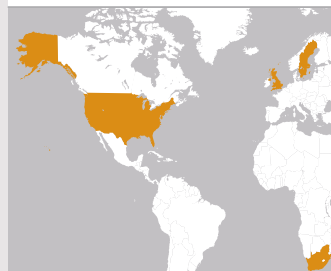
Land & Armaments



Land & Armaments (L&A) designs, develops, produces, supports and upgrades armoured combat vehicles, tactical wheeled vehicles, naval guns, missile launchers, artillery systems, munitions and law enforcement products.

- Global Combat Systems
- Global Tactical Systems
- Security & Survivability
- US Combat Systems
- Products Group

Main operating locations



Number of employees
19,800^{2,3}

FOR MORE INFORMATION VISIT
WWW.BAESYSTEMS.COM/BUSINESSES/LAND_ARMAMENTS/

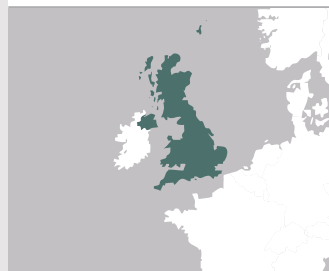
Programmes & Support



Programmes & Support (P&S) primarily comprises the Group's UK-based air, naval and security activities.

- Military Air Solutions
- BAE Systems Surface Ships
- Submarine Solutions
- Detica
- Integrated System Technologies

Main operating locations



Number of employees
33,200^{2,3}

FOR MORE INFORMATION VISIT
WWW.BAESYSTEMS.COM/BUSINESSES/PROGRAMMESSUPPORT/

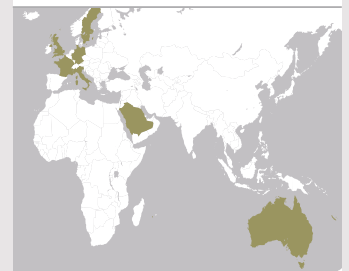
International



International comprises the Group's businesses in Saudi Arabia and Australia, together with a 37.5% interest in the pan-European MBDA joint venture, and shareholdings in Saab of Sweden and Air Astana.

- CS&S International
- BAE Systems Australia
- MBDA (37.5% interest)
- Saab (20.5% shareholding)
- Air Astana (49% shareholding)

Main operating locations



Number of employees
19,700^{2,3}

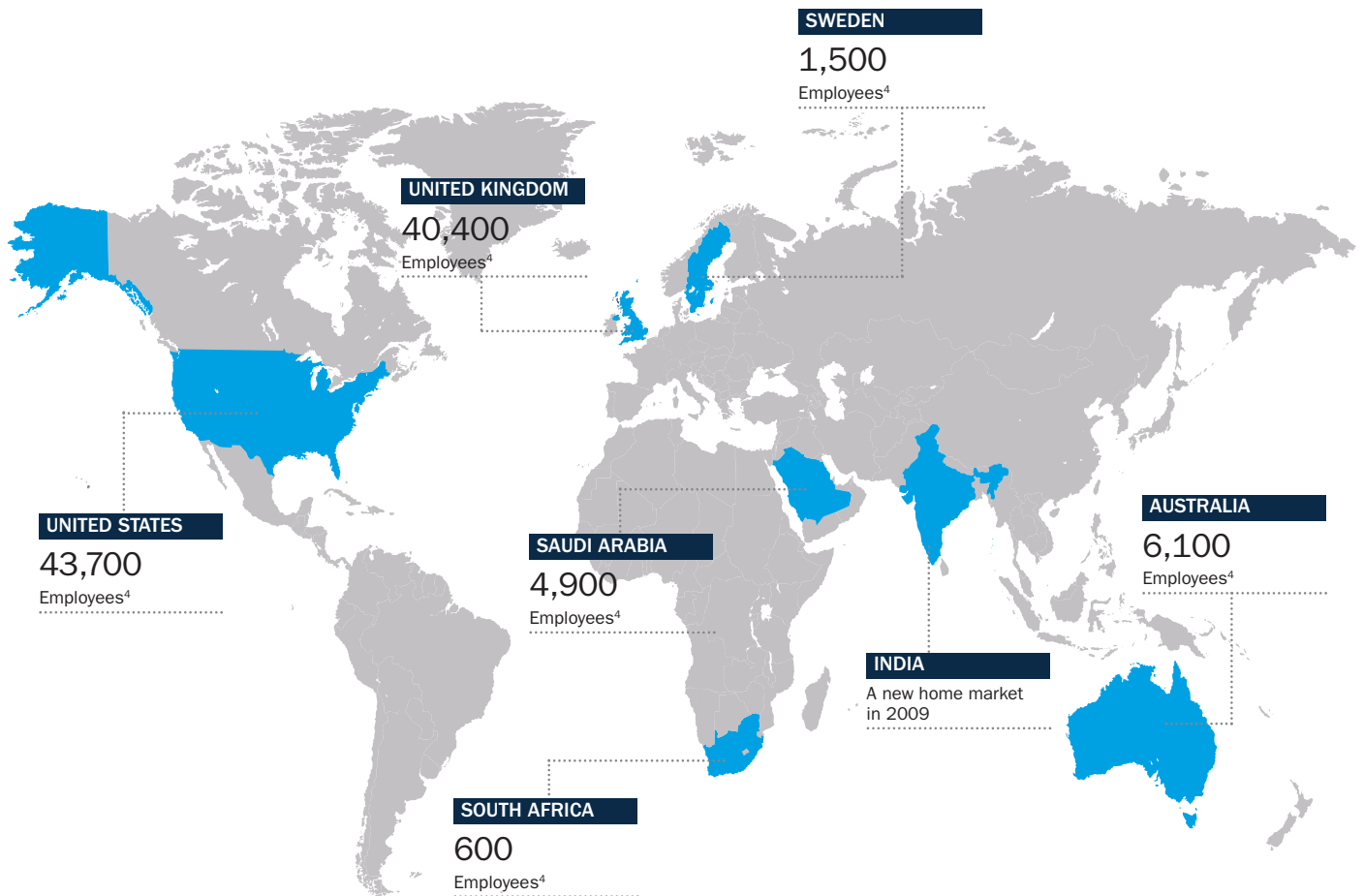
FOR MORE INFORMATION VISIT
WWW.BAESYSTEMS.COM/BUSINESSES/INTERNATIONAL/

2. Including share of equity accounted investments.
3. Excluding HQ and other businesses.

OUR MARKETS

Our home markets are those countries where we have developed or are seeking to develop a significant and sustainable industrial base. Export sales from our home markets are an important element of our strategy. Approval from the relevant home market government is sought before we execute potential defence business opportunities with an overseas government.

A formal export licence or other authority is always required before any defence products can be supplied to an overseas customer, and before technical information is released to them. In addition, our Pursuit of Export Opportunities Policy stipulates that we apply our own standards for evaluating both defence and civil export opportunities.



FOR MORE INFORMATION ABOUT BAE SYSTEMS VISIT:
WWW.BAESYSTEMS.COM

4. Excluding the Company's share of equity accounted investments.

Total Performance – not just what we do, but how we do it



Ian King Chief Executive

– We want to be recognised as a company committed to developing a culture of Total Performance

– Responsible Behaviour is embedded as part of our Company Strategy

– We remain firmly committed to becoming recognised as a leader in responsible business conduct

We want to be recognised as a company committed to developing a culture of Total Performance, focusing not just on what we do but also how we do it. Total Performance is about every aspect of the way we do business; Customer Focus, Financial Performance, Programme Execution and Responsible Behaviour.

The good operating performance of BAE Systems in 2009 reflects the good progress the Company has made in recent years, developing the business within a well-defined and consistently implemented strategic framework (see page 2). That strategy underpins the Company's aim to deliver sustainable growth in shareholder value through a commitment to Total Performance for all its customers.

Over the past year the Executive Committee has looked at what our Values should be to support delivery of our strategy. Trusted, Innovative and Bold are our Values. These will guide us in the conduct of our business and support the high standards we expect from our employees.

We have also committed to being as open as practicable with external stakeholders – this will increase the trust they place in us and yield an enhanced reputation.

Developing a culture of Total Performance, which includes delivering our Corporate Responsibility (CR) priorities through Responsible Behaviour, is embedded in our Group Strategic Framework (see page 2).

Focus on responsible business conduct

We remain firmly committed to becoming recognised as a leader in responsible business conduct and in January 2009 we launched a Code of Conduct.

The Code encapsulates the principles and standards of business conduct we expect of employees wherever they work globally. As well as setting out our standards, the Code provides all our employees with practical guidance on how to deal with ethical dilemmas that may arise, and represents an unequivocal public statement of what we stand for, and how we do business.

We intend that regular training will form part of our ongoing commitment to continuous improvement in responsible behaviour. We have embedded Responsible Trading Principles (see page 7) into the Company's central system of governance (the Operational Framework). These Principles require us to ensure that all trading is to be undertaken in accordance with our Company Values and, together with our Code of Conduct, they underpin our business activity.

We have also spent much of 2009 reviewing and updating the Operational Framework to address the 23 recommendations in the Woolf Committee's report. In January 2010 we launched a revised Operational Framework with a new Group Strategic Objective (see page 2) which is underpinned by the new Values and updated policies and processes to ensure we are rigorous in applying high standards of business conduct across all aspects of our operations.

OUR STRATEGY

The BAE Systems' Vision set out in our Group Strategic Framework (GSF) is 'to be the premier global defence, security and aerospace company'. To achieve this Vision, we have set ourselves the Mission 'to deliver sustainable growth in shareholder value through our commitment to Total Performance for all our customers'. Our Group Strategic Objective of Total Performance in all that we do will be delivered through Customer Focus, Financial Performance, Programme Execution and Responsible Behaviour. Total Performance is underpinned by our Values – Trusted, Innovative and Bold. Total Performance and our Values are the fundamental elements of our culture.

