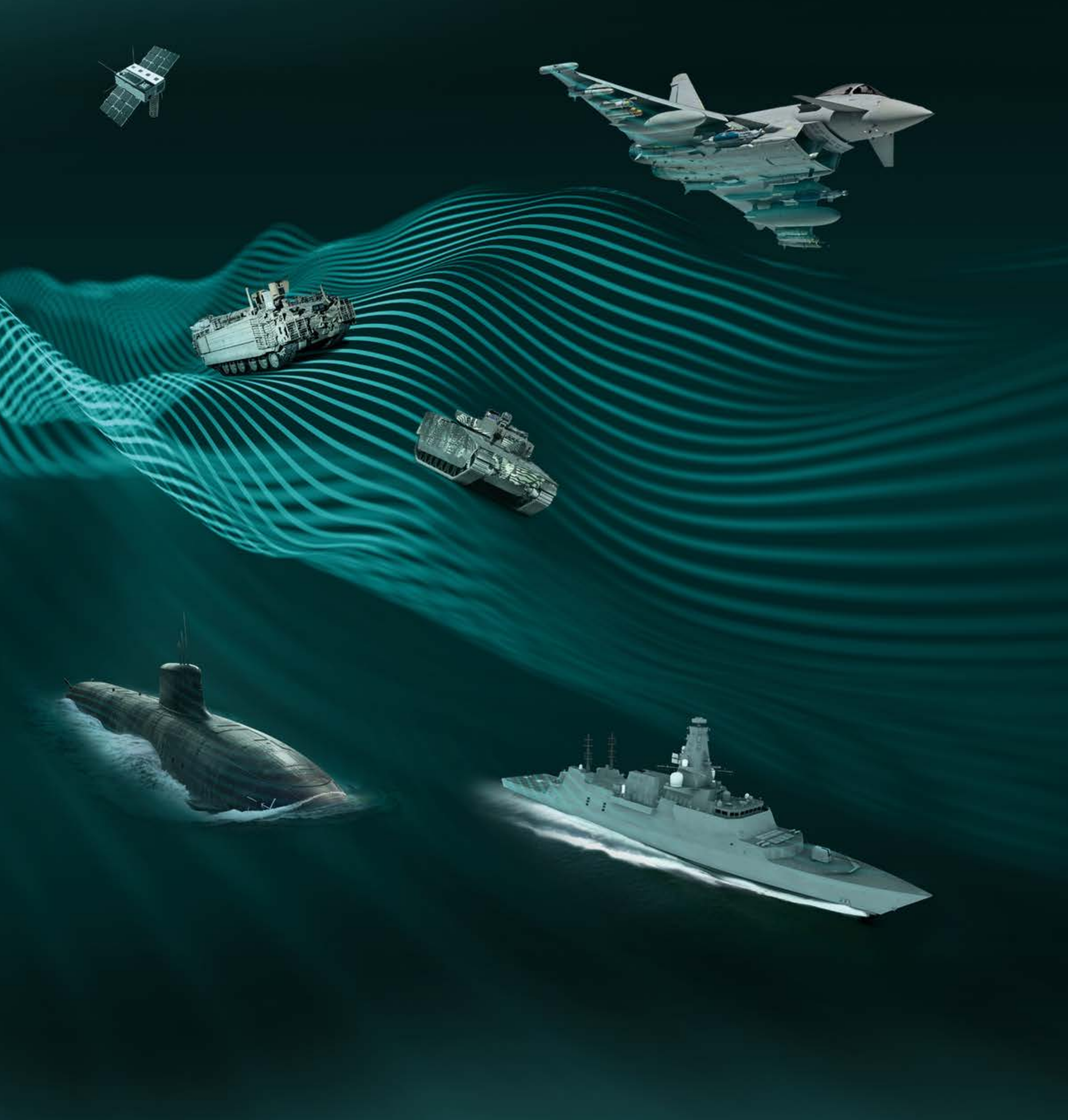
BAE SYSTEMS

Annual Report 2023
BAE Systems plc

baesystems.com



In this report

Strategic report

Governance

Financial statements

Additional information

This document comprises BAE Systems plc's annual accounts and report for the purposes of Section 423 of the Companies Act 2006.

The information in this Annual Report, which was approved by the Board of directors on 20 February 2024, does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2023, which contain an unmodified audit report under Section 495 of the Companies Act 2006 (which does not make any statements under Section 498 of the Companies Act 2006), will be delivered to the Registrar of Companies in accordance with Section 441 of the Companies Act 2006.

Please note that throughout this document graphical representation of component parts may not cast due to rounding.

Our vision

To be the premier international defence, aerospace and security company.

Our mission

To provide a vital advantage to help our customers to protect what really matters.

Our purpose

To serve, supply and protect those who serve and protect us, in a corporate culture that is performance driven and values led.

Through careful long-term sustainable management and governance of our business we will continue to create value for our stakeholders.

How our purpose connects to our strategy

Our strategic framework Page 12 →

How our purpose connects to our culture

Our stakeholders Page 24 →

The work of the Board Page 91 →

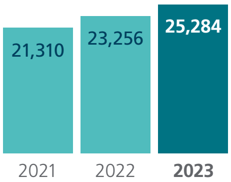
Our 2023 financial highlights

Financial performance measures defined by the Group[1]

Sales
KPI

£25,284m

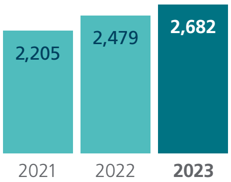
9% growth[2]



Underlying earnings before interest and tax (EBIT)
KPI

£2,682m

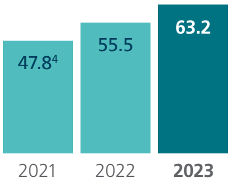
9% growth[2]



Underlying earnings per share (EPS)
BONUS KPI

63.2p

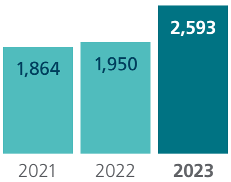
14% growth[2]



Free cash flow
KPI

£2,593m

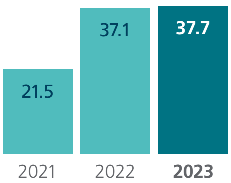
£643m higher



Order intake
BONUS KPI

£37.7bn

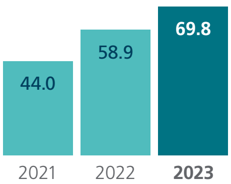
£0.6bn increase



Order backlog

£69.8bn

£10.9bn increase

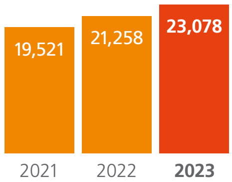


Financial performance measures derived from IFRS[3]

Revenue

£23,078m

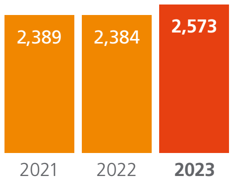
9% growth



Operating profit

£2,573m

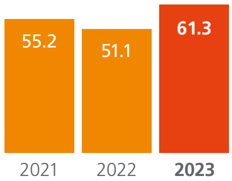
8% growth



Basic EPS

61.3p

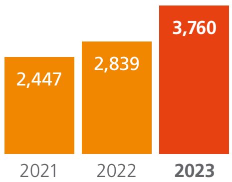
20% growth



Net cash flow from operating activities

£3,760m

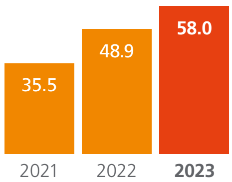
£921m higher



Order book

£58.0bn

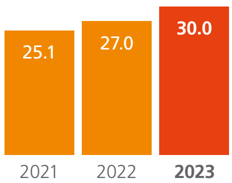
£9.1bn increase



Dividend per share

30.0p

11.1% growth



BONUS 75% of the UK executive directors' annual bonuses are based on the achievement of financial KPIs (see page 26).

KPI References to key performance indicators (KPIs) throughout the Annual Report.

1. The definition and purpose of all performance measures defined by the Group is provided in the Alternative performance measures section on page 227.
2. Growth rates for Sales, Underlying EBIT and Underlying EPS are on a constant currency basis (i.e. current year compared with prior year translated at current year exchange rates). The comparatives have not been restated. All other growth rates and year-on-year movements are on a reported currency basis.
3. International Financial Reporting Standards.
4. For 2021, underlying EPS was 50.7p including a one-off tax benefit of £94m resulting from agreements reached regarding the exposure arising from the April 2019 European Commission decision regarding the UK's Controlled Foreign Company Regime and the impact of the UK tax rate adjustment.

Our business at a glance

At BAE Systems, we provide some of the world's most advanced, technology-led defence, aerospace and security solutions.

We are a workforce of 99,800[1] highly skilled people in more than 40 countries. Working with our customers and local partners, we develop, engineer, manufacture and support products and systems that deliver military capability, protect national security, and keep critical information and infrastructure secure.

We maintain leading positions in major defence and security markets around the world – including the US, UK, the Kingdom of Saudi Arabia and Australia – as well as established positions in a number of other international markets.

2023 sales[2]

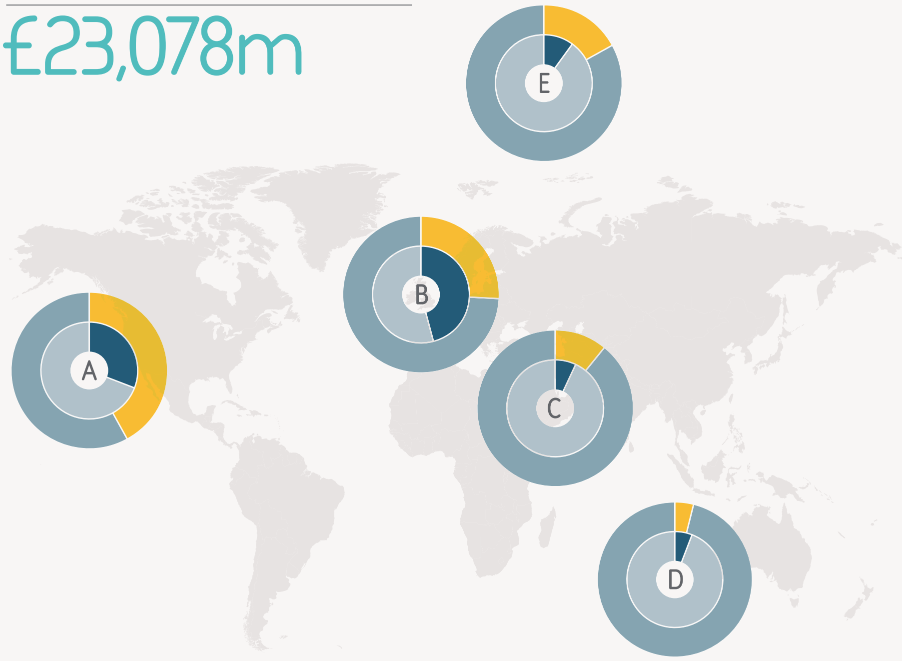
£25,284m

Sales[2] by destination

A	US	42%
B	UK	26%
C	Kingdom of Saudi Arabia	11%
D	Australia	4%
E	Other international markets	17%

2023 revenue

£23,078m



Total employees[1]

99,800

Employees[1] by location

A	US	31,600	31%
B	UK	45,700	46%
C	Kingdom of Saudi Arabia	6,700	7%
D	Australia	5,700	6%
E	Other	10,100	10%

We focus our operations in five[3] key sectors:

Sales[2] by sector

1	Electronic Systems	22%
2	Platforms & Services	15%
3	Air	32%
4	Maritime	22%
5	Cyber & Intelligence	9%

Employees[1] by sector

1	Electronic Systems	17,500	17%
2	Platforms & Services	11,900	12%
3	Air	26,000	26%
4	Maritime	27,500	28%
5	Cyber & Intelligence	11,000	11%
6	HQ/Other	5,900	6%

1. As at 31 December 2023 and including share of equity accounted investments.
2. Sales is defined in the Alternative performance measures section on page 227.
3. The Group has five operating sectors which, together with HQ, make its six operating segments as defined by IFRS 8 Operating Segments.

Our key programmes and franchises Page 04 →

Electronic Systems

Electronic Systems comprises the Group's US- and UK-based electronic solutions, including electronic warfare systems, navigation systems, electro-optical sensors, military and commercial digital engine and flight controls, precision guidance and seeker solutions, next-generation military communications systems and data links, persistent surveillance capabilities, space electronics and electric drive propulsion systems.

Segmental review Page 36 →

Platforms & Services

Platforms & Services, with operations in the US, Sweden and the UK, manufactures and upgrades combat vehicles, weapons and munitions, and delivers services and sustainment activities, including naval ship repair and the management and operation of two government-owned ammunition plants.

Segmental review Page 38 →

Air

Air comprises the Group's UK-based air build and support activities for European and international markets, US programmes, development of Future Combat Air Systems and FalconWorks®, alongside our business in the Kingdom of Saudi Arabia and interests in our European joint ventures: Eurofighter and MBDA.

Segmental review Page 40 →

Maritime

Maritime comprises the Group's UK-based maritime and land activities, including major submarine, ship build and support programmes, as well as our Australian business.

Segmental review Page 42 →

Cyber & Intelligence

Cyber & Intelligence comprises the US-based Intelligence & Security business and UK-headquartered Digital Intelligence business and covers the Group's cyber security activities for National Security, Central Government and Government Enterprises.

Segmental review Page 44 →

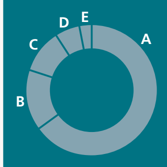
Our markets Page 18 →
Our financial review Page 28 →
Segmental review Page 35 →
Our sustainability agenda Page 46 →

Our key programmes and franchises

We have strong technological and programme diversity across our sectors.

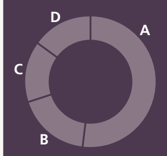
Sales[1] by key programme (%)

Electronic Systems



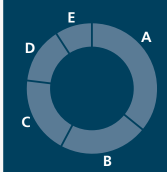
A	Defence electronics	65%
B	F-35 Lightning II	15%
C	Commercial avionics equipment	11%
D	Commercial other	6%
E	Space	3%

Platforms & Services



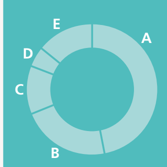
A	Combat vehicles	52%
B	US naval ship repair	18%
C	Munitions	15%
D	Weapon systems	15%

Air



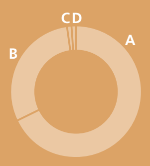
A	Typhoon	36%
B	Tornado	22%
C	Weapons Systems	19%
D	F-35 Lightning II	14%
E	Other	9%

Maritime



A	Submarines	47%
B	Complex warships	22%
C	UK naval support	12%
D	Munitions	5%
E	Other	14%

Cyber & Intelligence



A	US Government	68%
B	UK and other governments	30%
C	Commercial	1%
D	Other	1%

1. Sales is defined in the Alternative performance measures section on page 227.

Defence electronics

Design, manufacture and support of electronic systems across a range of US and other allied nations' military programmes, including a leadership position in the electronic warfare market. Our presence on a wide range of US fixed and rotary wing platforms, a number of which are coming into service, and a strong demand for capability and solutions to defeat increasingly sophisticated threats, are expected to provide this franchise with a solid platform for the coming years.

Commercial avionics equipment

Design, manufacture and support of avionics equipment across multiple commercial aircraft platforms, including engine and flight controls, and cabin and cockpit systems, as well as aftermarket support services. We are a leading supplier of engine controls for General Electric and a major supplier of flight control electronics for Boeing and other manufacturers.

Weapon systems and munitions

Design and manufacture of naval gun systems, munitions, torpedoes, radars, naval command and combat systems, artillery systems, missile launchers and, through our 37.5% interest in MBDA, missiles and missile systems. We operate and manage two complex US Army ammunition plants that produce energetics for insensitive munitions and propellant grains.

Aircraft

Prime contracting, systems integration, rapid engineering, manufacturing, maintenance, repair and upgrade, and military training for advanced combat and trainer aircraft. BAE Systems has a significant workshare on the world's largest defence programme, F-35 Lightning II, which includes design and manufacture of sub-assemblies in the UK, including the aft fuselage and empennage, and provision of equipment in the US, including the electronic warfare suite. Production levels are at full-rate and expected to be maintained for over a decade, based on a programme of record of more than 3,000 aircraft.

Manufacture of Typhoon major units and final assembly of aircraft. Expansion of the capabilities of the aircraft with the E-Scan radar and ongoing development of new technologies aligned with the UK Combat Air Strategy and capabilities required for the Global Combat Air Programme (GCAP). Typhoon manufacturing is currently underpinned by orders from Qatar, Germany and Spain which will ensure continuity of production.

Air support and training

Provision of support to operational capability, including maintenance, support and training for Typhoon aircraft in service with air forces in the UK, Kingdom of Saudi Arabia, Qatar and Oman. Under the Saudi British Defence Co-operation Programme, delivery of contracts for labour, logistics and training, training aircraft (including Hawk) and upgrades to Tornado aircraft. Contracts to support Hawk aircraft across 14 countries and support for the F-35 Lightning II fleet around the globe, including in-country support in the UK and Australia.

Space

Leading capabilities in radiation-hardened electronics for spacecraft and satellites. Our orbital expertise, combined with next-generation ground resiliency and data analytics solutions, helps to keep assets performing effectively in the harsh environments of space. Following the acquisition of In-Space Missions in 2021, we are one of a small number of British companies with the capability to design, build and operate Low Earth Orbit satellites. The acquisition of Ball Aerospace will add significant additional capabilities in the design, build and operation of satellites and satellite systems.

Ball Aerospace

In August, we announced a Stock Purchase Agreement to acquire the US-based Ball Aerospace business, a leading provider of spacecraft, mission payloads, optical and antenna systems, from Ball Corporation for $5.5bn (£4.4bn). The acquisition completed in February 2024.

www.baesystems.com/article

Submarines

Design and manufacture of seven Astute Class nuclear-powered attack submarines for the Royal Navy. The first four Astute Class submarines are in operational service with the Royal Navy, while the fifth boat exited our Barrow shipyard to commence sea trials in February 2023. The remaining two boats are at an advanced stage of build and the final boat is expected to enter service in the mid-2020s. Design and manufacture of four Dreadnought Class nuclear-powered submarines to carry the UK's Trident ballistic missiles. Manufacture of the first three Dreadnought Class boats is underway, with production on the programme to continue into the 2030s. Early design and mobilisation activities are underway on the SSN-AUKUS programme, which will deliver a replacement for the Astute Class.

AUKUS

In March 2023, further announcements were made as part of the AUKUS trilateral agreement between Australia, the UK and the US. Australia and the UK will operate SSN-AUKUS as their submarines of the future, with funding of £3.95bn awarded from the UK Ministry of Defence for the next phase of the UK's next-generation nuclear-powered attack submarine programme.

www.baesystems.com/article →

Naval ship repair and support

Provision of naval ship repair and modernisation services in the US and UK, together with support to the navies of the US, UK and Australia, at home and on deployment. In the US, we have facilities located on the Atlantic and Pacific coasts. In the UK, we support the operation of HM Naval Base Portsmouth on behalf of the UK Ministry of Defence. Our key customers in the US, UK, Australia and Canada are looking to extend and modernise their fleets in the coming years.

Complex warships

Design and manufacture of eight Type 26 frigates for the Royal Navy. The first four frigates are under construction, with the first Type 26 expected to be delivered in the mid-2020s. Contract signed in 2018 with the Australian Government that provides the framework for the design and manufacture of Hunter Class Frigates, with construction commencing during 2023 on the first schedule protection block following successful completion of the Preliminary Design Review. Provider of the warship design for the Canadian Surface Combatant programme.

Sustainable technology

Recognised provider of electric drive systems for low and zero emission propulsion systems with an extensive installed base on urban transit buses. We are leveraging our existing product portfolio and advancing sustainable vehicle mobility, efficiency and capability for a range of applications in public transit, maritime, air and military markets.

Uncrewed and future air system capabilities

Development of future air system capabilities, including joint investment with the UK Government and industry in a next-generation combat air system under the Tempest programme, which was launched in 2018 in support of the UK Combat Air Strategy. The Tempest programme is progressing, with the development of a new flying combat air demonstrator, set to fly within the next four years. Together with our partners, we are currently working on more than 60 technology demonstrations under an initial Concept and Assessment Phase contract. In 2022, The governments of the UK, Italy and Japan announced their intention to work together to build on the progress of the Team Tempest partnership under GCAP.

Global Combat Air Programme

Ministers from Italy, Japan and the UK signed an international treaty to develop an innovative stealth fighter under GCAP in December and confirmed that the joint GCAP government headquarters will be based in the UK. Following the industry collaboration agreement announced in September, as the UK's industry lead, we continue to work closely with our partners Mitsubishi Heavy Industries in Japan, and Leonardo in Italy, to determine the future joint business construct, which will also be headquartered in the UK.

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Photo: US Army

Armored Multi-Purpose Vehicle moves to full-rate production

Following prior funding for early order materials, in August, the US Army moved forward on the AMPV programme, with cumulative funding of $797m (£641m) to begin full-rate production. We look forward to continuing to partner with the US Army on this critical programme.

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Combat vehicles

In the US, we build and upgrade a number of tracked combat vehicles including: the Bradley Fighting vehicles, M109 self-propelled howitzers, Armored Multi-Purpose Vehicles (AMPVs) and M88 recovery vehicles, and we manufacture amphibious combat vehicles (ACVs) for the US Marine Corps and international customers. The Hägglunds business in Sweden builds, upgrades and supports the CV90 and BvS10 tracked combat vehicles. In the UK, we upgrade, build and support vehicles for the British Army through our joint venture with Rheinmetall, RBSL.

Cyber security and intelligence

Delivery of a broad range of intelligence, security and synthetic training services to enable military, intelligence and civilian branches of the US Government to recognise, manage and defeat threats. Support to UK and overseas governments and government agencies in their intelligence missions. The heightened threat environment and more sophisticated technology are leading to increased government cyber spending in markets including the US, UK and Australia, and we are well placed to support our customers in these markets.

Chair's letter

As one of the world's largest defence contractors, our technology, capabilities and global footprint ensure we play a leading role in supporting our government customers in meeting the elevated threat environment.

Dear Shareholders

This is my first letter to you as Chair since taking over from Sir Roger Carr after the AGM in May last year. It has been a dynamic and rewarding year in which the Company has continued to perform strongly, both financially and operationally. During 2023, we have sadly seen geopolitical instability increase and, as one of the world's largest defence contractors, BAE Systems has continued to play a leading role in supporting our government customers in the elevated threat environment.

First impressions

I have very much enjoyed getting to know the business better, visiting many sites and meeting colleagues across the business. It is a privilege to chair such an important Company that, in my view, has often understated its achievements and unique qualities. One of my strongest impressions has been the incredible sense of purpose that our people have across the Company. They understand the importance of the role that we play in national defence. "To serve, supply and protect those who serve and protect us" is a phrase I have heard often and it clearly defines what we do. This purpose is integral to our culture and values.

BAE Systems has a critical role to play in defence and cyber security in our core markets in the UK, US, Australia and the Kingdom of Saudi Arabia and in other countries where we operate through government relationships, such as in Ukraine. The case for defence is very clear; investment in defence is required to help to grow geopolitical stability and prosperity, and it is also needed to protect countries and citizens from threats, and protect free trade. The defence sector also delivers economic prosperity, through creating jobs, building skills and investing in communities, as well as developing new technologies with varied applications.

Technology is at the heart of much of what we do; we continue to build on our portfolio of products for air, sea and land and also develop cutting-edge technologies fit for the challenges of a digital world where multi-platform communication is key.

Under the strong leadership of Charles Woodburn and the rest of the executive team, BAE Systems has evolved into a forward-looking, technology-led defence Company, with a unique international customer base. We have a strong base from which we are driving what we expect to be a period of sustained top-line growth. Our management continues to focus intently on operational excellence, especially in the execution of our key programmes.

