

# Business Conduct

We are determined to be recognised as a leader in responsible business conduct worldwide, and we continue to strive for ways to improve our business and its reputation.

Maintaining high standards of business conduct is essential to enhance our overall business performance, build trust, and maintain and improve our reputation with stakeholders. Our licence to operate depends on this.

### Strong principles

Strong principles and standards are the cornerstones of business conduct. Our global Code of Conduct is a summary of the principles and standards of business conduct expected of all our employees wherever they operate. All employees are required to comply with the standards set out within the global Code of Conduct.

### Our ethical business conduct principles

**Accountability:** we are all personally answerable for our conduct and actions

**Honesty:** there is no substitute for the truth

**Integrity:** we say what we will do, we do what we say

**Openness:** where questions are asked, we will be frank and straightforward in our answers

**Respect:** we value each individual and treat them with dignity, respect and thoughtfulness.

### Embedding a total performance culture

We want to be recognised as a high performing company not only in terms of our financial and programme performance, but also as a leader in all aspects of business conduct.

### Visible leadership

Our senior leaders are expected to promote a collective and individual sense of responsibility for business conduct, and are committed to lead by example. This includes conducting regular briefings emphasising the importance of business conduct and discussing issues with employees. Senior leaders are supporting the rollout of the global Code of Conduct and training to employees (see page 13).

Continuous improvement in business conduct is included in the objectives for all Executive Committee members and linked to their remuneration (see page 4).

### Ongoing Investigations

The Company is subject to the continuing investigation by the UK Serious Fraud Office (SFO) into suspected false accounting and corruption, which was originally announced in 2004. The Company is co-operating fully with the SFO.

In June 2007, the Company was notified by the US Department of Justice that it had commenced an investigation relating to the Group's compliance with anti-corruption laws, including its business concerning the Kingdom of Saudi Arabia.



### Bob Fitch

Head of Government Relations in the US

"Business conduct is one of many factors that define a world class company. I've worked at BAE Systems and its legacy companies since 1993 and know this is of key importance to our employees and customers.

Embedding an ethical culture means making this relevant to employees in all our home markets. We must ensure that employees are fully engaged in the process. Face-to-face briefings by our leaders will have a big impact.

Communicating our approach externally is also very important. As Head of Government Relations in the US, I am responsible for establishing and maintaining relationships between our Company's leaders and senior officials in the executive and legislative branches of government. With the new administration in the US and our position as a growing defence company, we need to make sure people know not just who we are but what we stand for as a company."





**Global Code of Conduct**

Our new global Code of Conduct brings together working practices already in place in various parts of the business. The Company has had a series of policies and principles for some time and in some parts of the business these were reflected in local codes. The new global Code of Conduct was launched in January 2009 and provides BAE Systems employees with a common document containing the principles and standards expected of all employees, regardless of location or role.

Practical examples are included to provide general guidance on situations that may arise in employees' day to day activities on behalf of the Company. It encourages employees to ask for help and emphasises that they can raise concerns without fear of reprisal.

The Code has been benchmarked against global companies by the Ethical Leadership Group (an independent consultancy) and the Institute of Business Ethics. We held focus groups with employees and managers in all of

our home markets to review the draft Code of Conduct and gained trade union feedback by holding two dedicated UK trade union focus groups. In total, 71 focus groups were held involving over 700 people.

The Code is being rolled out to all employees from 2009 through face-to-face briefings. The aim is full engagement with all employees. Every employee will be asked to confirm that they have understood and will comply with the principles and standards in the Code. The roll-out of the Code will be supported by mandatory training. On completion of the training we expect employees to be able to:

- Understand the principles in the Code
- Explain why all employees must take responsibility and be accountable for their own actions
- Recognise when to ask for help and take appropriate action.

The rollout of our global Code of Conduct supports the implementation of our strategy. The full Code of Conduct is on our website at <http://www.baesystems.com/AboutUs/OurGlobalCodeofConduct>



**Ethics helpline**

Our Ethics Helpline exists so that employees can report ethical concerns from our business, confidentially, wherever they operate and whatever their role.

**Clear policies**

Key business policies and processes are mandated across the Company by our Operational Framework, which sets out the way we do business and what it means to be part of our Company. It is based on principles of good governance, a set of definitions, values, policies and processes that guide our work and behaviour, and a clear system of delegated authority.