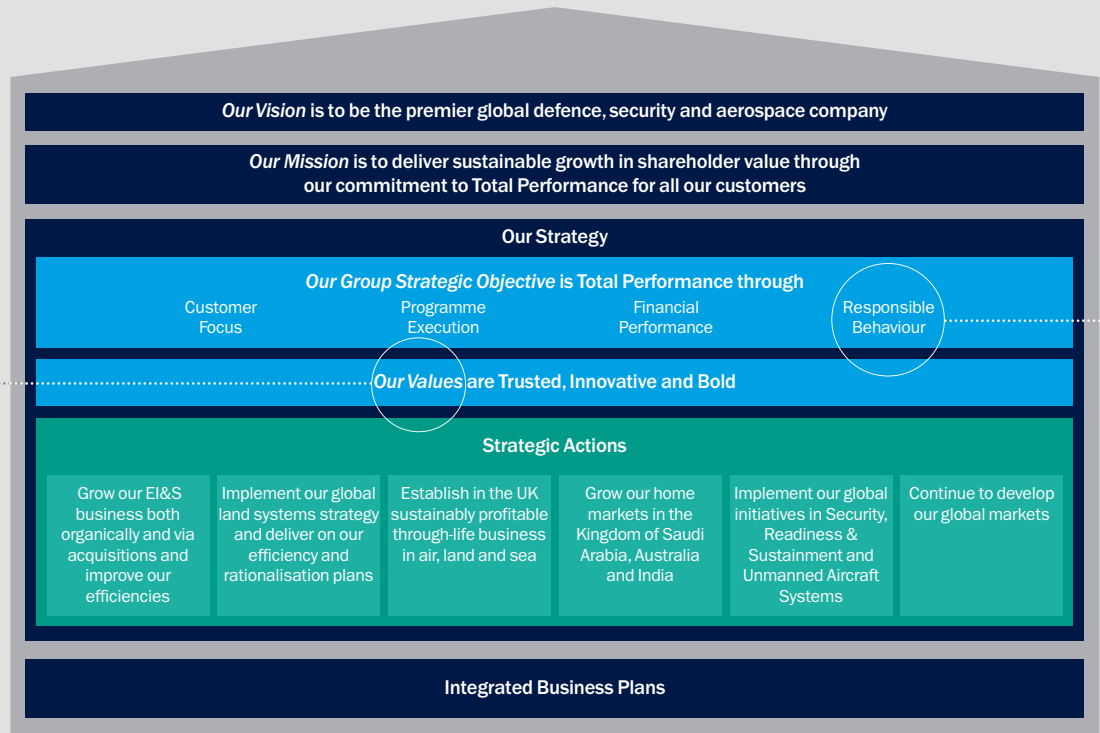
Our Values

Our culture depends on all of our employees living our Values of Trusted, Innovative and Bold. The behavioural attributes that support our Values are:

Trusted: We deliver on our commitments. We are honest and take responsibility so that we can be relied upon. In our organisation, everyone's contribution matters.

Innovative: We create leading-edge solutions by valuing the imagination and experience within our organisation. We empower teams and work together to turn our ideas and technologies into solutions.

Bold: We constructively challenge and take the initiative, operating with tenacity and resolve. We accept challenges and manage risk and set ourselves stretching goals.



On 5 February 2010, the Company announced a global settlement with the UK Serious Fraud Office and the US Department of Justice, which concluded the lengthy investigations commenced by those two authorities in 2004 and 2007 respectively.

Details of the settlement are mentioned on page 3. The Company very much regrets and accepts full responsibility for these past shortcomings. These settlements enable the Company to deal finally with significant legacy issues. In the years since the conduct referred to in these settlements occurred, the Company has systematically enhanced its compliance policies and processes with a view to ensuring that the Company is as widely recognised for responsible conduct as it is for high quality products and advanced technologies.

Strengthening our safety culture

The safety of our employees and those using our products is critical to our business and a fundamental responsibility. I was deeply saddened by the tragic loss of one of our employees in Australia during deployment

of communications equipment. We are reviewing the cause of this accident and co-operating fully with the regulatory investigation.

We have also reviewed the independent report, published in October 2009, into the loss of Nimrod XV230 over Afghanistan in 2006. The Company remains absolutely committed to safety as a priority. We deeply regret the loss of life resulting from this accident and our thoughts continue to be with the families and friends of those affected by this tragedy. We have also appointed Dr Chris Elliott FREng, a leading systems engineer and barrister, to support and advise a review of the Company's approach to product safety across all its sectors in the UK.

We continue to drive improved performance across the Company. To this end, our Operating Groups are making progress against a five-level Safety Maturity Matrix, with the goal of reducing incident rates to a level comparable with best performing global companies by the end of 2011.

Over 60% of our major manufacturing sites have achieved Level 4 in the matrix by the end of 2009, demonstrating strong senior leadership on safety and comprehensive risk-based management systems. We have achieved a 29% improvement in our lost work day case incident rate from 2008 which equates to a 33% improvement in the gap to our target of best in class. This reflects the focus applied by the businesses during 2009 to safety and in particular reflects a strong performance at our US sites.

Our approach to CR

At BAE Systems, we take the same rigorous approach to CR as we do to any other aspect of the way we do business. This ensures we embed CR in people's day-to-day jobs and drive continual improvement.

Key performance indicators on our CR priorities are reported to the Executive Committee on a quarterly basis and reviewed alongside financial and programme data as part of our Quarterly Business Review process.

Responsible Behaviour

2009 CR priorities

- Responsible business conduct
- Safety

FOR MORE INFORMATION ON OUR
CR OBJECTIVES SEE PAGES 5 AND 9

GLOBAL SETTLEMENT WITH US AND UK AUTHORITIES

On 5 February 2010, the Company announced a global settlement with the UK Serious Fraud Office (SFO) and the US Department of Justice (DoJ), which concluded the lengthy investigations commenced by those two authorities in 2004 and 2007 respectively.

Pursuant to the agreement with the DoJ, the Company agreed to plead guilty to one charge of conspiring to make false statements to the US Government relating to certain regulatory filings and undertakings. The Company agreed to pay a fine of US\$400m and make

additional commitments to the DoJ concerning its ongoing compliance. Under the agreement with the SFO, the Company agreed to plead guilty to one charge of breach of duty to keep accounting records in relation to payments made to a former marketing adviser in connection with the sale of a radar system by the Company to Tanzania in 1999. The Company agreed in relation to this matter to pay an agreed penalty of £30m comprising a fine to be determined by the Court with the balance paid as a charitable payment for the benefit of Tanzania.

FOR MORE INFORMATION ABOUT:

- MANAGING CORPORATE RESPONSIBILITY
- OUR PRIORITIES

VISIT: [WWW.BAESYSTEMS.COM/
CORPORATERESPONSIBILITY/](http://WWW.BAESYSTEMS.COM/CORPORATERESPONSIBILITY/)

The Managing Director Corporate Responsibility, Raj Rajagopal, supports line leaders in driving the CR agenda. He reports directly to me. This year the global CR team, under Raj's direction, has supported Operating Groups in implementing our 2009 CR objectives. The team has also supported the work of the Woolf Implementation Programme. Responsible business conduct activities moved to the CR team in January 2010.

We strengthened the capability of the CR team by recruiting new senior team members, focusing in particular on responsible business conduct, diversity and inclusion, and environment. During the year, the CR team undertook extensive engagement to increase awareness and understanding of our CR agenda both within the Company and among external stakeholders.

We established a global CR Forum in 2009, led by Raj, to support our Operating Groups in delivering the Company's CR agenda. The CR Forum helps to develop awareness and understanding of CR among our employees, exchange best practice

across our Company and drive sustainable improvements across our CR focus areas.

Progress against CR objectives is reviewed quarterly by the CR Committee, chaired by non-executive director Andy Inglis (his statement on the year's activities is on page 4). CR is also subject to internal and external assurance processes.

Our Executive Committee is visibly leading the CR agenda, personally undertaking safety audits and briefing employees on business conduct and our Code of Conduct. 12.5% to 13% of their potential annual incentive is allocated according to the Company's achievement of key performance objectives for responsible business conduct and safety. For 2009, an average of 12.3% of the potential annual incentive was paid to Executive Committee members.

In addition to our priorities in responsible business conduct and safety, we continue to focus on improving diversity and inclusion across the Company. In 2009, we established a global Diversity & Inclusion Working Group, and piloted

the use of a Diversity & Inclusion Maturity Matrix to assess our progress in this area. The matrix will be rolled out across the Company in 2010.

We continue to believe our strategy is well founded and our commitment to Total Performance for all our customers provides a platform for an enhanced reputation and for our mission of delivering sustainable growth in shareholder value.



Ian King Chief Executive

CR COMMITTEE CHAIRMAN'S STATEMENT

- Monitored progress against Woolf Committee Recommendations
- Assisted the Board in overseeing the development of strategy and policy on social, environmental and ethical matters

Members

Corporate Responsibility Committee Members⁵:

- Andy Inglis (Chairman)
- Sir Peter Mason
- Ravi Uppal

Responsibilities

- Assisting the Board in overseeing the development of strategy and policy on social, environmental and ethical matters.
- Keeping under review the effectiveness of the Company's internal control policies and procedures for the identification, assessment, management and reporting of reputational risks including health and safety, workplace policies, environmental impact and business ethics.
- Monitoring and reviewing the role and effectiveness of the Company's Internal Audit function in relation to CR and monitoring the development of the capability and capacity of Internal Audit to perform its role with regard to CR assurance, and in particular, ethical business conduct.
- Reviewing audit and assurance reports produced by the CR Assurer (an independent entity appointed to act as an external assurer of the Company's CR reporting) and assessing management responsiveness to recommendations in such reports.
- Overseeing and supporting key stakeholder engagement on social, environmental and ethical issues.
- Making proposals to the Remuneration Committee regarding appropriate CR related performance objectives for Executive Directors and, in due course, providing its assessment as to performance against such objectives.
- Reviewing the Company's arrangements for employees to obtain further advice on ethical issues or raise and report concerns, in confidence, where there may be possible improprieties. This included the Company's Ethics Helpline.

– Monitoring the implementation of the Woolf Report and ensuring that the Code of Conduct is regularly reviewed and reflects best practice for such codes.

– Ensuring the CR Report includes an examination of responsible business conduct within the Company.

The full terms of reference of the Corporate Responsibility Committee can be found on the Company's website or can be obtained from the Company Secretary.

Activities

The principal activities undertaken by the Committee during 2009 were as follows:

CR Objectives – the Committee agreed management objectives at the start of the year dealing with the following three corporate responsibility related matters:

- responsible business conduct
- safety
- diversity and inclusion

At meetings held during the year the Committee reviewed progress against these objectives.

Actual performance against the measures agreed for the 2009 objectives was determined by the Committee at the end of the year and a recommendation was made to the Remuneration Committee as to the level of bonus payable to Executive Directors as a consequence of this.

The Committee has agreed CR related management objectives for 2010.

Non-Financial Risk Review – the Committee reviewed the output from the Company's non-financial risk management process and the status of the mitigation actions for the risks identified.

Internal Audit – the Committee received reports from the head of the Company's Internal Audit function covering CR related audit work undertaken during the year. He also provided the Committee with details of the output from

the Company's Operational Assurance Statement (OAS) process – a half-yearly self assessment process by which businesses and functional heads report on their compliance with the Company's governance requirements and identify key risks.

Responsible Business Conduct – during the year the Committee monitored management's progress against the milestones set for the implementation of the recommendations in the Woolf Report. In addition, the Committee monitored the roll out of the Company's Code of Conduct across the Company.

CR Assurer – the Committee reviewed a report from the CR Assurer, Deloitte LLP, dealing with the assurance work they undertook on the Company's 2008 Corporate Responsibility Report.

Ethics Helpline – during the year the Committee reviewed the operation of the Ethics Helpline and details of the issues raised during the year.