Progressing our strategy

2023 has been a busy year for the business with significant agreements on SSN-AUKUS and GCAP that will underpin the Company's long-term prospects. We announced the deal for Ball Aerospace, a leading company in the military and civil space domain, our largest ever M&A transaction. This acquisition will enable us to accelerate our growth in the expanding space market. We have also continued to support our key customers in their response to the invasion of Ukraine, and in their other activities.

Against this backdrop of strategic progress, we have delivered another year of strong financial performance with a record order book, 9% sales growth and profitability underpinned by good operational performance across all sectors, and strong cash flow. This has continued our good track record and is delivering on our value-compounding model.

As we expand to deliver new programmes, like SSN-AUKUS and GCAP, it is critical that we develop the right skills in our employee base. I am proud that, in 2023, we had c.5,500 graduates and apprentices in training in the UK alone, and we are one of the largest private sector apprentice and graduate hirers in the UK. We continue to develop new engineering, manufacturing and training facilities for our expanding workforce, and to invest in the local communities where we have major operations.

We remain focused on developing world-class future technologies to support our customers' needs, with total R&D spending increasing year-on-year.

Our ESG priorities dovetail with our overall mission. We are aware of the impact that our activities have on the environment, backed up by data we gather, and we remain focused on our journey to Net Zero. As one of the UK's largest manufacturers, and with operations in over 30 states in the US, we have a major social and economic impact in both countries. All of our activities take place within a clear governance framework led by the Board.

> Across my site visits, I have been impressed by the sense of mission and purpose amongst our employees, and the positive role we play in the communities we operate in.
>
> **Cressida Hogg CBE**
> Chair

Capital allocation

Financial and operational discipline has contributed to strong performance and allowed the Board to balance investing for long-term growth with allocating capital for shareholder returns. The ongoing share buyback programme and dividend payments distributed significant capital to shareholders through the year. Capital allocation remains a key focus for the Board and is regularly discussed in our strategic planning and budget approval sessions.

With the business well positioned for the future, the Board has recommended a final dividend of 18.5 pence per share, making a total dividend of 30.0 pence per share for the full year. This is an increase of 11.1% on last year and represents the 20th year of dividend growth for the Company.

Governance

Good governance is fundamental to the long-term success of the Company and is covered in more detail in the annual report on pages 80 to 140.

A change of Chair allows for a proper review of the governance structures and processes already in place. Overall, our existing governance practices are robust and continue to evolve. A key ongoing project is refreshing our approach to risk management and assurance, in line with changes in governance standards.

A fundamental responsibility for any Board is planning for orderly management succession. I am very much enjoying working with Charles and his management team. However, all companies must have resilience and be able to maintain momentum through management change. I am working with the Board to refresh our succession planning processes to ensure we identify potential and talent internally and externally.

Board changes

The composition and evolution of our Board are important and activity is focused on ensuring we continue to be well positioned to support the business in what should be a period of sustained growth, even as the Board evolves.

Sir Roger Carr, who retired as Chair in May 2023, had led the Board for over nine years. There have already been many tributes paid to Sir Roger and the legacy he has left here. I would like to thank him again on behalf of the Company for all he achieved. His experience, knowledge and passion for what we do were evident to all who met him and we wish him the best for the future.

We also sadly said farewell to Chris Grigg, our Senior Independent Director (SID), at the end of 2023 after nearly a decade on the Board. I am personally grateful to Chris for extending his tenure to provide continuity through the Chair transition, and would like to thank him for the outstanding contribution he has made on our Board. I am pleased that Nicole Piasecki has agreed to take on the role of SID in addition to chairing the Remuneration Committee. As a significant proportion of our turnover and shareholder base is in the US, it seems timely to have a US citizen as SID.

I am delighted that Angus Cockburn joined the Board at the end of 2023. Angus brings deep financial and commercial expertise to the Board from his executive career (see page 82 for more detail).

Finally, I would like to thank all of our colleagues for their contribution to our strong performance this year. The dedication and skills of our workforce are at the heart of the Company's culture and success.

Cressida Hogg CBE
Chair

Chief Executive's review

2023 saw another stand-out year of order flow on new and existing programmes, renewals on incumbent positions and a strong opportunity pipeline. These underpin our confidence and visibility for good top-line growth in the coming years, while we continue reinforcing our value-compounding model with a sharp focus on operational performance and disciplined capital allocation.

Overview

I am pleased to report that BAE Systems delivered another year of strong operational and financial performance in 2023, despite continued global supply chain disruptions and high inflation.

These pressures are starting to recede and we have entered 2024 with a compelling competitive position, thanks to our portfolio and geographic diversity, and multiple new business opportunities, including the acquisition of Ball Aerospace – all of which point to another productive year for BAE Systems and our shareholders.

2023's successes were undoubtedly driven by our people, their unwavering focus on our purpose of protecting those who protect us, and a values-led culture, committed to sustainable business practices, inclusion, a robust governance structure and high ethical standards. The global events of recent years have reinforced the essential role of the defence industry in helping governments protect their countries and citizens.

2023 operational performance

Overall, we have made strong operational progress and advanced the strategic objectives we have been pursuing for the past several years.

Our focus on operational excellence continues to benefit our customers and shareholders, especially as we execute on complex, long-duration programmes like Dreadnought, Type 26 and Hunter Class frigates, Typhoon and F-35 jets, electronic warfare systems, combat vehicles, and many other programmes. This relentless focus on delivering for our customers has positioned the Group as a trusted supplier of advanced technology solutions and industrial capabilities to help customers achieve their critical national and global security missions.

2023 financial performance

Our key financial measures of order intake, sales, underlying EBIT, underlying EPS and free cash flow all increased, amidst a high inflation environment. This was only possible because of the excellent work of our employees on programme execution, our discipline on contracting and meaningful internal efficiency efforts.

On a constant currency basis, we grew order backlog by 21%, sales by 9% and underlying EPS by 14%. We delivered a record free cash flow of £2.6bn for the year and, as a result, exceeded our stated three-year free cash flow target for 2021 to 2023.

This strong set of results was enhanced by our ongoing share buyback programme. In 2023, we repurchased £561m worth of our shares, or 1.9% of our outstanding share capital.

Building an operational and financial track record

In 2021, we laid out how we would build on a period of transition and our good performance from 2018 to 2020. It centred around building a track record of good quality operational and financial performance on which customers and shareholders could consistently rely. We delivered against all the operational areas in the scorecard, which has led to strong financial performance over the three years from 2021 to 2023 with sales growth of 20%, margin expansion of 80bps, cash conversion of 100% and total shareholder returns of £4.2bn.

With strong momentum behind us from our last three years of delivery, a record order backlog and our largest ever acquisition completed, we look forward to the next three years with confidence. In many aspects, our ambitions for the coming years are a continuation of the strategy we have been

"I am pleased to report that BAE Systems delivered another year of strong operational and financial performance in 2023.

Charles Woodburn CBE
Chief Executive

Returns to shareholders[1]

£1,418m

Order backlog

£69.8bn

1. See calculation on page 32.

executing, with the foundations for delivery built on:

- strong operational performance and contracting discipline;
- investing appropriately to support growth and our customers' priorities; and
- looking to deepen partnerships and collaborations.

Delivery against these ambitions, coupled with the acquisition of Ball Aerospace which is set to be additive to our top-line growth, margin expansion and cash conversion outlook, means we are well positioned to deliver a compelling and predictable value-compounding model for our stakeholders.

Balance sheet strength

We ended 2023 with a strong balance sheet, featuring a cash position of £4.1bn, net debt (excluding lease liabilities) of £1.0bn, and a net pension position that remains in an accounting surplus. Our capital allocation remains consistent and is focused on underpinning the Group's long-term strength and expected growth. We prioritise investing in the business for the long term through research and development (R&D), as well as acquisitions in high-growth and high-return parts of the business. Our capital expenditure (capex) is targeted to ensure our systems and facilities are modern, deliver an effective working environment and provide the capacity needed to support our growth outlook.

Our ambitions 2021–2023

Strong consistent programme performance	Further investment in technology	Efficiency and simplification in working	Portfolio shaping for value creation	Secure further opportunities and wider market base	Accelerate our sustainability agenda

Financial outcome from delivery against our ambitions

Top-line growth

Since 2021, we have grown sales by 20% on a constant currency basis.

Margin expansion

We have increased margins from 10.3% in 2021 to 10.6% in 2023, driven by:

– Improvement in programme performance across the portfolio.

– Inflation management and strong supply chain performance.

– Operational efficiencies and simplification.

Strong cash conversion

We have generated £6.4bn of free cash flow in the three years to December 2023.

We anticipate strong cash conversion to continue, forecasting free cash flow of in excess of £5bn for the next three years from 2024 to 2026.

Higher return on capital employed (ROCE)

We have increased profitability, with underlying EBIT increasing 30% on a constant currency basis over three years since 2021. We have boosted efficiency through our careful capital allocation, resulting in a higher ROCE for our investors.

ROCE is a key metric in driving executive remuneration.

Focused capital allocation

We have applied a clear, consistent and careful capital allocation across the business.

– We have continued to invest in our people, growing to 99,800 employees at the end of 2023 from 89,600 in January 2021, including our share of equity accounted investments.

– We have applied significant investment in upgrading and improving facilities across our sites to ensure our processes are efficient and we are able to deliver operational excellence.

– We continue to invest in future technologies. Our total R&D spend across the three years to the end of 2023 was £5.9bn.

– We continue to identify and pursue value-enhancing acquisitions in alignment with our Group strategy.

Following ratings upgrades from S&P Global and Fitch in 2022, as well as being placed on positive outlook by Moody's, we have maintained our strong investment grade credit ratings.

Rating	Outlook	Category
Moody's Investors Service		
Baa2	Positive	Investment grade
Standard & Poor's Ratings Services		
BBB+	Stable	Investment grade
Fitch Ratings		
BBB+	Stable	Investment grade

Attractive shareholder returns

Total shareholder returns since 2021

£4.2bn

– As at 31 December 2023, we have returned £4.2bn through dividends and share repurchases under announced share buyback programmes since 2021.

– We continue to target paying dividends in line with the Group's policy of long-term sustainable cover of around two times underlying earnings.

Chief Executive's review continued

We are also committed to returning value to shareholders in accordance with our capital allocation policy through a dividend, which has increased for 20 years in a row, and share buybacks. Reflecting this, in August, we announced a further three-year share buyback programme of up to £1.5bn to commence after the completion of the current programme.

Highly relevant capabilities

As one of the world's largest defence companies, our technologies, capabilities and global footprint position BAE Systems as a leader in helping customers meet the elevated threat environment of today and tomorrow. Executing on our ambitious product and technology strategy, the Group continues to design, develop and manufacture cutting-edge products – across the domains of air, sea, land, cyber and space – that our customers count on. Our exceptional portfolio is enhanced by enabling technologies including artificial intelligence, autonomy, synthetic environments and cyber defence, ensuring we remain at the forefront of national security-related innovation. In addition to our defence portfolio, our commercial aviation product lines are recovering as more passengers return to flying. Demand for our low and zero emission propulsion systems also grew, with opportunities to take these applications into the defence arena, as well as maritime and air.

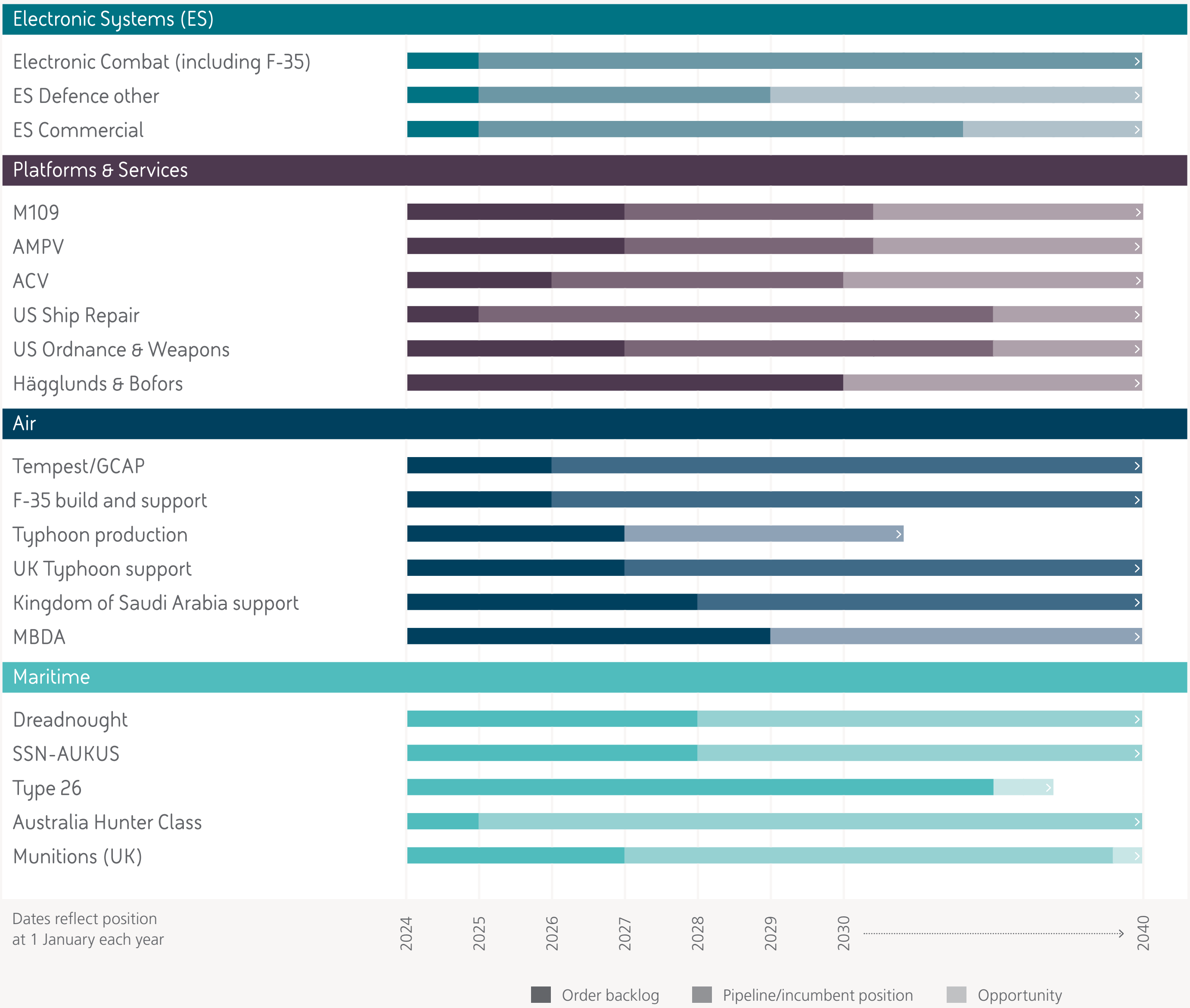
Our market differentiation

Our diverse product and services portfolio, combined with our global footprint and engagement in many of the world's largest national defence markets, are key and differentiating strengths. We see good long-term growth and significant opportunities in our US, UK, European, Middle Eastern, Australian and Asia-Pacific businesses.

Most of the countries where we operate have either announced budget increases or are planning increased spending to address the elevated threat environment. While governments continue to face global economic and fiscal pressures, commitment to defence spending in our major markets remains robust.

Please read more about our markets on page 18.

Our multi-decade programmes and growing global opportunity pipeline[1]



1. Backlog for Cyber & Intelligence is generally for one year with an incumbency position following.

Our long-term visibility

With our record order backlog and programme positions, as illustrated in the chart on page 10, we have a high level of visibility of our revenues for many years to come. The order backlog is, in many cases, just a subset of the true programme length and value, with many of our key programmes running well into the next decade. The current visibility has the potential to be even further enhanced as we have a growing global opportunity pipeline, driven by our capabilities and market differentiation.

Portfolio evolution to support the long term

During the year, three significant events have positively enhanced the business portfolio relevance for the long term.

- Firstly, further detail on the AUKUS trilateral agreement between Australia, the UK and the US was announced in March 2023 and has significant future potential for BAE Systems. We have already secured £3.95bn of funding in the year for the next phase of the UK's next-generation attack submarine programme.
- Secondly, GCAP, formed in 2022, saw ministers from Japan, the UK and Italy sign an important treaty in December 2023 in the shared design and development of next-generation fighter aircraft, reinforcing momentum and the strong trilateral co-operation between the partners.
- Thirdly, in August 2023, we announced the acquisition of Ball Aerospace, a leading space, defence technology and tactical missiles company, which we believe has highly relevant mission-critical capabilities for our customers' future needs. The acquisition completed in February 2024.

Investing for growth

To meet the business's growth outlook, we are increasing our investments in people, technologies and facilities. We boosted our global workforce by 6,700 employees compared to 2022. Given the long duration of many of our programmes, we put a special emphasis on early careers and community outreach to ensure we hire, develop and retain the best talent. In 2023, we increased recruitment of UK apprentices and graduates by 37% compared to 2022.

We also continue to develop and modernise our facilities, making progress in building capacity for the future in munitions, shipbuilding, submarines, combat vehicles and electronics.

Technology and innovation are central to our strategy and we increased Group R&D expenditure by 14% compared to 2022.

Our investments in core franchises and our next-generation priorities, such as: space; autonomy; sustainability; advanced manufacturing; and multi-domain and digital integration, are driven by the evolving threat landscape. At a tactical level, the conflict in Ukraine is highlighting the importance of a number of these key technologies, especially autonomy, synthetic training, digital and multi-domain capabilities, while also reinforcing the critical need for munitions and maintaining legacy capabilities.

We are driving innovation through the research labs embedded in our business sectors, including FASTLabs™ in the US, Red Ochre Labs in Australia, and now via the FalconWorks® organisation in our Air sector. These hubs are agile innovation engines aimed at delivering bold breakthrough technologies to keep our customers ahead of the challenges they face. They also foster collaborative partnerships with academia and other organisations to bring even greater levels of creative and diverse thinking into BAE Systems. Read more about our investment in technology on page 20.

Our sustainability agenda

Recent global events continue to demonstrate the need for strong defence and security in the face of aggression by nation states. At BAE Systems, we provide critical capabilities and support to our government customers and their allies to fulfil their primary obligations to keep citizens safe, as well as enabling important economic and social contributions through the provision of sustainable high-quality jobs.

In line with our Group strategic business priorities, we put a significant focus on recruitment, skills and education to ensure the future talent pipeline. A key enabler to this is a positive and inclusive workplace and we continued employee engagement through our employee resource groups and introduced new wellbeing programmes. Please read more on pages 46 to 66.

Sustainability is one of our focus areas for technology innovation in the Group. Our ambition is to improve the sustainability of our products without compromising performance, even enhancing it where possible.

Executive Committee changes

After long and successful careers with the Company, two Executive Committee members retired at the end of the year. Our Air Sector Managing Director, Cliff Robson, has been succeeded by Simon Barnes, who previously led our business in the Kingdom of Saudi Arabia. In our Digital Intelligence business, Managing Director David Armstrong has been succeeded by Andrea Thompson, who previously led our Air Sector's Europe and International business.

Summary

As you'll see throughout the pages of this report, 2023 has been a year of real progress for the Group. We delivered a strong operational and financial performance, moved forward on highly significant long-term strategic programmes with GCAP and AUKUS, increased R&D spend and capex, grew our workforce by a net 6,700 employees and announced the $5.5bn acquisition of Ball Aerospace to enhance our space portfolio, which completed in February 2024.

On behalf of all of my BAE Systems colleagues, I'm proud to report that the fundamentals of the business are strong, the outlook is positive and our team is focused on our values and purpose – "to serve, supply and protect those who serve and protect us". We are well positioned to help our national government customers keep their citizens safe and secure in an uncertain world. For shareholders, our record order backlog, position on major programmes and our continued focus on operational excellence and financial discipline, provide a high level of visibility for sales growth, margin expansion, cash generation and capital returns in the years to come.

Thank you for your support of the Group and our strategy for value creation. We look forward to another productive and rewarding year in 2024 for all our stakeholders.

Charles Woodburn CBE
Chief Executive

Our strategic framework

Our vision

... is to be the premier international defence, aerospace and security company.

Our mission

... is to provide a vital advantage to help our customers to protect what really matters.

Our strategy

... is comprised of six key long-term areas of focus that will help us to achieve our vision and mission. It is centred on maintaining and growing our core franchises and securing growth opportunities through advancing our three strategic priorities whilst demonstrating our Company Behaviours in all that we do.

1 Sustain and grow our defence business

- Deliver on our commitments effectively and efficiently
- Develop our offerings to meet the future defence and security needs

2 Continue to grow our business in adjacent markets

- Take our capabilities into adjacent attractive markets
- Develop dual-use opportunities delivering civil solutions to leverage back to meet challenges for our defence customers

3 Develop and expand our international business

- Mature our international activities, broadening our offerings to our established customers
- Develop relations with additional customers

4 Inspire and develop a diverse workforce to drive success

- Ensure we diversify our thinking and harness the full potential of our people
- Create an environment and proposition in which our people will thrive

5 Enhance financial performance and deliver sustainable growth in shareholder value

- Seek opportunities to drive efficiency, standardisation and synergies
- Identify opportunities for higher-margin offerings

6 Advance and integrate our sustainability agenda

- Emphasise the vital role we play in protecting countries and civilians and supporting our communities
- Progress the delivery of our decarbonisation strategy

Our strategic priorities

... provide the link between our longer-term strategy and near-term business objectives for all our employees.

Drive operational excellence	Continuously improve competitiveness and efficiency	Advance and further leverage our technology

Our sectors

Electronic Systems	Platforms & Services	Air	Maritime	Cyber & Intelligence
Page 36	Page 38	Page 40	Page 42	Page 44

Our values: Trusted, Innovative and Bold

Our strategy in action

Drive operational excellence

BAE Systems Hägglunds

With over 60 years of experience in tracked vehicles, BAE Systems Hägglunds has built an enviable portfolio of combat vehicles. As a trusted supplier, we have experienced accelerated demand from European nations for vehicles and upgrades in our Sweden-based business. In recent years, Hägglunds has secured notable awards including winning Slovakia's Infantry Fighting Vehicle competition with the CV90, the Czech Republic contract for CV90s in seven variants, a three-nation joint procurement for BvS10s for Sweden, Germany and the UK, and the US Army's competition for its Cold Weather All-Terrain Vehicle programme with Beowulf. To deliver profitable growth while meeting this surge in demand, the Hägglunds team is maintaining focus on operational excellence. We are optimising our own manufacturing capabilities and skilled workforce, while striking the right sourcing balance through robust industrial co-operation and partnering to grow smartly, build strong margin performance, and ramp operations to fulfil our customer commitments.

Continuously improve competitiveness and efficiency

New Glasgow ship build hall

We have started construction on a new ship build hall in Glasgow, Scotland, which will enable us to build two Royal Navy warships under cover simultaneously. The new facility, together with a new Applied Shipbuilding Academy, is part of a £300m investment programme which will transform the way we design and build warships on the River Clyde and create more capacity for potential future contracts.

Designed to accommodate up to 500 workers per shift, the new ship build hall will improve working conditions for our colleagues and help ensure adverse weather conditions do not impact our shipbuilding operations.

It will also enable a greater level of equipment outfit, before each ship moves to the dry dock for testing, commissioning and acceptance, and will support a quicker delivery of the Type 26 frigates to the Royal Navy.

Advance and further leverage our technology

Azalea™

We are developing our first multi-sensor satellite cluster which is designed to operate in Low Earth Orbit to deliver high-quality information and intelligence in real time from space to defence customers. Known as Azalea™, the group of satellites will use a range of sensors to collect visual, radar and radio frequency data, which will be analysed by on-board machine learning on-edge processors to deliver intelligence securely from orbit. The Azalea™ cluster is designed to deliver timely, actionable intelligence for military operations and disaster response. Unlike conventional, single-purpose satellites, the cluster is designed to be reconfigured while in orbit; this is designed to enable it to deliver future customer missions and to extend the lifecycle of the satellites. The programme is well positioned to support the UK Government's Defence Space Strategy, which named Earth observation as a priority area to help protect and defend UK interests, a sovereign capability which Azalea™ could provide.

