

BAE Systems - ESG Presentation October 2021

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“Sustainability is important to us and our stakeholders. We recognise that the way we do business is vital for the future strength of our business. The long term outlook for the company and the defence sector means we need to anticipate change and ensure we continue to improve on what we do today.”

CEO - Charles Woodburn, March 2021

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Agenda

Part 1

- Welcome
- Board Overview
- ESG committee Overview

Part 2

- Executive Overview
- Product Trading
- Environmental and Social
- Cyber

Part 3 – Q&A

Sir Roger Carr – Chairman

Sir Roger Carr – Chairman


Jane Griffiths – Chair of ESG committee

Charles Woodburn – CEO

Philip Bramwell – Chief Counsel

Charles Woodburn and Tom Arseneault

Julian Cracknell – MD Applied Intelligence

A professional portrait of Sir Roger Carr, Chairman of BAE Systems. He is an older man with grey hair and glasses, wearing a dark suit, white shirt, and a patterned tie. He is seated at a dark wooden desk with his hands clasped. In the background, a model of a fighter jet is displayed on a blue and white stand. The setting appears to be an office or a museum.

Sir Roger Carr
Chairman

Defence and Cyber – helping governments fulfil their primary responsibility

Protecting the country and its citizens
Threat environment is changing and multi-dimensional – protection offered by defence to wider society provides the basis for sustainability

We at BAE Systems

Unique global portfolio supporting NATO and “five eyes” nations and their allies

Generate significant economic value

Invest in education and skills to develop and maintain critical skills

Valuable contributors to our communities

Operate in tightly regulated industry – Governance and business ethics at our core

Working with governments and industry for a safer and prosperous society

Our Purpose

At BAE Systems we serve, supply and protect those who serve and protect us, in a corporate culture that is performance driven and values led.

We have an important role in society because we:

- ▶ Help our customers to provide security
- ▶ Develop cutting-edge technologies
- ▶ Contribute to the economic prosperity of the places where our people live and work
- ▶ Provide best-in-class products and services by forging strong relationships with our suppliers and partners
- ▶ Support high value jobs and employee rights
- ▶ Support local communities
- ▶ Value our people and their diversity
- ▶ Inspire in the work we do
- ▶ Identify opportunities for individuals from disadvantaged backgrounds
- ▶ Will reduce the environmental impact of our activities

Bringing our “Purpose” and the “Case for Defence” to life

Environment/Net Zero

- UN ‘Race to Zero’ commitment
- Scope 1&2 – our operations 2030/ Scope 3 – supply chain & product 2050
- COP 26 involvement

Social

- c.800 Apprentices being hired in 2021 – maintained even during COVID
- £93m invested in education and skills – providing pipeline of talent
- Key role in UK “levelling up” agenda – Over 20,000 employed in North West England

Economic Prosperity

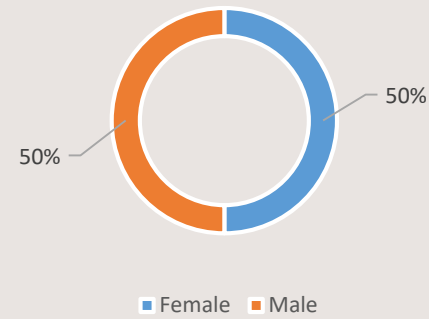
- Exporter from UK and US – e.g Type 26 – design adopted by Australia and Canada
- 2020 - UK GDP contribution - £10bn+ ~0.5% of domestic economy; c.£4bn in exports
- UK – we support 143,000 jobs directly and indirectly – 5,000 UK suppliers, 21,000 globally

Defence demonstrates governments & industry working together – delivering critical skillsets & prosperity to the benefit of all

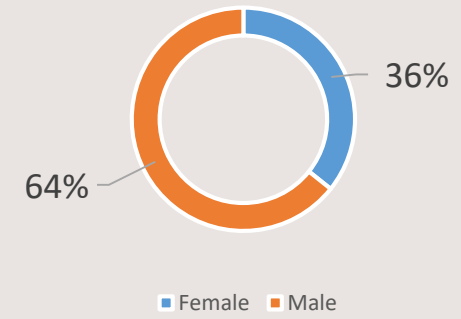
Board Information

Diverse and Relevant Skills	<ul style="list-style-type: none"> • Multi- National company leaders • Engineering & Operations • Finance • Artificial Intelligence • Strategy and HR
14 Board Members	<ul style="list-style-type: none"> • Chairman • 10 Independent • 3 Executive
3 Nationalities	<ul style="list-style-type: none"> • 9 UK • 4 US • 1 Australian

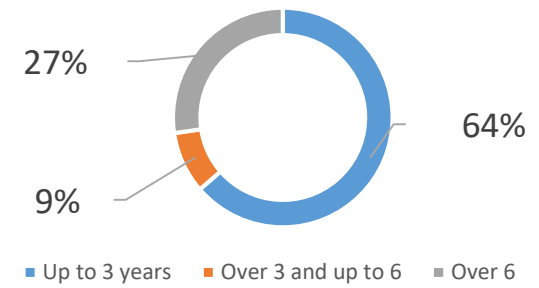
Independent Non-Executive Directors - Board Diversity



All Directors -Board Diversity



Tenure - Non- Executive Directors



High quality diverse Board - meeting code requirements

Succession Planning – key points

Non-Executives

- 4 new Non-Executives recruited in last 12 months
- 1 further appointment planned in next year

Executives

- CEO, CFO and CEO Inc new appointments in last 4 years
- Succession planning and developing executives a top priority for the Board:
 - Focusing on an improved balance of age and gender
 - Diversity target set for 50% of Executive Committee to be female by 2030
 - Mix of experience from internal and fresh thinking from external recruits
 - In-depth review of the succession plans for all the Executive Committee level roles
 - Improvement in quantity and quality of succession plans
 - Identification of high performance groups
 - Investing in additional education and training for an ever deepening talent pool

Good progress being made on all aspects of succession planning – Board and Executive

Board Level – Corporate Governance Overview



Robust governance – total commitment to best practice – performance driven and values led

Dr Jane Griffiths
Chair of ESG
Committee



ESG Committee

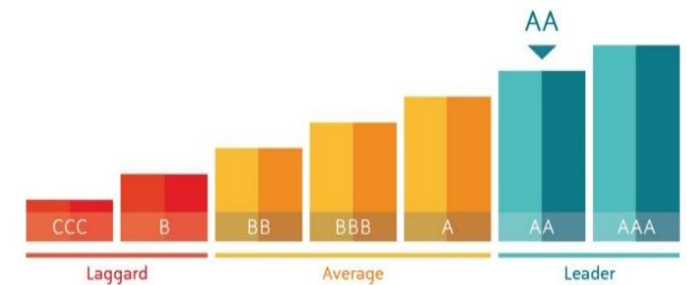
The focus for the **ESG Committee** during 2021 has been:

- Assuring the Company maintains **strong and robust standards of governance**
- Oversight of:
 - the Company's environment agenda and **progression towards Net Zero**
 - the **Company's ambition** and programme of work to **increase diversity**
 - how the Company discharges its **societal and community responsibilities**
 - The Company's approach and **outcomes of employee engagement**
- Ensuring **continued focus** by the Company on **safety & wellbeing**
- Acting as the Board representative on Employee Voice

Membership :

- Jane Griffiths (Chair)
- Nick Anderson
- Crystal Ashby (joined September 2021)
- Chris Grigg
- Nicole Piasecki

Our MSCI ESG rating:



2021 Full Programme – Supporting Information

ESG & Board Employee Engagement

– activity to date 2021

ESG Committee has reviewed safety & wellbeing, D&I, environment (net zero), community investment.

Hear from executives on employee matters such as safety, wellbeing, D&I and company decisions that could impact employees.

The Board has reviewed culture & engagement (including results of employee engagement and ethics surveys), ethics helpline and employee assistance data.

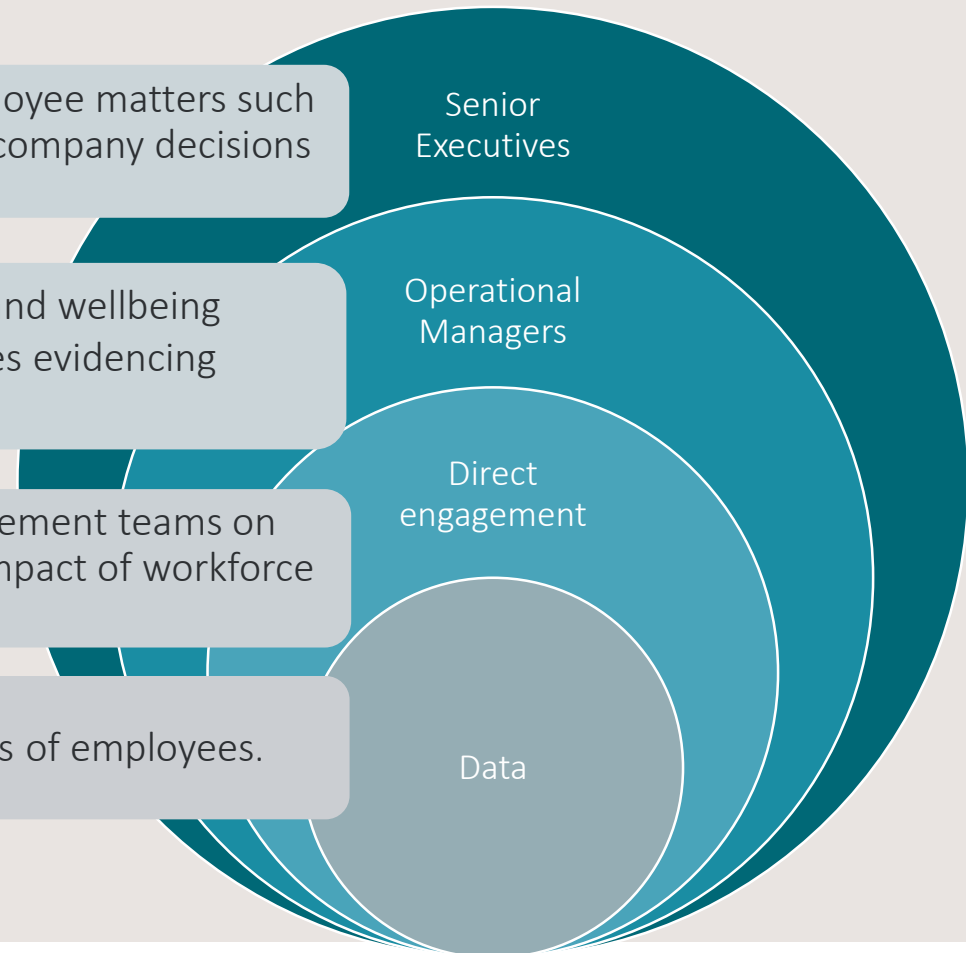
Review employee sentiment and wellbeing surveys and other data sources evidencing employee views.