CR Report – the Committee reviewed and approved the Company's 2008 CR Report.

Terms of Reference – the Committee reviewed its terms of reference and recommended that certain changes be made to align its future activities more fully with the recommendations in the Woolf Report.



Andy Inglis
CR Committee Chairman

5. Sir Nigel Rudd was a member of the committee up to 18 November 2009. Sir Peter Mason was appointed to succeed him as a member with effect from the same date.

RESPONSIBLE BUSINESS CONDUCT

We believe that achieving leadership standards of responsible business conduct contributes to strong business performance, builds trust and enhances our reputation.

2009 OBJECTIVES

Achieved

- Senior leadership each to lead two employee focus/engagement sessions to discuss the global Code of Conduct and ethical issues. ✓
- Deliver the 2009 Woolf Committee implementation plan milestones and obtain independent external assurance of this. ✓
- Employee sample survey on selected ethics questions to be carried out in the fourth quarter of 2009. Results to show an improvement relative to the 2008 survey results. ✓

EMPLOYEE SURVEY

In late 2009, a representative sample (approximately 10%) of employees worldwide were invited to participate in a survey on the Company's approach to responsible business conduct. The survey covered the six questions related to responsible business conduct included in our biennial full employee opinion survey, which will next be held in 2010.

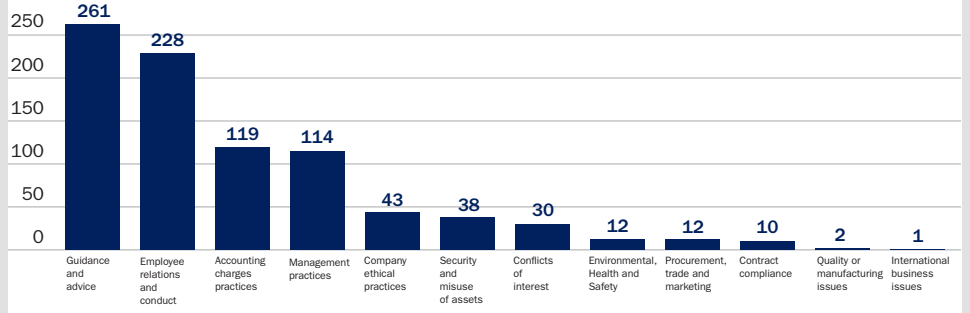
Overall, 41% of the sample responded. Results confirm that almost all respondents were aware of ethical standards expected of them with 75% of respondents believing that the Company demonstrates clear ethical standards.

Whilst these results are very positive, there are still areas for us to focus on and improve, particularly around employees feeling confident to speak up and challenge the way things are done.

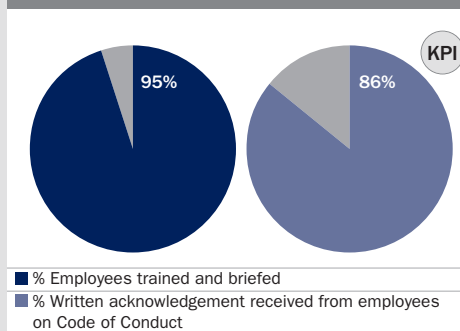
Question	2008 favourable score ⁶ full survey	2009 favourable score ⁶ sample survey	Change from 2008 score
I have confidence that if I raised an ethical issue at work it would be addressed	67%	73%	+6
I believe I could report instances of dishonest or unethical practices without fear of reprisal	63%	70%	+7
The culture of BAE Systems is one where employees are treated with fairness and respect	62%	71%	+9
I believe BAE Systems demonstrates clear ethical standards	73%	75%	+2
I think it is safe to speak up and challenge the way things are done in BAE Systems	54%	57%	+3
I am aware of the ethical standards that the Company expects of me	94%	97%	+3

EMPLOYEE ENQUIRIES TO ETHICS HELPLINE

Employees made 870 enquiries to our Ethics Helpline in 2009 to request information and advice or raise concerns confidentially about business conduct. Procedures are in place to ensure ethical concerns are investigated and the findings are reported to the Ethics Review Committee or for BAE Systems Inc. to the Ethics Executive Oversight Committee.

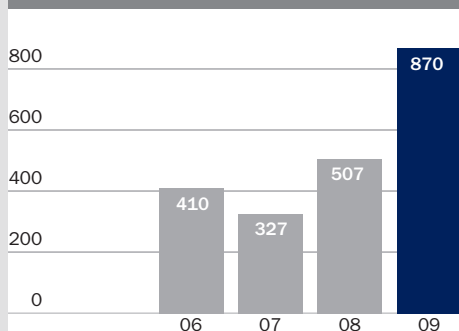


CODE OF CONDUCT



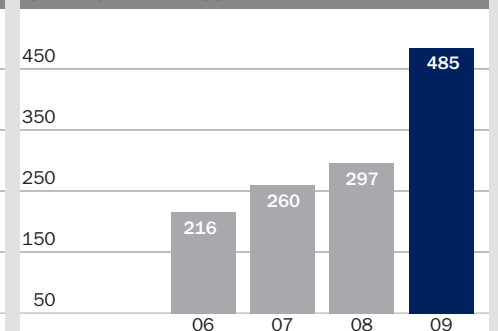
The Company's target was to brief and train 100% of employees⁷ in position before 31 October on the Code during 2009. The Executive Committee considers its target to have been substantively met and actively continues to ensure that the remaining employees complete the Code of Conduct programme.

FORMAL ETHICS ENQUIRIES FROM EMPLOYEES



The increase in the number of enquiries reflects the Company's continued focus on awareness and training relating to business conduct following the roll out of the Code of Conduct in 2009.

DISMISSALS FOR REASONS RELATING TO UNETHICAL BEHAVIOUR



The increase in dismissals reflects both the application of our responsible business conduct standards and the increase in employee dismissals data integrated into our HR systems following business acquisitions.

(KPI) FOR MORE INFORMATION ON OUR KPIS SEE OUR ANNUAL REPORT 2009 PAGE 26

6. Favourable score relates to the total of responses given as Agree or Strongly Agree.

7. As at 31 December 2009 – wholly-owned subsidiaries only, excluding employees on long-term absence.



Know the Code

Our objective in 2009 was to ensure that our employees were aware of the Code of Conduct and understood how it applied to their day-to-day working lives. During 2009 we trained approximately 91,000 employees⁸ working in a wide range of roles in many countries around the world using a range of training materials.

As an example, our Military Air Solutions business in the UK used mobile IT training facilities to enable manufacturing employees without access to computers to take the online course in their normal place of work. Where appropriate, employees were trained through classroom sessions, during which they were encouraged to take part in interactive case studies.

Many employees took our online course, which clearly explains the key aspects of the Code of Conduct. The course guides staff through a series of animated scenarios where employees are faced with typical ethical dilemmas and includes a test to confirm understanding of the Code.

Goal

BAE Systems is committed to becoming a recognised leader in responsible business conduct.

Strategy

Establishing a clear understanding and shared commitment to responsible business conduct is an important element in our commitment to developing a culture of Total Performance. To support this commitment, during 2009 we reviewed and updated many of our policies and governance procedures.

We believe visible leadership is essential to embed a culture of Total Performance and responsible business conduct among employees at all levels and wherever they work in the world. Our Values, Code of Conduct and Responsible Trading Principles, are being communicated to employees through briefings, training and ongoing engagement by senior leaders. Given the key role of our Executive Committee, 12.5% to 13% of their potential incentive allocation was based on achieving our responsible business conduct and safety objectives in 2009.

The Woolf Committee – an external, independent committee appointed by the BAE Systems Board and chaired by Lord Woolf, former Lord Chief Justice of England and Wales, reported its findings in May 2008. The Company established a three-year programme in 2008 to implement the Committee's 23 recommendations on how BAE Systems could achieve a leadership position in responsible business conduct.

2009 Performance

We are at the half way point of our three-year programme to implement the Woolf Committee Recommendations. We have completed a number of essential activities, as explained below, to support our commitment to becoming a recognised leader in responsible business conduct.

The 2009 milestones for the Programme, which focused on reviewing and strengthening company processes and policies and roll out of the Code of Conduct, have all been substantively achieved. 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 been extended to include its responsibility for oversight and reporting against those standards. All relevant policies and processes have been agreed by the Executive Committee and incorporated into the Company's central system of governance, the Operational Framework, at the beginning of January 2010.

We communicated our response to the Woolf Committee Recommendations internally during 2009. We shall now progressively communicate externally explaining our approach and the changes that we are making.

Code of Conduct

The Code of Conduct, launched in January 2009, defines the principles and standards of responsible business conduct we expect

of employees. We intend that the Code will be reviewed regularly to ensure it continues to meet best practice, with the first review being conducted during 2010.

The Code of Conduct was communicated to employees in 2009 through team briefings. The briefings were designed to cover how the Code of Conduct applies to employees in their daily work lives and 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 of Conduct (see case study above). Approximately 91,000 of our employees in our wholly-owned businesses were briefed and trained in 2009, representing approximately 95% of our workforce⁸. These results include our Surface Ships business (approximately 7,000 employees) which joined the Company on 30 October 2009.

Employees were also asked to formally acknowledge that they understood and would comply with its requirements. By the end of 2009 approximately 86% of the workforce⁸ had provided their written acknowledgement. In addition to our wholly-owned businesses, as at 31 December 2009, we had 1,300 employees in joint ventures that are essentially under the control of BAE Systems ('controlled joint ventures'). We intend that these businesses are operated in alignment with our governance

8. As at 31 December 2009 – wholly-owned subsidiaries only, excluding employees on long-term absence.

RESPONSIBLE TRADING PRINCIPLES

Responsible business conduct is fundamental to the success of our Company. We do not compromise on the way we conduct business and consistency of this approach is key in defining BAE Systems' reputation.

We have a Code of Conduct that sets out the standards to which every employee is required to work to. In addition, BAE Systems has four Responsible Trading Principles that underpin all our business activity. These are:

1. We understand and support our customers' national security and other requirements;
2. We assess carefully our products and services with the objective that neither BAE Systems nor our customers are exposed to significant reputational risk;
3. We work to BAE Systems' Values in all that we do; and
4. We are as open as practicable about the nature of our business.

system. As at 31 December 2009 some 65% of employees in these businesses had been briefed and trained on the Code of Conduct, with 65% having signed their formal acknowledgments.

Activity continues to ensure that the remaining employees complete the Code of Conduct programme. Refresher training will begin in 2010. We have also updated our policy to ensure that breaches of the Code of Conduct are subject to disciplinary procedures.

The Company is not in a position to require our non-controlled joint ventures or suppliers to adopt our specific standards (including operating an Ethics Helpline) in their business activity. However, it is our aim that there is clear understanding and a shared set of Values governing how we do business with our joint ventures. We intend to assess the approach taken by joint ventures and key suppliers as part of our programme.

