

**BAE SYSTEMS**

INSPIRED WORK

# UK Modern Slavery Act

Response 2017

# BAE Systems UK Modern Slavery Act Response 2017

This statement is made pursuant to Section 54, of the Modern Slavery Act 2015 and sets out the steps BAE Systems plc and its subsidiaries have taken to prevent slavery and human trafficking in our business and supply chain.

We are committed to conducting business responsibly and to maintaining and improving systems and processes to reduce the risk of slavery or human trafficking in our business or supply chain.

## Company Overview

At BAE Systems, our advanced defence technology protects people and national security, and keeps critical information and infrastructure secure.

We search constantly for new ways to provide our customers with a competitive edge across the air, maritime, land and cyber domains. We employ a skilled workforce of 83,100 people in over 40 countries, and work closely with local partners to support economic development by transferring knowledge, skills and technology.

## Governance and Risk Management

The Board has put in place a detailed governance framework, the Operational Framework, which includes the Company's Code of Conduct. It sets out how we do business across BAE Systems and encapsulates the Company's values, policies and processes; together with clear levels of delegated authority aimed at ensuring that all of our employees act in a clear, accountable and consistent manner.

Performance and compliance with policies and processes are monitored via the twice yearly Operational Assurance Statement. This is made up of two parts:

- A self-assessment by our business and functional leaders of compliance with the Operational Framework; and
- A report showing the key financial and non-financial risks for the relevant business completed by line and functional leaders.

The key financial and non-financial risks identified are collated and reviewed by the Executive Committee to identify those issues where the cumulative risk, or possible reputational impacts, could be significant.

Responsibility for the management of our most significant non-financial risks is determined by the Executive Committee. The Operational Assurance Statement and non-financial risk registers are reviewed regularly by the Executive Committee to monitor the status and progression of mitigation plans. Key risks are reported to the Board on a regular basis.

The Board's Audit Committee monitors the key risks identified by the risk assessment processes and reports its findings to the Board twice a year. It is also responsible for reviewing in detail the effectiveness of our system of internal control policies, and procedures for the identification, assessment and reporting of risk.

During 2016, modern slavery and human trafficking did not appear on any risk register.

The Board has overall responsibility for determining the nature and extent of the risk it is willing to take, and ensuring that risks are managed effectively. Risk is a regular agenda item at Board meetings and the Board reviews risk as part of its annual strategy review process. This provides the Board with an appreciation of the key risks within the business and oversight of how they are being managed.

During 2016, the Board carried out a robust assessment of the principal risks we face, including those that would threaten our business model, future performance, solvency and liquidity. Such risks have been identified based on the likelihood of occurrence and the potential impact on the Company. These risks, together with details of how they are being mitigated and managed, are detailed in our 2016 Annual Report. Modern Slavery is not a principal risk for the Company.

## Our Commitment to Human Rights

We are committed to respecting the human rights of our employees in the workplace. We encourage our suppliers and business partners to adopt the same or similarly high standards of ethical behaviour. This includes giving guidance and support to our directly contracted suppliers and business partners in taking appropriate steps to prevent slavery and human trafficking occurring in our business or supply chain.

Our global policies and processes mandated under our Operational Framework support our commitment to human rights. These include:

- 'Code of Conduct – Being a Responsible Company'
- Responsible Trading Principles
- Company-wide policies, processes and supporting guidance including Advisers Policy, Mergers, Acquisitions & Disposals Process, People Policy, Procurement Policy, Offset Policy and Risk Management Policy
- 'Supplier Principles – Guidance for Responsible Business'
- Procurement Responsible Trading Characteristics
- Supplier due diligence, selection and approvals processes
- On-going Supplier Management and assurance processes

Our global 'Code of Conduct – Being a Responsible Company', provides practical guidance and examples to help employees deal with ethical issues and dilemmas, which is also supported by annual, face to face training.



We are committed to  
conducting business  
responsibly

We have processes in place that enable employees and third parties to raise concerns, anonymously if requested, which could include human rights issues. We encourage employees to seek guidance or speak up without retribution about any concerns they may have, including through our grievance channels, multi-lingual freephone Ethics helpline, Ethics e-mail and online reporting tool.

## We also have a network of Ethics Officers available to employees

During 2016, no concerns or calls were raised to Ethics Officers or the Ethics Helpline regarding modern slavery or human trafficking.

### Recruitment Processes & People Policy

Due to the nature of the industry we work in and the customers we support, all potential permanent and contract employees go through a pre-employment vetting process. Subject to local laws in each jurisdiction, individuals are verified for identity, employment and academic history, nationality and right to work status and criminal record checks.