2021 to date - High Potential virtual call, site visits to Portsmouth, Warton and Glasgow, Senior women perspective.

Learn from operational management teams on the practical application and impact of workforce policies.

Opportunities for further engagement: Future leaders/emerging talent conference (8-9/11), graduate conference (24-26/11), CEO trade union forum (25/11).

Direct engagement with groups of employees.



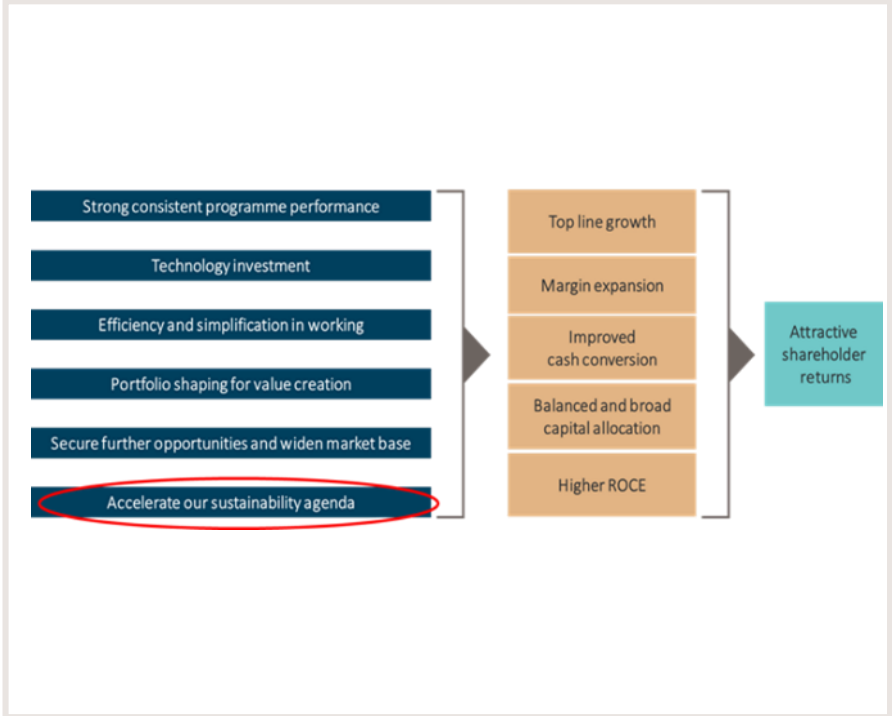
Vision and Overview

Charles Woodburn - CEO



Our Sustainability Vision

Well-positioned portfolio Long-term programme visibility



Further embedding sustainability into business through strategic objectives

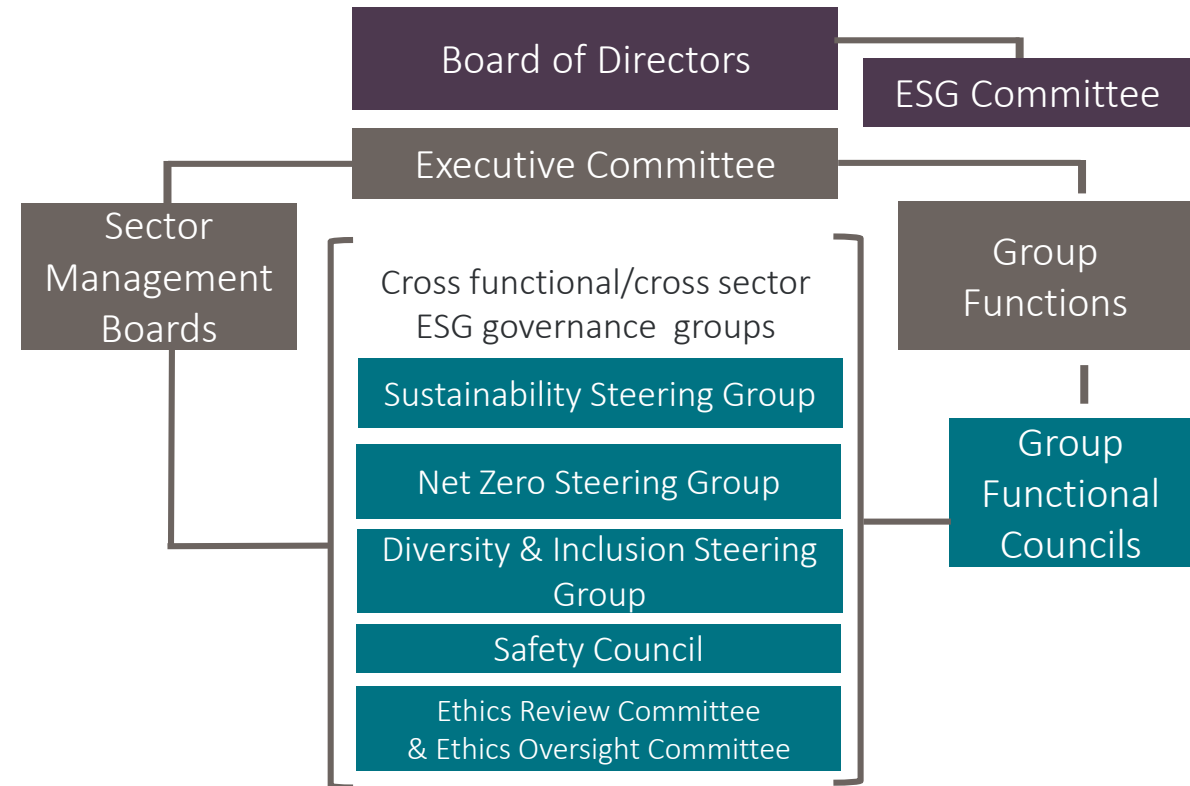


Benefit to all stakeholders

Accelerating our ambitions

Sustainability integrated in to governance & operations

- The sustainability standards are set at the Group and embedded in Group policies defined within our Operational Framework.
- The Sectors are responsible for aligning customer requirements with our environmental, social and governance principles and upholding our Code of Conduct with employees and partners and suppliers.
- Regular performance reviews through Quarterly Business Reviews and CEO Business Reviews.
- Cross functional/cross sector steering groups provide oversight and assurance.
- Operational Assurance Framework and Internal Audit confirm compliance status with policies and processes.



All executive grade employees have specific incentive targets related to : Safety, Environment, Diversity and Engagement

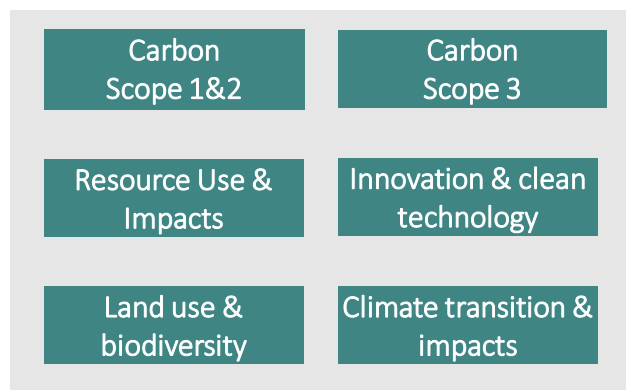
Strong governance and ethical behaviour at core of the business

Sustainability (ESG) in the defence sector



Environment

How efficient are companies at managing natural resources and impacts



Social

How do we treat our employees, customers, supply chain, communities and other stakeholders?



Governance

How are companies managing current & future ESG risk?



Accelerating our ambitions

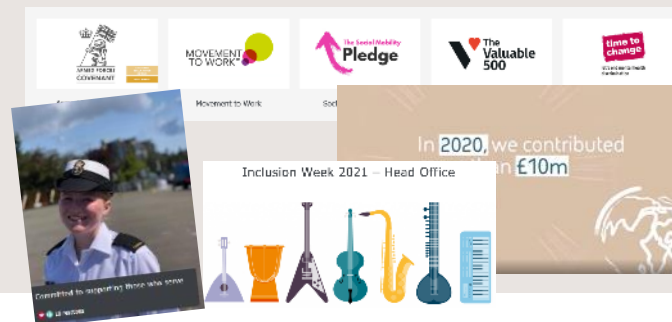
Environment/Net Zero

- UN 'Race to Zero' commitment
 - Scope 1&2 – our operations 2030
 - Scope 3 – supply chain & product 2050
- Technology development e.g. HybriGen
- Strategic partnerships e.g. Cranfield University Sustainability Apprenticeships



Social

- Gender diversity ambition 30% women by 2030
- Key pledges: gender, ethnicity, LGBTQ+, mental health, disability, mobility & inclusion, veterans
- Ongoing focus on safety & wellbeing
- Review of community & social impact
- Continued investment in STEM & early careers



Governance

- Committed to cease handling white phosphorous
- Accredited Real Living Wage Employer
- AA (leadership rating) by MSCI
- SASB submission and TCFD disclosure
- Code of Conduct updated to increase focus on IT & data security, hybrid working and strengthened Human Rights statement
- Extended ESG review of Supply Chain



Product Trading Policy

Philip Bramwell – Legal Counsel



Product Trading Policy

- To identify Responsible Trading Risks the Product Trading Policy requires an evaluation on all Products and Trading activities, in line with the Responsible Trading Principles. The process ensures that in addition to commercial assessment, consideration is given to wider ESG concerns.
- It is a principles-based policy that provides a framework for Line Leaders to determine the most appropriate mechanism in their business to carry out the evaluation. BAE Systems Responsible Trading Principles are:
 - We understand and support our customers' national security and other requirements;
 - We work to BAE Systems' values in all that we do;
 - We assess carefully our products and services with the objective that neither BAE Systems nor our customers are exposed to significant reputational risk; and
 - We are as open as practicable about the nature of our business.