In 2010, we plan to provide our top 1,000 suppliers with a copy of our Code of Conduct and they will be encouraged to work to equivalent standards.

Governance

As already explained, we have reviewed our Operational Framework to enhance policies to address the Woolf Committee Recommendations. This includes the development of a set of Responsible Trading Principles (above). These, along with the Code of Conduct and our new Company Values, underpin all our business activities.

In 2009, our Internal Audit team worked with The GoodCorporation to devise a methodology to assess Responsible Business Conduct and Non-Financial Risk as part of all internal audits. We intend that the revised methodology will be implemented during 2010.

We shall review all policies every three years to ensure they remain current and reflect the standards expected of a global company.

Decision making

Our new and revised policies, including our Product Trading and Pursuit of Export Opportunities policies, require us to make informed assessments and responsible decisions about the nature of our products and the business opportunities we choose to pursue. Products must be assessed against four criteria: the type of product, its intended use, the end user and, for exports, the country of sale.

The revised policy on offset (agreements with export customers to generate work or create capability in their country) requires us to ensure that robust procedures are in place for assessing and committing to such agreements.

In the settlement reached with the US Department of Justice (DoJ) in February 2010 in connection with its investigation commenced in 2007, the Company made commitments to the DoJ concerning the Group's ongoing regulatory compliance, including the appointment of an independent corporate monitor for a period of

up to three years to monitor the Company's compliance with such commitments.

In 2007 we created a Business Development Adviser Compliance Panel (the 'Panel') for the review and assessment of adviser appointments including for business development, security and offset advisers. All appointments of lobbyists are required to be reviewed by the Panel, other than certain domestic US appointments which are subject to separate legislative controls. The Panel, which is required to advise the Company as to whether it should proceed with an adviser appointment, is chaired by independent third parties who are partners from leading law firms. Our revised process for the appointment, selection and management of advisers was described by the Woolf Committee as leading-edge practice. All advisers added to the Company's adviser register in 2009 were appointed in accordance with a new global adviser policy introduced from 1 January 2009, with the exception of a limited number of US advisers who were already being assessed before the introduction of the new global adviser policy. However, this limited group of US advisers were also assessed by the Panel which recommended their appointment.

In accordance with the settlement reached with the US DoJ referred to above, the independent corporate monitor shall serve as an ex-officio non-voting member of the Panel and the mandate of the Panel shall be expanded to include review of certain other matters relating to international business development.



“We are committed to becoming recognised as a leader in responsible business conduct.”

Ian King Chief Executive

The Code of Conduct, launched in January 2009, defines the principles and standards of business conduct we expect of employees wherever they work globally.

Our policy on lobbying governments and other bodies has been revised to require all those lobbying externally on BAE Systems' behalf to comply with our Code of Conduct. From 2010 a report on lobbying activities must be provided to the CR Committee.

Our updated Gifts and Hospitality Policy sets out clear requirements for employees including limits on the giving and receiving of gifts and hospitality, together with recording of these activities. We have also amended our Company Giving Policy to give clear guidance on all Company donations.

Our Facilitation Payments Policy states that employees are prohibited from making facilitation payments irrespective of whether or not they are permitted by local laws and requires employees to decline and report any request for such payment.

Working to improve industry standards

BAE Systems is a member of both the Aerospace Industries Association of America and the Aerospace and Defence Industries Association of Europe, which agreed common Global Principles of Business Ethics for the Aerospace and Defence Industry in October 2009.

We are actively working with the UK defence industry to promote the adoption of responsible business practices and we welcome the publication of a draft Bribery Bill. The Bill aims to provide a comprehensive scheme to deter bribery offences enabling courts and prosecutors to respond more effectively to bribery in the public and private sectors within the UK or abroad.

BAE Systems, together with other leading multi-nationals, is supporting a new Centre for Law and Ethics at University College London. The Centre, established in October 2009, aims to promote debate on business ethics and help companies promote an ethical corporate culture.

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. 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.



FOR MORE INFORMATION ABOUT:
 – CODE OF CONDUCT
 – THE WOOLF REPORT
**VISIT: [WWW.BAESYSTEMS.COM/
 CORPORATERESPONSIBILITY/](http://WWW.BAESYSTEMS.COM/CORPORATERESPONSIBILITY/)**

SAFETY

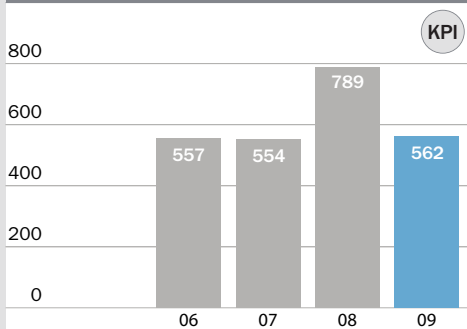
The safety of employees and those using our products is critical to our business and an important responsibility. Effective safety management through identifying, managing and mitigating safety risks is a key element of developing a Total Performance culture.

2009 OBJECTIVES

Achieved

- Senior leaders each to undertake three safety audits, and flow-down training and requirement to conduct safety reviews to two levels below the Executive Committee. ✓
- Minimum of Level 3 on the Safety Maturity Matrix, with 60% of major manufacturing sites progressed to Level 4 by the end of 2009. ✓
- Incident rate in 2009 to show at least a 10% improvement over 2008 and, for sites with significantly worse than best in class statistics, improvement targets to be set consistent with achieving best in class in 2011. ✓
- Incident rate targets to be set by businesses at a level reflecting the progress required to achieve the 2011 target of best in class. ✓

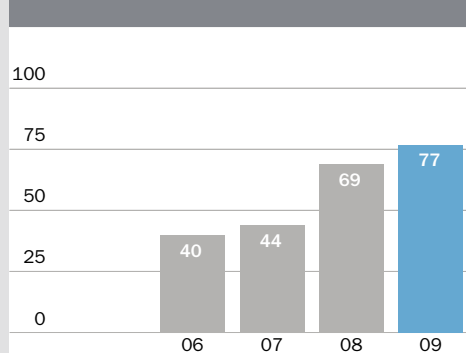
LOST WORK DAY CASE INCIDENT RATE (PER 100,000 EMPLOYEES)



The Company targeted a 10% improvement in the gap between 2008 performance and the best in class target of 100 per 100,000 employees. The targeted improvement was exceeded in 2009; the improvement in lost work day case incident rate from 2008 was 29%, which equates to a 33% improvement in the gap to our target of best-in-class. In 2009 our incident rate reduced to 562 recorded injuries per 100,000 employees.

KPI FOR MORE INFORMATION ON OUR KPIS SEE OUR ANNUAL REPORT 2009 PAGE 26

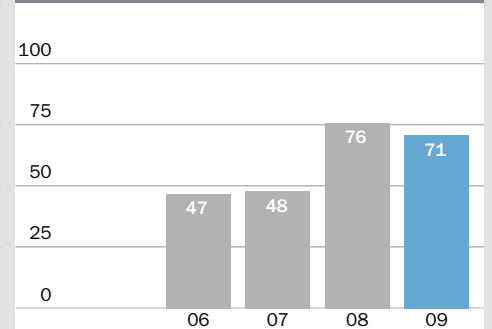
MAJOR INJURIES RECORDED



The actual number of major injuries has increased during 2009, but the normalised rate (major injuries recorded per 100,000 employees) has decreased. This reflects the increased size of the Company, demonstrating an overall improved trend.

Further to the incorporation of Surface Ships as a wholly owned business in 2009, 2008 data for major injuries recorded has been rebased to include their 2008 accident data. This exercise has been undertaken to allow comparable data for 2009.

MAJOR INJURIES RECORDED (PER 100,000 EMPLOYEES)



Further to the incorporation of Surface Ships as a wholly owned business in 2009, 2008 data for major injuries recorded per 100,000 employees has been rebased to include their 2008 accident data. This exercise has been undertaken to allow comparable data for 2009.

2009 CAUSE OF MAJOR INJURIES RECORDED (NUMBER OF EMPLOYEES INJURED)

The main causes of major injury in 2009 across the company continue to be slips, trips and falls on the same level, accounting for 44% of recorded major injuries. Several of our businesses have launched campaigns to tackle these incidents by, for example, encouraging employees to 'spot it, report it' – to act when they see potential hazards. Other causes of major injury include falls from height (18%), struck by moving, including flying/falling object (13%) and injured while handling, lifting or carrying (8%). Root cause analysis of types of incidents will be carried out to identify common global issues and solutions.

Slips, trips or falls on the same level	34	44%
Fall from height	14	18%
Struck by moving, including flying / falling object	10	13%
Injured while handling, lifting or carrying	6	8%
Contact with moving machinery	4	5%
Strike against something fixed or stationary	4	5%
Exposure to, or contact with, a harmful substance	2	3%
Road Traffic Accident	2	3%
Exposure to fire	1	1%



Focus on safety at US shipyards

BAE Systems' ship repair sites in the US are developing a safety programme aimed at creating an accident free workplace and to achieve level 5 on the Company's Safety Maturity Matrix (SMM).

As a first step, an independent safety audit was conducted to measure the sites' performance against BAE Systems' SMM and identify areas for improvement.

Following the audit, safety risk assessment and mitigation processes were strengthened and a number of safety goals and objectives set. The sites are also focusing on creating a safety culture among employees. Key to this is a new safety management statement. This has been endorsed by senior managers and displayed prominently at all sites to remind employees that safety is always the first priority.

Compulsory safety training was introduced for all employees and managers. Safety performance is included in the personal development review process for managers. Regular employee safety surveys are used to help managers understand attitudes to safety and identify areas for improvement.

Three of the four ship repair sites achieved level 4 on the SMM in 2009. Additionally, Norfolk, San Diego, San Francisco and Hawaii achieved OHSAS 18001 certification. Safety performance across US Ship Repair sites produced a 57 percent improvement compared to 2008 in the lost workday case incident rate.

Goal

Our goal is to ensure consistently good safety management across the Company in the short term and to drive performance to a level comparable with the best performing global companies by the end of 2011.

Strategy

In 2008, we put in place a four-year safety plan outlining the steps required to move towards leadership in safety performance. Ensuring a common understanding of our safety goals is a priority, particularly given the diverse nature of our businesses, the different regulatory environments we operate in and the range of safety risks we must manage.

A five-level Safety Maturity Matrix (SMM) is used to drive continual improvement and to monitor progress across our Company (see diagram on page 11). By 2011, our target is for all our manufacturing sites to achieve Level 5 (best in class). SMM criteria are reviewed annually to ensure they continue to reflect safety best practice.

Safety was included in the Executive Committee's top 10 objectives for 2009 and, together with responsible business conduct, made up 12.5% to 13% of their potential incentive allocation. A Senior Safety Steering Group has been established comprising senior safety leaders from each Operating Group, the Head of Safety Assurance and the Deputy Managing Director Corporate Responsibility. Safety is included in the key performance indicators of our quarterly business reviews to the Operating Group Boards and to the Executive Committee.