Following the work on our global Code of Conduct, two new policies have been introduced. We published our new Environment Policy in January 2009 (see page 20). The new Lobbying and Political Support Policy provides additional focus and definition of the Company's position. The standard, as defined in our Code of Conduct, states we will not make political payments. We will be open about our lobbying activity.

We will continue to review and refresh our policies and processes on a regular basis as part of our commitment to continuous improvement.

**Business Development Advisers**

The use of advisers is common in many industries. They provide essential knowledge of local markets, rules and organisations.

Some stakeholders are concerned that the use of advisers may be associated with corruption.

In 2007, we undertook an extensive programme to revise our policies, processes and procedures with regard to the appointment, management and payment of Business Development Advisers. Central to this process is the creation of a Business Development Adviser Compliance Panel. The Panel is chaired by independent third parties. The revised process was described by the Woolf Committee as representing leading-edge practice.

During 2007 and 2008, whilst the new process for the appointment, management and payment of advisers was being designed and implemented, the Company also undertook a review of current contracts with existing Business Development Advisers and of expired contracts with outstanding obligations; this exercise included a review of these arrangements by the Panel. As a result of the review, and the Company's stated strategy to focus on the development of home markets, many

**Types of call to Ethics Helpline<sup>3</sup>**

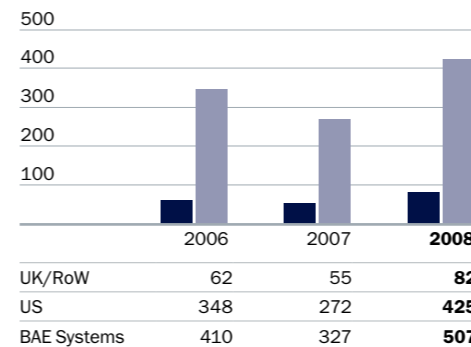
Resulting in enquiries ■ UK/RoW ■ US

Accounting charges practices	2	82	International business issues	0	2	Contract compliance	0	3
Company ethical practices	5	0	Procurement, trade and marketing	1	11	Management practices	11	69
Conflicts of interest	2	102	Quality or manufacturing issues	0	4	Environmental, Health and Safety	0	10
Employee relations and conduct	35	122	Security and misuse of assets	2	20	Guidance and advice	24	0
<b>Total</b>						<b>82</b> <b>425</b>		

<sup>3</sup> Enquiries include both requests for information and allegations of misconduct whether substantiated or not.

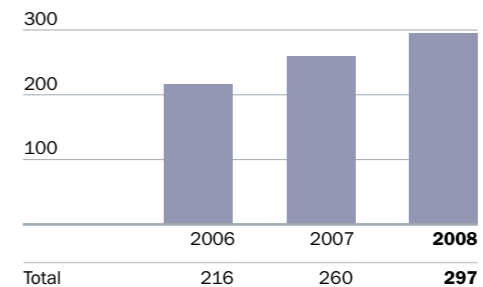
**Formal ethics enquiries from employees<sup>3</sup>**

■ UK/RoW ■ US



**Dismissals**

For reasons relating to unethical behaviour



Business Development Adviser contracts were either terminated or expired without renewal. As defined in the revised process, decisions by the Company to re-appoint, or maintain the contract and services of a Business Development Adviser are subject to the Company receiving from the Panel prior affirmative advice to do so. As a result of the actions described above, the number of Business Development Advisers has been substantially reduced.

**Implementing the Woolf Committee recommendations**

The Woolf Committee Report was published in May 2008. It made 23 recommendations for further improvement. These provide a route map for the Company to establish a global reputation for high standards of business conduct. The Committee's full report is available on our website at [www.baesystems.com/woolfcommittee](http://www.baesystems.com/woolfcommittee)

We have committed to act on all the Report's recommendations and have put in place a comprehensive implementation programme of up to three years to achieve this. In order for us to deliver this programme successfully, the outputs of the implementation programme must quickly become part of how the Company conducts its day-to-day business as a key part of its performance culture.

The Executive Committee has appointed the Group General Counsel as sponsor of a programme to implement the Woolf Committee findings and reinforce high standards of business conduct as a sustainable way of working across the Company. The programme, which is led by a full-time Programme Director and a central team of 14 people, applies project management disciplines and processes to the programme similar to those applied to the Company's projects. A Steering Committee, drawn from

members of the Executive Committee and other senior leaders, has been established to provide strategic oversight to the programme and to monitor progress regularly.

