

For the second year BAE Systems charged the Panel with providing expert comment on our corporate responsibility (CR) strategy, governance and reporting and to offer advice on how to achieve leadership performance on our CR priorities.

## Composition

- **Julia King**, Vice President Corporate Responsibility, *GlaxoSmithKline*
- **Dawn Rittenhouse**, Director of Sustainable Development, *DuPont*
- **Mark Wade**, Context affiliate, formerly Head of Sustainable Development Policy, Strategy & Reporting, Shell (Chairperson)

## Brief

BAE Systems charged the Panel with providing expert independent comment on our CR strategy, governance and reporting and to offer advice on how to achieve leadership performance on our CR priorities.

The Panel met twice during the year, and reviewed material on our CR strategy and a draft of our 2008 CR Report. They were briefed by Deborah Allen, Deputy Managing Director Corporate Responsibility on BAE Systems' progress in 2008 and future ambitions.

The Panel was not asked to provide assurance or verification of systems or performance data.

## Commentary

### Strategy

BAE Systems has made a significant stride forward in seeing CR as central to the way it does business. This is evidenced by CR being embedded in the Group Strategic Objectives, the focus of the Executive Committee on total performance that includes CR, and the appointment of a senior CR Executive reporting directly to the Chief Executive.

**In doing so, BAE Systems has responded wholeheartedly to the central tenet of the Panel's recommendations of 2008 to move from a CR strategy serving business needs to a business strategy conducted responsibly. This marks an important milestone on BAE Systems' drive to becoming a leader in business conduct not just in the sector but in the global business community.**

The Panel acknowledges the progress made in identifying CR priorities and putting in place the necessary structures and resources for addressing them. The Panel encourages BAE Systems now to consolidate their thinking and commitments into a clear strategy for implementation across all aspects of the business. The Panel recommends this takes the form of a long term plan, including

milestones and targets, and BAE Systems makes this public. Such a move will be a powerful driver for change within the organisation and a signal of determination for all to see.

The Panel is pleased that a key recommendation to communicate and embed company values has been taken to heart. This is evidenced by the development of the new principles-based global Code of Conduct embracing what is expected of every employee with regards to CR including business conduct, safety, diversity and inclusion, and the environment.

The Panel notes that efforts on ethics awareness and behaviour have already led to a 7% increase in staff stating they believe BAE Systems demonstrates ethical standards.

BAE Systems' commitment to engaging all staff and developing training on the Code is welcomed. The Panel recommends that this also be central to employee induction.

**The unequivocal commitment by BAE Systems to act on all 23 recommendations of the Woolf Report and the setting up of the necessary structures for implementation is applauded. 2009 will be a test of the Company's resolve in moving from intent to delivery.**

The Panel recognises the determination of senior leaders to drive safety improvement. This is evidenced by their personal involvement in safety audits and the reduction in their bonuses because of the failure to meet the target of a 10% reduction in days lost to work-related injuries.

The Panel applauds the ambition to embed a 'culture of zero tolerance of unsafe working.' This recognises that engendering the right mindset is as important as setting the rules. The Panel recommends that these elements be central tenets of all safety training and that ultimately BAE Systems commits to a goal of zero injuries to send the clear message that all injuries can be prevented.

The use of the Safety Maturity Matrix is seen as a sound basis for driving continuous improvement in a structured and auditable way. It is recommended that the construct of the matrix and its elements be better explained in future Reports and/or through a web reference.

It is further recommended that the definitions used for collating and reporting data be made consistent with industry standards to aid meaningful comparison.

**The Panel notes that it is insufficient just to report the identification of the causes of injuries. It is necessary for the organisation to develop a fundamental understanding of the**

**underlying reasons for injuries and to make clear the actions that will be taken to prevent reoccurrence. This should be addressed in future reports.**

In spite of the failure to meet the 10% reduction target, achieving just over a 9% reduction in days lost due to work-related injuries in 2008 is creditable. BAE Systems is urged to build on progress, define clear targets and milestones across the safety agenda, and move from lagging to leading indicators as recommended last year.