It is essential that our products can be handled, transported and used safely. Product Safety Working Groups have been established in the UK and US to drive progress in our businesses and promote best practice across the Company.

2009 performance

Each Operating Group confirmed that the minimum standard of safety across their line of business met SMM Level 3 requirements. This means that they have in place systems aligned with Occupational Health and Safety Assessment Series (OHSAS) 18001 to address the majority of safety issues; that they have a safety risk register; and that there is systematic training for most employees in safety roles.

Over 60% of major manufacturing sites have achieved Level 4 by the end of 2009, making the step-change to a proactive and integrated approach to safety management across their operations. Level 4 includes strong demonstrable senior leadership on safety, comprehensive risk-based management systems, a complete register of safety risks and OHSAS 18001 certification at manufacturing sites. Internal Audit, in conjunction with senior safety managers, confirmed such achievement of Level 4 through audits at 30 major manufacturing sites globally.

Our Internal Audit team worked with responsible business consultancy The GoodCorporation on a number of joint audits. The findings from these will be used to further incorporate best practice into our SMM audit framework.

Visible leadership raises safety awareness and drives behavioural change among employees. It includes safety briefings, training and site audits by senior managers. In 2009, all members of our Executive Committee met their objective with respect to conducting reviews. In addition, many of the senior management population, as well as other managers (below senior leaders) were required to participate in audits to enhance their safety knowledge.

We have achieved a 29% improvement in our lost work day case incident rate from 2008 which

equates to a 33% improvement in the gap to our target of best in class. In 2009 our incident rate reduced to 562 recorded injuries per 100,000 employees.

All our Operating Groups are setting targets to reduce the rate of safety incidents in line with achieving best in class performance by the end of 2011.

In previous reports, we have used days lost to work-related injuries per 100,000 employees as our key safety metric. This year, we have moved to reporting the lost work day case incident rate per 100,000 employees (referenced as incident rate within the Safety objectives) to focus on the causes of accidents and to enable more meaningful comparison with other companies. While we continue to monitor and report major injuries and cause of major injuries recorded, we have discontinued reporting total recorded injuries to all employees, as this figure is not so readily comparable with other companies.

There were five reportable safety incidents and 15 safety enforcement notices during 2009 arising from incidents and targeted inspections. We maintain good working relationships with our regulators and work with them to address these issues as they arise.

Fatality

We are deeply saddened to report the death of one of our employees during deployment of communications equipment in Australia. We are reviewing the cause of this accident and co-operating fully with the regulatory investigation.

Response to Haddon-Cave report on loss of Nimrod XV230

Following the publication of the independent report by Charles Haddon-Cave QC into the loss of Nimrod XV230 over Afghanistan in 2006,

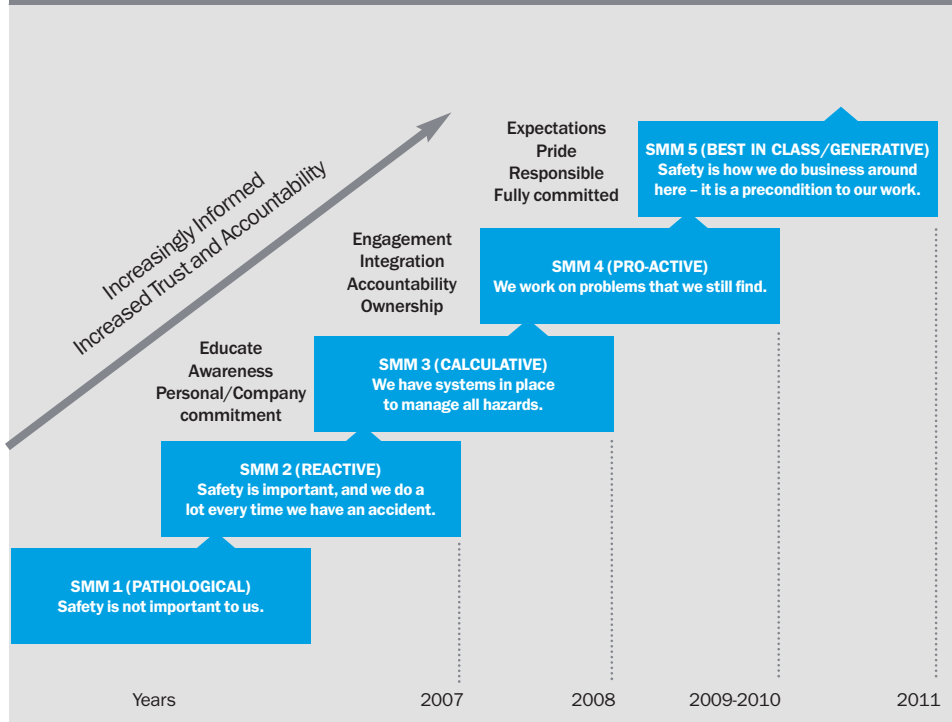


Safety Exemplar model halves Military Air Solutions incident rate

In October 2009 Military Air Solutions (MAS) was awarded the 'Best Health and Safety Achievement in Manufacturing Award' from the Institution of Occupational Safety and Health (IOSH). This was in recognition of their development of an 'Exemplar' safety culture, described by IOSH as "a very impressive, comprehensive and wide-reaching programme".

MAS is committed to achieving world class safety performance. The Safety Exemplar model is aimed at promoting a culture in which each and every employee views safety as an integral part of their role. To support the Safety Exemplar model a communications campaign was run to engage employees and reinforce the need for zero tolerance of unsafe working conditions and practices. The focused campaign included face to face training, development of online Web Pages, the production of DVDs, the delivery of safety briefings and road shows, and use of online weekly briefs and monthly articles for the MAS Frontline Newspaper.

SAFETY MATURITY MATRIX



The above matrix has been adopted from the Royal Dutch Shell plc model. See our website for further details on what achieving each level means in practice. WWW.BAESYSTEMS.COM/CORPORATERESPONSIBILITY/

BAE Systems has appointed Dr Chris Elliott FREng, a leading systems engineer and barrister, to support and advise Nigel Whitehead, FREng, Group Managing Director Programmes & Support who will undertake a review of the Company's approach to product safety in the UK.

The review will examine current policies, processes, governance, actions and behaviours

associated with product safety and will be conducted by a senior team of six people, with relevant qualifications and experience. The team will work to help develop and enhance the Company's approach to product safety and, where appropriate, understand how other industries have addressed comparable matters.

2010 OBJECTIVES

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

- All businesses and BAE Systems controlled sites of over 150 personnel to attain level 4 of SMM, and those currently at Level 4, to show, through audit, progress towards achieving our target to achieve level 5 by end 2011
- Deliver at least 20% improvement in Lost Working Days incident rate from year 2009 level.



FOR MORE INFORMATION ABOUT:
 – OUR APPROACH TO SAFETY
 – OUR SAFETY MATURITY MATRIX EXPLAINED

VISIT: WWW.BAESYSTEMS.COM/CORPORATERESPONSIBILITY/

ENVIRONMENTAL SUSTAINABILITY

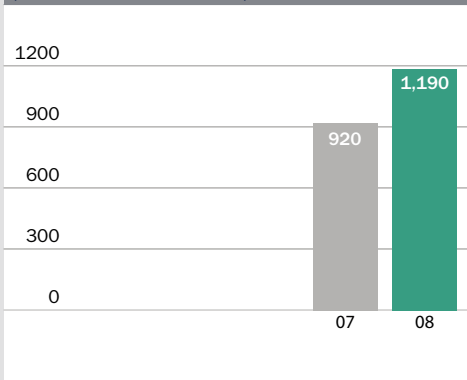
Reducing our impact on the environment and assisting suppliers to do the same, helps us to improve operational efficiency, reduce costs and ensure compliance with legal and regulatory requirements. Product environmental performance is also of increasing interest to our customers.

HIGHLIGHTS

- Energy use and related CO₂ emissions increased in 2008 due to improved data collection and business acquisitions.
- Seven of our sites participate in the European Union Emissions trading scheme. In 2009 we transferred 21,830 tonnes of carbon.
- Efforts to reduce energy use in our businesses this year included a new £1 million partnership with the University of Central Lancashire to develop intelligent energy management systems at BAE Systems' UK sites.



TOTAL CO₂ EMISSIONS
(THOUSAND TONNES CO₂)

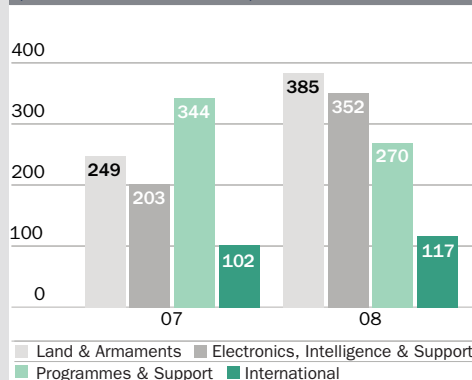


The reported increase in the Company's carbon footprint in 2008 reflects improvements in data collection and acquisition activity.

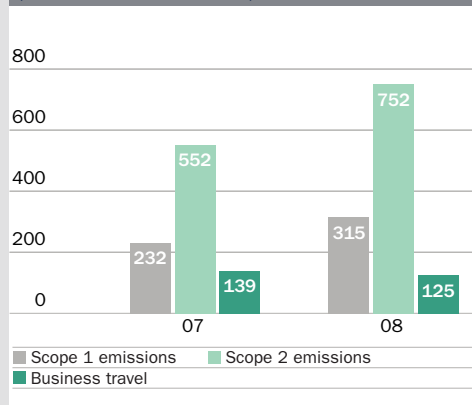
The Coefficient Company has been commissioned to calculate the Company's 2009 carbon footprint, the results of which were not available at the date of this report.

Scope 1 emissions are fuels brought onto site including gas, coal, oil, aviation fuel, LPG and fuel oil. Scope 2 emissions is electricity. Business travel includes domestic, short and long haul flights, executive cars and hire cars.

TOTAL CO₂ EMISSIONS BY OPERATING GROUP
(THOUSAND TONNES CO₂)



TOTAL CO₂ EMISSIONS BY SCOPE
(THOUSAND TONNES CO₂)



Goal

We aim to improve the environmental performance of our products and operations.

Strategy

Our global Environment Policy states our commitment to reducing our impact on the environment and minimising the through-life impacts of our products. This is also included in our Code of Conduct.

Environmental impacts including greenhouse gas emissions, material and solvent usage, waste products and emissions to the atmosphere, are identified and managed through our Environmental Management Systems (EMS). Our EMS are certified to ISO 14001 or meet its principles. We monitor upcoming legislation and share best practice across our markets.

2009 performance

During 2009, our primary focus at a global level was on energy use. We continued to monitor and report our energy use and business travel on a Company-wide basis.