Product Trading Policy

Policy Applicability

When & how to evaluate

Evaluation considerations 

Forming trading judgements

Putting it into practise

Evaluation considerations

- Does the product fulfil its intended purpose and match the customer's stated requirement?
- Does the product conform to our product safety policy?
- Is the product able to distinguish planned from unintended targets? Is it proportionate to the role and necessary for its intended purpose?
- Can it reasonably be anticipated that the product will be controlled or prohibited in the foreseeable future?
- Is the product an entirely new class of weapon or capability?
- Is there a significant, specific and foreseeable risk of the product being diverted or transferred to an unapproved user or utilised for an unauthorised purpose?
- Does the product create a significant lasting adverse environmental or health impact over and above that reasonably necessary in its manufacture, storage, deployment, use or disposal?
- Can the product's end use reasonably be expected to violate civil liberties or human rights?

Controversial Weapons

Weapon/capability	Current BAE Systems position
Cluster munitions	We <u>do not</u> manufacture or sell cluster munitions banned under the terms of the Convention on Cluster Munitions (Oslo Convention)
Anti-personnel mines	We <u>do not</u> manufacture or sell Anti-personnel mines banned under the terms of Anti-personnel mine ban convention (Ottawa Treaty)
Chemical & Biological weapons	We <u>do not</u> manufacture or sell chemical or biological weapons
Depleted Uranium	We <u>do not</u> manufacture or sell depleted uranium (DU)
White phosphorus	<p>BAE Systems <u>does not manufacture</u> white phosphorous. However, we do supply certain mortars for obscuration only to the UK Ministry of Defence that contain white phosphorous. Under 0.1% of sales</p> <p>2021 Update - We have communicated our intention to cease the supply of the product containing White Phosphorus to our customers and are actively working with them on alternative solutions and exploring timelines for withdrawal.</p>

Controversial Weapons

Nuclear capability

Current BAE Systems nuclear involvement

We do not provide or manufacture nuclear weapons:

- We are building the Royal Navy's new Dreadnought submarines which will provide the UK's continuous sea deterrent for decades to come. We are not involved in manufacturing the Trident missile system nor nuclear warheads.
- In the US, we provide logistics and maintenance support for the facilities which store the US Trident and Minuteman missiles; we do not have the contract for the maintenance of the missiles.
- The French branch of MBDA is in charge of the development and production of the ASMPA air launched missiles (at the exclusion of the warhead) of the French nuclear deterrent. All ASMPA missiles currently held by the French forces were delivered between 2009-2011 – no further production of these missiles is expected. In 2016, MBDA received a contract for the mid-life update of these missiles. MBDA is not involved in the production of the nuclear warhead. – Sales associated with this are under 0.1% of Group sales.

Why nuclear is important to BAE Systems and our customers

- Across the work streams detailed above this is over £1bn of revenues per annum for BAE Systems.
- The US, UK and French Nuclear deterrent is critical to their and the NATO defence and security shield.
- BAE Systems is proud to support this most critical of capabilities for our customers in support of the democratically elected mandates.
- It provides technology, skills and economic benefits in the 3 countries.

Controversial Weapons Autonomy

Current BAE Systems position

- There are a clear range of benefits to unmanned systems.
- We are developing a range of autonomous systems and future concepts to enable naval, land and air forces to carry out a diverse range of roles including attack, electronic warfare and surveillance.
- Unmanned systems have been in existence for some time, such as remotely controlled drone aircraft and bomb disposal units that protect people from hazardous situations.
- There are opportunities for autonomous systems in both the military domain and for adjacent civil applications.

We support our customers' view that there needs to be human input in the weapon command and control chain

Defence contracting in our primary markets



- US contracts either with US DoD or other government agencies
- FMS via the US DoD
- With other US defence primes (Lockheed, Northrop, Boeing etc)



- UK contracts generally direct with UK MoD or other offices of state
- Exports from the UK either Government to Government or with UKG approval



- Contracts primarily with the Australian DoD



- KSA operations under a UK Government to KSA Government contracting structure with BAE Systems the prime contractor

- Defence exports subject to stringent export licence regimes from exporting nations and on component parts
- Significant list of countries BAE Systems will not conduct business with in line with our policies

Environment and our Net Zero Journey



Environment – Overview & Key Facts

- We have set our Scope 1 and 2 targets to be Net Zero by 2030
- We have signed up to Race to Zero, via the Business Ambition 1.5 Degrees to demonstrate this commitment
- We will submitting our milestones to the Science Based Targets initiative (SBTi) in 2022
- We recognise that our value chain (Scope 3) emissions are many times that of our Scope 1 and 2 emissions, and will work with our supply chain and customers towards meeting our net zero target across our value chain by 2050.

On track to meet TCFD reporting requirements in 2022

[TCFD detail – Supporting Information](#)

Our Commitment

We have set a target of achieving net zero GHG emissions across our operations by 2030 aiming to do this in line with the 1.5°C pathway and working towards a net zero value chain by 2050.

We recognise we cannot do this alone.

We intend to collaborate with our suppliers and customers, and partner with researchers and technologists to innovate for a net zero future.

Greenhouse gas emission per employee (tonnes CO₂e)

2020		2019	
Global*	UK	Global	UK
5	4	11	5

*Removed two US sites from reporting boundary in 2020 as outside operational control

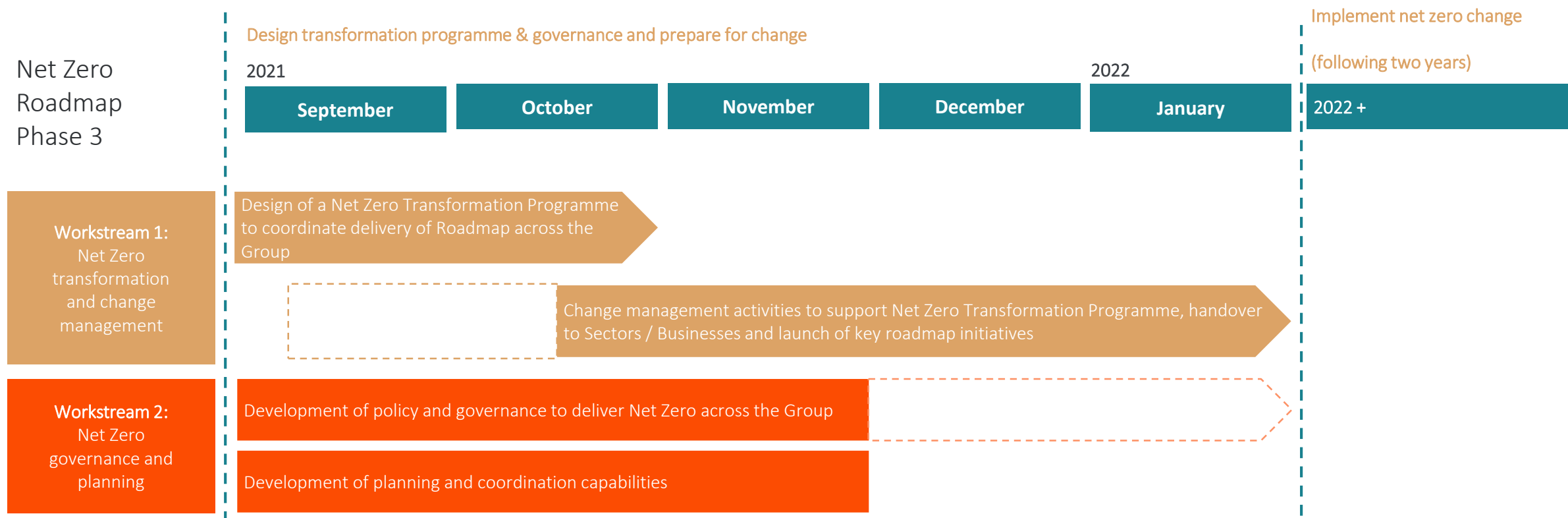
Net Zero Roadmap



Phase 1 (2020) feasibility study to define Net Zero ambition and commitment

Phase 2 (H1 2021) developed strategic business case and roadmap for achieving phase 1's net zero ambition

Phase 3 (H2 2021 -) design of transformation programme and implement governance to deliver Net Zero



Environment & Climate Transition

Major workstreams & examples

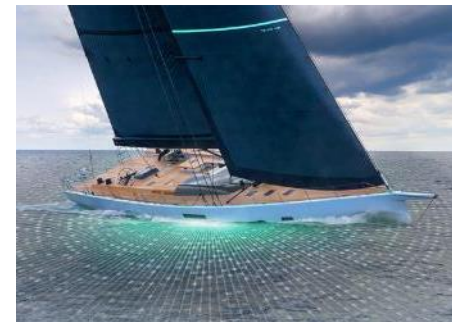
- **Energy sourcing & efficiency**
 - 40 of our UK sites (including majority of our manufacturing entities) now using renewable energy
- **Resource Management**
 - Recycled 80% of waste and 19% of water in 2020 across our operations
 - Zero waste to landfill across Air UK sites since August 2020
- **Design, Manufacturing and Facility Investment**
 - Recent investment in US, UK, Australian facilities; factory of future
- **Technology & innovation**
 - More than 14,000 of our electric- hybrid systems in operation saving more than 30 million gallons of fuel & 335,000+ tonnes of CO2
 - Hyper realism in simulator training improving safety and reducing emissions
- **Collaboration & engagement**
 - Graduate Sustainability Forum organised 2021 Virtual Sustainability week



Samlesbury, UK- 9,000 solar panels save 500 tonnes of carbon each year



65% reduction in energy emissions at Portsmouth Naval base over last 15 years



HybriGen® Power system reduces the workload of diesel engines and runs nearly maintenance free – reducing operating costs, fuel use and emissions