Our business model

Our unique strengths and resources provide opportunities to create sustainable value for our stakeholders.

Our people
Our culture values inclusion and diversity and rewards integrity and merit so that everyone can fulfil their potential. We are committed to nurturing talent and developing highly-skilled people. We are training the next generation of employees and business leaders to be able to drive innovation and solve complex challenges.

Our technology
We focus on technology innovation and engineering excellence, prioritising and investing in next-generation R&D programmes to deliver competitive solutions to meet our customers' needs, now and in the future.

The core activities we undertake to create value for stakeholders
Our activities are undertaken with a clear, consistent and careful capital allocation.

Identifying customer needs
- We have established positions on long-term programmes
- We build strong and collaborative relationships with our customers
- Our position as a trusted supplier allows us to identify emerging trends and opportunities for growth

Research & development
- Technology and innovation underpin our strategy and the development of our products and services
- We partner with academic and industrial leaders to develop new technologies that support our future product strategies
- We have a clear focus on our R&D spend, and that of our customers, aligned to future product and services strategies

Bidding and contracting
- We focus on value for our customers while effectively managing risk
- We maintain a record of delivery on complex projects
- We develop partnerships with a network of suppliers supporting economic prosperity and development

The value we create
Through careful long-term sustainable management and governance of our business we will continue to create value for our stakeholders.

Customers
Our largest customers are governments, but we also sell to commercial businesses and other large prime contractors. We never lose sight of the users of our products and services and the critical work they do to keep us safe. We take on and solve some of their most complex and challenging engineering and technology projects to give them a competitive edge and help them to protect what matters most.

Money spent on R&D

£2.3bn
(2022: £2.0bn)

Environment
We acknowledge the significant and lasting impacts of climate change. Our goal is to carry out a long-term strategy to reduce the impact of our activities, supply chain and products on the climate by using our world-class engineering capabilities and cutting-edge technologies. We continue to make progress on our target of achieving net zero greenhouse gas (GHG) emissions (Scope 1 and 2) across our operations by 2030.

Employees
We support high-value jobs in our business and in our supply chains. This includes direct employment as well as indirect employment in our supply chain and jobs supported by the consumer spending of our employees and supply chain.

Apprentices and graduates across the Group

5,500
(2022: 4,500)

Communities
We contribute to the economic prosperity of the places where our people live and work. In addition to the high-value jobs we sustain, supporting the communities in which we operate and causes that have meaning to our business is vitally important to us and our employees.

Responsible operations and social impact

We take pride in managing our operations responsibly and our ambition is to have a responsible and sustainable supply chain across our global business. We cannot achieve this alone, therefore it is important that we collaborate and partner with suppliers to make a positive business impact. This is essential to achieving our target of net zero GHG emissions (Scope 1 and 2) across our operations by 2030.

Our governance framework

We are accountable for all that we do and our robust governance framework sets out how we do business. Together with our Code of Conduct, which requires our employees to conduct business in an ethical way, it enables us to earn and maintain the trust of our stakeholders.

Our partners and key relationships

We recognise the important contribution provided by our suppliers and partners and we maintain close relationships with them to help us create best-in-class, cost-effective products and services.

Our investment proposition Page 16 →

Design and developing

- We provide engineering expertise in developing cutting-edge products and services
- Working with our customers, we develop products designed to minimise environmental impacts during service and at end of life
- Our products are designed and developed in a way that provides for future flexibility with the ability to upgrade in an agile manner

Advanced manufacturing, commissioning and integration

- We focus on operational excellence with safety as a priority
- We continuously invest in advanced manufacturing techniques and facilities
- We manage complex projects and collaborations across global supply chains

Services, sustainment and upgrade

- We provide competitive services that add value for our customers
- We develop technical expertise, which is acquired through product design and development
- We use flexibility and responsiveness to maximise availability of our customers' products

Reduction in GHG emissions (Scope 1 and 2)

-11.0%

(2022: –9.6%)

Total contributed to local, national and international causes[2]

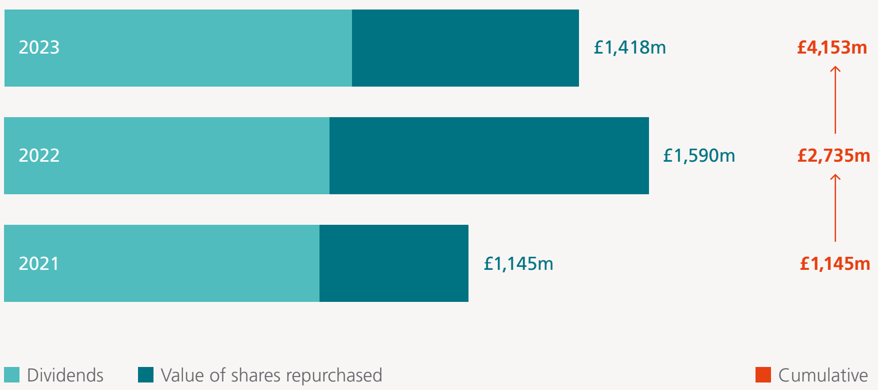
£11.3m

(2022: £11.5m)

Investors

We have a strong track record of delivering financial returns for investors and, through the careful long-term sustainable management and governance of our business, we are well placed to continue to generate good returns.

Total shareholder returns[1]



1. This excludes the increase in value of shares. See calculation on page 32.

2. The full value of our contribution to communities for 2023 was £11,267,109 (2022 £11,504,152). Deloitte has provided independent limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) and Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the International Auditing and Assurance Standards Board (IAASB). Deloitte's full unqualified assurance opinion, which includes details of the selected metrics assured, can be found at baesystems.com/annual-report.

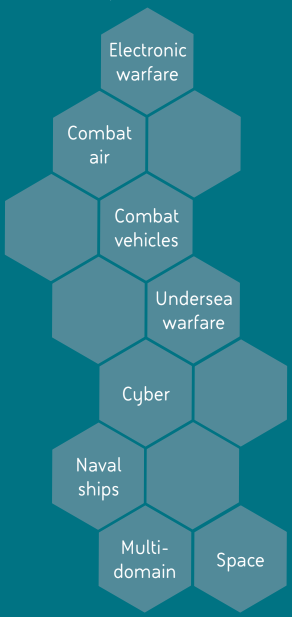
Our investment proposition

We focus on careful long-term sustainable management and governance of our business, to deliver value for all our stakeholders. We are poised for further top-line growth and profitability based on robust end markets, the value drivers of our operating model, and the strategic actions we are taking, presenting a compelling investment case for current and prospective investors.

Supported by our seven key advantages:

1

We provide customers with world-class defence capabilities across multiple domains.



Read more on Page 4 →

2

We undertake multi-decade programmes with long-term embedded value. Our contract order backlog provides a high level of sales visibility, driven by multi-year programmes.

Read more on Page 10 →

3

We have a growing global opportunity pipeline. Our diverse geographic footprint supports us in pursuing excellent opportunities across all sectors as countries around the world face up to the multi-faceted threat environment.

Read more on Page 17 →

4

We foster a high-performance, innovative culture and consistently invest in R&D to build on existing world-leading capabilities and generate new innovative and disruptive technologies.

Read more on Page 20 →

5

We have an intense focus on operational excellence, with strong, consistent programme performance. We are focused on operational efficiencies to expand margins and create value for our investors and customers.

Read more on Page 28 →

6

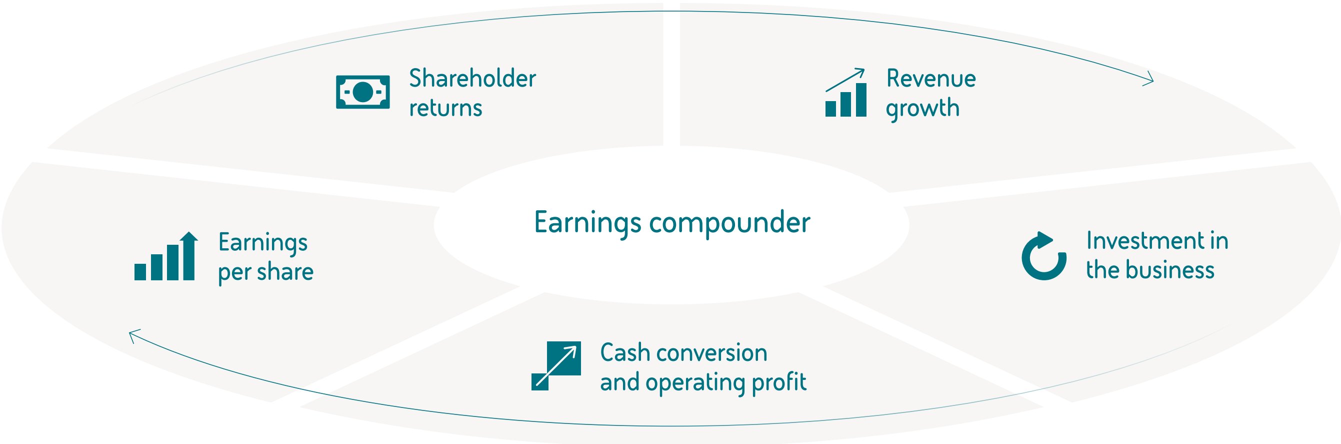
Sustainability is fundamental to our business performance and we have a strong, progressive environmental, social and governance (ESG) agenda. It is embedded into our strategic framework and underpins our purpose.

Read more on Page 46 →

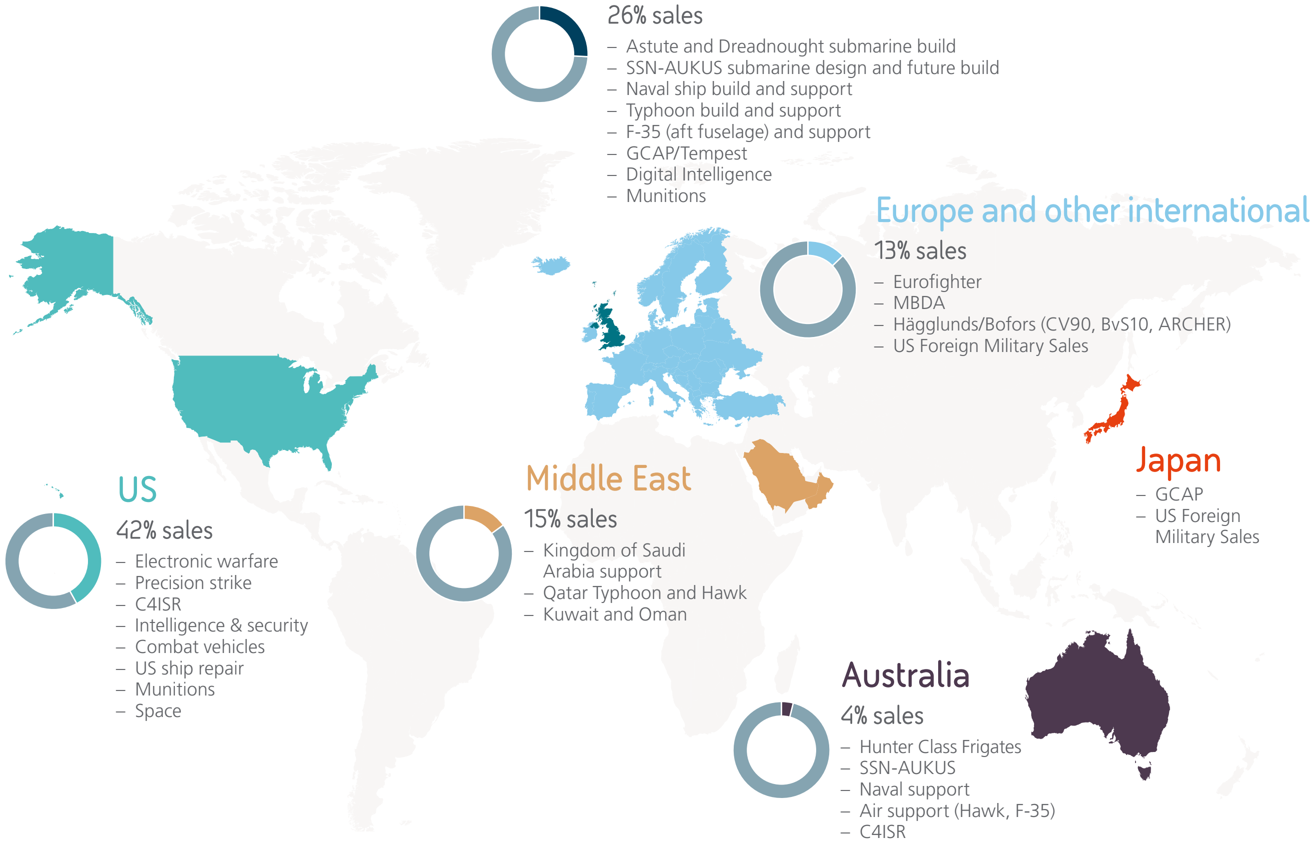
7

We operate a value-enhancing operating model, undertaking our core business activities with a clear, consistent and careful capital allocation.

Our seven key advantages help deliver our sustainable value-compounding model:



Our diverse geographic footprint:



UK
26% sales
- Astute and Dreadnought submarine build
- SSN-AUKUS submarine design and future build
- Naval ship build and support
- Typhoon build and support
- F-35 (aft fuselage) and support
- GCAP/Tempest
- Digital Intelligence
- Munitions

Europe and other international
13% sales
- Eurofighter
- MBDA
- Hägglunds/Bofors (CV90, BvS10, ARCHER)
- US Foreign Military Sales

US
42% sales
- Electronic warfare
- Precision strike
- C4ISR
- Intelligence & security
- Combat vehicles
- US ship repair
- Munitions
- Space

Middle East
15% sales
- Kingdom of Saudi Arabia support
- Qatar Typhoon and Hawk
- Kuwait and Oman

Japan
- GCAP
- US Foreign Military Sales

Australia
4% sales
- Hunter Class Frigates
- SSN-AUKUS
- Naval support
- Air support (Hawk, F-35)
- C4ISR

Our clear, consistent and careful capital allocation policy:

Increasing R&D
Invest in research, design and development activities to create advanced technologies and new capabilities that support our customers' requirements.

CAPEX to drive growth
Invest in new facilities to provide world-class work environments that support innovation, production and teamwork to enable us to deliver cutting-edge technologies to our customers.

Investment in our people
Support high-value jobs in our business and across our supply chain.

Leading to higher and sustained cash conversion
Our free cash flow for 2023 was £2,593m (2022 £1,950m).

Our forecast free cash flow for the three years to 2026 is guided to be greater than £5bn.

Read more on Page 31 →

Dividends
30.0p dividend per share for 2023[1]

We plan to pay dividends in line with our policy of long-term sustainable cover of around two times underlying earnings.

M&A
Acquisition of Ball Aerospace

Pipeline of technology-focused bolt-on opportunities.

Read more on Page 9 →

Share buyback
£0.6bn worth of shares repurchased in 2023

Announced a further up to £1.5bn share buyback programme in August 2023, to commence after completion of the up to £1.5bn share buyback programme announced in July 2022.

Balance Sheet strength
Maintain flexibility in how and when we apply our capital allocation policy to ensure operational flexibility.

Maintain our investment grade ratings.

1. Total dividend for the year comprises the interim dividend of 11.5p and final dividend of 18.5p.

Our markets

BAE Systems maintains leading positions in major defence and security markets around the world – in the **US, UK, Europe, Middle East and Asia Pacific**. We are not only one of the world's largest defence and security companies, but are one of the most **geographically diverse**, providing us with a competitive advantage.

BAE Systems' global defence market position

Top ten global defence contractors' revenue ($bn)

1. Lockheed Martin	63
2. RTX	40
3. Northrup Grumman	32
4. Aviation Industry Corporation of China	31
5. Boeing	31
6. General Dynamics	30
7. BAE Systems	25
8. China North Industries Group Corporation Limited	18
9. L3Harris Technologies	14
10. China South Industries Group Corporation Limited	13

Source: Defense News Top 100 for 2023 (based on 2022 numbers). Exchange rate applied to BAE Systems is $1.24/£1.

Supporting our customers' evolving needs

Our strategy, as shown on page 12, is focused on providing a vital advantage to our customers around the world through advanced technologies, innovation and agility, global industrial capacity, and responsiveness. In particular, we have built strong positions aligned with our core defence platforms to support our customers in our principal markets who have shown a significant and sustained commitment to their defence and security, and support for their allies. We have established strong and enduring relationships in these markets and are recognised as playing a key role in the industrial capability of each of these countries.

Our unique global position and capabilities

We have a strong position in the US through the Special Security Agreement and are the leading defence contractor in the UK and Australia. In Europe, we have a considerable presence through our Swedish combat vehicle and artillery business, our role on Eurofighter, our 37.5% shareholding in MBDA and our content on US foreign military sales. We have a long-established position in the Middle East, and through GCAP we are forging strong links with Japan.

In addition, our diverse portfolio of capabilities in the air, sea, land, cyber and space domains provides us with a comprehensive offering for our customers around the world, making us one of the broadest and most geographically diverse major defence companies.

Our market positions and discriminating capabilities are aligned with enduring global defence priorities, to include our customers' requirements to operate in joint all-domain environments.

Programme diversity and longevity

The Group's wide diversity of capabilities, products and programmes means we are not heavily reliant on a small number of key programmes or franchises. Additionally, our order backlog of £69.8bn includes major programmes that are well positioned to extend beyond their current funded backlog for many years, and in some cases, multiple decades.

Response to increasing threat environment

Our business continues to evolve and respond to the geopolitical and technological trends shaping our customers' defence and security priorities now and in the future.

Our demonstrated excellence in complex engineering, developing cutting-edge technologies and seeking innovative solutions enables us to respond to requirements for greater agility, global reach, and advanced technology products and services.

Growth aspirations

In response to significantly elevated global tensions and the acute threat environment, many countries around the world continue to announce defence and security budget increases. The need to re-stock and upgrade equipment is highly relevant to our portfolio and presents opportunities around the world.

Factors likely to impact future performance

Business risks facing the Group are reported in the principal risks section of this report (pages 70 to 77). In relation to our market positions and future performance, the major risks would be in relation to political changes in alliances, defence spending outlook and defence export control regimes. At the operational level, performance of products and services and adherence to delivery schedules could impact our market positions with customers and competitor pricing or new entrants could also have an impact.

Value of the top global defence markets accessible for business by the Group

US and Canada

$848bn defence market

The US continues to be the single largest defence market in the world. We are a top ten defence prime contractor in the US, and in Canada we have a long history of supporting the Canadian Armed Forces.

Existing programmes
- Electronic warfare
- Precision strike
- C4ISR
- Intelligence & security
- Combat vehicles
- US ship repair
- Munitions
- Space
- Canadian Surface Combatant

Opportunities
- Precision munitions
- Combat vehicles
- Munitions restocking
- Electrification – ground and air
- Space, autonomy and cyber
- US Foreign Military Sales
- Maritime support

UK

$68bn defence market

As the largest defence company in the UK, we have strong and enduring relationships with the UK Ministry of Defence and our domestic supply chains.

Existing programmes
- Astute and Dreadnought submarine build
- SSN-AUKUS submarine design and future build
- Naval ship build and support
- Typhoon build and support
- F-35 (aft fuselage) and support
- GCAP/Tempest
- Digital Intelligence
- Munitions
- MBDA

Opportunities
- Domestic and export partnerships
- Space, autonomy and cyber
- Munitions restocking
- Sustainable technologies

Europe[1]

$330bn defence market

In Europe, we are meeting the increased demand for advanced military equipment across all domains, as countries are transitioning away from older-generation systems and recapitalising with modern, more advanced air-, land- and sea-based systems.

Existing programmes
- Eurofighter
- MBDA
- Combat vehicles/artillery – CV90, BvS10, ARCHER
- US Foreign Military Sales
- Precision munitions
- GCAP

Opportunities
- Combat vehicles/artillery – CV90, BvS10, ARCHER
- US Foreign Military Sales – electronic systems
- US Foreign Military Sales – combat vehicles/artillery/ precision weapons
- MBDA domestic and exports
- Eurofighter domestic and exports
- Precision munitions

Middle East[2]

$148bn defence market

The Kingdom of Saudi Arabia continues to be a leading military power in the Middle East and one of the largest defence markets globally. We also continue to support other customers in Oman, Kuwait and Qatar.

Existing programmes
- Kingdom of Saudi Arabia support
- Qatar Typhoon and Hawk
- Kuwait and Oman

Opportunities
- Typhoon
- Support and training
- Upgrades and defence infrastructure programmes
- Cyber intelligence

Asia Pacific[3]

$265bn defence market

As the largest defence company in Australia, we have a strong presence across all domains and are growing as the country's defence budget increases. In the wider Asia-Pacific region, we are a supplier to a number of armed forces, both directly and through joint ventures.

Existing programmes
- Hunter Class Frigate
- GCAP
- US Foreign Military Sales
- Fast jet support
- Ship support
- C4ISR

Opportunities
- SSN-AUKUS – pillar 1 and 2
- GCAP
- US Foreign Military Sales – Electronic Systems
- US Foreign Military Sales – combat vehicles/artillery/ precision weapons
- MBDA exports
- Cyber intelligence
- Australian defence exports

Source: Jane's Defence Budgets (based on 2023 total defence budgets).
1. Includes NATO countries, Sweden and Ukraine, but excludes UK as shown separately.
2. Includes Egypt, Kuwait, Oman, Qatar, Kingdom of Saudi Arabia and UAE.
3. Includes Australia, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.

Our investment in technology

The speed of change in technology today is greater than ever before. We need to develop our own technologies, leverage our investments and cultivate strategic partnerships with organisations, both inside and beyond the sector, to deliver the most compelling capability to our customers.

Focus areas

We align our technology development to key strategic themes, which supports growth in today's core franchises and tomorrow's emerging capabilities.