For the third year running we have commissioned The Coefficient Company to calculate our 2009 global carbon footprint and to help improve our data collection methods. This analysis, together with the 2009 energy use data, is scheduled to be completed by the end of June 2010.

The Coefficient Company produced and provided an analysis of our 2008 global carbon footprint. Our carbon footprint has increased since 2007 for two principal reasons. Firstly, we have improved the coverage and accuracy



New buildings keep the environment in mind

New office and manufacturing sites are designed to reduce environmental impacts and running costs. The low-energy buildings at our Samlesbury site make maximum use of daylight whilst minimising solar gain and use night-time cooling and natural ventilation to reduce use of air-conditioning. Energy efficient heating systems, including a biomass boiler, and lighting controls, ensure we meet a requirement that 10% of the energy needs of new developments come from renewable sources. The site currently uses a wind turbine to power the new site entrance building; the feasibility of larger-scale wind solutions are also being assessed.

In the US, buildings at Quantico, Virginia and San Diego, California achieved LEED (Leadership in Energy and Environmental Design) Gold certification. Quantico was the

first company building in the US to receive LEED Commercial Interior Gold certification. The buildings share many of the features employed at Samlesbury. At San Diego, 10% of building materials came from recycled sources and 50% of construction waste was diverted from landfill. Water saving features use 40% less water while the building uses 25% less power for lighting than is required under California law.

In Australia, building upgrades at Edinburgh Parks in Adelaide use a number of environmental features such as solar panels to supply energy for hot water. BAE Systems Australia has invested in SMART metering to gather detailed data on energy use and greenhouse gas emissions to help it meet reporting requirements introduced by the Australian government.

of our energy and business travel data across the Company. Improvements in data have been supported by our work towards preparing for the UK Carbon Reduction Commitment and the Australian National Greenhouse & Energy Reporting Scheme.

Secondly, acquisition of new businesses during 2008 have brought with them associated emissions, increasing our overall footprint.

Fluctuations in our use of water, waste and volatile organic compounds are heavily influenced by programme status. We continue to monitor and manage these data at site and facility level, but no longer aggregate data at a Group level.

Seven of our sites participate in the European Union Emissions Trading Scheme (EU ETS). In 2009 we had a surplus of EU ETS allowances which allowed us to redistribute them to address deficits within our businesses. This meant we did not have to purchase any additional allowances at market prices. In 2009 we transferred 21,830 tonnes of carbon.

Efforts to reduce energy use in our businesses this year included a new £1 million partnership with the University of Central Lancashire to develop intelligent energy management systems. Our EI&S Operating Group's new Advanced Energy Solutions line of business is developing solutions to help customers adopt secure, efficient and cost-effective means of producing, distributing, storing, managing, and controlling energy. This is part of a wider investment by the Company in the research, development and integration of smart, secure, and sustainable energy solutions, including renewable energy technologies.

In the UK an Environmental Sustainability Framework was piloted to help our businesses plan for medium and long-term risks and opportunities associated with issues such as climate change, material scarcity and rising energy prices. The framework covers operational and product impacts, and our supply chain, and will be rolled out across the Company.

Construction and refurbishment projects frequently incorporate green design features (see case study above).

Product stewardship

Our Product Environment Working Groups in the UK and US focus on assisting the lines of business in complying with environmental legislation and transferring best practice across the company. A product environment management handbook and e-learning course were launched in 2009 and these are supported by a Company-wide intranet site.

Supply chain

Suppliers are expected to meet product safety and environmental standards. BAE Systems is a signatory to the UK Ministry of Defence's Sustainable Procurement Charter and has committed to improve standards in the defence supply chain by educating suppliers, establishing performance measures and sharing best practice.

Our Sustainable Procurement Working Group has published guidance to help employees carry out supplier sustainability risk and impact assessments. These cover supplier performance on safety and health, environment and business conduct as well as employee awareness and

stakeholder dialogue. Assessments will be carried out as part of our supplier management process from 2010. Sustainability training is being developed in partnership with the UK's Chartered Institute of Purchasing and Supply and the US Institute of Supply Management, and will be launched in 2010.

In 2009 we participated in the UK Supply Chain Carbon Disclosure project with our indirect suppliers (companies who supply goods and services not related to our products). This improved our understanding of their climate change strategies, carbon reduction initiatives, data management and reporting systems.

In light of the global recession, we assessed the financial health of strategically important suppliers. A database of vulnerable suppliers has been compiled, and is available to all Operating Groups. Flexible payment terms and advance ordering are being introduced where appropriate, to help vulnerable suppliers ensure business continuity.



FOR MORE INFORMATION ABOUT:
– ENVIRONMENTAL POLICY
AND MANAGEMENT
VISIT: [WWW.BAESYSTEMS.COM/
CORPORATERESPONSIBILITY/](http://WWW.BAESYSTEMS.COM/CORPORATERESPONSIBILITY/)

WORKPLACE

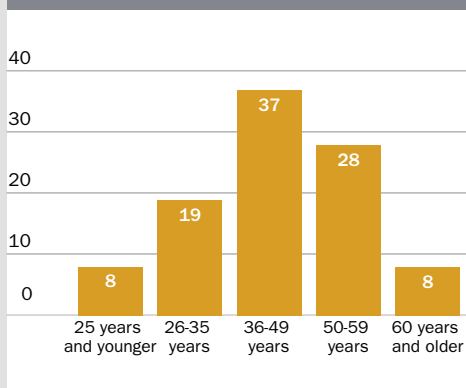
We work to ensure that BAE Systems has the right employees with the right skills to serve customers in all our markets, now and in the future. This activity is being delivered against a backdrop of skills shortages in some areas of our industry, and intense competition for science and engineering graduates in many of our home markets.

2009 OBJECTIVES

Achieved

- Senior leadership to participate in a workshop to develop the inclusion agenda for their business. Senior leaders to lead two events with employee groups to develop action plans to address culture, barriers and improvements. ✓
- Executive Committee to review the Operational Framework and supporting policies and processes to identify potential improvements required to develop a more inclusive culture. Any changes to be included in the updated July 2009 version of the Operational Framework. ✓
- Senior leadership to develop one personal objective on inclusion during the first half of 2009 for implementation in the second half of the year. ✓

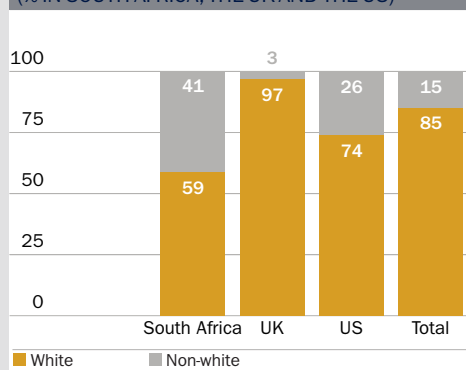
2009 AGE DIVERSITY (%)



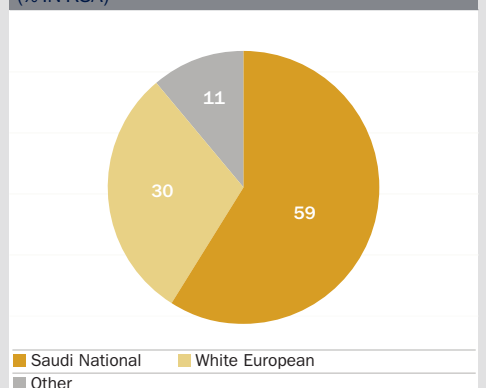
Diversity data during 2009 remained consistent with 2008 figures. During 2009 we conducted a number of activities to develop our inclusion agenda including launching a global Diversity & Inclusion Working Group, piloting a Diversity & Inclusion Maturity Matrix and reviewing our Operational Framework to ensure it reflects the Company's commitment to inclusion and to ensure it encourages the behaviours and culture needed to underpin our Code of Conduct.

Ethnic diversity data is currently collected in the Kingdom of Saudi Arabia (KSA), South Africa, the UK and the US. Due to legislation in Sweden we cannot report ethnic diversity data for this business. We do not collect ethnic diversity data for our businesses in Australia or India.

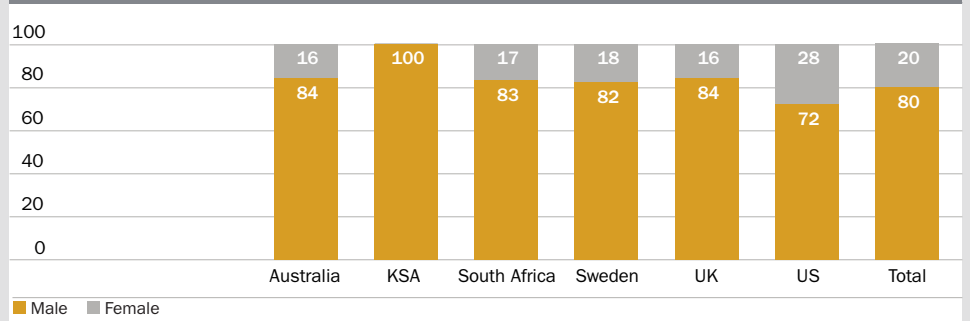
2009 ETHNIC DIVERSITY (% IN SOUTH AFRICA, THE UK AND THE US)



2009 ETHNIC DIVERSITY (% IN KSA)



2009 GENDER DIVERSITY (%)





Challenging stereotypes

In the UK, less than 2% of engineering apprentices and 13% of engineering graduates are female.

Military Air Solutions (MAS) teamed up with Macclesfield College in the North of England to support a series of events at local schools to spread the message that girls can have a career in engineering too. The programme aims to raise girls' awareness of engineering as a career choice and increase the number of female applicants for engineering apprenticeships or studying engineering at higher education. It is hoped the project will have a direct impact on the number of females that apply to the MAS Apprentice Training School in the future.

An intensive, week long programme for girls at three schools was delivered by MAS employee ambassadors and female engineers.

Goal

Our goal is to recruit and retain employees with the skills and capabilities we need to meet changing customer requirements.

Strategy

An inclusive workplace where all individuals are valued and respected, encourages innovation and supports the retention of skilled employees. It also increases our attractiveness as an employer to potential recruits. Greater diversity is supported by expanding our recruitment and succession planning processes to include talented people from a variety of backgrounds, experiences and perspectives, and through training, mentoring and employee networks. Diversity and inclusion objectives are included in the performance objectives for senior leaders.

Training and leadership programmes help us to develop the capabilities needed in a changing marketplace and to support all employees to reach their full potential. We invest in the skills of our next generation of employees through our education and early careers programmes. Regular internal communication keeps employees in all countries and locations, involved and motivated and contributes to productivity.

2009 performance

During 2009 we held a number of workshops attended by senior management and functional groups to develop our inclusion agenda.