Employee and partner engagement raising awareness and providing opportunities for involvement

Supply chain and our customers

- **We recognise we cannot do this alone** - Collaboration with supply chain and customers is crucial
- **Supply chain** - Our major suppliers are multi-nationals in the sector driving their own ESG strategies like Rolls Royce and Thales
 - Uplifting our Supplier Principles in Q4 to reflect not only compliance with Environmental Law but also tackling climate change
 - Undertaking projects relating to sustainable procurement to shift the dial (e.g. Green Energy, Electric Vehicles, FM)
 - Engaged top suppliers on sustainability and other risk
- **Our two major customers are setting bold targets and looking for a growing number of sustainable products**



- US DoD pledged to help nation achieve Net-Zero emissions by 2050
- US administration have committed to 50% reduction in national carbon emission by 2030
- Federal R&D budget set to include considerable portion to sustainable technologies
- Defence and commercial opportunities will arise – Bradley already being trialled



- UK MoD pledged to help nation achieve net-zero emissions by 2050
- RAF Net-Zero bases by 2040
- Defence and commercial opportunities will arise from existing and developing technologies



Bid Criteria to include ESG considerations

Electrification

- Global leader in electric drive systems for zero emission bus propulsion with **more than 14,000 systems delivered**
- Our systems are capable of saving **more than 30 million gallons of fuel and more than 335,000 tons of CO²** from entering Earth's atmosphere each year
- **Advancing vehicle mobility, efficiency and capability** in urban transit, marine and military markets

Capability in action:

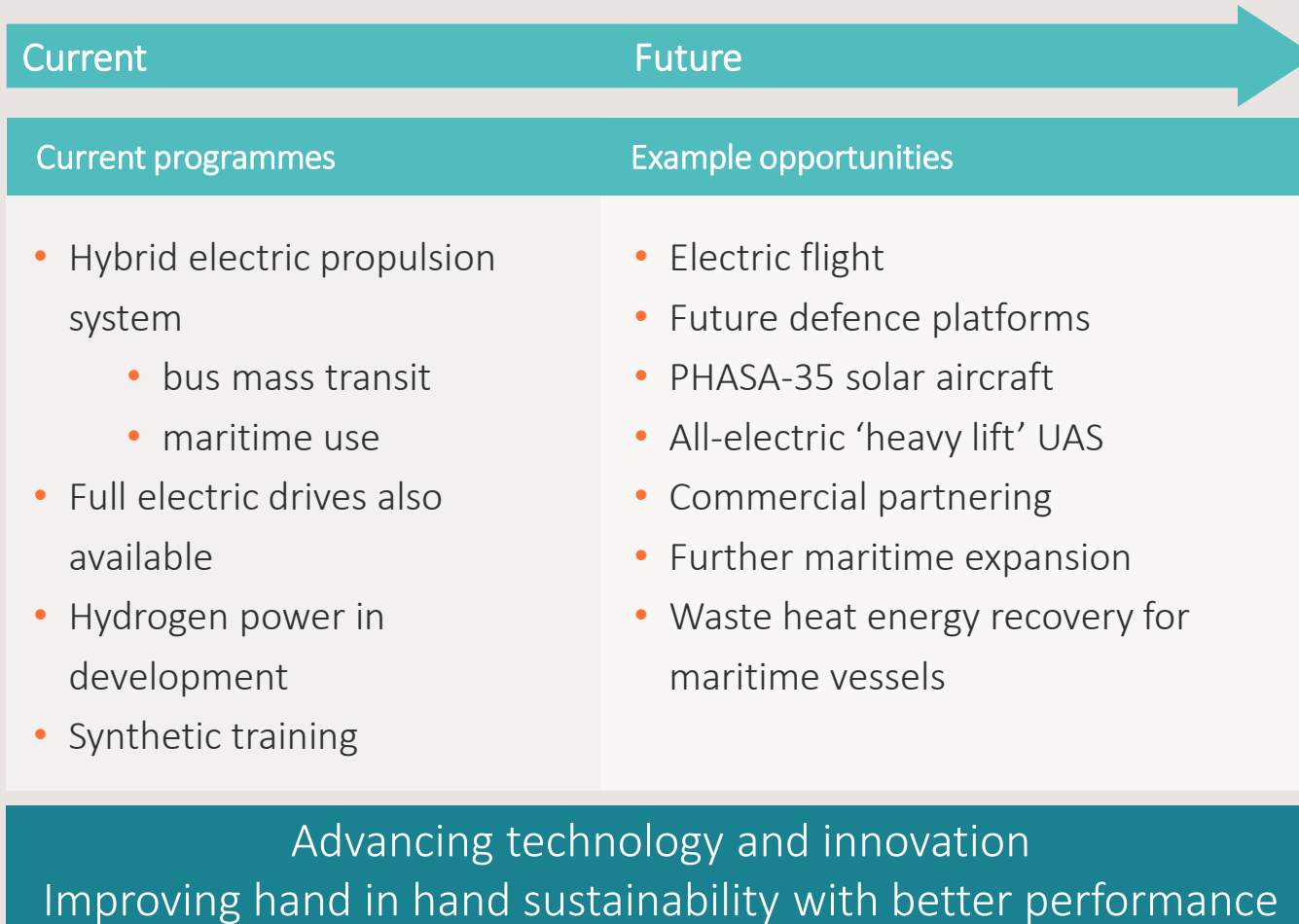
- Gen3 Electric Drive System
- Jaunt Air Mobility: electric energy management systems
- Power management for next-generation hybrid engine
- Bradley – contract to integrate a hybrid electric drive system

What's next: Well positioned in the commercial air mobility market, pairing flight controls with our aircraft power management and energy systems

Leading capabilities to address rapidly growing market



Sustainability driven product innovation





Social

Social Section - Contents

- Overview
- Our response to Covid
- Safety and wellbeing
- Employee Engagement
- Diversity and inclusion
- Skills and education
- Communities, skills and education
- Economic prosperity



Our people are at the heart of our sustainability agenda

Social Overview

- Community involvement including **Covid initiatives** & local support
- **Diversity ambition** set for 30% women by 2030. Year on year improvement in gender diversity through 2020/2021
- Strong **focus on safety**
- Committed to inclusion with **Employee Resource Groups** in each region – 50% increase in members over 2020
- Employee survey showed **6% improvement** in employee engagement
- **Investment in STEM & early careers training** Around 3,000 young people in learning in the UK in 2020 with flagship apprentice programmes in UK, KSA and Australia
- **External involvement & commitments:** 21 pledges on Gender, Veterans, LGBTQ+, Mental Health, Disability, Social Mobility & Inclusion
- Strong focus on **communication, inclusion and mental well being** through pandemic
- Demonstrating clear support to **4 UN SDGs**

[Detail in Supporting Information](#)

Our people are at the heart of our sustainability agenda



Supporting our communities through the pandemic

- Engineers from our Submarines business, with Lancaster and the University Hospitals of Morecambe Bay NHS Foundation Trust, developed **pioneering new PPE** for staff on Covid-19 wards.
- Supported **45 foodbanks** close to our UK sites.
- Donated hundreds of mobile handsets, data packages and laptops to **help prevent digital poverty** and respond to the issue of access to IT for children home schooling.
- Worked with charity partners to allow them to **apply our funding where it was most vitally needed** during an increasingly challenging period.
- Made **financial donations** to a wide range of organisations supporting the pandemic in our local communities across the UK, US and Australia.
- We donated approx. **150,000 faceshields** to more than 250 hospitals, GP surgeries, care homes, hospices and ambulance services in the UK and US.
- In Saudi Arabia, we funded more than **1,000 care packages** with essential items for families in need.
- More than 250 employees volunteered to **mentor small-to-medium enterprises** through our partnership with Be the Business in the UK.
- **Employee volunteering** has been encouraged including in support of the vaccination roll out.
- Proud members of the **VentilatorChallengeUK** consortium and developed our 'AirCare' ventilator in weeks.

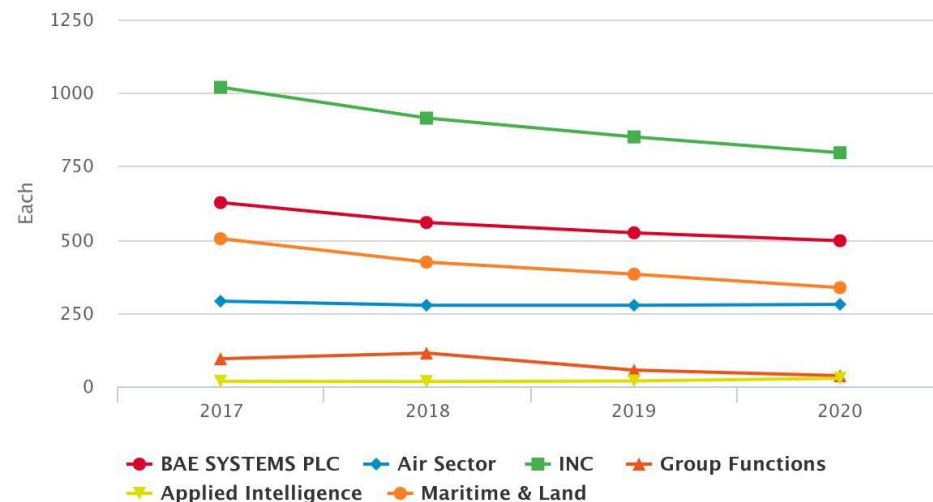


Safety

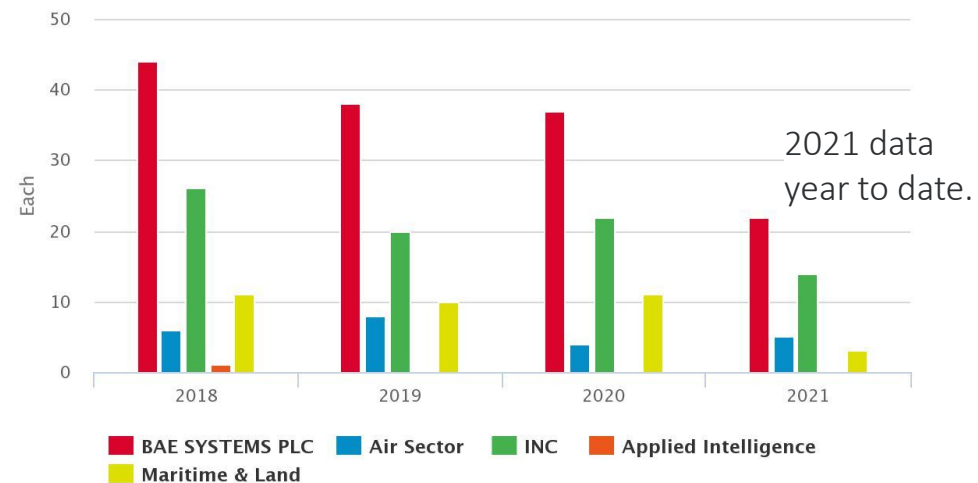
Workplace Safety

- Recordable injuries – overall 3 year rolling average continues to decrease but increased during first part of 2021
- Handling, lifting & carrying and Slips, trips & falls continue to be responsible for more than 50% of recordable injuries
- Australia and US seeing greatest increase
- Major (most severe) injuries down Sept 20- Sept 21