Where we work with third party recruitment service providers, they are appointed and managed via our supplier management process, outlined below. Our 'Supplier Principles – Guidance for Responsible Business', launched in January 2017, include our expectations with regards to human rights, modern slavery and human trafficking, within our directly contracted supply chain. During 2017, our third party recruitment contracts will all move to requiring compliance with the principles of the Modern Slavery Act.

Our People processes, outlined within our global People Policy, ensures that where required by law or contract, each employee receives a contract or recruitment agreement outlining matters which may include remuneration, job role, rest and holiday periods, training and development and notice periods.

### Procurement & Supply Chain

We work with over 27,000 directly contracted suppliers and partners globally and we recognise the role they play in supporting responsible business. Our relationships with suppliers are often long-term due to the length of our product lifecycles, so we aim to work with suppliers who embrace standards of ethical behaviour consistent with our own. During 2016, we spent more than £9bn across the world with directly contracted suppliers.

We purchase a wide range of products from our directly contracted supply base. These products are either integrated into the products and solutions we sell to our customers (direct purchases), or are used to support the efficient running of our internal operations (indirect purchases).

Direct purchases vary in complexity from raw materials such as steel for our ship-building, aluminium and titanium for our aircraft manufacture, to complex electronic systems and propulsion systems for our air, sea and land vehicles. Other direct purchases include platform support, maintenance services, and IT solutions including those for cyber protection.

Purchases can be 'off the shelf' catalogue items such as electronic components, to semi-custom 'modified off the shelf' items such as power supplies, through to fully bespoke unique major subcontract items such as propulsion systems, flight control systems, weapon systems and their associated ground test equipment.

Indirect purchases include travel providers, manufacturing consumables, temporary subcontract labour, facilities management and construction.

Our global Procurement Policy sets out requirements for supplier engagement, including the management of supplier-related risk and ways of working as defined by our Supplier Principles. Compliance with this policy is monitored via the Operational Framework, and supplier-related risk is managed in the same way as other business risk.

The Global Procurement Council provides governance and oversight and consists of procurement directors from across our Company who manage and control supplier relationships, category management of supplier products, policy and process, and training for our procurement teams.

Our 'Supplier Principles – Guidance for Responsible Business', sets our expectations with regards to human rights, modern slavery and human trafficking, within our supply chain. We require our suppliers to comply with all legislation in the jurisdiction in which they operate and encourage them to meet the same or similarly high standards equivalent to our own on ethical conduct, labour welfare, health and safety, environment, civil liberties and human rights.

Our Standard Conditions of Purchase includes a clause regarding our Supplier Principles and the expectations set within them. Supplier compliance with our Standard Conditions of Purchase are reviewed and considered during the supplier due diligence, selection and approval process and during ongoing supplier management and quality assurance.

We have also supported the development of the defence industry's International Forum on Business Ethical Conduct Supplier Code of Conduct, which includes expectations for suppliers throughout the aerospace and defence industries regarding human trafficking and child labour.

Procurement team competency and training is reviewed, throughout the year, by the Global Procurement Council to ensure teams have the right capability in place. All procurement personnel have access to Procurement Developing You, accredited by the Chartered Institute of Procurement and Supply, created to provide the function with the information and skills to aid personal and professional development including how to assess suppliers against financial and non-financial risk.

We have developed guidelines for our procurement teams to assess suppliers. Our Responsible Trading Principles include anti-bribery and corruption criteria. This assessment process is under-pinned by a set of Responsible Trading Characteristics for Procurement, which asks questions of our suppliers relating to issues such as ethics, environmental impact, health and product safety, human rights and legal and export controls.

Our Ethics Helpline is available for suppliers to raise concerns or discuss issues, anonymously if requested, including human rights issues. Ethics helpline numbers are included within our Supplier Principles on our website.