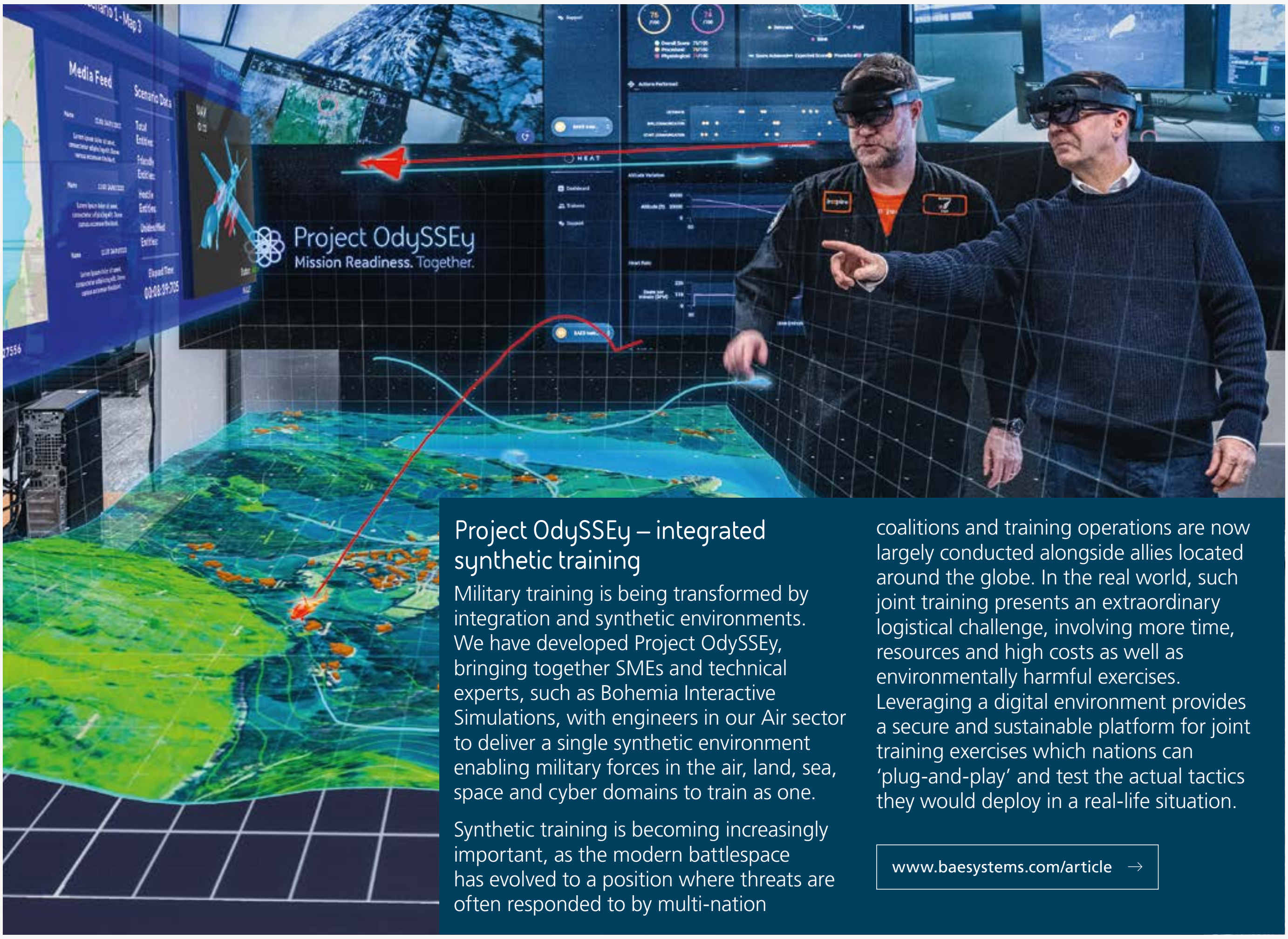
Digital integration across military and security domains

Integration across land, sea, air, space and cyber domains is becoming essential for military operations, so this is a key pillar of our current technology plan. While BAE Systems has been digitally integrating naval vessels and combat jets for decades, more recently we have started building a suite of products and services designed at their core to share data and work seamlessly together. These include uncrewed ground, sea and air vehicles, as well as battlefield networks and synthetic environments to share information, assist human decision-making and enable joint command and control.

We have taken an open systems approach, using standards-based architecture, modular design and incorporated translation layers at every boundary within the system.

This allows customers to flexibly deploy our capabilities, making them easier to integrate with existing capabilities and equipment from other suppliers. For example, we have already integrated our systems with third-party products such as Sentinel's LR70 uncrewed air vehicle and a third party's fast interceptor boat. Our aim is to help our customers achieve integration among their procured products, no matter who supplies them.

In 2023, our next-generation battlefield network was selected for the British Army's Trinity programme, which will replace its existing Falcon network in 2026. Trinity will significantly increase the robustness and bandwidth of the network, allowing more data to be transferred and greater control over how individual nodes interact. It will enable UK military personnel to interact more effectively with allies when operating as a single nation or part of an international coalition across multiple battlefield domains.



Project OdySSEy – integrated synthetic training

Military training is being transformed by integration and synthetic environments. We have developed Project OdySSEy, bringing together SMEs and technical experts, such as Bohemia Interactive Simulations, with engineers in our Air sector to deliver a single synthetic environment enabling military forces in the air, land, sea, space and cyber domains to train as one.

Synthetic training is becoming increasingly important, as the modern battlespace has evolved to a position where threats are often responded to by multi-nation coalitions and training operations are now largely conducted alongside allies located around the globe. In the real world, such joint training presents an extraordinary logistical challenge, involving more time, resources and high costs as well as environmentally harmful exercises. Leveraging a digital environment provides a secure and sustainable platform for joint training exercises which nations can 'plug-and-play' and test the actual tactics they would deploy in a real-life situation.

www.baesystems.com/article →

Autonomous products for air, land and sea

In 2023, we unveiled several new products at the world's largest defence show, the Defence and Security Equipment International (DSEI) event. We are designing these products to navigate autonomously as well as operate as part of a multi-domain force. There are clear benefits to uncrewed systems, as they can take on a range of dangerous jobs that would otherwise need to be done by a human. We are actively supporting ongoing work by our customers to establish appropriate principles and policies for the use of autonomous systems in defence, to ensure meaningful and context-appropriate human involvement and compliance with applicable national and international law.

www.baesystems.com/article →

Artificial Intelligence and autonomy

While not a new area for BAE Systems, technological developments and increased computing power have allowed us to apply Artificial Intelligence (AI) in more areas, from design and manufacturing to enabling new levels of autonomy in military platforms and services.

We are investing in AI research, both in-house and with our strategic university partners. At Cranfield University, we have contributed to the development of a new course in Applied AI, ensuring it is relevant to the defence and aerospace industry. Through this course and sponsorship of PhD placements at the university, we are developing systems that can dynamically plot optimal routes for uncrewed vehicles, through complex and changing threat environments. One such example is a project to find safe landing areas for autonomous air vehicles during hazardous search and rescue missions, removing humans from this dangerous task.

At Manchester University, our AI data science accelerator is exploring autonomous navigation using a combination of sensors without using GPS, which can't always be relied on in contested military environments. We are using data from NASA's openCAESAR initiative, building models of our complex engineering systems and allowing us to validate that design rules are being followed throughout millions of lines of code.

Our battlefield-ready Electronic Warfare (EW) systems are working towards a future with AI, such as in the Eagle Passive Active Warning Survivability System (EPAWSS), which our BAE Systems, Inc. team delivers. EPAWSS implements 'cognitive' EW to detect, identify, analyse and jam previously unknown threats, something that previous EW systems could not do without returning to base. Cognitive EW is one step closer to integrating AI into an EW system.

The Defense Advanced Research Project Agency has also contracted with our US business to develop new technology allowing advanced automated signals processing – vital for navigation, target detection and communication – on much smaller platforms than is currently possible. We use our advanced electronics skills to significantly reduce the size, weight and power requirements for these computation-heavy operations.

AI is used to inform the design and development process of the Future Combat Air System. It is also used to support collaborative research and development. Our intention is to further integrate our digital engineering data, helping us monitor the entire engineering lifecycle. This will mean a change to one part of the design can be assessed more quickly for any impact on other systems, rather than waiting for a time- and cost-consuming cycle of manual iterations.

Space

In the US, we are developing, manufacturing and deploying state-of-the-art, radiation-hardened circuits to support missions of national importance across defence, space, intelligence, research and commercial applications. In February 2024, we completed our Ball Aerospace acquisition, which will redefine our position in the space domain. Our shared culture of innovation, combined capabilities and diverse portfolios will serve to advance our growth strategy and enhance our position to address the global trends of an increased focus on the space domain, and rising concerns about global warming and the need for civil space systems to improve our understanding of its impacts.

In 2022, we announced the intention to launch our first multi-sensing multi-satellite cluster, Azalea™. The Azalea™ cluster will use a range of sensors to collect radar and radio frequency data to deliver high-quality information and intelligence to military customers. Unlike conventional intelligence satellites, Azalea™ can be reconfigured whilst in orbit; it will also analyse the data it collects on board the satellites in space, sending down a more complete intelligence picture directly to end-users. This will put intelligence in users' hands much more quickly, since it avoids large volumes of data being downloaded to earth for analysis before use.

Our investment in technology continued

New autonomous products include:

The 'Nautomate®' autonomous control system

Nautomate® is an intelligent autonomous control system for small- and medium-sized surface and sub-sea vessels, as exhibited on a third-party P38 Fast Interceptor Boat at DSEI. Nautomate® brings smart autonomous platforms and mission controls with the ability to host various mission modules, such as a non-lethal arrest system to disable enemy boats.

As an example of the utility of this system, a surface platform could be tasked to autonomously pursue and disable an enemy craft, allowing human team mates to approach more cautiously and with greater advantage.

www.baesystems.com/article →

T600 heavy lift uncrewed air system (UAS)

BAE Systems and Malloy Aeronautics (which was acquired by the Group on 31 January 2024) have collaborated on demonstrating the heavy lift capability of the T-600 heavy lift UAS and, in 2023, announced that it had successfully carried and released a 200kg inert Sting Ray training variant torpedo during a large NATO exercise, known as REPMUS (Robotic Experimentation and Prototyping with Marine Uncrewed Systems). The success of this sea flight mission at sea demonstrates the potential and versatility of this capability.

www.baesystems.com/article →

M113 Optionally Crewed Combat Vehicles (OCCVs)

In 2023, significant progress was made by the Land Autonomy team in BAE Systems Australia. In partnership with the Australian Army and academia, the team demonstrated multiple M113 OCCVs operating autonomously moving into critical locations, sweeping and searching an area for targets and executing a logistics mission. The event showcased the maturity of the Trusted Autonomous Ground Vehicle for Electronic Warfare (TAGVIEW) programme, which aims to deliver mission management, sensors and software integration, and allow an autonomous vehicle to manoeuvre independently in an obstacle-filled environment.

Advanced manufacturing

Engineering and manufacturing is at the heart of what we do, from the size and complexity of nuclear submarines through to small uncrewed air vehicles and aircraft components. We are always looking for technologies that can help us be more efficient in manufacturing, as well as in the delivery of tools and techniques to protect the health and safety for our workforce. In our Air business sector, in the North West of England, we are investing in digitalising the whole design and production process for new combat aircraft.

We are developing a digital platform to combine our design, manufacturing and support engineering processes to happen simultaneously, rather than concurrently for our future Air products. This means that if a design engineer makes a change in one area, the impact of that change can be assessed immediately across the full engineering lifecycle, rather than waiting for specialist engineers to translate it.

We are also researching entirely new techniques with our university partners, such as wire and arc additive manufacturing to create titanium structures that have bespoke mechanical properties. This also has the advantage of significantly reducing wastage during manufacturing, as well as creating components that could not be made any other way.

We are planning to use AI in 2024 to improve our manufacturing efficiency. For example, in our Australian shipyard, where we are currently building the Hunter Class frigate, we have proven the usage of a highly complex simulation to assess more than 17 million ways to build the ship, simulating all identified processes involved down to individual work stations. The success of this simulation has paved the way to use AI in the next iteration of the software.

Sustainability

Like our customers, we are committed to reducing the carbon footprint of our own operations and the products we provide. We have included some specific technology examples here and you can find a full overview on page 46.

Collaborating on a new electric aircraft

We are collaborating with Heart Aerospace, a Swedish electric airplane maker, to define the battery system for Heart's ES-30 regional electric airplane. The battery will be the first of its kind to be integrated into an electric conventional take-off and landing regional aircraft, allowing it to efficiently operate with zero emissions and low noise. Heart Aerospace chose us for our extensive experience in developing batteries for heavy-duty ground applications, as well as developing safety-critical control systems for aerospace.

The ES-30 aircraft will be powered by four electric motors and has an all-electric range of 200 kilometres, an extended reserve hybrid range of 400 kilometres with 30 passengers and the ability to fly up to 800 kilometres with 25 passengers.

www.baesystems.com/article →

PHASA-35® solar powered flight

PHASA-35®, our High Altitude Pseudo Satellite (HAPS) platform, completed its first stratospheric flight, soaring to more than 66,000 feet before landing successfully. Designed to operate above the usual weather systems and conventional air traffic, it has the potential to provide a persistent and stable platform for various roles including ultra-long endurance intelligence, surveillance and reconnaissance, as well as security.

It also has the potential to be used in the delivery of non-defence services, such as communications networks including 4G and 5G as an alternative to traditional airborne and satellite systems.

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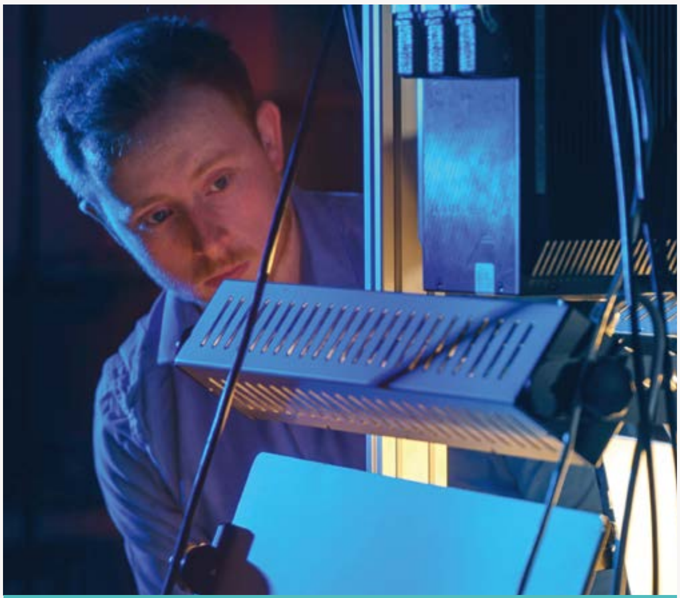


A grand challenge to create more efficient maritime vessels

We are working with Strathclyde University and the University of Southampton, in the UK, to research how we can improve the energy efficiency of warships, pull through new technology, and model the through-life costs of carbon, so that we can help customers make more informed decisions about future upgrades. We will also look at sustainable fuels, more efficient engines and AI-controlled support systems.

www.baesystems.com/article →

Our stakeholders

Understanding and exceeding the expectations of our stakeholders is critical to the long-term sustainability of our business and the vital role we play in helping our customers to protect people, information and nations.

Stakeholders	What's important to them	Why we engage	How we engaged in 2023
Our people Employees of BAE Systems More information Page 56 →	– Safety and wellbeing – Career progression, training and development – Remuneration, reward and recognition – Diversity, equity and inclusion (DEI) – How we work together – Business conduct – Decarbonisation programme – Contribution to the communities where we work	The safety, wellbeing, skills, capabilities and commitment of our people are critical to ensuring the long-term sustainability of our business and delivering the innovation needed to solve our customers' complex challenges. Effective engagement enables our employees to contribute to improving business performance and helps us to create an environment in which everyone is safe, valued and can fulfil their potential.	– Surveys and insight sessions – In-person and virtual meetings, briefings, conferences, toolbox talks, safety stand-downs, events and listening forums at all levels – Regular leadership updates through videos and events throughout the year (including in relation to financial and business performance) – Digital channels including our Employee App, intranet, email and TV systems – Engagement forums with trades unions in Australia and the UK and labour unions in the US – Launched a renewed employee resource group (ERG) framework, including a series of inclusion events throughout the year
Our customers and end-users Governments and their procurement bodies, large prime contractors and commercial businesses The people who use our products and services, often members of the armed forces and security services More information Page 20 →	– Value for money – Trust – Quality of our products and services – Risk management – Timely delivery – Safety and wellbeing – Supporting operational capability and operability – Reducing product GHG emissions[1] – Reliability of our teams to rectify issues quickly	Understanding our customers' needs and challenges is central to our strategy and how and where we invest in technologies and infrastructure. Our end-users protect people, information, infrastructure and nations. Delivering on our customer commitments is critical to our mission to protect those who protect us and drives our focus on operational excellence.	– Participated in major events including the DSEI exhibition in the UK and the Association of the United States Army exposition in the US – International summits, like the Shangri-La Dialogue (Singapore), provided strategic access to key customers and stakeholders – Bespoke technology event series launched providing an opportunity to engage customers around evolving capability requirements – Customer meetings, programme reviews, site visits and programme milestone events – Close working with end-users at customer facilities, bases and sites – Regular dialogue with senior military leaders as well as senior ministers and political officials in our key markets
Our suppliers The companies we work with to deliver products and services to our customers More information Page 65 →	– Labour and skills requirements – Cost of materials and operations – Terms of trade – Timely payment – Sustainable sourcing – Supply chain resilience and continuity of supply – GHG emissions and decarbonisation agenda[1]	Our suppliers and an effective, efficient and sustainable supply chain are essential to enable us to deliver for our customers and end-users. Engaged suppliers perform at a much higher level, knowing they are regarded as valued partners and critical to mutual success.	– Direct engagement with our suppliers, including at major trade exhibitions and industry conferences such as DSEI, DPRE and JOSCAR Live in the UK and a bespoke supply chain event in Australia – This enabled us to maintain close relationships to help ensure continuity of supply, more proactively mitigate supply chain disruptions arising from global events and support our suppliers by providing extended demand visibility and expertise to find mutual solutions to identified supply challenges – We shared our expectations on the topic of sustainability with our suppliers
Our partners Other industry companies, trade bodies or academic institutions with whom we work More information Page 15 →	– R&D investment – Product and service development – Collaboration on low-emission products – Developing common standards, including and approach to reduce industry GHG emissions[1] – Access to market and customer opportunities – Sharing best practices and common standards, including on ESG issues	We benefit from collaborating with others to address industry-wide challenges and develop technologies, products and services for our customers.	– Extensive engagement with university partners in Australia and the UK, including joint research projects, hackathons and an annual PhD conference – Funding of projects at UK catapult centres to facilitate R&D collaboration with industry, government scientists and academia – Maintained regular dialogue with industry partners, think tanks, trade bodies and customers around challenges that require a multi-partner approach, including evolving global events, multi-domain integration, resilient use of space for intelligence and communications, and sustainability

1. Relates to the UK, Australia and Kingdom of Saudi Arabia businesses.

Stakeholders	What's important to them	Why we engage	How we engaged in 2023
Our investors Investors who provide capital to the business More information Page 16 →	– Profitability, growth potential and cash generation – Capital allocation and shareholder returns – Operational performance – Quality of management – ESG considerations – Share price performance	A strong investor base and continued access to capital is critical to the long-term success of the Group. It is important to ensure the owners of our shares and potential investors have a full understanding of our business, including the strategy, growth potential and risks as well as the overall performance of the business in order to make informed investment decisions.	– Comprehensive investor programme comprising a mixture of in-person and virtual engagements in the UK, US and other key international markets – Engagements included management and Investor Relations meetings, attendance at investor conferences, bank-led Q&A sessions and major trade shows, including DSEI, the Paris Airshow and the Indo-Pacific Maritime Exposition – Held a capital markets event at our Hägglunds business in Sweden and launched a virtual technology event series – Revamped investor pages on the BAE Systems website to make information more easily accessible
Our communities The people who live where we work and charitable organisations we support More information Page 56 →	– Employment and economic contribution – Education outreach and skills development, especially for young people – Community engagement and delivering meaningful local impact – Support for our armed forces' communities, including veterans and military families	We are committed to the communities in which we operate. In many locations where we have major sites we are one of the largest employers in the area and have a responsibility to support the local communities where our people live and work both economically and socially. As a leading defence and security company, we are dedicated to supporting members of our armed forces' communities and strengthening the STEM pipeline.	– Commissioned an independent report into our annual contribution to the UK economy – Extensive education outreach programme, including science, technology, engineering and mathematics (STEM) ambassadors in key markets, school roadshows in the UK and sponsorship of the international FIRST Championship in the US – Continued support for local communities through sponsorships, donations and employee volunteering, including a local community hub supporting charities and voluntary organisations in the South of England and Beacon summer camps for disadvantaged children in Australia – Sustained partnerships with armed forces charities, including Legacy's centenary torch relay in Australia and Royal British Legion's Poppy Appeal in the UK
Our regulators Governmental bodies that oversee industry or business activities More information Page 62 →	– Relevant laws and regulations – Appropriate compliance programmes	We maintain constructive dialogue and relationships with those who oversee the regulations which can impact our business.	– Open and constructive engagement with various regulators, including meetings and discussions with UK, US and Australian regulators in support of efforts to drive efficient compliance, improve bilateral and multilateral defence trade co-operation and support our licensing strategy – Participation in industry association initiatives to work with regulators to the same end – Regulator participation in our internal training events and conferences, and support from us as speakers or participants at external conferences and engagement events
Our pension scheme members Members and trustees of our pension schemes More information Page 91 →	– Member benefits – Pension scheme funding position and investment strategy – Group performance	We are committed to fulfilling our obligations to current and former employees in our pension schemes. Our Trustees engage with scheme members regularly to ensure they are informed about how we continue to do so and ensure that they have access to all the information they need to manage their pension arrangements.	– Continued to engage with our UK members via dedicated pensions websites, ensuring they have access to key scheme documents and pensions information – Newsletter made available to all members to keep them updated and engaged in their pension planning – Consultations in 2023 with members of our schemes with defined contribution benefits which resulted in a change in provider for their pension provisions

We also engage with other non-profit organisations and public interest groups who have a focus on business or defence and security issues to address factors that can impact our business and how we operate.

Section 172 statement

For the year ended 31 December 2023, in accordance with the requirements of Section 172(1) of the Companies Act 2006, the directors consider that they have acted in good faith and in a manner most likely to promote the success of the Company for the benefit of its members as a whole, having regard to stakeholders and other certain factors, including standards of business conduct and the impact of its operations on the environment and local communities.

More information in support of this statement, including key matters considered and decisions made by the Board during 2023 Page 91 →

Key performance indicators

Our KPIs are aligned to business strategy and are used to actively monitor performance.

Links to executive remuneration

Executive directors' annual and long-term incentives are assessed using a combination of the Group's main performance indicators and other objectives designed to meet the Group's strategy. Metrics, which are both financial and non-financial, as well as the achievement of personal objectives for annual remuneration, are determined and weighted according to business priorities and may be structured as targets to be achieved, or underpins which, if not achieved, would reduce payouts. 75% of annual incentive targets relate to financial metrics aligned with long-term earnings and cash targets. The non-financial element is based on a combination of personal performance objectives that provide a clear line of sight to our strategic objectives including those in relation to ESG, safety measures and DEI.

Remuneration report Page 107 →

Links to strategy

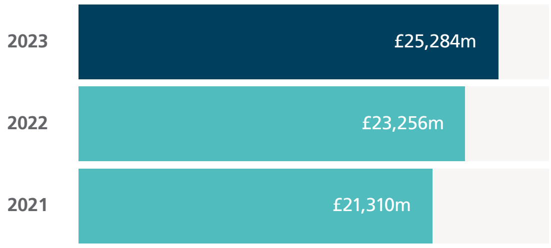
1. Sustain and grow our defence business
2. Continue to grow our business in adjacent markets
3. Develop and expand our international business
4. Inspire and develop a diverse workforce to drive success
5. Enhance financial performance and deliver sustainable growth in shareholder value
6. Advance and integrate our sustainability agenda

Financial[1]

Our financial review Page 28 →

Sales 1 3 5

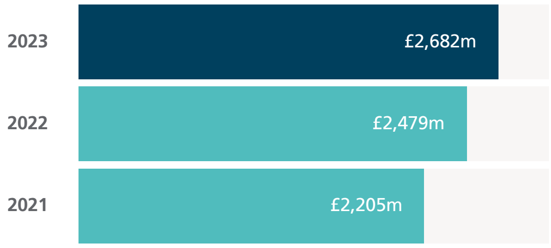
Purpose
Enables management to monitor the revenue of both the Group's own subsidiaries as well as recognising the strategic importance in its industry of its equity accounted investments, to ensure programme performance is understood and in line with expectations.



Progress in 2023
Sales increased 9%, on a constant currency basis, with all our operating segments seeing an increase in sales in the year. For more details on segmental performance see pages 35 to 45.

Underlying EBIT 3 5

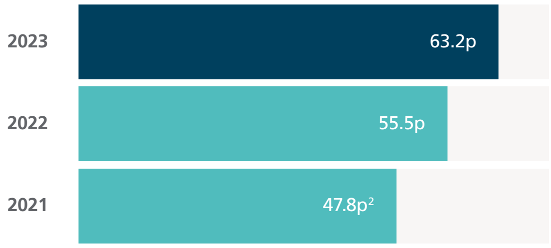
Purpose
Provides a measure of operating profitability, excluding one-off events or adjusting items that are not considered to be part of the ongoing operational transactions of the business, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group.



