

Stakeholder Engagement

Productive relationships with our stakeholders are essential to the effective running of our business and our ability to deliver high quality products and services.

Our stakeholders include employees, shareholders, trade unions, customers, business partners, suppliers, governments, CR specialists and local communities. We engage regularly with these groups to explain our approach and update them on changes in our business. We welcome feedback to help determine priorities and improve performance.

We also seek views and feedback on our CR programme from relevant specialists. These interactions improve confidence in our Company and help us move towards best practice.

Activity during 2008

Some of the ways that we have engaged stakeholders are included in the table on this page.

In addition, during 2007/08 the Woolf Committee met a large number of external stakeholders. These included representatives from government, investors, pressure groups and non-government organisations, peer companies and industry associations. Their views informed the Committee's final recommendations to BAE Systems. We are committed to continuing this dialogue with

interested external parties both helping us to shape required changes within BAE Systems, and agreeing broader defence industry approaches.

There are some key groups, in particular non-government organisations, with whom we recognise we need more proactive engagement going forward.

Responding to feedback

Last year, we asked a panel of experienced CR practitioners for their views on our CR strategy, governance and reporting. The table on page 7 shows how we have responded to their recommendations during 2008. A new commentary from the panel is included on page 8.

Activity during 2008

Employees

- Employee survey completed every two years, see page 28
- Global and local newsletters, team briefs and intranet sites
- Employee networks, including our Global Women's Forums and Networks
- 71 employee focus groups held to aid the development of our new global Code of Conduct.

Trade unions

- In the UK: we held 18 corporate level meetings with trade unions, including two Q&A sessions with our Chief Executive, quarterly corporate consultative meetings and monthly meetings with senior union representatives. We also consulted trade union working groups on a wide range of business issues including pensions, development of our Code of Conduct and review of the UK Respect at Work Policy
- In our US Combat Systems line of business: Management at five of our sites held regular meetings throughout the year with the six relevant unions. Unions are also involved in site safety committees and sometimes in employee training initiatives such as apprenticeship programmes
- In Sweden: Four unions attended eight meetings chaired by the business unit MD to discuss issues such as finance, market status and projects.

Shareholders

- Held 169 one-to-one meetings and 46 group meetings for investors to meet with senior management and our investor relations team
- Two site visits held, attended by five investor groups.

Customers

- Worked with the UK's Ministry of Defence to develop its Sustainable Procurement Charter, see page 23
- Supported the UK Government in efforts to develop an International Arms Trade Treaty.

Local communities

- Our businesses engage with communities on local issues. Examples include our Submarine Solutions business which runs a Local Liaison Group for community groups
- We engage with local communities globally through Company Giving and Charity Challenge initiatives
- Through our education programmes we encourage more young people to consider careers in science and engineering.

Business partners

- A founder and active member of the industry task force on anti-corruption and business of the Aerospace and Defence Industries Association of Europe (ASD)
- Continued to support the Defense Industry Initiative (DII) on Ethics and Business Conduct, to which BAE Systems Inc has been a signatory since 2002
- Supported dialogue between the ASD Council and Aerospace Industries Association in the US which aims to agree common industry standards on ethical business conduct.

Suppliers

- Worked with key suppliers through our supplier management and development programmes (see page 25) and in the UK our commitment to the Aerospace & Defence industry's 21st Century Supply Chains (SC21) improvement programme.

Governments

- Held regular meetings with government officials in our home markets to discuss public policy on defence and other business issues.

CR specialists

- The Woolf Committee recommendations are informing our approach to business conduct, see page 14
- Our CR Panel gave feedback on our strategy and reporting, see pages 7-9.