Our Operational Framework was reviewed to ensure it reflects the Company's commitment to inclusion, and to ensure it encourages the behaviours and culture needed to underpin our Code of Conduct. Senior leadership each

committed to a personal inclusion objective, such as mentoring, supporting women's network events and leading focus groups with minority employee groups.

A Global Diversity & Inclusion Working Group was launched in 2009, to coordinate our approach to diversity and inclusion. A five-level Diversity & Inclusion Maturity Matrix has been developed. This establishes a consistent global benchmark, helping our Operating Groups to chart their progress from meeting regulatory requirements (Level 1) to creating a culture that embraces diversity as a source of competitive advantage (Level 5). During 2010 each Operating Group will set targets against the matrix reflecting their different stages of development.

Examples of other activities during 2009 to develop our inclusion agenda included a study to establish if there is a 'glass ceiling' within the P&S Operating Group in the UK that prevents women in executive jobs from progressing to more senior roles. The outcomes and recommendations for action were approved by the P&S Board. The areas of focus include structured career plans, role models, home life commitments, flexibility and networking. Our US business has been working on improving female and minority representation at senior level. In 2009 we achieved 19% female and 10% minority hire/promotion rates at senior level against targets of 20% and 10%, respectively.

Capability development

Our Total Performance emphasis extends to training. Our Code of Conduct training is part of an employee training and development approach

which helps us ensure responsible behaviour, keep up with changing technology, and meet our customers' needs from manufacturing to through-life care.

'Developing You' training programmes build employees' professional skills in line with customer requirements.

Many training programmes are run in partnership with academic and industry partners. In Australia, for example, the Professional Development Programme for Engineers is run in collaboration with Engineers Australia. Participants undergo a structured training programme, gaining practical experience in a range of roles. During 2009, over 100 graduate engineers and 87 senior engineers participated in the programme gaining Chartered status in recognition of their expertise.

Our Operating Groups take a strategic approach to training. For example, Submarine Solutions has run an Enterprise Skills Management Programme to map workforce skills and identify training priorities.

Leadership

Training, coaching and mentoring are available to leaders and aspiring leaders to support them in their performance and career goals. The Total Performance Leadership (TPL) framework aims to strengthen leadership capabilities in line with our strategy. Leaders are assessed against financial, project and behavioural measures, for example safety performance and roll out of the Code of Conduct, and their performance is reflected in remuneration. The TPL framework provides a set of tools for matching individual's skills and potential with objectives identified by the



▲ **Closing the gender skills gap**

Submarine Solutions' Women's Network provided an important contribution to a major report by the UK's National Skills Forum on 'Closing the Gender Skills Gap'. The report makes 27 recommendations to the UK government on ways to remove the barriers faced by women who wish to develop their careers and improve their skills. It drew on interviews with employers and employees, as well as parliamentary, policy, trade union and other groups.

▲ **CBI First Woman Award**

For the second successive year a Submarine Solutions employee has won the prestigious CBI First Woman Award for Manufacturing. The award recognises workplace achievements made by women, particularly those who have encouraged others to follow their success. The 2009 prize winner, Construction Capability Manager, Helen Barratt (above), follows in the footsteps of Operations Change Manager, Rosalind Murray, who won the award in 2008.

RESPONDING TO EMPLOYEE FEEDBACK

Following the 2008 employee opinion survey the Executive Committee agreed four performance improvement priorities in response to the feedback from employees. These were:

1. Our personal performance objectives should be clear and measurable;
2. We properly recognise people for doing a good job;
3. Business changes that affect us are communicated in a timely manner so we are all well informed and able to perform effectively; and
4. Our working culture enables everyone to demonstrate high standards of business conduct and to speak up and challenge inappropriate behaviour.

Operating Groups agreed improvement action plans to address these priorities. Plans are regularly reviewed by the Executive Committee. Progress in 2009 for the four areas includes:

1. Operating Groups continue to improve performance objectives. In particular, mid-year personal development reviews are used as an opportunity to refine objectives;
2. Efforts across the Company to improve line manager communication of formal recognition processes, and the introduction of reward tools at local levels to recognise employee achievements;
3. Operating Groups are continuing to improve communication from senior leaders on business changes; and
4. The roll-out of our Code of Conduct has focused on creating an environment where employees feel they can speak up and raise any concerns (see page 6).

Integrated Business Plan, as well as feedback from employee surveys and customer reviews.

Improving diversity in leadership is a priority. In 2009 our Diversity & Inclusion Working Group held an event on promoting diversity through our leadership programmes. We reviewed a number of senior and middle management programmes in our home markets to improve managers' awareness of diversity. We also reviewed our succession planning process to explore how we can increase the diversity of our leadership pool.

In the US, our L&A Operating Group launched a Women's Leadership Network to provide leadership and development support for high potential female employees as part of its diversity and inclusion strategy. It is one of many Women's Networks operating across the Company. Also in the US we sponsored The Leadership Conference, held by The Women's Center in Washington D.C. to foster diversity and professional growth.

Education and early careers

Education programmes in our home markets aim to interest young people in science and engineering, and tackle perceptions that engineering is a male career choice. In the UK, our schools road show is in its fifth year, while in the US we continue to be a strategic partner with FIRST (For Inspiration and Recognition of Science and Technology) to encourage youth excitement for Science, Technology, Engineering and Mathematics through robotics competitions.



▲ Developing our employees

We remain committed to bringing social and economic benefits to the Kingdom of Saudi Arabia (KSA) through our Saudisation programme. 80% of our training is geared to developing Saudi employees for management, administrative, technical and other qualified positions. Local employees currently fill 59% of our positions, significantly ahead of the Saudi government's legal requirement of 30%.

A significant part of our business in KSA is the provision of support and training for the Royal Saudi Air Forces to

support the Saudi aerospace industry. Over the past 34 years BAE Systems has contributed to the training of thousands of pilots, aircrew, ground based officers and technicians.

In 2010 a number of improvements are planned to ensure our leadership training and development programmes for managers in KSA are tailored to the individual's needs.

We are also launching a high-level senior talent development programme to promote Saudi nationals in senior management.

Other examples from across the Company are as follows:

- Concept2Creation in Australia, encourages under 16s to work with teachers and company employees to develop a product or service. Participating schools have reported an increase in the number of pupils studying physics as a result of taking part. Australian employees also act as mentors in the Young Achievement Australia Business Skills Programme.
- In South Africa the Company supports the education of children from disadvantaged backgrounds as part of the South African government's initiative to create a more equitable society. This includes sponsoring a township secondary school in Johannesburg and providing bursaries and paid work placements for 18-24 year olds who have been accepted to study engineering at University.
- BAE Systems is a lead sponsor of the Big Bang event, the UK's largest ever national science, technology and engineering fair for young people and teachers, attended by over 6,500 people. Our sponsorship will continue to 2011 as part of a £1m partnership with the Royal Academy of Engineering, to support training for science teachers and fund science and engineering after school clubs.

The Company partners with universities to develop courses that meet the needs of our industry and provide placement opportunities

for undergraduates. As a partner in the development of the UK government's new Diploma in Engineering for 14-19 year olds, the Company is helping to ensure the programme addresses employers' needs and puts students in a stronger position when they enter the job market.

We invest in recruiting and developing young people through our graduate and apprenticeship programmes. In the UK 352 new graduates joined the Company in 2009 and we are one of the biggest recruiters of engineering apprentices, employing 283 new apprentices in the UK in 2009. The vast majority were engineering positions. In the UK, our Graduate Development Framework provides four placements over two-years. We also offer a Financial Leadership Development Programme for graduates in finance.

Graduates can take advantage of targeted networking opportunities and can gain further qualifications through professional institutions. In the UK, for example, opportunities exist for graduates to become Chartered Engineers or a member of the Chartered Institute of Personnel Development. In Australia, we are working in conjunction with the University of South Australia to develop an accredited training and education programme.

Employee engagement

Good communication contributes to productivity. Our Operating Groups hold regular meetings, consultations and surveys to keep employees

engaged and informed. For example, in 2009, Integrated System Technologies held briefings to review its performance and strategy. Our next Company-wide biennial employee survey will be conducted in 2010.

We have constructive relationships with trade unions across the Company and consult with them on business developments which benefit both the Company and employees. In the UK we have well established, frequent and extensive consultations with trade unions at all levels. In the US, local site management teams and union leaders work together on issues that affect the workforce. Our local approach and cooperative working relationships are productive in resolving issues, avoiding conflict, improving the working environment and helping the Company achieve its objectives.

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 end Q1 and meet the 2010 milestones towards desired end state to be achieved by year end 2015.

COMMUNITY

Support for charities and community organisations helps foster good relationships with the communities near our sites in the countries in which we work. Providing opportunities for employees to volunteer and fundraise for charity contributes to job satisfaction and a positive working environment.



We support and encourage employee driven charitable fundraising and volunteering activities across the world with the aim of helping both local and national causes in the communities in which we work.

Goal

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

Strategy

We are committed to working effectively with charitable partners to benefit our customers and the communities near our operations. Our Company Giving Policy focuses on supporting the armed forces, veterans and their families as well as education projects with a science, engineering and technology focus.

The Company makes donations to local, national and international charities and other not-for-profit organisations.

Charity Challenge is our Company-wide employee fundraising and volunteering programme. In the UK, US and Australia, employees elect partner charities for 18 month periods. During 2008/2009 our partner charities were Leukaemia Foundation (Australia), Sue Ryder Care (UK), and America Supports You (US).

2009 performance

Our total community investment (including our education programmes, see page 16) was £13.8 million in 2009. This was made up of donations in time, cash and in-kind.

Employees continued to support our Charity Challenge partners throughout the rest of the year.

In Australia, employees volunteered to assist with the running of the annual 'Light the Night' event designed to acknowledge and give hope to people living with Leukaemia.

In 2009 the Australian state of Victoria experienced the worst and deadliest forest fires

on record. Employees at a communications facility in rural Victoria found themselves at the centre of response efforts. They worked closely with emergency services to supply and maintain life saving radio communications used to co-ordinate response efforts with fire crews.

Employees provided support configuring and maintaining trailer mounted mobile radio stations used to boost signals between distant emergency teams. The extraordinary scale of the fires meant team members found themselves performing tasks outside their day-to-day responsibilities, such as escorting a refuelling vehicle to remote generators needed to maintain vital emergency services including local television and radio broadcasting facilities. The Company donated over £165,000 while our employees raised an additional £80,000 for the Australian Red Cross to help those in need. Employees were allowed special paid leave to help with the clear-up.

In the UK, employees volunteered their time to decorate residents' rooms at Sue Ryder Care homes and organised collections for items to be sold at Sue Ryder Care shops.

Employees were also involved in several projects with the Royal British Legion in the build-up to Remembrance Day. Between August and October 2009, employees from sites across the country visited the Royal British Legion Factory making over 46,000 poppies. Some sites organised their own 'poppy factories' for employees to make poppies and our Submarine Solutions business visited local schools in order to talk about Remembrance Day and set the children a challenge to make poppies.