Progress in 2023
Underlying EBIT increased 9%, on a constant currency basis. We saw increases across all operating segments, with the exception of Cyber & Intelligence which decreased, as expected, as a result of the additional investments being made in the business around space and multi-domain networking.

Underlying EPS 3 5

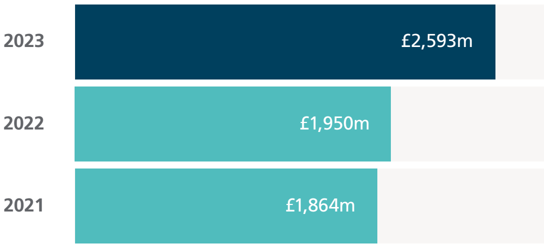
Purpose
Provides a measure of the Group's underlying performance, which enables management to compare the profitability of the Group's recurring operations over time.



Progress in 2023
Underlying EPS increased 14%, on a constant currency basis. The main driver behind the increase in the year was the increase in underlying EBIT combined with the effect of share repurchases. For more detail on the movement in underlying EPS in the year see page 30.

Free cash flow ❶❺

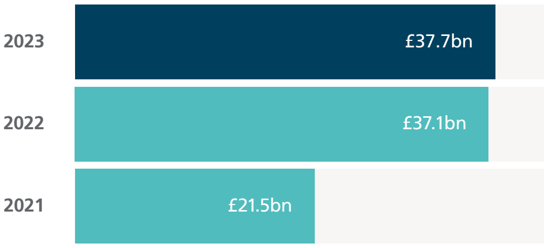
Purpose
Provides a measure of cash generated by the Group's operations after servicing debt and tax obligations, available for use in line with the Group's capital allocation policy.



Progress in 2023
Free cash flow increased by £643m, driven by the strong order flow in the year which generated a number of advanced customer payments.

Order intake ❶❷❸

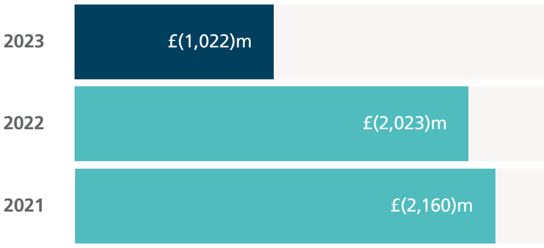
Purpose
Allows management to monitor the order intake of the Group's own subsidiaries, as well as its strategically important equity accounted investments, providing insight into future years' sales performance.



Progress in 2023
Order intake remained strong in 2023, and was £0.6bn higher than 2022. Order intake across the Air and Maritime segments accounted for over 50% of order intake for the year, reflecting a number of significant awards from the UK Ministry of Defence for SSN-AUKUS and Dreadnought (Delivery Phase 3), as well as the renewal of Salam Typhoon support for the Saudi Arabian Government. Read more on order intake for the year on page 31.

Net debt (excluding lease liabilities) ❶❸❺

Purpose
Allows management to monitor indebtedness of the Group, to ensure the Group's capital structure is appropriate and capital allocation policy decisions are suitably informed.



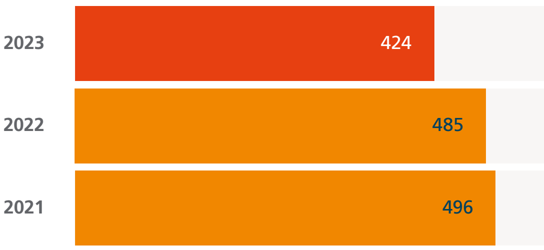
Progress in 2023
During the year, net debt (excluding lease liabilities) has reduced by £1,001m to £1,022m. The key driver behind this was the increased free cash flow, resulting in cash of £4,067m (2022 £3,107m) at 31 December 2023.

Non-financial

Our sustainability agenda Page 46 →

Recordable accident rate (per 100,000 employees) ❹❻

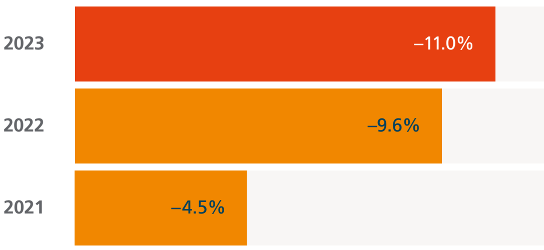
Purpose
We are committed to continuously improving health and safety standards across the business. Our accident rate is used to assess workplace safety improvements and ensure our safety efforts are aligned to the working environment.



Progress in 2023
The overall safety performance of our operations improved with our recordable accident rate reducing by 12.6%. The majority of this improvement related to a reduction in recordable injuries within our US business. However, the number of major injuries, our measure of severity, increased by 25%, from 32 to 40 during 2023. This was most marked within our Maritime sector. To address this we have reviewed the controls around our significant safety risks.

Percentage change in Scope 1 and 2 GHG emissions ❶❻

Purpose
Our roadmap to support our target of achieving net zero GHG emissions (Scope 1 and 2) across our operations by 2030 is underpinned by an annual target to reduce operational GHG emissions by 4.2%.



Progress in 2023
In support of our ambition to have net zero GHG emissions (Scope 1 and 2) across our operations by 2030, global GHG emissions have reduced 11.0% during the year. Scope 1 emissions have fallen 5.1%, while scope 2 emissions have fallen 13.4%. This was driven by a reduction in electricity and gas consumption as a result of factors such as production variances, efficiency improvements and operational control changes.

1. The definition and purpose of all performance measures defined by the Group is provided in the Alternative performance measures section on page 227.
2. For 2021, underlying EPS was 50.7p including a one-off tax benefit of £94m resulting from agreements reached regarding the exposure arising from the April 2019 European Commission decision regarding the UK's Controlled Foreign Company Regime and the impact of the UK tax rate adjustment.

Our financial review

> In a time of ever-growing geopolitical tension, our teams have delivered at record levels to protect those who protect all of us. Across the board, our financial metrics show the results of their hard work.

Brad Greve
Chief Financial Officer

We have delivered strong financial performance with top-line growth, margin expansion and high cash conversion. Our record order intake of £38bn increases our order backlog to £70bn, positioning us well for the future.

Full-year performance summary

Strong demand has resulted in a record order intake of £37.7bn, pushing our order backlog to £69.8bn.

On a constant currency basis, we delivered sales growth of 9%, surpassing our guidance expectations, with all sectors delivering above the expected ranges. A key feature of sales growth was the acceleration of activities on Dreadnought, which accounted for around a quarter of the overall Group growth in the year, and contributed to a 22% increase in Maritime sector sales.

Our profitability, in the form of underlying EBIT, rose by 9% on a constant currency basis, to just under £2.7bn. Margins were steady as improvements in the Air sector and our Platforms & Services business offset the margin headwind presented by the higher submarines activity which trades at a regulated profit.

Underlying EPS grew by 14% as the increase in underlying EBIT was further complemented by higher interest income and the impact of the ongoing share buyback programme.

We had high cash conversion of our underlying EBIT to free cash flow of £2.6bn, driven by increased profitability and a net increase in customer advances of c.£1bn.

We continued to invest in the business, as capex exceeded depreciation by c.£0.3bn.

We continued to follow our disciplined capital allocation policy and returned £1.4bn to shareholders through dividends and the ongoing share buyback programme. We have announced another increase in our dividend taking it to 30.0p for 2023, marking our 20th year in a row of increased dividends.

2024 Group guidance[1]

The Group guidance for the year incorporates the acquisition of Ball Aerospace and the reduction in the Group's shareholding in Air Astana following its initial public offering, which both completed in February 2024.

Sales for the Group are expected to increase between 10% to 12%.

Underlying EBIT is expected to improve by 11% to 13%.

We expect underlying EPS to increase 6% to 8%, largely as a result of the higher interest expense, following the Ball Aerospace acquisition, and an increased UK corporation tax rate.

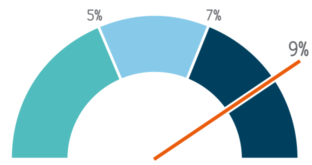
Free cash flow in 2024 is expected to be greater than £1.3bn as cash advances received in 2023 will start to unwind.

Group guidance can be found on page 34.

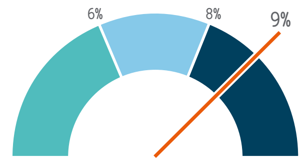
1. While the Group is subject to geopolitical and other uncertainties, the following guidance is provided on current expected operational performance. Our guidance uses the same exchange rate we averaged in 2023 of $1.24:£1.

2023 full-year performance against guidance

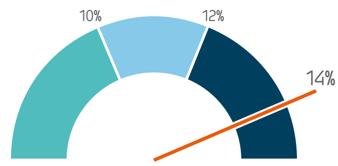
Sales growth



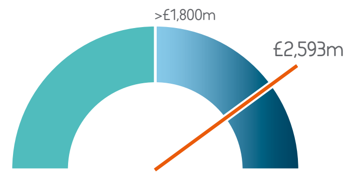
Underlying EBIT



Underlying EPS



Free cash flow



2023 guidance range

Compared to guidance provided at the Half-year Results in August 2023, at an exchange rate of $1.24:£1

Group income statement

Sales for the year were £25.3bn (2022 £23.3bn) representing growth, on a constant currency basis[1], of 9% with all sectors delivering growth in the year. Maritime recorded sales of £5.5bn (2022 £4.6bn) which was an increase of 22%, on a constant currency basis, and accounted for nearly 47% of the overall Group's sales growth; submarines activity accounted for around 25%.

Electronic Systems recorded sales of £5.5bn (2022 £5.1bn) equating to growth of 9%, on a constant currency basis. This was led by continued recovery in the commercial business across both civil aviation and power and propulsion, along with gains in electronic combat systems.

Our Platforms & Services sector posted sales of £3.9bn (2022 £3.7bn), with growth of 8% on a constant currency basis. Our Hägglunds business accounted for almost two thirds of the sector's growth. Across the Platforms & Services portfolio, nearly 600 vehicles were delivered in the year.

The Air sector recorded sales of £8.1bn (2022 £7.7bn), representing growth of 4% on a constant currency basis. The sector saw increased activity in MBDA and higher air support volumes, while the future combat air programme continued to gain pace with activity more than doubling in 2023.

Sales in the Cyber & Intelligence sector grew to £2.3bn (2022 £2.2bn), an increase of 6% on a constant currency basis. Growth was 9%, on a constant currency basis, after adjusting for the impact of the disposal of the financial crime detection business in 2022. The US Intelligence & Security business grew 10%, primarily as a result of increased classified, sustainment and systems integration work, while outside the US we saw a sharp increase in National Security cyber sales.

Revenue was £23.1bn (2022 £21.3bn), with growth during the year of 9%, on a reported currency basis, reflective of the same drivers behind the increase in sales for the year excluding the impact of MBDA in Air.

Financial performance measures as defined by the Group[2]

		2023 £m	2022 £m
Sales	KPI	**25,284**	23,256
Return on sales		**10.6%**	10.7%
Underlying EBIT	KPI	**2,682**	2,479
Underlying net finance costs		**(211)**	(246)
Underlying tax expense		**(472)**	(422)
Underlying profit for the year		**1,999**	1,811
Attributable to:			
Non-controlling interests		**83**	83
Equity shareholders		**1,916**	1,728

Financial performance measures as defined by IFRS

	2023 £m	2022 £m
Revenue	**23,078**	21,258
Return on revenue	**11.1%**	11.2%
Operating profit	**2,573**	2,384
Net finance costs	**(247)**	(395)
Tax expense	**(386)**	(315)
Profit for the year	**1,940**	1,674
Attributable to:		
Non-controlling interests	**83**	83
Equity shareholders	**1,857**	1,591

Underlying EBIT was up 9% to £2,682m (2022 £2,479m), on a constant currency basis. The Maritime sector reported underlying EBIT of £425m (2022 £356m) following a year of strong sales growth, with margins reflecting the regulated profit environment on the Dreadnought programme.

Our Electronic Systems sector grew underlying EBIT to £878m (2022 £838m), an increase of 5% on a constant currency basis. Margin of 16.1% was within the guidance range and reflected lower pension recoveries in the US, marginally offset by an increase in higher margin commercial activity.

Platforms & Services reported underlying EBIT of £354m (2022 £326m), with margins increasing to 9.0%. The growth reflected the strong operational performance in our Hägglunds and Ship Repair businesses in the year.

Our Air sector reported underlying EBIT of £949m (2022 £849m), increasing margin to 11.8%. The growth in the year reflected the higher sales and risk retirement.

Finally, Cyber & Intelligence reported underlying EBIT of £199m (2022 £232m), a decrease of 14% on a constant currency basis. Margin of 8.6% was in the guided range and represented additional investment in the business in space and multi-domain networking.

Operating profit increased 8%, to £2,573m (2022 £2,384m), on a reported currency basis. On an operating sector basis this reflected the same drivers as underlying EBIT. Other differences are discussed below (also see the reconciliation of underlying EBIT to operating profit on page 227).

Underlying net finance costs were £211m (2022 £246m), a decrease of £35m. Of this, costs of £231m (2022 £230m) related to the Group and income of £20m (2022 costs of £16m) related to the Group's share of equity accounted investments. The improvement in underlying net finance costs largely reflected the increase in interest rates applied to surplus cash during the year.

Return on sales

This has been delivered by focusing on:

- strong operational performance allowing for risk retirement;
- effective supply chain management;
- proactive portfolio actions; and
- business efficiency initiatives.

1. Current year compared with prior year translated at current year exchange rates. The comparatives have not been restated,
2. The definitions and purpose of all performance measured defined by the Group is provided in the Alternative performance measures section on page 227.

Our financial review continued

Reconciliation of underlying EBIT to operating profit

		2023 £m	2022 £m
Underlying EBIT	KPI	**2,682**	2,479
Adjusting items		**40**	91
Amortisation of programme, customer-related and other intangible assets		**(111)**	(110)
Impairment of intangible assets		**(5)**	(1)
Net finance income/(costs) and tax expense of equity accounted investments		**(33)**	(75)
Operating profit		**2,573**	2,384

Net finance costs were £247m (2022 £395m), a decrease of £148m. Excluding the £35m improvement in underlying net finance costs, all other net finance costs recorded a gain of £113m. This was largely the result of the £41m interest income on the Group's pension surplus (2022 cost of £37m on pension deficit position at the start of the year). The balance of the improvement was the result of foreign exchange gains on its US dollar-denominated borrowings, largely being offset by losses on the remeasurement of financial instruments principally held to manage the Group's exposure to interest rate fluctuations.

Adjusting items

	2023 £m	2022 £m
Profit on business disposal	**–**	94
Acquisition-related costs	**(20)**	(16)
Gain related to settlements and past service cost on pension schemes	**60**	13
Adjusting items	**40**	91

Underlying tax expense of £472m (2022 £422m), was an increase of £50m reflecting the higher underlying pre-tax profits. The underlying effective tax rate was 19% (2022 19%).

Tax expense of £386m (2022 £315m), was an increase of £71m reflective of the increase in the UK's corporation tax rate in the year and the Group's pre-tax profits.

Adjusting items in 2023 totalled a net gain of £40m (2022 £91m) mainly comprising a final settlement gain on a US pension annuity buy-out of £60m. 2022 was mainly comprised of a £94m gain on the disposal of the financial crime detection business in Digital Intelligence.

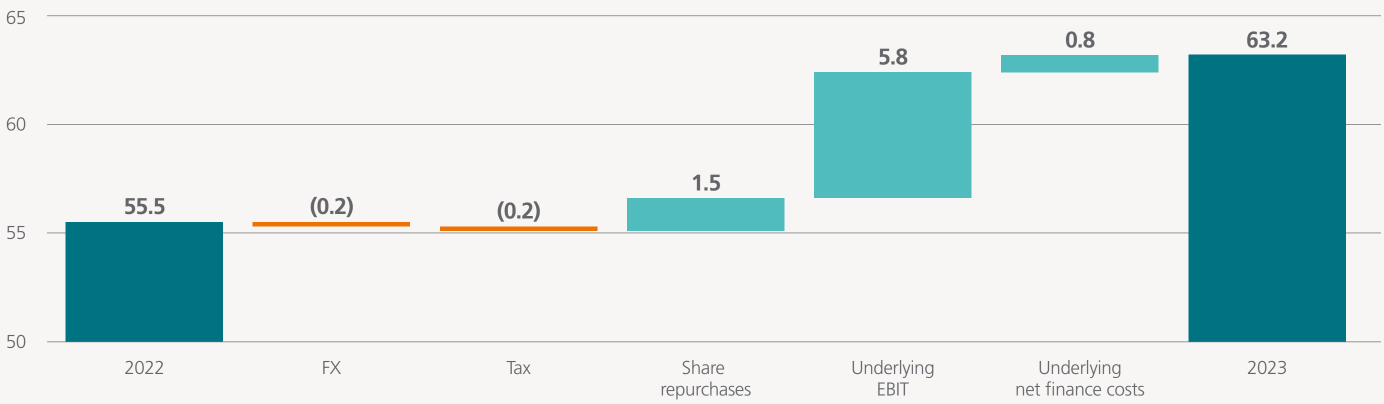
Earnings per share (EPS)

As defined by the Group		2023	2022
Underlying profit for the year attributable to equity shareholders		**£1,916m**	£1,728m
Underlying EPS	KPI	**63.2p**	55.5p
As defined by IFRS			
Profit for the year attributable to equity shareholders		**£1,857m**	£1,591m
Basic EPS		**61.3p**	51.1p

Underlying EPS increased to 63.2p (2022 55.5p), or 14% on a constant currency basis. This is largely driven by the improved underlying profit for the year as set out on page 29, as well as the benefit from the ongoing share buyback programme which accounted for 1.5p of the increase.

Basic EPS increased 20% to 61.3p (2022 51.1p) also reflective of the increased profitability of the Group for the year and the benefit of the ongoing share buyback programme.

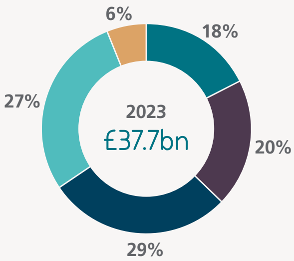
Movement underlying EPS (pence)



Orders

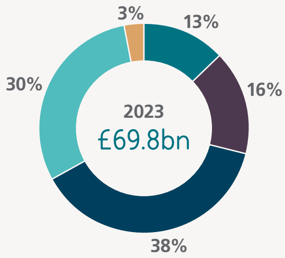
As defined by the Group

Order intake KPI



(2022 £37.1bn)

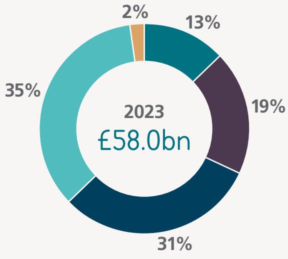
Order backlog



(2022 £58.9bn)

As defined by IFRS

Order book



(2022 £48.9bn)

Order intake, at £37.7bn, was up £0.6bn on the prior year, leading to a record order backlog of £69.8bn. Air recorded the highest order backlog at 31 December 2023, reflecting significant orders in MBDA and the Kingdom of Saudi Arabia during the year. The order backlog in Maritime also remains high reflecting the submarine and ship build programmes.

Details of awards in the year are included in the segmental reviews on pages 35 to 45, but the three largest orders driving the order intake in the year were:

- In Maritime, funding of £3.95bn was awarded by the UK Ministry of Defence for the next phase of the UK's next-generation nuclear-powered attack submarine programme, SSN-AUKUS.
- In Maritime, we also secured an order intake of £2.4bn for the continued Delivery Phase 3 activity on the Dreadnought Class submarine programme.
- In Air, we renewed the Government-to-Government Typhoon support services in the Kingdom of Saudi Arabia for a further five years through to the end of 2027, valued at £3.7bn.

Cash flow

		2023 £m	2022 £m
As defined by the Group			
Free cash flow	KPI	**2,593**	1,950
Operating business cash flow		**3,218**	2,552
As defined by IFRS			
Net cash flow from operating activities		**3,760**	2,839
Net cash flow from investing activities		**(541)**	(422)
Net cash flow from financing activities		**(2,188)**	(2,333)
Net increase in cash and cash equivalents		**1,031**	84
Cash and cash equivalents at 1 January		**3,107**	2,917
Effect of foreign exchange rate changes on cash and cash equivalents		**(71)**	106
Cash and cash equivalents at 31 December		**4,067**	3,107

Free cash flow of £2,593m (2022 £1,950m) was an increase of £643m on the prior year.

Operating business cash flow of £3,218m (2022 £2,552m) was an increase of £666m.

Net cash flow from operating activities was £3,760m (2022 £2,839m), an increase of £921m. In addition to the increased profitability of the Group, there was a net inflow of c.£1bn from customer advances.

Net cash flow from investing activities was an outflow of £541m (2022 £422m). The Group received cash in the year of £134m from dividends received from equity accounted investments, offset by an increased cash outflow of £272m in relation to capex investment in property, plant and equipment and intangible assets. This is reflective of the additional investments within our sites to support future programme delivery, such as the shipbuilding facilities in Glasgow to support Type 26 construction, munitions sites in both the UK and US and construction of the modern shiplift and land-level repair complex at our Jacksonville, Florida shipyard.

Net cash flow from financing activities was an outflow of £2,188m (2022 £2,333m), a decrease of £145m. Cash returns to shareholders, through dividend and share repurchases, decreased £172m to £1,418m. Although dividends increased, the value of share repurchases was lower. This year also saw a cash inflow from draw-down of loans of £162m, from the private placement to fund the shiplift at our Jacksonville, Florida shipyard. 2022 saw a £400m cash outflow in respect of bond repayments which were due.

The net cash outflow in respect of derivative financial instruments was £196m (2022 cash inflow of £328m) reflective of hedging against foreign exchange movements on the US dollar-denominated borrowings.

Foreign exchange translation primarily arises in respect of the Group's US dollar-denominated cash holdings.

Cash and cash equivalents of £4,067m (2022 £3,107m) are held primarily for the repayment of debt securities, pension funding when required, payment of the 2023 final dividend, funding of further share repurchases under the up to £1.5bn share buyback programme announced in July 2022 and management of working capital. In completing the $5.5bn (£4.4bn) acquisition of Ball Aerospace on 16 February 2024, the Group paid $1.5bn (£1.2bn) in cash and drew down $4.0bn (£3.2bn) of debt funding in settlement of the transaction.