3 Year Average Incidence Rate – Recorded



Major Injuries – BAE – Recorded



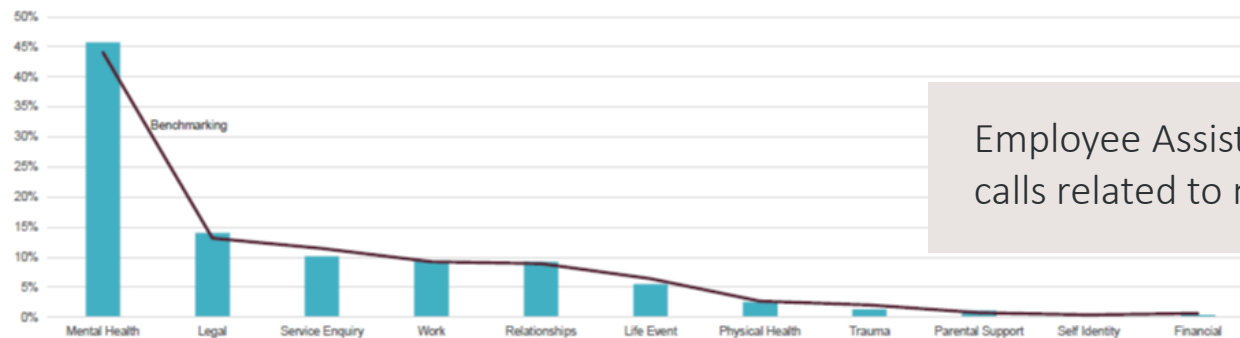
Wellbeing

- Strong focus on supporting employees through Covid
- Emphasis on **personal** communication
- Access to Employee Assistance Programme
- Improved **communication tools** and access, including Apps, online and virtual tools/events
- Manager and employee guidance on hybrid working



Mental Health & Wellbeing Engagement

- New Mental Health Awareness training (launched July 2021) for all employees
- Introduced Unmind App (May 2021) to support employees in mental wellbeing
- Wellbeing Channel live in online training system
- Wellbeing Webinars continuing in H2



Employee Assistance Data (2021) shows 45% of calls related to mental health & wellbeing



Employee Engagement

- Increasingly personal, **open and 'human'** tone from leadership, acknowledged and welcomed by employees
- **Engagement across the full breadth** and depth of the organisation, including regular discussion with CEO and senior leadership (listening forums, top 100, HiPoTs and graduates)
- **Two-way employee feedback encouraged** through surveys, Apps, focus groups, town halls, learning webinars, apps and helplines
- Employee survey 2021
 - response rate was **64% compared to 58%** for the 2018 global 'How We Work' survey
 - **Engagement scores 6% higher** than 2018 survey with positive comments on company response & support during Covid.



Employee engagement Sustainability Week

- More than 5,000 employee registrations for events and workshops organised by graduates
- Involved a wide range of internal and external speakers
- 20,000 employee interactions with Sustainability Week themed content
- Responsibly printed collateral distributed to non-IT connected employees
- All events captured and available 'on demand'

Examples of employee sentiment: 'I have signed up for all the sessions' – 'A fantastic programme of events' – 'We are going in the right direction'.

Join us for Sustainability Week
7-11 June 2021

Exclusive webinar with one of the world's leading experts on carbon foot-printing, Professor Mike Berners-Lee.

Plus:

- Introduction to Sustainability Week
- Charging a Sustainable Future: Building Better Batteries
- Defence and Sustainability
- Radical Reincarnation – Closing the Loop on Coffee Shop Waste
- UK Meeting Net Zero
- How to do Something Extraordinary
- Industry 4.0

Registration is now open – find out more and secure your place today >>

Upcoming sessions

Title	Day	Time	Link
How to do Something Extraordinary	10 June	10-11am	Register
Industry 4.0	10 June	2-3pm	See below

Session descriptions and recordings

Introduction to Sustainability Week (Recording now available)

House Keeping

Everyone has the right to a healthy mind.
Proactive support for all aspects of life.

Get a story to share?

Charles: Building a sustainable future together
He explains how work to improve our safety, wellness and diversity, together with our 'race to zero', drives an ambitious sustainability agenda.

Our Chief Executive's latest update comes as we approach the end of Sustainability Week's popular series of webinars, which investigated everything from coffee shop waste to Mike Berners-Lee's 'Big Picture of Everything'.

Visit the [Sustainability Week](#) page to find session recordings and learn more about our ambition to [get to net zero](#).

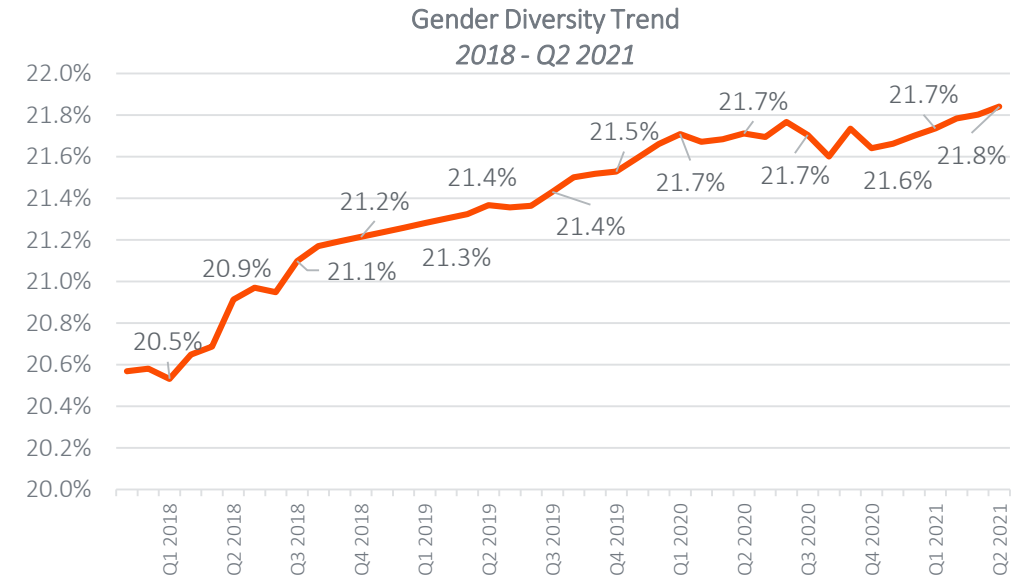
Give us your feedback
Tell us what you thought about the week's activities by posting a comment below. You can also email hrcommunications@baesystems.com with questions, feedback or support requests.

Download our Unmind app today.

At the heart of our sustainability agenda is our people.

Diversity & Inclusion - Overview

- **Board Diversity** – 36% women; breadth of sector experience and nationalities
- **50% gender ambition** for Executive Committee by 2030
- **Diversity ambition for employees** set for 30% women by 2030. Year on year improvement in gender diversity through 2018-2021
- Committed to inclusion with **Employee Resource Groups** in each region – 50% increase in members over 2020
- **External involvement & commitments**: 21 pledges on Gender, Veterans, LGBTQ+, Mental Health, Disability, Social Mobility & Inclusion
- **“Courageous Conversations”** programme in US-based businesses



2030 target – 30%

Diversity & Inclusion	2021 % Target	2016 %	2017 %	2018 %	2019 %	2020 %
Female apprentices	30	26	27	26	24	25.5
Ethnic Minority Apprentices	Local demographic	3.5	4.7	3.7	5.3	5.1
Inclusive Learning (Apprentice)	-	15	15	15	17	20.4
Female Graduates	30	26	33	28	24	18.4
Ethnic Minority Graduates	15 (5yr target set in 2016)	16	22	23	29	24.4

Advancing our DEI initiatives

- 2020 launch of *Courageous Conversations* and CARE: Colleagues Advancing Racial Equity initiatives
- Established DEI Council to sustain focus on CARE initiatives
- Published first **DEI Impact Report: *A Decade of Progress*** in September
 - Spotlights our long-term DEI journey and goals
 - Increases transparency around our progress
- Continue to invest in our communities to support employees and historically underserved groups



Community, Skills & Education

Investment in STEM & early careers training

- Around **3,000 young people** in learning in the UK in 2020 with flagship apprentice programmes in UK, KSA and Australia
- Rolled out **Coding Success with RAF and RN** – over 1,000 applicants for 600 school places
- Supporting **Kickstart programme** with more than half of first cohort drawn from Movement to Work population


Community involvement focused on

- **Education and skills** – inspiring young people to consider STEM subjects and careers
- **Local community** – working to support the communities in which we operate
- **Armed forces** – supporting active service personnel, veterans and their families



£10m* contributed globally in 2020 

£2.8m
supporting
Armed Forces
charities 

£2.8m
invested in education
initiatives focused on
science, technology,
engineering and maths 