In the US, the Company and its employees supported a range of initiatives to help troops, their families and veterans. Activities included:

- Sponsorship of New Jersey's largest homecoming parade since World War II for troops returning from Iraq. Twenty employees from our Electronic Solutions business helped organise the event.
- In Texas, Electronic Solutions provided video teleconferencing technology to enable parents serving overseas to watch their children performing in a live musical production and talk to them after the show.
- In Washington DC, employees donated school supplies for children from wounded military families.
- In 2009 employees from more than 12 sites participated in EI&S's Operation Noble Cause, sending care packages to troops and raising more than £3,000 through fundraising events.
- The Company sponsored organisations including the Wounded Warriors Project and Team River Runner that support and help rehabilitate injured personnel.



FOR MORE INFORMATION ABOUT:
- CHARITY CHALLENGE
VISIT: [WWW.BAESYSTEMS.COM/
CORPORATERESPONSIBILITY/](http://WWW.BAESYSTEMS.COM/CORPORATERESPONSIBILITY/)

PERFORMANCE SUMMARY

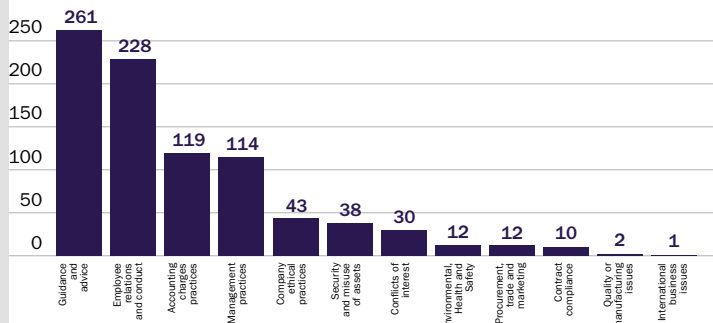
Data on responsible business conduct, safety, environment, and diversity and inclusion is collected by the businesses and collated centrally for review.

RESPONSIBLE BUSINESS CONDUCT

	2006	2007	2008	2009
Employee enquiries to Ethics Helpline [^]	410	327	507	870
Dismissals for reasons relating to unethical behaviour*	216	260	297	485
% Employees briefed and trained on Code of Conduct ^{9^} (KPI)	–	–	–	95%
% Written acknowledgement received from employees on Code of Conduct ^{9^} (KPI)	–	–	–	86%

The increase in the number of enquiries reflects the Company's continued focus on awareness and training relating to business conduct following the roll out of the Code of Conduct in 2009. The Company's target was to brief and train 100% of employees⁹ in position before 31 October on the Code during 2009. Activity continues to ensure that the remaining employees complete the Code of Conduct programme.

TYPES OF ENQUIRY TO ETHICS HELPLINE[^]



EMPLOYEE SURVEY[^]

Question	2008 favourable score ¹⁰ full survey	2009 favourable score ¹⁰ sample survey	Change from 2008 score
I have confidence that if I raised an ethical issue at work it would be addressed	67%	73%	+6
I believe I could report instances of dishonest or unethical practices without fear of reprisal	63%	70%	+7
The culture of BAE Systems is one where employees are treated with fairness and respect	62%	71%	+9
I believe BAE Systems demonstrates clear ethical standards	73%	75%	+2
I think it is safe to speak up and challenge the way things are done in BAE Systems	54%	57%	+3
I am aware of the ethical standards that the Company expects of me	94%	97%	+3

9. As at 31 December 2009 – wholly-owned subsidiaries only, excluding employees on long-term absence.
 10. Favourable score relates to the total of responses given as Agree or Strongly Agree.
 11. Ethnicity diversity figures are based on South Africa, UK and US data only.
 The following symbols, * and ^, indicate performance data reviewed by Deloitte as part of its CR assurance work: see page 20. Data indicated by a * has been assured at a limited level and that by a ^ has been assured to a reasonable level.

SAFETY

	2006	2007	2008	2009
Fatalities*	–	2	5	1
Major injuries*	40	44	69	77
Major injuries recorded (per 100,000 employees)*	47	48	76	71
Lost work day case incident rate (per 100,000 employees)* (KPI)	557	554	789	562

The actual number of major injuries has increased during 2009, but the normalised rate (major injuries recorded per 100,000 employees) has decreased. This reflects the increased size of the Company, demonstrating an overall improved trend. Further to the incorporation of Surface Ships as a wholly owned business in 2009, 2008 data for major injuries recorded and major injuries recorded per 100,000 employees has been rebased to include their 2008 accident data. This exercise has been undertaken to allow comparable data for 2009.

The Company targeted a 10% improvement in the gap between 2008 performance and the best in class target of 100 per 100,000 employees. The targeted improvement was exceeded in 2009; the improvement in lost work day case incident rate from 2008 was 29%, which equates to a 33% improvement in the gap to our target of best-in-class. In 2009 our incident rate reduced to 562 recorded injuries per 100,000 employees.

ENVIRONMENT

	2006	2007	2008	2009
Total CO ₂ emissions (thousand tonnes)	–	920	1,190	–

The reported increase in the Company's carbon footprint in 2008 reflects improvements in data collection and acquisition activity. The Coefficient Company has been commissioned to calculate the Company's 2009 carbon footprint, the results of which were not available at the date of this report.

DIVERSITY AND INCLUSION

	2006	2007	2008	2009
Gender diversity*:				
Male employees	80%	79%	80%	80%
Female employees	20%	21%	20%	20%
Ethnic diversity¹¹*:				
White	87%	82%	85%	85%
Non White	13%	18%	15%	15%
Age diversity*:				
Under 25	7%	8%	10%	8%
26-35	18%	17%	17%	19%
36-49	42%	39%	38%	37%
50-59	26%	27%	27%	28%
60+	7%	9%	8%	8%

Diversity data during 2009 remained consistent with 2008 figures. During 2009 we conducted a number of activities to develop our inclusion agenda including launching a global Diversity & Inclusion Working Group, piloting a Diversity & Inclusion Maturity Matrix and reviewing our Operational Framework to ensure it reflects the Company's commitment to inclusion and to ensure it encourages the behaviours and culture needed to underpin our Code of Conduct.

ASSURANCE STATEMENT

Independent assurance report by Deloitte LLP to BAE Systems plc on the Corporate Responsibility Report 2009

What we looked at: scope of our work

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

Limited Assurance:

- Their description, on the Introduction page in the section "Scope and data", for compiling the BAE Systems (Group) Corporate Responsibility (CR) Report ('CR Report Compilation');
- Group level safety performance indicators comprising fatalities, major injuries recorded (total and rate per 100,000 employees), cause of major injuries recorded, lost work day case incident rate per 100,000 employees;
- Group level diversity performance indicators encompassing gender diversity, age diversity and ethnic diversity; and
- Group level responsible business conduct performance indicators encompassing dismissals for reasons relating to unethical behaviour.

Reasonable assurance:

- Their statement on responsible business conduct made under the heading 'Responsible Business Conduct' on pages 5–8, excluding the table headed 'Dismissals for reasons relating to unethical behaviour' on page 5 which has been subject to limited assurance; and
- The responsible business conduct performance indicators on page 19 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 CR Report Compilation we planned and performed the work to provide limited assurance as to whether the BAE Systems' description of the Group compilation of the CR Report as outlined on the Introduction page in the section "Scope and data" is not materially misstated. For the safety, diversity and responsible business conduct indicators we planned and performed the work to provide limited assurance as to whether the BAE Systems' data on page 19, indicated with a *, is not materially misstated. This provides less assurance and is substantially less in scope than reasonable assurance.

For the statement on responsible business conduct we planned and performed the work to obtain reasonable – not absolute – assurance as to whether the statements on Responsible Business Conduct on pages 5–8 is a fair description of the activities undertaken. For the responsible business conduct indicators we planned and performed the work to obtain reasonable assurance that the responsible business conduct indicators on page 19, indicated with a ^, are fairly stated. The basis of reporting for each indicator marked with a * or a ^ is provided at www.baesystems.com/cr09/.

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:

In relation to the limited assurance of CR Report compilation, safety, diversity and selected responsible business conduct indicators:

- 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 (including subsidiary entities) and the process for collation and validation 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 CR 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 safety, diversity and selected responsible business conduct performance data at the year end
- Undertaking questionnaires and interviews with 23 sites and visiting a sample of seven further businesses/operating sites to corroborate Group level findings. Sites were selected for visits based on safety performance, materially to the Group and inherent risk of the location; and
- Reviewing the CR report against the findings of our work whilst assessing that the CR Report has been compiled as described on the Introduction page in the section "Scope and data".

The scope of our work excluded CR environmental performance data.

In relation to the reasonable assurance over the statements on responsible business conduct and business conduct indicators:

- Interviewing the Woolf programme management team to understand the milestones and activities undertaken in 2009 to address the recommendations;
- Interviewing a sample of senior executives, including the Steering Committee Chairman and members of the Executive Board to understand the commitment, drive and actions undertaken to date to address the recommendations;
- Interviewing a sample of members of the Group's legal department and its legal advisers to understand the process followed to roll out and monitor compliance with the Business Development Adviser Policy in 2009;
- Performing sample testing to verify that a selection of Advisers added to the BAE Systems' approved Adviser register in 2009 were appointed in compliance with the BAE Systems Adviser policy;
- Interviewing a sample of owners of BAE Systems' policies referred to in the statement on responsible business conduct to understand the scope and roll out of these policies;
- Interviewing a sample of BAE Systems' Code of Conduct central delivery and roll out team to understand the scope and coverage of their activities;
- Performing sample testing at a selection of sites, in conjunction with BAE Systems' Internal Audit department, to understand the nature and extent of the roll out of the Code of Conduct, including but not limited to the cascade of and training on the Code;
- Interviewing the Head of Internal Audit and performing sample testing to understand how internal audit responsibilities have been expanded to provide assurance over non-financial risk management across the business;
- Interviewing individuals with responsibility for BAE Systems' external stakeholder engagement to understand the nature, extent and timing of stakeholder engagement;
- Reviewing underlying documents to corroborate interview outcomes and inform our assessment of the statements made on responsible business conduct; and

- Analysing and reviewing the key structures, systems, processes, procedures and controls relating to the Group level collection, collation, validation and reporting of selected responsible business conduct performance data at the year end.

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 description on the Introduction page in the section "Scope and data" for compiling the Group CR Report is materially misstated.
- Based on the assurance work performed nothing has come to our attention to suggest that the safety, diversity and business conduct indicators on page 19, indicated with a *, are materially misstated.

Reasonable assurance opinion:

- BAE Systems' statement on responsible business conduct made under the heading "Responsible Business Conduct" on pages 5–8 is, in our opinion, in all material respects fairly stated as at 10 March 2010.
- The responsible business conduct indicators on page 19, 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 CR 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
10 March 2010

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