Our financial review continued

Net debt (excluding lease liabilities)

Components of net debt		2023 £m	2022 £m
Cash and cash equivalents		**4,067**	3,107
Debt-related derivative financial instruments (net)		**22**	112
Loans – non-current		**(4,432)**	(5,189)
Loans and overdrafts – current		**(679)**	(53)
Net debt (excluding lease liabilities)	KPI	**(1,022)**	(2,023)

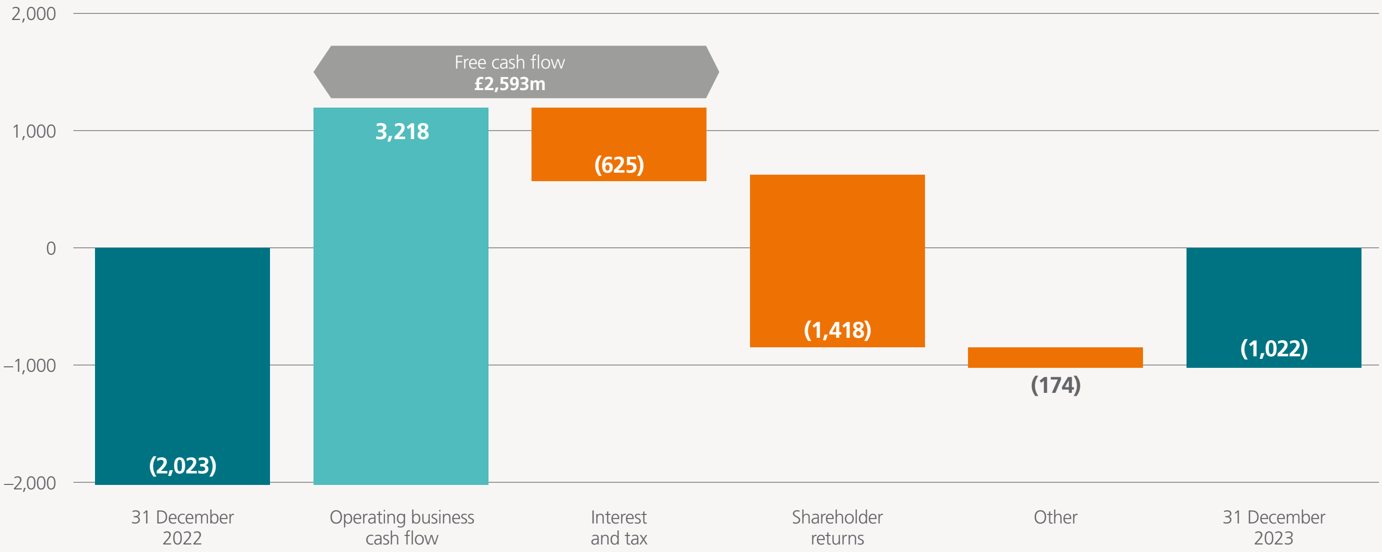
The Group's net debt (excluding lease liabilities) at 31 December 2023 was £(1,022)m, a net decrease of £1,001m from the position at the start of the year. This was primarily as a result of strong free cash flow performance, partially offset by shareholder returns through dividends and share repurchases.

For details of maturity of the Group borrowings see note 21 on page 189.

Non-current loans have decreased by £757m during the year as the $800m 3.8% bond due for repayment in 2024 is now classified as a current loan; this movement was partially offset by draw-down of the $200m private placement to fund the Jacksonville, Florida, shiplift which is repayable in 2050.

Current loans have increased by £626m during the year reflecting the $800m 3.8% bond maturing in October 2024.

Movement in net debt (excluding lease liabilities) (£m)



Shareholder returns of £1,418m (2022 £1,590m) comprised both dividends of £857m (2022 £802m) and share repurchases of £561m (2022 £788m). Dividends paid represent the 2022 final dividend and the 2023 interim dividend. During 2023, we repurchased 59m shares under the up to £1.5bn share buyback programme announced in July 2022 (2022 107m shares under the 2022 and 2021 share buyback programmes).

Other movements includes foreign exchange on the Group's US dollar-denominated cash and borrowings, offset by their associated derivatives, and dividends paid to non-controlling interests.

Balance sheet

	2023 £m	2022 £m
Intangible assets	**12,099**	12,644
Property, plant and equipment, right-of-use assets and investment property	**5,003**	4,723
Equity accounted investments and other investments	**916**	886
Working capital	**(5,468)**	(4,119)
Lease liabilities net of finance lease receivables	**(1,396)**	(1,582)
Group's share of IAS 19 post-employment benefits surplus	**229**	646
Net tax assets and liabilities	**474**	363
Net other financial assets and liabilities	**(112)**	(138)
Net debt (excluding lease liabilities) KPI	**(1,022)**	(2,023)
Net assets	**10,723**	11,400

Intangible assets of £12.1bn (2022 £12.6bn) was a decrease of £0.5bn on the prior year, driven by the foreign exchange impact of the Group's US dollar-denominated goodwill.

Property, plant and equipment, right-of-use assets and investment property was £5.0bn (2022 £4.7bn), an increase of £0.3bn. Property, plant and equipment increased by a net £0.4bn reflecting capex spend across the business of £0.8bn, offset by depreciation and foreign exchange adjustments.

Equity accounted investments and other investments was £916m (2022 £886m). The Group's share of profits of equity accounted investments during the year, which was offset by dividends paid, resulted in a net gain of £45m at the end of the year.

Working capital saw a £1.4bn decrease, in aggregate, mainly reflecting an increase in advanced funding from customers on a number of contracts.

Lease liabilities, net of finance lease receivables, was £1.4bn (2022 £1.6bn) with no new significant lease agreements entered into during the year.

The Group's share of the net IAS 19 post-employment benefits surplus was £0.2bn (2022 £0.6bn), net of a 35% withholding tax of £0.4bn. The decrease in the net surplus of £0.4bn largely reflects a fall in the discount rate applied to the UK schemes at 31 December 2023. Details of the Group's post-employment benefit schemes are provided in note 24 to the Consolidated financial statements on page 191.

Exchange rates

Average	2023	2022
£/$	**1.244**	1.236
£/€	**1.150**	1.173
£/A$	**1.874**	1.778
Year end		
£/$	**1.275**	1.203
£/€	**1.154**	1.127
£/A$	**1.868**	1.773

Guidance for 2024[1]

After a strong financial year for 2023, we look forward to continued top-line growth with increased return on sales and good free cash delivery against our rolling targets. Guidance is provided on the basis of an exchange rate of $1.24:£1, which is in line with the actual 2023 exchange rate, therefore guidance is the same for both reported and constant exchange rates.

The Group guidance for 2024 incorporates the acquisition of Ball Aerospace[2] and the reduction in the Group's shareholding in Air Astana following its initial public offering, both of which completed in February 2024. See note 34 on page 213.

Sales expected to increase in the range of **10% to 12%**
2023: £25,284m

Underlying EBIT expected to increase in the range of **11% to 13%**
2023: £2,682m

Underlying EPS expected to increase in the range of **6% to 8%**
2023: 63.2p

Free cash flow target for 2024 **>£1.3bn**
2023: £2,593m

Underlying finance costs £350m to £375m

Effective tax rate c.21%

Non-controlling interests c.£80m

Sensitivity to foreign exchange rates: the Group operates in a number of currencies, the most significant of which is the US dollar. As a guide, a 5 cent movement in the £/$ exchange rate will impact Sales by c.£500m, Underlying EBIT by c.£70m and Underlying EPS by c.1.3p.

Segmental guidance

The following table provides guidance by segment, aligned to the Group guidance.

Year ended 31 December 2024	Expected sales	Expected Return on sales[4]
Electronic Systems[3]	Up 32% to 34%	c.15%
Platforms & Services	Up 5% to 7%	10% to 11%
Air	Up 3% to 5%	11% to 12%
Maritime	Up 6% to 8%	c.8%
Cyber & Intelligence	Up 3% to 5%	8% to 9%

In 2024, the HQ reporting segment is expected to be an expense of c.£155m (2022 expense of £123m) reflecting the reduction in the Group's shareholding in Air Astana in February 2024 (see note 34 on page 213).

Three-year free cash flow guidance[5]

	Actual		Forecast		
	2022	2023	2024	2025	2026
2022–2024 in excess of £5.5bn (previously in excess of £5bn)	£2.0bn	£2.6bn	>£1.3bn		
2023–2025 in excess of £5bn (previously £4.5bn – £5.5bn)		£2.6bn	>£1.3bn		
2024–2026 in excess of £5bn			>£1.3bn		

1. While the Group is subject to geopolitical and other uncertainties, the following guidance is provided on current expected operational performance. The guidance is based on the measures used to monitor the underlying financial performance of the Group. See the Alternative performance measures section on page 227.
2. Guidance incorporates the acquisition of Ball Aerospace from the 16 February 2024.
3. The acquired Ball Aerospace business will be reported through the Electronic Systems segment.
4. Underlying EBIT as percentage of Sales.
5. In addition to the free cash flow above, the Group received proceeds of c.£0.2bn from the reduction in the Group's shareholding in Air Astana. The cash flow impact of business acquisitions and disposals is excluded from the Group's definition of free cash flow.

Segmental review

The Group reports its performance through six reporting segments.

Year ended 31 December 2023	Financial performance measures defined by the Group[1]						Financial performance measures derived from IFRS				
	Sales £m (KPI)	Underlying EBIT £m (KPI)	Return on sales %	Operating business cash flow £m	Order intake £bn (KPI)	Order backlog £bn	Revenue £m	Operating profit £m	Return on revenue %	Net cash flow from operating activities £m	Order book £bn
Electronic Systems (Page 36 →)	5,458	878	16.1	811	6.7	8.9	5,456	806	14.8	961	7.6
Platforms & Services (Page 38 →)	3,922	354	9.0	426	7.7	11.5	3,842	373	9.7	624	11.1
Air (Page 40 →)	8,058	949	11.8	1,669	11.0	27.2	6,517	948	14.5	1,808	18.5
Maritime (Page 42 →)	5,536	425	7.7	291	10.1	21.3	5,391	423	7.8	629	20.4
Cyber & Intelligence (Page 44 →)	2,321	199	8.6	204	2.5	2.0	2,321	179	7.7	261	1.4
HQ[2]	471	(123)		(183)	0.4	–	10	(156)		(128)	–
Deduct Intra-group	(482)				(0.7)	(1.1)	(459)				(1.0)
Deduct Tax[3]										(395)	
Total	**25,284**	**2,682**	**10.6**	**3,218[4]**	**37.7**	**69.8**	**23,078**	**2,573**	**11.1**	**3,760**	**58.0**

We use financial performance measures as defined by the Group to monitor the underlying financial performance of the Group's reporting segments. The definitions and purposes of these Alternative performance measures can be found on page 227. Reconciliations from these measures to the financial performance measures derived from IFRS are provided in our Alternative performance measures section on pages 227 to 231.

1. The definition and purpose of all performance measures defined by the Group is provided in the Alternative performance measures section on page 227.
2. HQ comprises the Group's head office activities, together with a 49% interest in Air Astana as at 31 December 2023.
3. Tax is managed on a Group-wide basis.
4. At a Group level, the key cash flow metric is free cash flow (see Alternative performance measures on page 227). In 2023, free cash flow was £2,593m (2022 £1,950m).

Electronic Systems

Electronic Systems, with 17,500[1] employees, comprises the Group's US- and UK-based electronic solutions, including electronic warfare systems, navigation systems, electro-optical sensors, military and commercial digital engine and flight controls, precision guidance and seeker solutions, next-generation military communications systems and data links, persistent surveillance capabilities, space electronics and electric drive propulsion systems.

Electronic Combat Solutions designs, builds and supports integrated electronic warfare systems for platform prime and government customers, and is a trusted mission systems provider for all three electronic warfare missions: electronic attack; electronic protection; and electronic support.

Countermeasure & Electromagnetic Attack Solutions provides next-generation threat detection, countermeasure and attack solutions that deliver full-spectrum electronic warfare capabilities to enhance mission survivability.

Precision Strike & Sensing Solutions designs and manufactures state-of-the-art systems and technology that enable our customers to execute their precision strike missions.

C4ISR Systems provides actionable intelligence through innovative technical solutions for airborne persistent surveillance, secure communications, identification systems, signals intelligence, underwater and surface warfare solutions, and space resiliency.

Controls & Avionics Solutions develops and produces electronics for military and commercial aircraft, including fly-by-wire flight controls, full authority digital engine controls, power management solutions, cabin management systems and mission computers.

Power & Propulsion Solutions delivers propulsion and power management performance with innovative electrification products and solutions that advance vehicle mobility, efficiency and capability.

Operational performance

We continued to experience strong demand across our customer base for electronic systems, as evidenced by our 2023 order generation. We continued to manage supply chain constraints effectively in 2023 and saw stability and easing in some areas. We supported existing customers on key electronic warfare and precision guided munition programmes, while pursuing and maturing new opportunities.

In our commercial businesses, with airline traffic and business travel increasing, there is stronger demand for Original Equipment Manufacturer (OEM) deliveries and aftermarket services. Clean air regulations continue to drive the transportation industry towards alternative energy sources, like our propulsion solutions.

Operational highlights

- The F-35 Lightning II programme completed deliveries on Lot 15 electronic warfare (EW) systems and has delivered a cumulative total of over 1,400 EW systems. We are also supporting the Block 4 modernisation efforts under multiple contracts, including a recent contract for future Lot 17/18 production worth \$491m (£395m), and continue to demonstrate high performance under a five-year Performance Based Logistics contract for F-35 sustainment.
- The Compass Call programme is executing contracts valued at more than \$1bn (£0.8bn) focused on the cross-decking of prime mission equipment to the new EA-37B aircraft while sustaining and upgrading the existing EC-130H fleet. We successfully delivered the first of ten EA-37B aircraft to the US Air Force for formal combined developmental and operational testing. The next-generation system evolves the Air Force's electromagnetic attack capabilities and is targeted to initially field in 2024.
- Our Eagle Passive Active Warning Survivability System (EPAWSS) programme completed Design Verification and Qualification Testing enabling Initial Operational Test and Evaluation by the US Air Force.
- Our Advanced GEOINT Systems team was selected by a customer in the Asia-Pacific region to provide our Geospatial eXploitation Products™ (GXP®) software as a key component of its large-scale Geospatial Intelligence implementation. The delivery of this software, comprised of advanced imagery exploitation, analytics, and data fusion software tools, further solidifies our industry-leading position and enables future expansion to allies around the globe.
- The Navigation & Sensor Systems team continues to execute a contract with Space Systems Command to develop an M-Code Increment II Miniature Serial Interface GPS receiver for ground embedded applications with next-generation Application Specific Integrated Circuit technology valued at more than \$278m (£224m).

Strategic and order highlights

- In addition to a successful test event, conducted in January 2023, of the Advanced Precision Kill Weapon System (APKWS®) that demonstrated new capabilities for critical mission sets in support of US and allied forces, the APKWS® laser-guidance kit programme continues to execute under an Indefinite Delivery, Indefinite Quantity contract with awards worth \$590m (£476m) in 2023, including international orders.
- Building on our position in energy and power management, we announced a collaboration with Heart Aerospace to define the battery system for Heart's ES-30 regional electric airplane, and Eve Air Mobility selected us to provide an advanced energy storage system for its electric vertical take-off and land aircraft.
- Our Power & Propulsion Solutions business was selected for North America's largest battery electric bus award, meaning our Gen3 system will power up to 1,229 Nova Bus battery electric buses in Quebec, Canada.

– Through our Data Link Solutions joint venture with Rockwell Collins, Inc. we were selected by the US Navy to provide our Firenet™ small form factor Multi-functional Information Distribution System Joint Tactical Radio which enables in-network communication for smaller platforms. This award continues to build on our portfolio of next-generation full-spectrum communication systems.

Looking forward

– Our Electronic Systems sector remains positioned for growth in the medium term, as the team continues to address current and evolving priority programmes from its strong franchise positions and long-standing commitment to research and development.
– We maintain a diverse portfolio of defence and commercial products and capabilities for US and international customers, and expect to benefit from applying innovative technology solutions to defence customers' existing and changing requirements, building on our significant roles on F-35 Lightning II, F-15 upgrades, M-Code GPS upgrades and classified programmes, as well as a number of precision weapon products.
– Over the longer term, we are poised to build on our technology strengths in emerging areas of demand, including precision weaponry, space resilience, hyper-velocity projectiles, autonomous platforms, and the development of multi-domain capabilities.
– In our commercial portfolio, we continue to leverage our leading electric drive propulsion capabilities to address growing demand for low and zero emission solutions across an increasing number of civil platforms, with opportunities to migrate these technologies to defence applications.
– We continue to invest in our people, R&D and facilities to ensure capacity and resources are in place to capitalise on the positive outlook across our defence and commercial markets.
– The acquisition of Ball Aerospace will provide further access to the growing space domain, C4ISR and missile and munitions markets.

1. Including share of equity accounted investments.
2. Constant currency basis.

Financial performance

Financial performance measures as defined by the Group

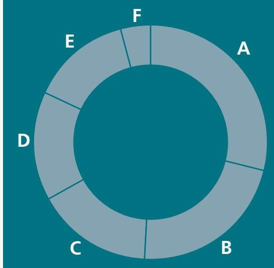
		2023	2022
Sales	KPI	£5,458m	£5,057m
Underlying EBIT	KPI	£878m	£838m
Return on sales		16.1%	16.6%
Operating business cash flow		£811m	£650m
Order intake[1]	KPI	£6.7bn	£5.4bn
Order backlog[1]		£8.9bn	£8.1bn

Financial performance measures derived from IFRS

	2023	2022
Revenue	£5,456m	£5,057m
Operating profit	£806m	£747m
Return on revenue	14.8%	14.8%
Cash flow from operating activities	£961m	£860m
Order book	£7.6bn	£6.7bn

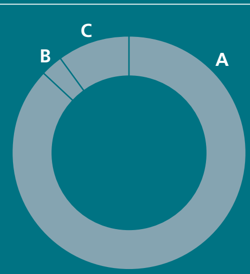
– Sales of £5.5bn increased 9%[2], led by continued recovery in the commercial aviation business across both civil aviation and power and propulsion, along with gains in electronic combat systems.
– Underlying EBIT grew 5%[2], generating a return on sales of 16.1%, within the guided range. This reflected the absorption of lower pension recoveries partially offset by higher commercial activity.
– Operating business cash flow was £811m and reflects improved working capital management.

Sales by line of business



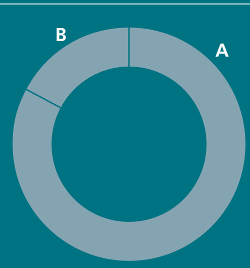
A	Electronic Combat	29%
B	C4ISR Systems	22%
C	Controls & Avionics	16%
D	Precision Strike & Sensing	15%
E	Countermeasure & Electromagnetic Attack	14%
F	Power & Propulsion	4%

Sales by domain



A	Air	87%
B	Maritime	3%
C	Land	10%

Sales analysis: Defence and commercial



A	Defence	83%
B	Commercial	17%

Platforms & Services

Platforms & Services, with 11,900[1] employees, with operations in the US, Sweden and UK, manufactures and upgrades combat vehicles, weapons and munitions, and delivers services and sustainment activities, including naval ship repair and the management and operation of two government-owned ammunition plants.

Combat Mission Systems focuses on a portfolio of tracked combat vehicles, amphibious vehicles, naval weapons, artillery systems, advanced weapons and precision munitions for the US military and international customers.

Ordnance Systems is the operator of the US Army's Holston and Radford ammunition facilities under government-owned, contractor-operated agreements, and focuses on explosives, propellants and facility modernisation.

US Ship Repair is a major provider of non-nuclear ship repair, modernisation, overhaul and conversions to the US Navy and other government and commercial maritime customers across three US sites on the Atlantic and Pacific coasts.

BAE Systems Hägglunds focuses on the tracked vehicle market for Swedish and international customers.

BAE Systems Bofors, based in Sweden, provides advanced land and maritime weapons and precision-guided munitions.

Weapon Systems UK is a provider of land-based artillery systems, sustainment and services, primarily for the M777 towed ultra-lightweight howitzer.

FNSS, the Turkish land systems business in which BAE Systems holds a 49% interest, produces and upgrades tracked and wheeled military vehicles for Turkish and international customers.

Operational performance

In response to a changing global landscape that is prioritising defence spending to enhance and replenish capabilities, we remain focused on meeting increased customer demand for our products and services, including munitions, tracked combat vehicles, artillery systems and support services.

In the US, our Combat Mission Systems team is producing at heightened volumes across multiple programmes, drawing on our extensive manufacturing network and engineering capability spanning the US, including expanded operations at our York, Pennsylvania, site to enable increased production of Armored Multi-Purpose Vehicles (AMPVs) and Amphibious Combat Vehicles (ACVs) to match customer requirements. The team continues to support critical vehicle modernisation programmes, and the AMPV entered the full-rate production phase during the second half of the year as the next-generation replacement for the M113.

Our BAE Systems Hägglunds team continued to build its order book with a large order of the CV90 MkIV infantry fighting vehicles in seven different variants from the Czech Republic. Ongoing build and upgrades continue for the current fleet of CV90s for a number of nations. Hägglunds has also seen a renewed interest in Arctic operations, leading to additional sales of our BvS10 all-terrain family of combat vehicles. Additionally, the team secured a strong partner to bring the BvS10 to the Indian market.

In our support services operations, modernisation and maintenance activities continue in our US shipyards for the US Navy's non-nuclear fleet. We secured a ten-year contract, with a ceiling value of $8.8bn (£7.1bn), to continue operating the US Army's Holston Army Ammunition Plant, and we continue to operate and modernise the Radford Army Ammunition Plant into 2026.

Operational highlights

- Our Hägglunds business continued to build its order book, with a large order of the CV90 vehicle in seven variants from the Czech Republic, and grow its portfolio through strong strategic investments and a partnership with Norway's Ritek AS to produce two new variants for the Swedish Armed Forces.
- The UK Government selected ARCHER for its interim mobile artillery solution requirement through a Government-to-Government agreement with Sweden.
- Our US shipyards were recognised for Safety Leadership, and the Holston Army Ammunition Plant received the US Army Materiel Command's Excellence in Explosive Safety Award.
- We started construction on a modern shiplift and land-level repair complex at our Jacksonville, Florida, shipyard that is expected to be operational in early 2025. However, in response to lower demand for Pacific-coast ship repair services throughout the year, we scaled back the workforce at our San Diego shipyard by nearly 500 positions.

Strategic and order highlights

- We secured a ten-year contract, with a ceiling value of $8.8bn (£7.1bn), to continue operating the US Army's Holston Army Ammunition Plant.
- We secured a $797m (£641m) contract with the US Army to continue production of the AMPV, with additional options for a potential total contract amount of $1.6bn (£1.3bn). This award brings the AMPV into full-rate production.
- We secured multiple contracts exceeding a total value of $870m (£700m) for the continued production of the Bradley A4. These awards will move more than 270 vehicles through our production lines and extend production into 2026.
- The Czech Republic awarded Hägglunds a contract to produce 246 CV90 MkIV infantry fighting vehicles in seven different variants. The contract is valued at $2.2bn (£1.8bn).
- Following the joint procurement agreement between Sweden, Germany and the UK, Germany purchased an additional 227 ultra-mobile, protected, all-terrain BvS10s valued at c.$400m (£322m). This investment from Germany will extend deliveries through to 2030.

- Our Weapon Systems UK team secured a five-year contract to follow from a previous ten-year programme for the delivery of M777 support services for the US, Australia and Canada with the initial year funded at $17m (£14m). Following M777 deployments to Ukraine and increased interest from armies around the world, Weapon Systems UK also secured a contract from the US Army to produce M777 superstructures for spares and repairs through the foreign military sales (FMS) process. This effectively brings the M777 towed lightweight howitzer back into production.
- We remain a critical provider of Army combat vehicles with our current franchises of AMPV, M109A7, M88 and Bradley vehicles, though we were not selected to participate in the follow-on phases of the US Army's Optionally Manned Fighting Vehicle programme.

Looking forward

- We continue to focus on increased long-term demand from the US and international customers. The uplift in European and allied countries' defence spending is in addition to our strong order backlog on key franchise programmes, including the AMPV, M109A7 self-propelled howitzer, Bradley upgrades, M88 HERCULES recovery vehicle and the US Marine Corps' ACV.
- There is a significant pipeline of future business opportunities for the CV90 and BvS10 from our Hägglunds business, as well as for artillery systems and munitions from our Bofors business.
- We continue to manage and operate the US Army's Radford and Holston ammunition plants, and focus on key modernisation activities.
- We will maintain our strong position on naval guns, missile launch programmes, and submarine programmes, as well as US Navy ship repair and modernisation activities where the business has invested in capitalised infrastructure and our facilities in key home ports.