## Supplier Selection Process

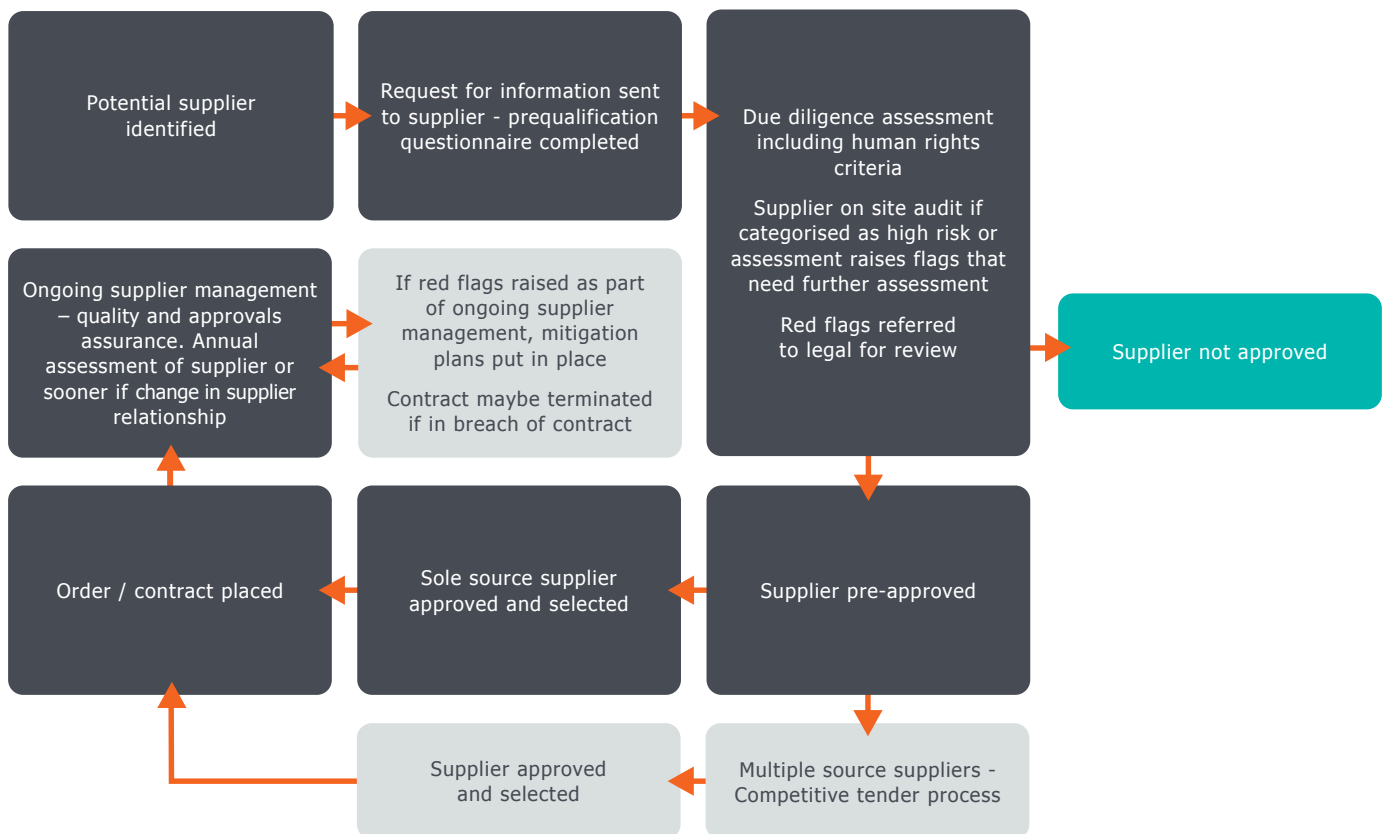
Prior to approving and selecting suppliers, we outline the products and services we need and short list potentially suitable suppliers. During this supplier evaluation stage, due diligence is carried out on suppliers against the following non-financial risks:

- Responsible Trading Principles - business ethics, anti-corruption & bribery, governance and legislation
- Human rights – working hours, harassment and unlawful discrimination, whistleblowing line, slavery, human trafficking and child labour
- Health and safety – workplace and product safety
- Environment – impact of operations and products
- Management systems – environmental management systems certified to 14001
- Responsible sourcing including conflict minerals.

From this analysis the risks are assessed, and suppliers are then categorised as low, medium or high risk, mitigation actions are placed, and suitable suppliers (often after a competitive tender) are then approved on the quality assurance and finance system or deemed unsuitable.

In some cases, suppliers are approved with corrective action plans. Each corrective action plan is specific to the supplier and project to which it is supplying. An example may be where a potential new supplier may not have a Code of Conduct in place or an equivalent standard to our own. The action may be to help them write their own code of conduct and to put it in place, or if they are not prepared to do this, we may choose to use a different supplier.

We use the Dow Jones Supply Chain Compliance Toolkit as part of anti-corruption due diligence checks for both new and existing suppliers.



## On-going Supplier Management and Assurance

Directly contracted suppliers are regularly reviewed, throughout their contractual relationship, as part of our Supplier Management process (on-going assurance review) and via our project management processes. Supplier non-financial risks are re-reviewed (via on-site audit or questionnaire depending on level of risk categorisation), and progress against any mitigation plans are monitored. If a supplier's level or risk increases, or gaps in performance are highlighted, performance improvement plans are put in place or enhanced.

## What would the Company do if Modern Slavery were found in its Supply Chain?

If modern slavery or human trafficking were found within our directly contracted suppliers, we would act immediately to work with the supplier and relevant authorities to understand the circumstances of what has been found and to put in place corrective actions that help the affected workers and protect them from further harm. If a supplier is unwilling to address the issue, then corrective action may include termination of contracts and selection of an alternative supplier.

This statement was approved by the board of directors of BAE Systems plc on 29 March 2017.



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Chief Executive  
BAE Systems plc

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