£1.5m
*An additional
donated in support of the
US Employee Relief Fund 

£700k
maintaining the heritage
of the Company and
the Armed Forces 

10,224 hours
volunteered by our
employees - that's almost
1,400
working days 

£1.7m
to local
community
projects 

Certain awards won at UK/Corporate Level

Princess Royal Training Award 2016, 2017, 2019, 2021

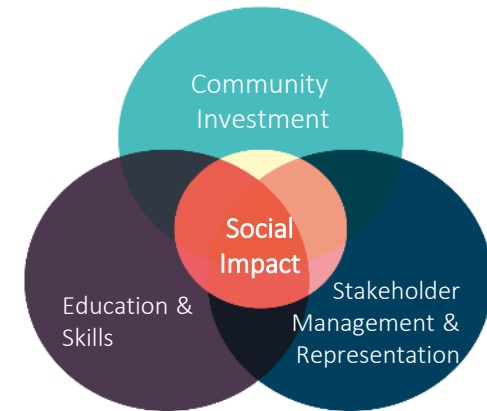
National Apprenticeship Macro Employer of the Year 2010, 2016, 2018 & 2020;

Our role in communities – Case study BAE Systems Submarines, Barrow-in-Furness

- Barrow-in-Furness has three of the country's most disadvantaged wards
- BAE Systems Submarines is the home of UK submarine design and build
- The health and prosperity of the local area is a unique strategic imperative for long term business success
- We collaborate with a wide range of stakeholders and organisations to create a strategic and pro-active approach to help overcome the myriad of local challenges
- We have played a key role in driving improvements needed to improve the health and prosperity of the local area and its inhabitants including
 - employment
 - education & skills
 - community investment
 - regional development activities

Town of 67,000 people

c.29% of working population is employed at the shipyard



Our collaboration is vital to attract, develop and retain a world class workforce to deliver the deterrent programme.

CLEP



Our contribution to the UK economy

In 2020 our operations in the UK supported:

- £10.1bn contribution to UK GDP, equivalent to 0.5% of the domestic economy
- 143,000 jobs, for every 100 jobs at BAE Systems, 410 jobs were supported in the UK economy
- £3.9bn worth of exports, equivalent to 0.7% of all UK exports
- a total tax contribution of £2.7bn
- We directly employed 14,700 workers in the most deprived local authorities, 40% of our total employment in the UK
- We spent c.£700m on supply chain purchases in the most deprived local authorities

Source – Oxford Economics



Governance of the “E” and “S”

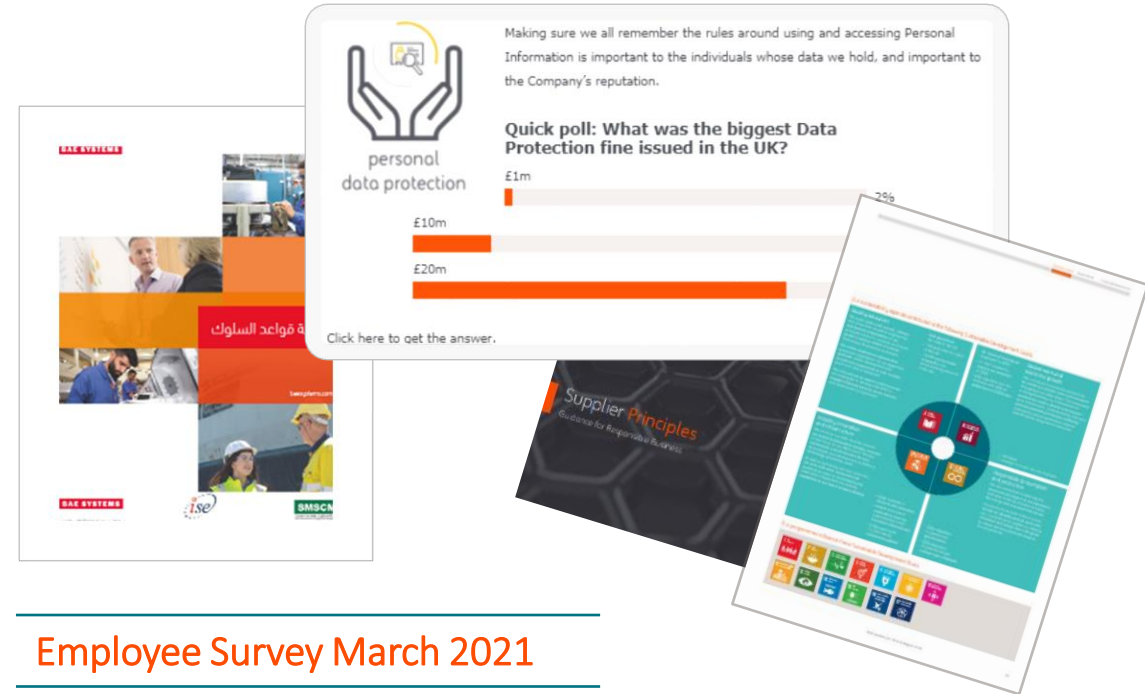


Governance for “E” & “S” - summary

- Triennial refresh of **Code of Conduct** – updated to improve access, reflect hybrid working and increased focus on IT & data security

Ethics Programme - Supporting Information

- Business integrity training – **annual all employee** scenario training
- **SASB submission** and commitment to **TCFD disclosure**
- Retained **AA (leadership)** rating with MSCI and ‘B’ rating with Transparency International
- Strengthened **Human Rights** Statement:
<https://www.baesystems.com/en-media/uploadFile/20210426124829/1434594517048.pdf>
- Extended **ESG review of Supply Chain**



Employee Survey March 2021

I feel able to speak up & raise concerns

Manual	Professional	Exec
78%	85%	87%

High performing norm – 63%
Manufacturing norm – 64%



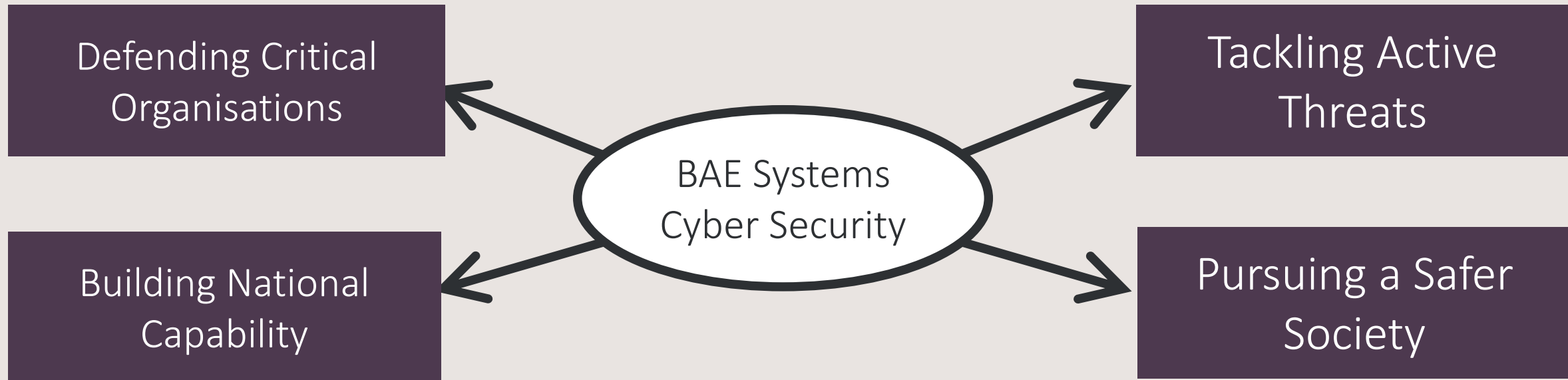
Strong governance and ethical behaviour at core of the business

BAE Systems Cyber Security “Security for a digital society”



Cyber

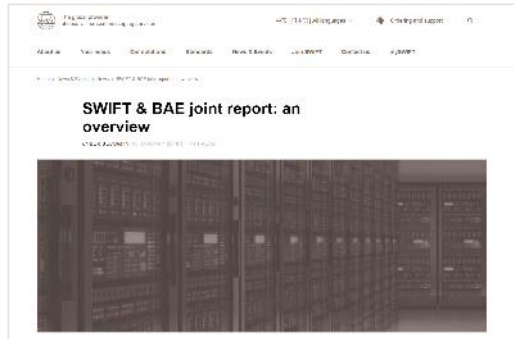
The critical capabilities we provide



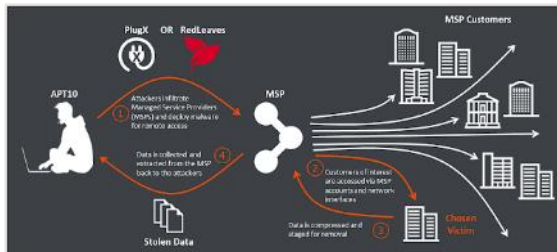
Working with governments and industry for a safer society in a digital world

Cyber – The critical capabilities we provide – Case Studies

Global payments



Espionage via service providers



Modern ransomware

An infographic titled "Simplified stages of a modern ransomware attack and five reasons why they're so successful". It is divided into five numbered stages:

- Network intrusion options:** Includes "Phishing", "Exploits (e.g. CVEs)", "SQL", "IT EasyGUI", and "Others". A note states: "Ransomware operators are using mostly different access routes".
- Actions taken on victim network:** Includes "Propagate", "Lateralize", and "Engage Data". A note states: "Criminal groups are more skilled, with pain test tools being used extensively".
- 'Double extortion':** Includes "Demand ransoms" and "Escalate threats". A box contains: "Increase the stakes", "Publish sample data on blog", " threaten further leaks", and "Full data leak / auction". A note states: "If no ransom is paid".
- Ransom payments are fuelling the cycle:** A note states: "Data theft and extortion tactics are working and are being copied by more groups".
- Criminal collaboration and service model is growing.**

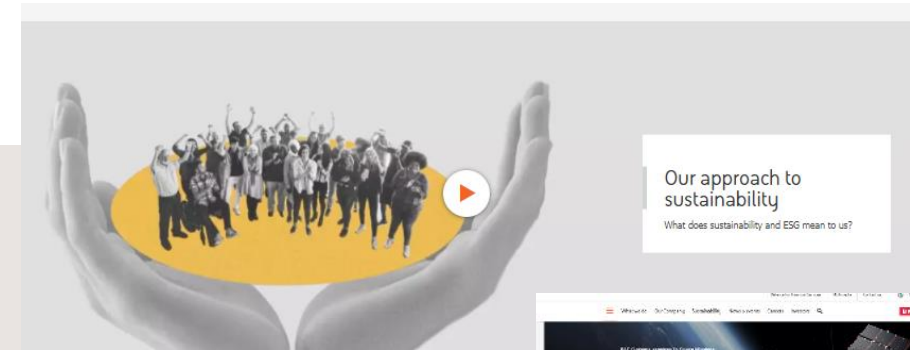
 Below the stages is a section titled "Victim blog tracking – the scale of the problem". It includes a line graph showing the "Average number of new victims per blog" from April to September 2020. The graph shows a significant upward trend. Text next to the graph states: "We have gathered blog publications indicating a total of over 800 ransomware victims by operators of 15 different ransomware campaigns". A callout indicates a "260%" increase in the number of victims identified on ransomware blogs between April and September 2020. Another callout states: "~10% of victims removed from ransomware blogs, indicating potential ransom payment".