1. Including share of equity accounted investments.
2. Constant currency basis.

Financial performance

Financial performance measures as defined by the Group

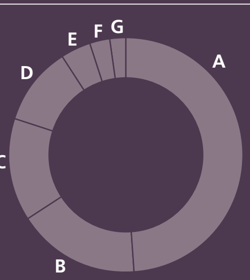
		2023	2022
Sales	KPI	£3,922m	£3,688m
Underlying EBIT	KPI	£354m	£326m
Return on sales		9.0%	8.8%
Operating business cash flow		£426m	£525m
Order intake[1]	KPI	£7.7bn	£5.7bn
Order backlog[1]		£11.5bn	£8.1bn

Financial performance measures derived from IFRS

	2023	2022
Revenue	£3,842m	£3,598m
Operating profit	£373m	£322m
Return on revenue	9.7%	8.9%
Cash flow from operating activities	£624m	£633m
Order book	£11.1bn	£7.7bn

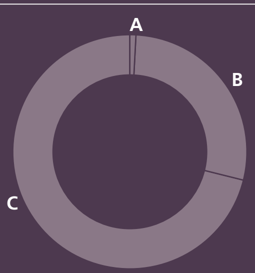
- Sales were £3.9bn, an increase of 8%[2]. Our Hägglunds business accounted for the majority of the sector's growth, with significant gains also recorded in our Ship Repair business.
- Operating business cash flow was £426m, reflecting significant advanced funding from customers partially offset by capital expenditure, predominantly in Ship Repair.
- Order intake of £7.7bn reflects a number of significant awards in the year, but primarily relates to the Czech Republic award for 246 CV90 MkIV infantry fighting vehicles worth $2.2bn (£1.8bn).

Sales by line of business



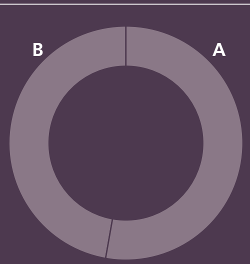
A	Combat Mission Systems	49%
B	US Ship Repair	17%
C	Ordnance Systems	14%
D	BAE Systems Hägglunds	11%
E	BAE Systems Bofors	4%
F	Weapon Systems UK	3%
G	FNSS	2%

Sales by domain



A	Air	1%
B	Maritime	28%
C	Land	71%

Sales analysis: Platforms and services



A	Platforms	53%
B	Services	47%

Air

Air, with 26,000[1] employees, comprises the Group's UK-based air build and support activities for European and international markets, US programmes, development of Future Combat Air Systems and FalconWorks®, alongside our business in the Kingdom of Saudi Arabia and interests in our European joint ventures: Eurofighter and MBDA.

Our **UK-based business** includes UK and international programmes for the production of Typhoon combat aircraft, support, training and upgrades for Typhoon and Hawk, support and upgrades for Tornado, and development of next-generation combat air technologies and defence information systems, as well as the UK-based F-35 Lightning II manufacture, engineering development and support activity.

In the **Kingdom of Saudi Arabia**, we provide operational capability support to the Kingdom's air and naval forces through UK-Saudi government-to-government programmes. The Saudi British Defence Co-operation Programme and Salam Typhoon project provide for multi-year contracts between the governments.

MBDA is a leading global prime contractor of missiles and missile systems across the air, maritime and land domains.

Operational performance

We continue to work with our customers to support their existing platforms and provide new enhanced capabilities. Deliveries of Typhoon to Qatar continue, alongside support to the in-service fleet. In the Kingdom of Saudi Arabia, our support for Typhoon has been extended for a further five-year term. In our US Programmes division, we are focused on delivery execution across all production lines with 162 F-35 aft fuselages completed in 2023. The formation of our new FalconWorks® organisation and ongoing progress on the future combat air activities are important to future growth as we invest in our people, facilities and cutting-edge technologies.

Operational highlights

- Activity on our Qatar Typhoon and Hawk programmes continued with ten further Typhoon deliveries in the year, and a total of 18 aircraft now in service with the Qatar Emiri Air Force.
- On the future fighter programme, we continue work on developing the UK flying demonstrator to fly within four years. The programme is focused on key technology areas of flight simulation, aerodynamic engine testing, and crew escape.
- Our FalconWorks® organisation, formed during the year to develop and bring to the market new products and technologies, is leading the development and testing of PHASA-35®, our persistent high altitude solar aircraft, with successful stratospheric flight trials taking place in June.
- We continue to deliver services under the five-year SBDCP, with the Tornado Support Service providing an enhanced and modernised solution for the Royal Saudi Air Force.

Strategic and order highlights

- Additional UK Ministry of Defence funding of £143.5m was awarded in the second half of the year, taking the total funding awarded in 2023 to c.£800m, to advance the concepting and technology of the next-generation combat aircraft to 2025.
- On GCAP, a trilateral collaboration agreement between BAE Systems, Leonardo SpA (Italy) and Mitsubishi Heavy Industries (Japan) is now in place to enable collaboration and sharing of information towards the next phase of activities.
- We secured a further £535m of funding for European Common Radar System (ECRS) Mk2 Radar development for the Typhoon weapon system. The Royal Air Force of Oman has elected not to renew the current support arrangements for its Typhoon fleet. Discussions around our role in providing a level of support to the Royal Air Force of Oman continue.
- We secured the Lightning Air System National Capability Enterprise (LANCE) contract in March, which extends our leadership of UK F-35 support at RAF Marham until the end of 2027.
- Following the completion of the previous five-year Salam Typhoon support contract on 31 December 2022, we reached an agreement with the Saudi Arabian Government to continue to provide these services for another five years through to the end of 2027, valued at £3.7bn.
- Through FalconWorks®, the Air sector continues to invest in promising new and innovative technologies for the future, including the development of electric aircraft products with a number of partners.
- MBDA secured significant orders through 2023, in particular in air defence, maritime and land domains. These include production of medium-range ASTER B1 & B1NT missiles for use across the Italian and French armed forces, from the Polish Armament Agency to supply Launchers and Common Anti-Air Module Missiles (CAMM) for Poland's PILICA+ Air Defence upgrade programme. It also won orders for SAMP/T NG new generation ground-based air defence systems for the Italian Air Force, and for the Mid-Life Upgrade of the air defence systems of the French and Italian Horizon class frigates.
- MBDA is also supporting GCAP and signed a collaboration agreement with Mitsubishi Electric to work towards a weapons and effectors solution in support of the design of the GCAP core platform.

Looking forward

- The UK Future Combat Air System is a key element of the UK Combat Air Strategy which enables long-term planning and investment in a key strategic part of the business, ensuring we have a long-term combat aircraft design, development and manufacturing capability.
- We will continue to focus on ensuring that deliveries of Typhoon aircraft and support are made in line with agreed customer milestones. Future Typhoon production and support sales are underpinned by existing contracts and discussions continue to secure potential further contract awards for Typhoon.
- Production of the rear fuselage assemblies for the F-35 has reached full rate levels and is expected to be sustained at approximately 150 to 160 aft fuselages to be completed annually. The business plays a significant role in the F-35 sustainment programme in support of Lockheed Martin and support volumes should increase as the number of jets in service continues to increase.
- In the Kingdom of Saudi Arabia, the In-Kingdom Industrial Participation programme continues to make good progress consistent with our long-term strategy, whilst supporting the Kingdom's National Transformation Plan and Vision 2030. Our in-Kingdom support business is expected to remain stable underpinned by long-standing contracts that are expected to be renewed every five years, while we continue to support development of a Future Combat Air Partnership between the Kingdom of Saudi Arabia and the UK.
- MBDA has a strong order backlog and development programmes continue to improve the long-term capabilities of the business in air, land and sea domains. MBDA continues to be well placed to benefit from increased defence spending in Europe and internationally.

Financial performance

Financial performance measures as defined by the Group

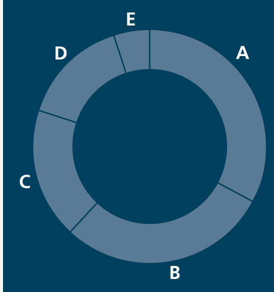
		2023	2022
Sales	KPI	£8,058m	£7,698m
Underlying EBIT	KPI	£949m	£849m
Return on sales		11.8%	11.0%
Operating business cash flow		£1,669m	£1,140m
Order intake[1]	KPI	£11.0bn	£14.0bn
Order backlog[1]		£27.2bn	£24.4bn

Financial performance measures derived from IFRS

	2023	2022
Revenue	£6,517m	£6,286m
Operating profit	£948m	£809m
Return on revenue	14.5%	12.9%
Cash flow from operating activities	£1,808m	£1,202m
Order book	£18.5bn	£17.4bn

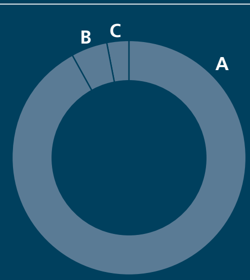
- Sales were £8.1bn, an increase of 4%[2], driven by increased activity in MBDA and higher air support volumes, while the future combat air programme continues to gain pace with activity more than doubling in 2023.
- Return on sales of 11.8% reflects good operational performance and risk retirement.
- Operating business cash flow of £1.7bn reflects the timing of customer advances and down payments from recent awards.
- Order backlog reached £27.2bn, following an order intake of £11.0bn in the year. Significant orders include agreement of a further five-year Salam Typhoon support contract, valued at £3.7bn, as well as multiple awards in MBDA across both the import and export markets.

Sales by line of business



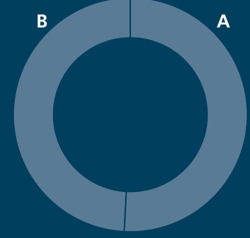
A	Kingdom of Saudi Arabia	33%
B	European and International Markets	29%
C	MBDA	18%
D	US Programmes	15%
E	Future Combat Air System	5%

Sales by domain

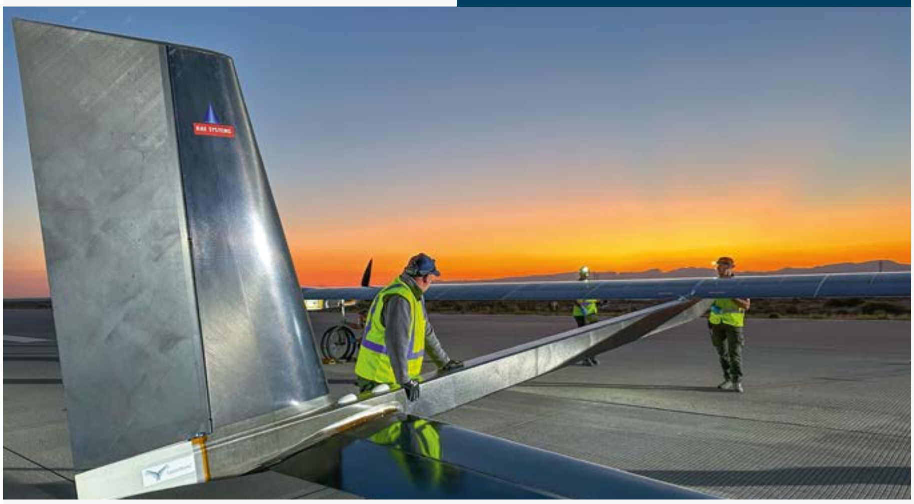


A	Air	92%
B	Maritime	5%
C	Land	3%

Sales analysis: Platforms and services



A	Platforms	51%
B	Services	49%



1. Including share of equity accounted investments.
2. Constant currency basis.

Maritime

Maritime, with 27,500[1] employees, comprises the Group's UK-based maritime and land activities, including major submarine, ship build and support programmes, as well as our Australian business.

Maritime programmes include the construction of seven Astute Class submarines for the Royal Navy, as well as the design and production of the Royal Navy's four Dreadnought Class submarines and eight Type 26 frigates. The Maritime portfolio also offers in-service support, including the delivery of training services and providing worldwide engineering support to the Royal Navy's Portsmouth-based surface flotilla on behalf of the UK Ministry of Defence, as well as the design and manufacture of combat systems, torpedoes and radars.

Land UK's munitions business designs, develops and manufactures a comprehensive range of munitions products for a number of customers including our main customer, the UK Ministry of Defence.

Rheinmetall BAE Systems Land (RBSL) – our UK-based joint venture with Rheinmetall – specialises in the design, manufacture and support of military vehicles used by the British Army and international customers. Land UK also develops and manufactures cased-telescoped weapons through our CTA International joint venture.

In **Australia**, the business primarily delivers upgrade and support programmes for customers in the defence and commercial sectors across the air, maritime and land domains. This includes the Jindalee Operational Radar Network (JORN) upgrade. The business is also delivering the Hunter Class Frigate Programme. Services contracts include the provision of sustainment, training solutions and upgrades.

Operational performance

Our major maritime platform programmes continue to progress, with sea trials commencing for HMS Anson, the fifth Astute Class submarine, as well as the start of construction of both the third Dreadnought Class submarine, HMS Warspite, and the fourth Type 26 frigate, HMS Birmingham. The Hunter Class Frigate Programme (HCFP) in Australia has achieved key milestones and we continue to meet customer delivery and support requirements in both Munitions and Maritime Services. Ongoing investments in our facilities and our people will help ensure we can support increasing customer demand and, with the future potential of AUKUS, the sector is well positioned for future growth.

Operational highlights

- In February, HMS Anson left our Submarines site in Barrow-in-Furness, Cumbria, to begin sea trials with the Royal Navy. She joins HMS Astute, HMS Ambush, HMS Artful and HMS Audacious at their operational base, HM Naval Base Clyde, in Faslane. The remaining submarines in the Astute Class – Agamemnon and Agincourt – are at an advanced stage of construction.
- The UK Type 26 programme continues and construction is underway on the first four City Class Type 26 frigates, with a focus on skilled and experienced resource availability, including within the supply chain. HMS Glasgow is progressing through the key stages of outfit, test and commissioning, while HMS Cardiff is being prepared to enter the water for the first time in 2024. Following steel cut in June 2021, HMS Belfast continues steelwork construction, while the initial unit construction for HMS Birmingham began in April and is well underway.
- In Australia, the Hunter Class frigate programme continues to make strong progress towards a production contract for Batch 1. During the year, construction commenced on the first schedule protection block at Osborne Naval Shipyard in South Australia and the programme successfully completed the Preliminary Design Review. Alongside this, we continue the upgrade and sustainment of Australia's Anzac Class frigates at pace. Construction has also commenced on facilities at our Williamtown site to support F-35 maintenance activities.
- The new £2.4bn 15-year contract with the UK Ministry of Defence, the Next Generation Munitions Solution (NGMS), commenced on 1 January 2023. Building on this, we secured additional orders for the supply of munitions to the UK Ministry of Defence worth over £400m, to significantly increase the production of vital defence stocks.
- Development and investment activity across our munitions business continues. Over £200m is being invested, including two new machining lines in Washington (Tyne and Wear).

Strategic and order highlights

- We secured an order of £2.4bn for the continued Delivery Phase 3 activity on the Dreadnought Class submarine programme. Construction of the first three boats is underway at Barrow-in-Furness, Cumbria. A ceremony took place in February 2023 to mark the official steel cut on the third submarine, HMS Warspite.
- During the year, Australia, the UK and the US announced the pathway for Australia to acquire nuclear-powered submarines as part of the AUKUS programme. The nations will deliver a trilaterally developed submarine based on the UK's next-generation Astute replacement design. Australia and the UK will operate SSN-AUKUS, as it will be known, incorporating technology from all three nations. Our submarines business has secured an order intake of £3.95bn to enable the programme to transition into the detailed design phase and commence procurement of long-lead items and supporting infrastructure.

- We continue investing in our people and facilities to better enable us to deliver on our customer commitments and secure the long-term future for complex shipbuilding in Glasgow. Construction of a new ship assembly hall in Govan is well underway, and the new Applied Shipbuilding Academy in Scotstoun is planned to open in 2024.
- In Australia, we continued to invest in new products and opportunities and unveiled Strix™, a vertical take-off and landing (VTOL) uncrewed aerial system, RAZER, a low-cost precision guided munition, and showcased the Guided Missile Frigate, an evolution of the Hunter Class.
- In June, we secured a ten-year contract worth £270m to support the Royal Navy's three main radar systems. Under the contract, our engineers will provide maintenance to existing radars, alongside technology upgrades to systems already in use, and those being installed on the new Type 26 frigates under construction in Glasgow, UK.

Looking forward

- Our Submarines business is executing across Astute, Dreadnought and SSN-AUKUS. Investment continues in the facilities at our Barrow-in-Furness, Cumbria, shipyard to provide the capabilities to deliver these long-term programmes.
- In the UK, shipbuilding sales are underpinned by the manufacture of Type 26 frigates and our capabilities across Warship Support, Underwater Weapons, Radar and Maritime Training.
- The Australian Defence Strategic Review confirmed the acquisition of conventionally armed, nuclear-powered submarines as part of the SSN-AUKUS programme and the Australian Government's commitment to continuous naval shipbuilding. Our Australian business is well positioned to respond to future opportunities this creates.
- Additionally, the Australian business has long-term sustainment and upgrade activities in maritime, air, wide-area surveillance, missile defence and electronic systems.
- As the UK Ministry of Defence's long-term strategic partner for munitions supply, we continue to focus our operations in support of the UK Ministry of Defence and the UK's NATO allies, as well as other customers. To support this, investment continues across our facilities and infrastructure alongside recruitment activities to support increased demand.

1. Including share of equity accounted investments.
2. Constant currency basis.

Financial performance

Financial performance measures as defined by the Group

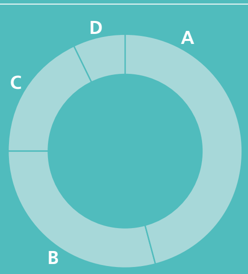
		2023	2022
Sales	KPI	**£5,536m**	£4,598m
Underlying EBIT	KPI	**£425m**	£356m
Return on sales		**7.7%**	7.7%
Operating business cash flow		**£291m**	£235m
Order intake[1]	KPI	**£10.1bn**	£9.7bn
Order backlog[1]		**£21.3bn**	£17.2bn

Financial performance measures derived from IFRS

	2023	2022
Revenue	**£5,391m**	£4,484m
Operating profit	**£423m**	£352m
Return on revenue	**7.8%**	7.9%
Cash flow from operating activities	**£629m**	£418m
Order book	**£20.4bn**	£16.6bn

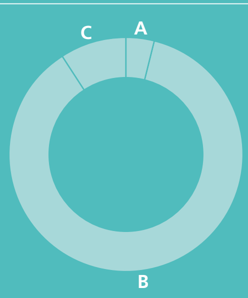
- Sales of £5.5bn were up 22%[2], due to accelerated funding on the Dreadnought programme.
- Operating business cash flow of £291m is after capital investment in shipbuilding facilities in Glasgow and the Munitions business in Glascoed.
- Order intake of £10.1bn in the year has pushed order backlog to £21.3bn, primarily driven by the award of £3.95bn for the next phase of SSN-AUKUS as well as additional funding of £2.4bn for the continued activity on Dreadnought.

Sales by line of business



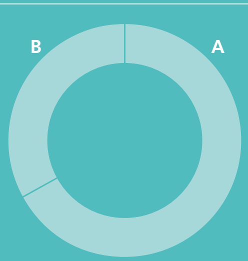
A	Submarines	**46%**
B	Naval Ships	**29%**
C	Australia	**18%**
D	Land UK	**7%**

Sales by domain



A	Air	**4%**
B	Maritime	**87%**
C	Land	**9%**

Sales analysis: Platforms and services



A	Platforms	**67%**
B	Services	**33%**

Cyber & Intelligence

Cyber & Intelligence, with 11,000[1] employees, comprises the US-based Intelligence & Security business and UK-headquartered Digital Intelligence business, and covers the Group's cyber security activities for national security, central government and government enterprises.

Intelligence & Security is made up of three US-based business units.

Air & Space Force Solutions provides the US Air Force, US Space Force and combatant commands with innovative systems engineering and integration solutions to modernise, maintain, test and cyber-harden aircraft, radars, strategic missile systems, mission applications and information systems that detect, deter and dissuade national security threats.

Integrated Defense Solutions provides the US Army and Navy with systems engineering, integration, and sustainment services for critical weapons systems, C5ISR (Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance and Reconnaissance) and cyber security that enhance mission effectiveness. Our solutions are deployed across platforms and networks in the air, maritime, land and cyber domains.

Intelligence Solutions provides innovative mission-enabling solutions and services to intelligence and federal/civilian agencies, as well as the provision of cost-effective synthetic training and simulation software products and components for global defence applications.

Digital Intelligence provides cyber, intelligence and security expertise to help protect nations, businesses and citizens. Our services, solutions and products span customers in law enforcement, national security, central government and government enterprises, critical national infrastructure, telecommunications, military and space.

Operational performance

Our Intelligence & Security business has performed well in 2023, supporting government customers across the US Department of Defense, federal agencies and civilian organisations with innovative, mission-enabling solutions. We continue to focus on cultivating a strong pipeline of qualified business opportunities across our US-based business units – Air & Space Force Solutions, Integrated Defense Solutions, and Intelligence Solutions.

In Digital Intelligence, we have stepped up our investment in the business for future growth. During the year, we opened a new site in Manchester to broaden our footprint and enable the business to access the wider labour market. We have also invested in talent recruitment and development through training academies to generate skillsets which are in short supply.

Operational highlights

- As we continue to address the growing modelling & simulation and synthetic training markets, BAE Systems-owned Pitch Technologies was realigned from Platforms & Services to our Intelligence & Security business. The addition of Pitch builds on the 2022 acquisition of Bohemia Interactive Simulations (BISim) as we address the increased demand for innovative and cost-effective training and simulation software products.
- Our businesses continue to deliver strong performance on existing contracts with the US Navy, US Army, US Air Force and federal/civilian agencies – including a \$699m (£562m), five-year contract for operations, maintenance and management services for the US Army's Defense Supercomputing Resource Center and a \$478m (£384m), five-year contract to support weapon systems on US and UK submarine classes.
- The Wargaming Capability (WGC) programme conducted a successful operational demonstration test event of our wargaming system in June. The event consisted of test case and scenario execution demonstrating a broad range of wargaming activities and resulted in a successful pass from the US Marine Corps. The success of this test event allows the WGC team to continue moving forward to a production-ready capability with anticipated initial operating capability in 2025.
- In Digital Intelligence, investments in new products for space and international markets continue to progress well and all major external projects are delivering well against schedules.

Strategic and order highlights

- In Intelligence & Security, we secured task orders, in March, valued at \$457m (£367m) to support critical mission operations for a government customer.
- In December, Germany's Bundeswehr acquired a BISim VBS4 enterprise licence. The enterprise licence provides the Bundeswehr with full access to BISim's easy-to-use, whole-earth virtual and constructive desktop trainer and simulation.
- Through collaboration between the Air sector and the Intelligence & Security business, PHASA-35® successfully demonstrated its ability to achieve stratospheric flight, and Intelligence & Security was subsequently awarded a US Army Space and Missile Defense Command contract that provides opportunities over a five-year period to undertake military utility demonstrations through the integration of sensor payloads operating on board the PHASA-35® aircraft.
- In June 2022, the US Air Force awarded the Integration Support Contract (ISC) 2.0 re-compete to BAE Systems with an 18-year period of performance and \$12bn (£10bn) total contract ceiling. The ISC 2.0 contract award was protested, and the Government Accountability Office (GAO) sustained portions of the protest in October 2022. The Air Force is taking corrective action to address the GAO issues, and we continue to support the ISC programme under a \$652m (£524m) contract extension received in January 2023.

- In Digital Intelligence, we are making positive progress in expanding our multi-domain communications footprint in the UK defence sector. We have also secured a number of multi-year deals with Central Government and National Security customers.

Financial performance

- Sales increased by 6%[2], to £2.3bn, with both the UK and US businesses seeing increased operations in the year. Growth was 9%[2] after adjusting for the divestment of the financial crime detection business in 2022.
- Underlying EBIT was down 14%[2], delivering a return on sales, as expected, of 8.6% following additional investment in the year in space and multi-domain networking, and higher recruitment and facilities costs.
- Order backlog has remained steady against the prior year, with a book-to-bill[3] ratio of 1.1.