**The calculation of BAE Systems' global carbon footprint is a major first step to developing a climate change strategy and setting emissions reduction targets. It is recommended that the footprint data be examined at a detailed level across all aspects of operations to drive down costs and impacts.**

It is recommended that a set of environmental Key Performance Indicators and targets be defined for other key environmental parameters.

The Panel applauds BAE Systems signing the UK Ministry of Defence Sustainable Procurement Charter. This shows industry leadership and a determination to carry best practice into the supply chain.

The Panel notes the start made in defining what human rights means for BAE Systems and early work on diversity and inclusion. The Panel recommends that BAE Systems seeks input from human rights organisations to enrich thinking and better understand societal expectations.

The Panel applauds the efforts BAE Systems is making to understand the potential issues associated with its products and the early steps being taken to address them. The Panel encourages BAE Systems to take a full lifecycle approach with a view to going beyond compliance.

### Governance

**The Panel is impressed with the systematic way in which BAE Systems has established a governance structure and clear senior executive accountabilities for CR and its elements. This includes the appointment of a Managing Director for CR and a comprehensive set of working groups for the implementation of the Woolf Committee recommendations and other CR priority areas.**

It remains the recommendation of the Panel that BAE Systems show in this Report the accountabilities and inter-relationships of the various governance structures. This will provide clarity and the necessary reassurance to staff and other parties that they are integrated and fit for purpose.

It is encouraging to note the innovation occurring in the ways the business divisions engage with staff on CR, safety recognition and reward systems, and the use of the Ethics Helpline. It is recommended that emerging best practice be exchanged and consolidated into new standards of working.

**BAE Systems is urged to seek wide expert stakeholder input to policy development across the CR agenda and in particular to human rights and climate change.**

### Reporting

Independent assurance helps to add rigour to management processes and builds trust in processes and behaviour. The Panel is pleased to see the strides taken in providing assurance on the CR Report compilation to the ISAE 3000 standard. The aim to align reporting to recognise standards over a three year period is welcomed. The Panel continues to recommend that BAE Systems works toward aligning reporting with Global Reporting Initiative guidelines.

The Panel is pleased that a communications package based on this report will be produced for staff. The Panel recommends that the contents of the report also be used as the basis for wider stakeholder engagement through the web and other means.

The Panel is encouraged by the first signs in this report of BAE Systems' willingness to provide real insights into the nature of its products and services, their use and the people who make and support them in the field.

**The Panel encourages BAE Systems to go further and to engage wholeheartedly in the debate on the legitimacy of the industry, BAE Systems' role within it and the associated issues and impacts. BAE Systems' statement that it does not produce land mines and cluster bombs is a powerful start.**

The Panel recommends that BAE Systems systematically identifies and addresses the key issues it faces using stakeholder input. Such issues should include the use of Business Development Advisers, offset agreements, end user certificates, lifecycle impacts and product composition and disposal.

**The Panel encourages BAE Systems to build on its impressive first steps and be bold in addressing the issues it confronts in a transparent and engaging manner. Only by doing so can BAE Systems' CR aspirations be fully credible.**

## Mark Wade

Context

"BAE Systems has made an impressive stride forward in seeing CR as central to business strategy. The challenge now is to embed this throughout the organisation in a systematic manner and unleash the value creation potential."

## Julia King

GlaxoSmithKline

"BAE Systems needs to confront and report the issues it faces in an engaging and transparent way. Only then will its aspiration for responsible business conduct be fully credible."

## Dawn Rittenhouse

DuPont

"It is insufficient just to report the identification of the causes of injuries. It is necessary for the organisation to develop a fundamental understanding of the underlying reasons for injuries and to make clear the actions that will be taken to prevent reoccurrence."