Working with governments and industry for a safer society in a digital world

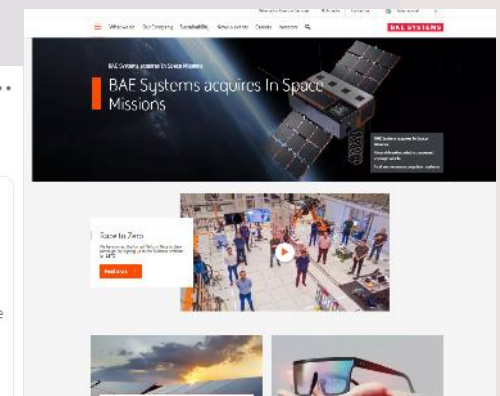
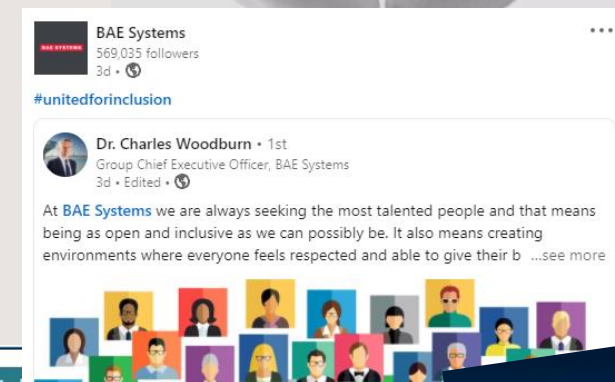
ESG Priorities - Looking ahead

Deliver on our commitments, drive our future ambitions and consolidate our approach to increase our visibility and impact

- Confirm material issues **but anticipate change**
- Use **external benchmarks** to set targets and metrics to drive improvements, measurement and reporting
- **Engage** our employees & other key stakeholders
- Encourage **innovative** mind set and approach



Our approach to sustainability
What does sustainability and ESG mean to us?



Continue to accelerate progress and adapt for the future

Summary – key takeaways

ESG important to me as Chairman, the Board and company as a whole – accelerating our ambitions

- ▶ This is not new to BAE Systems – long-term evolving commitment
- ▶ Commitment pan business – critical to recruitment & retention
- ▶ Management committed to putting BAE Systems at the forefront - incentivised to do so
- ▶ Sustainability integral to strategy - driving business performance and creating opportunity
- ▶ Operate ethically, openly with clear policies and procedures in place
- ▶ Importance of our role in our communities & maintaining and developing critical skills
- ▶ BAE Systems helps governments fulfil their primary responsibility - protecting its country and citizens

Working with governments and industry for a safer and prosperous society

Q&A



Supporting Information

- A** Key compliance policies within the Operational Framework
- B** Advisors Policy
- C** Export control Policy
- D** External Reporting, Commitments & Disclosures
- E** TCFD reporting
- F** UN Sustainability Development Goals
- G** Ethics programme
- H** Ethics helpline reporting
- I** ESG Committee Activity 2021

Key compliance policies within the operational framework

- Advisers Policy
- Community Investment Policy
- Conflicts of Interest Policy
- Export Control Policy
- Facilitation Payments Policy
- Fraud Prevention Policy
- Gifts and Hospitality Policy
- Lobbying and Political Donations Policy
- Offset Policy
- Procurement Policy
- Product Trading Policy
- Pursuit of Export Opportunities Policy
- Risk Management Policy

Our policies are reviewed annually with changes approved at Board level.

Our policies include processes for risk-based due diligence, internal and external approvals and on going monitoring.

Advisers Policy

- Covers appointment and management of third parties engaged to influence, promote or assist our sales and marketing efforts or the strategic development of the Company.
- Appointment managed by central Business Conduct Compliance/International Compliance Team.
- All Advisers assessed to ensure no apparent risk of corrupt or unethical behaviour, a clear business case and compelling justification for proposed remuneration.
- Third party due diligence report and on-site interview by BCC team. All appointments reviewed and assessed by Business Development Adviser Compliance panel chaired by independent legal counsel.
- Ongoing monitoring, reporting and due diligence review.
- Central oversight and approval of payments.
- Re-appointment every two years.

Export control Policy

- Mandates compliance with all applicable trade control regulations including the US International Traffic in Arms Regulations (ITAR) and Export Administration Regulations (EAR), the UK Export Control Act 2002 as well as trade and economic embargoes and sanctions
- Sanctions: Parties and Transactions Screening Procedure:
- Mandates screening against a wide range of categories (from visitors, to employment candidates, suppliers, customers, shipping companies)
- Uses recognised sanctions screening tool provider which searches against a broad range of sanctions lists, official and exclusion lists
- Is not limited to a particular jurisdiction and includes US and UK databases/lists
- Conducts repeat searches on inputted names
- Requires proposed transactions to be reviewed to determine potential sanctioned country involvement
- Requires additional risk based assessments where necessary
- Mandates escalation to CCC&R for any positive sanctions screening hits

External Reporting, Commitments & Disclosures

External reporting

- MSCI - AA rated last 3 years
- Sustainability Accounting Standards Board (SASB) – completed
- Taskforce on Climate Related Financial Disclosure – on track
- CDP Carbon Disclosure (B rating)
- Transparency International (B rating)
- CDP Water Disclosure – submitted September 2021
- Dow Jones Sustainability Index (DJSI) – results November 2021
- Gender Pay Gap Reporting

Commitments & disclosures

- Race to Zero
- UK Real Living Wage Accredited Employer
- Public commitment to 21 charters in support of diversity (gender, ethnicity, disability & LGBTQ+), veterans mental health & social mobility (across UK, Aus & US)
- UK Modern Slavery Act
- Australia Modern Slavery Act
- California Transparency Act
- Top 100 places where people want to work

Committed to increased disclosure and engagement

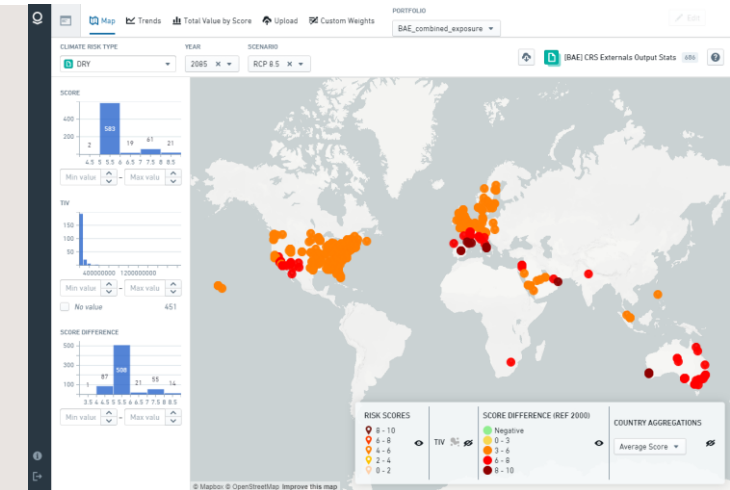
TCFD Reporting

- Committed to TCFD reporting from 2022
- Conducted gap analysis against TCFD reporting requirements and produced roadmap for short, medium and long-term
- Swiss RE provided modelling of climate on our facilities using RCP development factors 2.6, 4.5 and 8.5 for 2030, 2050 and 2085
- Modelling of impacts of Tier 1 suppliers underway
- PwC supporting workshops planned to understand the company's top climate-related risks and opportunities

Next Steps

- Overlay outputs from workshops on climate modelling
- Progress to quantification of short, medium and long term risk (and opportunity) evaluation.