As part of the Implementation Programme, the Programme Team has divided each of the 23 recommendations into six key areas of operational activity, with each area being addressed by a Working Group. These six Working Groups consist of approximately 60 senior managers drawn from across the global BAE Systems business. External professional advisers have also been engaged to support the focus of the Programme. The scope of work being carried out in the Working Groups is as follows:

**(i) Customer Contracting** – developing procedures to assess the ethical and reputational risks involved with the selling of defence equipment and capability by BAE Systems. Such assessments are planned to form part of our consideration of what equipment and capabilities we sell, to whom we sell it, and what contractual obligations we will accept.

**(ii) Anti-Corruption and Compliance** – assessing and recommending changes to our anti-corruption policies, procedures and guidelines. This work includes codifying and integrating the existing policies on Business Development Adviser appointments, and recommending further enhancements to anti-bribery policies and procedures. Other policies under review include those relating to facilitation payments, gifts, hospitality and donations, Company giving, sponsorship, conflicts of interest together with internal investigations and disciplinary policy concerning breaches of business conduct policies.

**(iii) Board and Management Operations** – recommending enhancements to corporate governance arrangements with respect to the management of non-financial risk. This Working Group was responsible for recommending the establishment of a new role of Managing Director Corporate Responsibility as well as developing procedures to embed further the explicit consideration of ethical and reputational risk in the Company's decision-making.

**(iv) Leadership in business conduct** – defining and articulating the strategic aspiration and intent of the Company to be a leader in standards of business conduct among global companies. This Working Group is also defining the role and performance management assessment (including remuneration) of BAE Systems' senior executives, the development of a business conduct and compliance training strategy, and the drive for openness and transparency.

**(v) External engagement** – recommending actions to support the Company's leadership in the defence industry on key matters of ethical and reputational risk. This covers a wide range of external stakeholders such as governments, non-governmental organisations, customers and competitors.

**(vi) Establishing a global Code of Conduct** – focusing on the delivery and implementation of a new global Code of Conduct to communicate the required principles of business conduct and the standards expected of all employees, regardless of location or role, consistent with the Company's aspiration and intention to be a leader in standards of business conduct among global companies.

**Looking forward**

The global Code of Conduct is at a very advanced stage and the first phase of the work for the Working Groups is nearing completion. This phase involves identification of the actions necessary to implement each of the recommendations in the Woolf Committee Report, exploring options for change and proposing solutions. The status of these proposed solutions was reviewed, in detail, by the Steering Committee in December 2008.

The next planned phase, to be undertaken in the first half of 2009, is a consultation process both inside and outside the Company on these proposed solutions. We plan that the feedback from this consultation will be fully considered in formulating the final design of the changes to be implemented.

The programme to implement the recommendations of the Woolf Committee is an extensive and thorough undertaking of up to three years during which changes will be progressively implemented across the Company. As stated above, we already have a revised policy relating to the engagement of Business Development Advisers. In addition, we have reinforced our training in standards of business conduct and have taken initial steps to include a greater emphasis on assessing non-financial risk in the assessment of customer bid proposals.

Once we have fully implemented the necessary changes, our intention is that BAE Systems will be recognised as a global leader in standards of business conduct.

Our progress in implementing each recommendation will be monitored regularly by our Corporate Responsibility Committee. Independent external auditors, Deloitte, have been appointed to assure our progress annually.

**The Woolf Committee – key facts**

**What was it?**

An external, independent committee appointed by the BAE Systems Board in 2007.

**Why was it convened?**

The Committee's remit was to study and report publicly on our ethics policies and processes and make recommendations aimed at achieving a leadership position in ethical business practice among corporate industry peers. Its recommendations were published in May 2008.

**Members**

- The Rt. Hon. The Lord Woolf of Barnes (Chairman), former Lord Chief Justice of England and Wales
- Sir David Walker, Senior Adviser and former Chairman of Morgan Stanley International Ltd
- Philippa Foster Back OBE, Director of the Institute of Business Ethics
- Douglas N Daft AC, former Chairman and Chief Executive of The Coca-Cola Company
- Dr Richard Jarvis (Secretary to the Committee), former Secretary to the Committee on Standards in Public Life.



**Dick Olver**

Chairman, BAE Systems

"The Woolf Implementation Programme is of fundamental importance to how we do business now and in the future, and it will derive benefits for our employees, customers, and shareholders. We believe the Woolf Report provides valuable insight and observations that BAE Systems, the defence industry, and all global companies can learn from."



Above: Posters used to communicate launch of the Code of Conduct to employees