CR Panel – 2008 recommendations

Performance and plans

Strategy	Performance and plans
Develop a five-year plan for CR including targets and milestones.	During 2008 we reviewed our CR agenda and identified medium and long-term goals. During 2009 our new Managing Director Corporate Responsibility will develop a strategy for embedding CR across our businesses and regions, and a scorecard for monitoring progress.
Move from a CR strategy serving business needs to a business strategy conducted responsibly, and from compliance and risk avoidance to opportunity and value creation.	CR is now a key part of our Group strategic objectives (see page 2). Our newly appointed Managing Director Corporate Responsibility reports directly to the Chief Executive and will support this.
Communicate and embed the Company values more effectively.	During 2008 we increased our communication with managers and employees on CR. For example, this included regular items in Company Brief, monthly face-to-face briefings, and articles in BAE Systems News and on our intranet. Embedding an ethical culture is part of the work being undertaken following the Woolf Committee Report (see page 14). We launched our global Code of Conduct, which reinforces our ethical business principles, in January 2009. This covers our key CR issues including business conduct, safety, diversity and inclusion, and environment. The Code is being distributed to all employees through a briefing and cascade process and is being supported by an annual training programme.
Improve safety performance by an order of magnitude by focusing on culture, targets and leading (rather than lagging) indicators.	Senior managers are leading our efforts to embed a safety culture across BAE Systems and conducted a series of safety audits. During 2008, each of our businesses provided a rating against our Safety Maturity Matrix. All major operational sites (other than those acquired during the year) achieved our Level 3 target. 12% of the available bonus for senior executives was linked to performance on ethics and safety during 2008. Our safety performance improved in 2008 with the number of days lost to work-related injuries per 100,000 employees decreasing by 9% (See page 16).
Develop a global climate change policy. Improve environmental measurement and set ambitious targets.	We have calculated our carbon footprint and will use this to set emissions reduction targets to cut our impact on climate change. We have also signed the UK Ministry of Defence's Sustainable Procurement Charter. One element of the charter is an agreement to develop jointly sustainable measurement criteria, including climate change, and to implement processes and tools to enable the supply chain to work towards sustainable procurement and best practice (See page 23).
BAE Systems' human rights responsibilities need to be fully scoped, involving wide stakeholder participation.	We are developing our approach to a human rights policy for BAE Systems.
Governance	
Clarify how BAE Systems' committees and audit bodies relate to each other and provide assurance that they are fit for purpose.	Working group established to review board and management operations and define the role of our newly appointed Managing Director Corporate Responsibility (See page 5). We also held a joint meeting of CR and Audit committees in November 2008.
Clarify how senior responsibilities cascade to employees. Engage employees more effectively in performance improvement.	In 2008 senior managers carried out safety audits and training at our sites to raise awareness among employees. Performance on ethics and safety accounted for 12% of the available bonus for senior executives. A number of senior employees already have safety included in their personal scorecards. During 2009 we will look at ways we can extend business conduct and safety objectives to more employees.
Clarify the Company's processes for preventing bribery and corruption.	In 2008 we revised our policy on the appointment, management and payment of Business Development Advisers – which have been the source of some stakeholder concern about potential for corruption (see page 13). The revised process was described by the Woolf Committee as representing leading-edge practice. Our new global Code of Conduct (see page 13) aims to improve employee understanding of our approach and what it means to them. Our governance and external reporting on these issues will also be reviewed as part of our response to the Woolf Report recommendations.
Undertake a full stakeholder engagement process. Work towards setting up a broad-based Stakeholder Panel.	As part of the Woolf Implementation Plan a working group was established to review external engagement and map key stakeholder groups (see page 14-15). This group will consider the recommendation to set up a broad-base Stakeholder Panel.
Reporting	
Align reporting with Global Reporting Initiative guidelines.	Our current focus is to align our reporting with recognised standards over a three year period.
Set targets and report progress for all areas of current focus.	We report progress against our business conduct, safety, and diversity and inclusion targets described on page 4.
Provide more discussion on the legitimacy of the industry and more detail on products and services.	Our CR website is being revised to include more detail and background information. We will also improve links with other areas of the site, including product information.
Refocus reporting from shareholders to employees and other stakeholders.	An internal communications strategy was launched to increase employee awareness of our CR programme. We will continue to review reporting requirements.
Consider appropriate external audit and verification of reported information and data.	Deloitte were appointed to provide independent assurance on our 2008 Report using the ISAE 3000 standard.