On track for reporting in line with requirements in 2022



Swiss Re

Hazard details

Flood

Return Period [years]	Locations	TIV	Share TIV
30 years	4	3,760,155,722	4.86%
50 years	2	1,761,786,078	2.28%
100 years	11	3,156,882,850	4.08%
200 years	10	4,613,551,223	5.96%
250 years	1	36,713,298	0.05%
500 years	12	2,187,616,799	2.83%
> 500 years	81	12,421,628,574	16.06%
Outside	156	49,419,056,634	63.88%
Total	257	77,357,391,189	100%

Storm Surge

Return Period [years]	Locations	TIV	Share TIV
50 years	7	3,667,001,026	4.74%
100 years	1	64,986,299	0.08%
500 years	1	1,783,931,000	2.31%
1000 years	1	124,046,974	0.16%
Outside	247	71,717,425,890	92.71%
Total	257	77,357,391,189	100%

Footnote: Includes Swiss Re and its business. Certain content reproduced under license from third parties and is subject to copyright and other intellectual property owned by such third parties. For further information see "Data Sources" section available in GRI 305-2 www.swissre.com

Our commitment to the UN Sustainable Development Goals

We have selected 4 of the UN SDGs we can demonstrate strong support to : SDGs 4, 8, 9 and 12

<p>4 QUALITY EDUCATION</p> 	<p>Quality education</p> <ul style="list-style-type: none"> • We work closely with schools, colleges and universities as well as engineering and business organisations in our principal markets to promote and inspire people to pursue careers in Science, Technology, Engineering and Maths. • We create employment opportunities across our organisation via our apprentice, graduate, career development and recruitment programmes, to help increase youth and adult employment. • We will continue to support and encourage our employees to develop their skills to engage in lifelong learning via our training and development programmes. 	<ul style="list-style-type: none"> • Approximately 750 apprentices recruited as part of our 2020 intake in the UK. • 170 graduates recruited in the UK in 2020 as well as 60 undergraduates (12 month industrial placement).
<p>8 DECENT WORK AND ECONOMIC GROWTH</p> 	<p>Decent work and economic growth</p> <ul style="list-style-type: none"> • We contribute to economic productivity by investing in people, skills and innovation throughout our value chain. • This investment is strengthened by our commitment to continue to create a diverse and inclusive work environment, underpinned by safe work practices promoting employee wellbeing, maintaining robust governance systems and efficiently using natural resources. 	<ul style="list-style-type: none"> • 81¹ hours of training per employee² in 2020. • £1,700¹ invested in training per employee in 2020. • 40% of global hires recruited into STEM roles.
<p>9 INDUSTRY, INNOVATION AND INFRASTRUCTURE</p> 	<p>Industry, innovation and infrastructure</p> <ul style="list-style-type: none"> • We structure our R&D activities around our business and product strategy, ensuring a clear focus for our R&D spend. We also continuously scan the horizon for new technologies and developments in defence technology around the world. • As well as partnering with our customers, we work with other companies and academia to invest in technologies and assets that compliment our existing capabilities and our future product development. 	<ul style="list-style-type: none"> • £236m invested in r and d in 2020. • Patents and patent applications covering approximately 2,500 inventions internationally • £11bn spent with 21,000 directly contracted suppliers
<p>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</p> 	<p>Responsible consumption and production</p> <ul style="list-style-type: none"> • We are committed to reducing the environmental impact of our operations and value chain by actively managing the energy and resources that we use. • Our products are built to be in active service for decades and we work with our customers and suppliers to develop innovative technology that is designed to reduce the environmental impacts of such products. 	<ul style="list-style-type: none"> • Target set to achieve net zero greenhouse gas emissions across our operations by 2030. • Working towards a net zero value chain by 2050. • Alignment of our business with the goals of the Paris Agreement

Ethics Programme



Global Code of Conduct – externally benchmarked, reviewed and updated every 3 years



Independent ethics helpline providing 24/7, local language access for employees, suppliers and others working on our sites.



Network of 189 Ethics Officers in UK, US, KSA, Australia providing local support & advice



Integrated Business Integrity Training – including annual all-employee scenario training and specific compliance training modules

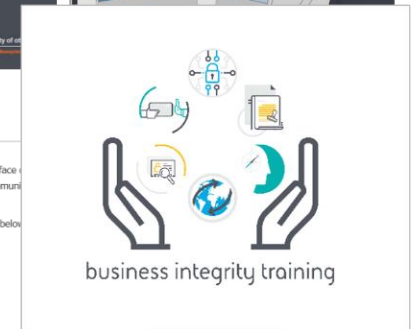
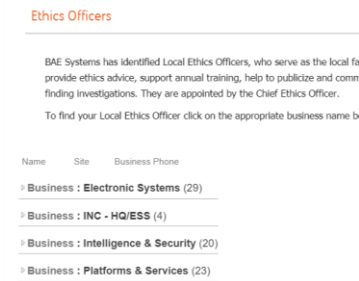
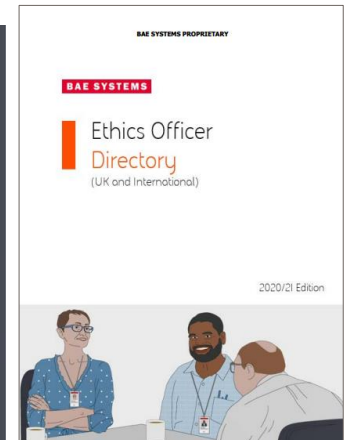


Governance & oversight provided by Ethics Review Committee and Inc Ethics Oversight Committee



Data and metrics to monitor trends, provide insights and facilitate benchmarking

On induction all employees receive a suite of training:
Code of conduct; anti-bribery; corruption and trade controls awareness



Ethics Helpline Reporting

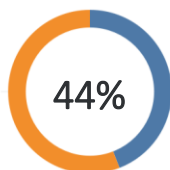
(figures shown for mid-year 2021)

Contacts / per 1000 annualised



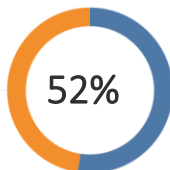
Independent ethics helpline providing 24/7, local language access for employees, suppliers and others working on our sites. Numbers dipped during lockdown periods but returning to previous levels

% Cases reported to Local Ethics Officer



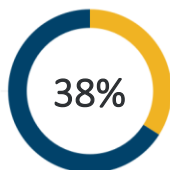
Network of 189 Ethics Officers to support employees with guidance & advice.

% Guidance

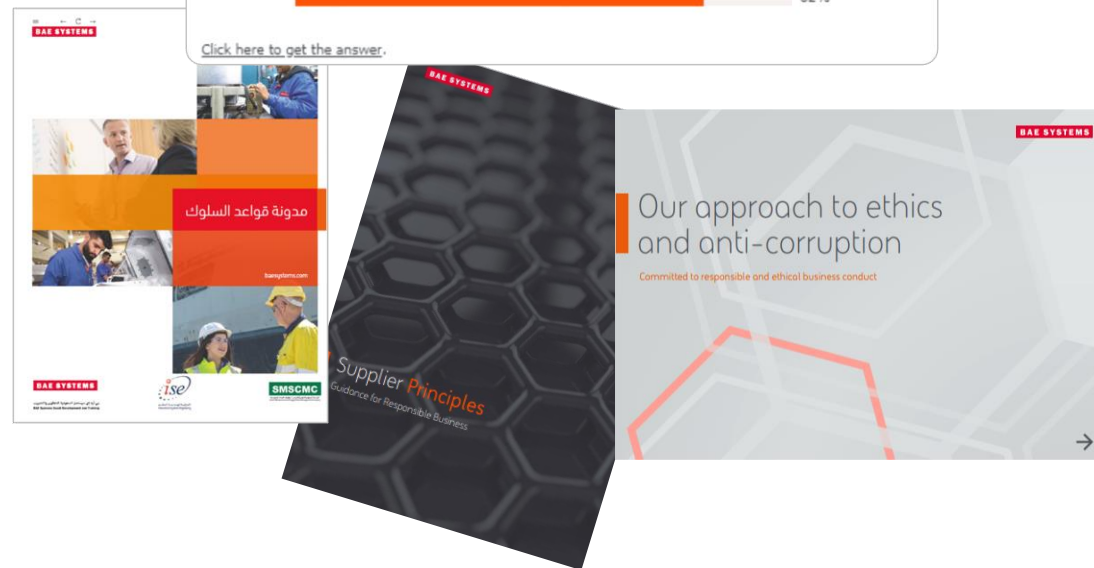
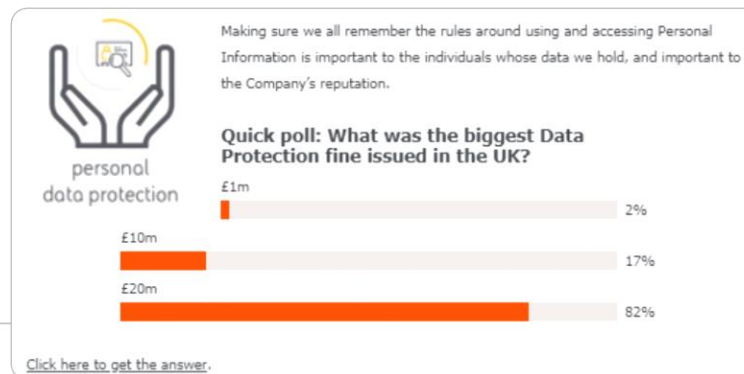


52% of calls and contacts were employees seeking guidance on how to proceed – eg how to register a conflict of interest

% Anonymous



Low rate of anonymity compared with external benchmark of 59% indicating employees trust in the ethics process



Employee Survey March 2021

I feel able to speak up & raise concerns

Manual	Professional	Exec
78%	85%	87%

High performing norm – 63%
Manufacturing norm – 64%

ESG Committee Activity 2021

February 2021	July 2021	September 2021	December 2021	
Environment				
<ul style="list-style-type: none"> Environment & Climate Transition – Net Zero Programme update 	<ul style="list-style-type: none"> Environment & Climate Transition – Net Zero Programme update 	<ul style="list-style-type: none"> Environment & Climate Transition – Net Zero Programme update (presented to Full Board) 	<ul style="list-style-type: none"> Environment & Climate Transition – Net Zero Programme update TCFD Reporting 	
Social				
<ul style="list-style-type: none"> Social & Community (Review of socio economic impacts and community activity Barrow, UK) 	<ul style="list-style-type: none"> Culture & Engagement overview (presented to full Board) Diversity & Inclusion Workplace safety & wellbeing 	<ul style="list-style-type: none"> Employee Engagement - Ethics Helpline & Business Conduct Review (presented to full Board) 	<ul style="list-style-type: none"> Diversity & Inclusion Responsible Procurement 	
Governance				
<ul style="list-style-type: none"> Review of 2020 performance/ 2021 objectives External stakeholder feedback ESG Ratings Review Anti bribery & corruption - Lobbying (US) Joint meeting of ESG Committee & Audit Committee to review non financial risk register 	<p style="text-align: center;"><u>Standing agenda items:</u></p> <ul style="list-style-type: none"> - Regulatory overview - Performance metric review: ethics, safety, environment, diversity & inclusion 		<ul style="list-style-type: none"> ESG Assurance & Audit Review Responsible Trading & controversial weapons 	<ul style="list-style-type: none"> 2021 Performance Review & setting of 2022 objectives Responsible Procurement Anti bribery & corruption <ul style="list-style-type: none"> Appointment of Advisers Gifts and hospitality ESG Roadmap 2022