Looking forward

- Our Intelligence & Security team maintains a strong pipeline of qualified business opportunities and is seeing an increase in demand driven by global security threats, even with some delays in Department of Defense procurements.
- The outlook for our US Government services sector in Intelligence & Security is robust with the opportunity for mid-term growth, though market conditions remain highly competitive and continue to shift in response to government priorities.
- The modelling, simulation and synthetic training environment markets in the US and internationally support a positive outlook for our BISim and Pitch Technologies teams, and we continue to expand our wargaming capabilities to new markets and customers.
- In Digital Intelligence, where our capabilities are well aligned to UK defence, security and digital budgets, we continue to recruit talent and invest in our people through our training academies and a new facility in Manchester, in the North West of England.
- In the space domain, our Digital Intelligence business is focusing on delivering our Azalea™ programme to develop and build Low Earth Orbit satellites for the defence market.

1. Including share of equity accounted investments.
2. Constant currency basis.
3. Ratio of Order intake to Sales.

Financial performance

Financial performance measures as defined by the Group

		2023	2022
Sales	KPI	£2,321m	£2,205m
Underlying EBIT	KPI	£199m	£232m
Return on sales		8.6%	10.5%
Operating business cash flow		£204m	£154m
Order intake[1]	KPI	£2.5bn	£2.4bn
Order backlog[1]		£2.0bn	£2.1bn

Financial performance measures derived from IFRS

	2023	2022
Revenue	£2,321m	£2,205m
Operating profit	£179m	£291m
Return on revenue	7.7%	13.2%
Cash flow from operating activities	£261m	£191m
Order book	£1.4bn	£1.4bn

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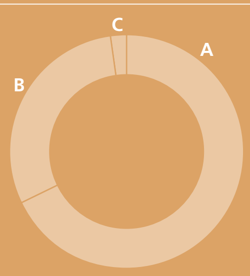
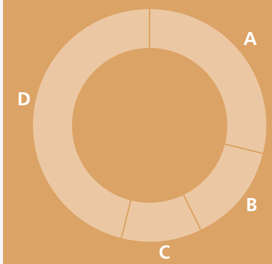
- Order backlog has remained steady against the prior year, with a book-to-bill[3] ratio of 1.1.

Sales by customer



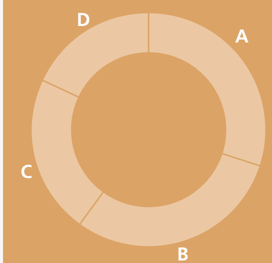
A	US Government	68%
B	UK and other governments	30%
C	Other	2%

Sales by domain



A	Air	29%
B	Maritime	14%
C	Land	11%
D	Cyber	46%

Sales by business



A	**Digital Intelligence**	**30%**
	Intelligence & Security:	
B	Intelligence Solutions	30%
C	Integrated Defence Solutions	22%
D	Air & Space Force Solutions	18%

Our sustainability agenda

We are committed to playing our part in creating a secure and sustainable future[1].

Sustainability plays an increasingly important role; it is embedded into our strategic framework and aligns with our purpose – "to serve, supply and protect those who serve and protect us". We innovate, engineer and deliver products and services that help governments keep people safe around the world and strengthen international stability.

At the same time, our business supports the economic growth of nations through high-quality, well-compensated, sustained employment and a global network of suppliers. We are committed to development of our employees, including both their skills and career advancement, and to investment in the communities and regions where we operate.

With business growing at an accelerated pace, it is critical that we continue to attract, retain and develop the diverse and top talent who will ensure we fulfil our mission. We must ensure that our culture is inclusive, providing an environment where employees feel valued, supported, listened to and are able to grow both personally and professionally.

In 2023, along with progressing programmes related to our core foundations, we continued to focus on leveraging our strengths and capabilities to make progress on the four pillars of our sustainability agenda and make the most material contributions in the future.

Our four pillars are:

- Addressing climate risks
- Furthering ideas, innovation and technology
- Creating opportunity for people and communities
- Achieving success through partnering

We recognise that we are part of a complex ecosystem of stakeholders, and that progress requires changing behaviours, aligning expectations and partnering with others. We start with our customers and their decarbonisation programmes and social impact objectives – and we must work together with the support and involvement of our employees, suppliers and communities. We engage with these different stakeholders groups on our plans and roadmaps, in addition to listening to their perspectives on our sustainability approach.

Commitment from all levels

Sustainability is driven from the top down by our Chief Executive and integrated throughout the business from our strategic framework, our governance systems and policies, to the integrated financial planning process and business review cycles.

Cross-functional and cross-sector steering groups provide expertise and oversight and our assurance framework and Internal Audit regularly assess our compliance with policies and processes.

Our Board Environmental, Social and Governance Committee provides oversight, input and assurance of the Group's agenda and progress, including approving the ESG-related objectives and targets that form part of our executive incentives.

At each meeting, the Committee receives input from both senior management and the Group's subject matter experts. The Committee routinely reviews data and participates in site visits and meetings to engage directly with employees and hear their views. This dialogue enables the Committee to reflect employee perspectives in boardroom discussions.

In addition, we have established a number of employee groups which discuss and consider various sustainability topics and provide feedback to the Group ESG, Culture & Business Transformation Director.

Clear and open two-way communication from the boardroom, through the executive team and across all our sites encourages our employees at all levels of the business in terms of understanding the organisation and their role within it and to be proud of what we are doing.

2023 highlights

Having established our approach and key goals in 2022, this year we focused on increasing awareness internally and executing our plans and roadmaps.

Here are the key highlights at a glance.

Environment

- Scope 1 and 2: reduced future emissions by agreeing Power Purchase Agreements with energy suppliers that will provide renewable energy to help us meet energy demand in the UK.
- Scope 3 product-related emissions: we are partnering with the Royal Navy and Rolls-Royce to trial alternative fuels in naval vessels by blending currently available fuels (see page 55).
- In the UK, we have engaged with suppliers responsible for 45% of the Group's UK supply chain emissions and provided them the tools to measure and monitor their CO_2 emissions.
- In the US, we continue to execute on a variety of sustainability efforts and initiatives.

Social

- 29% of the Executive Committee are female.
- £11,267,109[2] contributed to the communities in which we live and work, in addition to the regions and countries in which we operate.
- In the UK, the Group was ranked second by female engineers in the Most Attractive Employers list by Universum[3], up from 24th in 2022.
- In the US, we were recognised as Military-Friendly for a 13th consecutive year and awarded 'Best for Vets' for a 10th consecutive year.

Responsible business practices

- We continued to support transparency and understanding of our sustainability agenda and governance framework.
- We updated our global Code of Conduct to include changes to our internal processes and policies for roll-out during 2024.
- In the UK, we continued to progress our workstreams on improving due diligence on modern slavery.
- We sustained robust corporate governance in line with our Operational Framework.

1. References to 'sustainable' and/or 'sustainability' (across pages 46 to 66 inclusive) may refer to a range of environmental and/or social and/or economic business practices, unless otherwise described within a particular statement.
2. Deloitte has provided independent limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) issued by the International Auditing and Assurance Standards Board (IAASB) over the selected metric. Deloitte's full unqualified assurance opinion, which includes details of the selected metrics assured, can be found at baesystems.com/annual-report.
3. https://universumglobal.com/.

A responsible defence company

Sustainability embedded in our strategic framework

Pillars accelerating our ambitions – opportunities to advance and integrate our sustainability agenda

Addressing climate risks

Furthering ideas, innovation and technology

Creating opportunity for people and communities

Achieving success through partnering

Underpinned by core foundations

Safety, health and wellbeing
Accountability and transparency
Robust ethics and governance
Diversity, equity and inclusion
Product trading, quality and safety
Early careers
Environmental impact management

How we report

Environment and climate

Covers: Addressing climate risks; furthering ideas, innovation and technology; and achieving success through partnering.

- Decarbonisation strategy
- Environmental stewardship
- Biodiversity and nature

Read more Page 48 →

Social

Covers: Creating opportunity for people and communities; and achieving success through partnering.

- Workplace environment
- Education and skills
- Community investment
- Armed forces support

Read more Page 56 →

Responsible business practices

Covers: Anti-bribery, anti-corruption and ethics programmes; Improving industry standards; Human rights; Cyber security; and, Responsible supply chain.

Read more Page 62 →

Environment and climate

Our decarbonisation strategy supports delivery of our Group strategic framework, mitigating our impact on climate change by decarbonising our operations and working towards a net zero value chain by supporting our customers' transition. We strive to mitigate the impacts we have on the environment while adapting our operations and products to the wider challenges and risks presented by climate change.

Climate change is one of the great global challenges of our time requiring us all to act together. Like other industries, the defence industry is supporting the transition to a global decarbonised economy, while prioritising a safe and reliable defence capability for our customers.

Many defence platforms are energy intensive, with the majority of emissions resulting from upstream procured products and downstream activities covering customer use and military deployment.

Globally, the total carbon footprint of the defence sector, including government activities, is approximately 520 $MtCO_2e$ each year or 1% of global man-made GHG emissions[1]. Defence platforms are designed to be in service for decades while retaining the ability to operate across different geographical regions, with different climatic conditions and infrastructure, and alongside our allies. So we must work in partnership with our customers to understand their future requirements.

For us, climate resilience includes the assessment of the physical and strategic impacts of our own sites and operations and the ongoing development of a wider decarbonisation strategy that addresses climate-related risks and opportunities to:

- achieve our target of net zero GHG emissions (Scope 1 and 2) across our operations by 2030;
- support our customers on their climate goals by developing energy efficient products and services whilst maintaining military operational advantage;
- develop the skills and capabilities of our employees to drive innovative solutions for energy management and efficiency across our operations and the product lifecycle;
- seek to mitigate adverse environmental impacts and be good stewards of the environment in the locations where we operate; and
- work with our local communities to support sustainability initiatives.

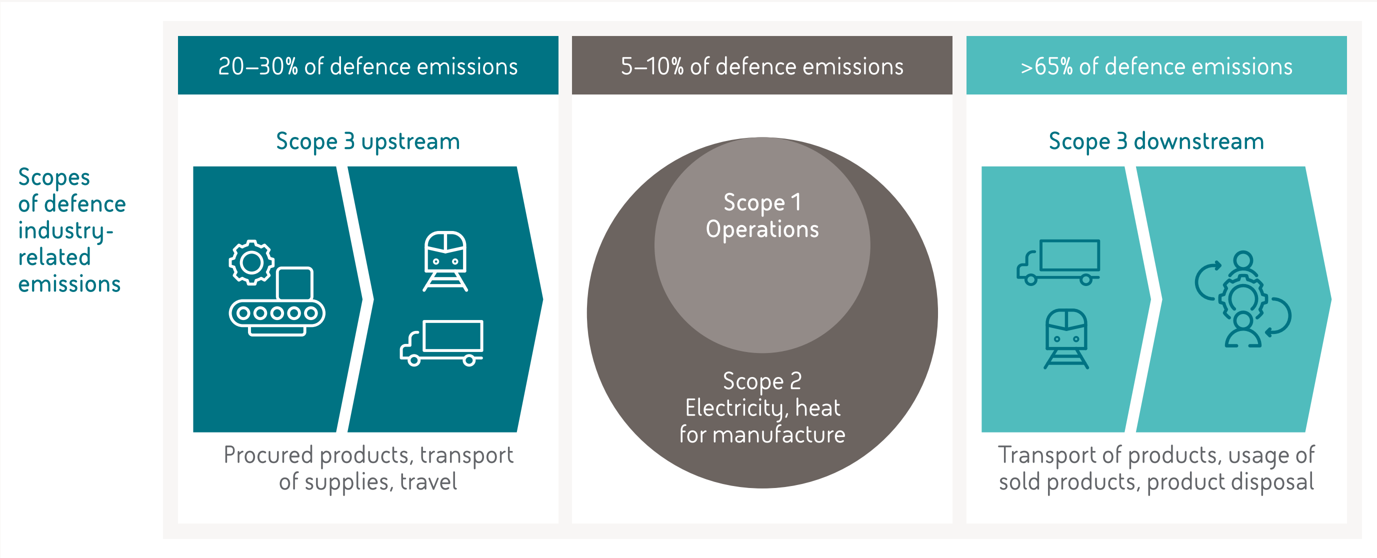
Our decarbonisation strategy includes our target of:

- achieving net zero GHG emissions across our operations (Scope 1 and 2) by 2030 – we aim to do this by reducing our emissions as a minimum in line with the 1.5°C pathway[2]; and
- working towards a net zero value chain by 2050.

For the UK, Australia and Kingdom of Saudi Arabia businesses, net zero means reducing our emissions by following a Paris-aligned pathway, supporting efforts in limiting global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C.

Once our emissions have been reduced as much as practicable, we will consider the use of offsets to decarbonise our operations by 2030. We are working to minimise exposure to offsets and will develop a responsible strategy to implement as appropriate.

Analysis of emissions for Defence companies – adapted from Boston Consulting Group Review 2022



1. Roland Berger – Defence Zero Volume 1: Military emissions and potential solutions and https://asd-europe.org/climate-change-and-defence.
2. Following a Paris-aligned pathway, supporting efforts in limiting global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C – https://unfccc.int/process-and-meetings/the-paris-agreement.

Decarbonising our operations

Our target is to be net zero across our operations (Scope 1 and 2) by 2030 by reducing operational GHG emissions year-on-year by 4.2%, in line with a Paris-aligned pathway, limiting warming to 1.5°C, over ten years (against a baseline year of 2020), with a 90% reduction in GHG emissions being achieved by 2050. If the year-on-year reduction target of 4.2% is not met during any given year, the year-on-year reduction targets for subsequent years will be adjusted to deliver the overall reduction target.

We will achieve our net zero targets through a variety of different instruments including engagement on power purchase agreements (PPAs), investing in renewable and other energy efficiency measures and switching to lower carbon fuels where practicable. Our roadmap to 2030 estimates that the reduction associated with each of these is approximately 75% through renewables, 15% through energy efficiency measures and 10% through fuel switch opportunities.

During 2023, we progressed activities related to our emissions reductions levers. Our overall operational GHG emissions (Scope 1 and 2) have reduced by 11% compared to 2022, this is driven by reductions in electricity and gas consumption as a result of factors such as production variances, efficiency improvements and operational control changes.

A key element of our net zero ambition is increasing the proportion of renewable energy across our sites. The nature of our operations will continue to require a significant amount of energy for current demand and the predicted growth in our business over the coming decade. During 2023, we proactively pursued renewable energy development opportunities including investment in power purchase agreements (signed during 2023) for a new wind farm development and a number of solar projects across our UK enterprise. These projects will be completed in Q4 2026 and 2024 respectively. These projects are expected to provide energy security and certainty for our future operations and also increase the overall renewable energy generation across the UK from 2024 onwards.

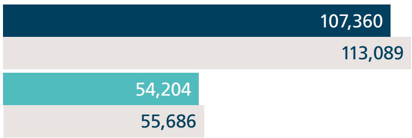
KPI In-year reduction of GHG emissions (Scope 1 & 2)

ACHIEVED

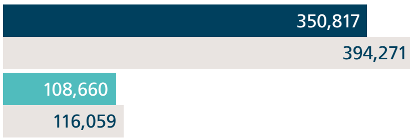
-11.0%

GHG emissions data[1]

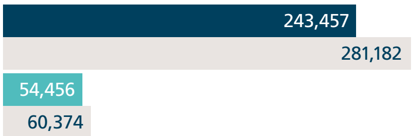
1 Emissions from activities which BAE Systems owns or controls (Scope 1)



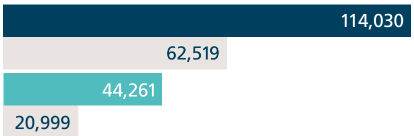
Total gross Scope 1 and 2 emissions



2 Emissions from the electricity, natural gas and steam purchased for BAE Systems' use (Scope 2 – location-based)



3 Emissions from employee business travel included in (Scope 3)



Global[2] tonnes CO_2e | UK tonnes CO_2e | 2022 figures

Read more – Other sustainability information/GHG methodology statement Page 234 →

1. Relevant reporting period 1 November 2022 to 31 October 2023.
2. Deloitte has provided independent limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) and Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the International Auditing and Assurance Standards Board (IAASB). Deloitte's full unqualified assurance opinion, which includes details of the selected metrics assured, can be found at baesystems.com/annual-report.

Site consolidation, new-build and refurbishment projects provide further opportunities for us to optimise and reduce our energy consumption. Robust data on building efficiency and infrastructure is a key enabler to achieve this. We have building information management systems in place across a number of our sites, we are extending them further and also establishing common building standards across geographies. During 2023, we updated the steam delivery network at our munitions site in the UK, invested in new and more energy efficient office locations in the US and consolidated all of our Head Office administration buildings in the UK.

Across our business we are seeking, where possible, to switch to low carbon alternatives to heat our buildings. In the US, we continue to explore efficiencies in heating and cooling operations to reduce energy and subsequent impacts.

We continue to mature our assessment and manage the climate-related physical risks and impacts across our global facilities, implementing improvement recommendations, including investment to improve facilities.

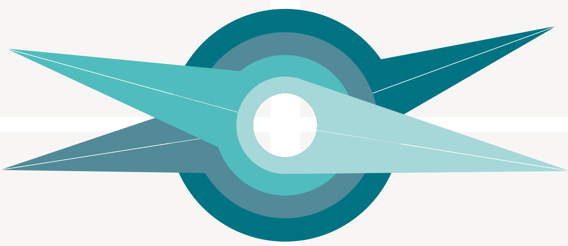
Our decarbonisation strategy and activities related to our emissions reduction levers are embedded in our sectors' five-year business plans and we are assessing the impact of our predicted business growth to ensure our energy and infrastructure strategies are aligned to our decarbonisation pathways. Our Group-level policies and processes have been revised to include our decarbonisation ambitions and to strengthen our climate resilience.

Our in-year and long-term incentives are aligned to the Group achieving a 4.2% operational GHG emissions reduction target year-on-year.

Product sustainability guidance for our UK, Australia and Kingdom of Saudi Arabia businesses

Managed impact
Our products, as part of their design, manufacture, use and disposal have managed impact on the environment

GHG emissions
We are working towards making our products net zero with respect to GHGs



Operational resilience
Our products are resilient to changes in the environment in which they will operate

Energy and material resilience
Our products consider energy and material resilience

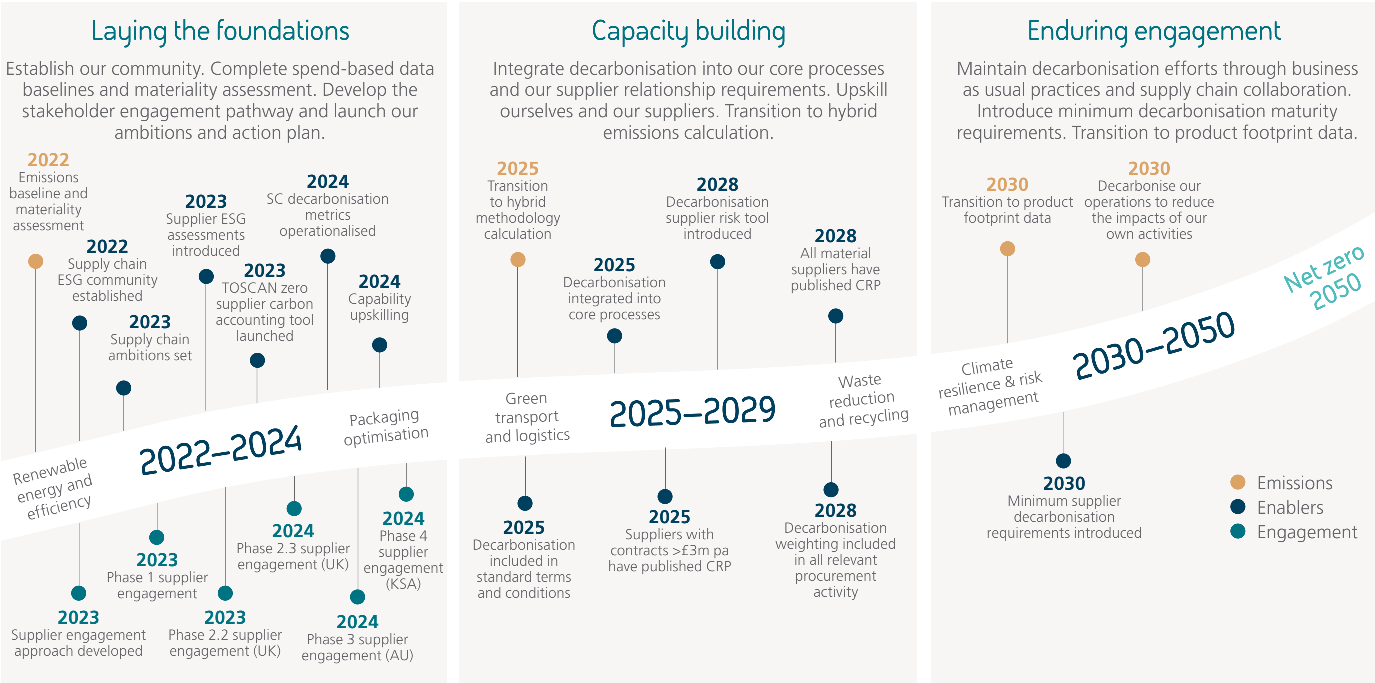
Environment and climate continued

Decarbonising our operations continued

Our Supply Chain Decarbonisation Action Plan for our UK, Australia and Kingdom of Saudi Arabia businesses

Collaborating with suppliers to transition to net zero by 2050.

What have we delivered and what do we collectively need to deliver in our journey towards net zero by 2050? Our ambition is informed by the UK Government's PPN06/21 guidance. Through collaboration and by partnering for success we can play our part in decarbonising our sector.



Value chain transition

We recognise that our value chain contributes to our total GHG emission footprint beyond that of our Scope 1 and 2 emissions. We acknowledge the importance of continuing to partner and collaborate with our customers and suppliers to reduce emissions by 2050.

According to external studies, approximately 65%[1] of defence industry emissions come from downstream customer use of products/platforms. To address this requires collaboration with our customers and across the wider defence sector while recognising that operational performance and capability must always take precedence.

In Australia, the Kingdom of Saudi Arabia and the UK, we are undertaking a programme of work to understand the GHG profile of material product types. This will help us understand how to further progress the efficiency of our products, research and develop alternate solutions and identify how we can support future customer decisions and investment in product upgrades and development. This work will support our customers' decarbonisation transition.

We are innovating to drive decarbonisation of products and services, and reduce the dependency on fossil fuels. This will be achieved by:

– Energy optimisation
– Alternate fuels
– Developing electrification programmes

During 2023, we launched product sustainability guidance for our UK, Australia and Kingdom of Saudi Arabia businesses to embed sustainability criteria across our Lifecycle Management Framework. The guidance gives a framework to consider the impact of design choices, throughout a product's lifecycle, on Scopes 1, 2 and 3, including decarbonising our products, resilience of products to adapt to changes in the environment, energy and material resilience and minimising product impacts on the environment – air, water, land and biodiversity.

20-30%[1] of defence industry emissions comes from upstream activities, so it is key that we collaborate and partner with our UK suppliers to reduce upstream emissions, while maintaining operational edge.

We have estimated the contribution of our global supply chain and developed a Supply Chain Decarbonisation Roadmap (above), which outlines how we will work with our peers, suppliers and industry groups to collectively reduce upstream emissions by 2050. We are initially focused on prioritising this activity within our businesses in the UK, Australia and the Kingdom of Saudi Arabia.

During 2023, we undertook a global spend-based assessment of our key suppliers to better understand which are material to our value chain GHG emission contributions. In the UK, we will continue to engage with material suppliers on our decarbonisation ambitions (above), to highlight key actions where we can collaborate.

In the UK, we will continue to measure our spend-based GHG emissions as we build capacity with our supply base through the use of our service partner, Helios Information, and its Joint Supply Chain Accreditation Register (JOSCAR) Zero and ESG Analysis toolsets. By obtaining primary emissions data and further ESG maturity insights across our purchased goods and services, we can shape ambition into action. We will continue to engage and support wider industry initiatives, for instance, from ADS and the International Aerospace Environmental Group (IAEG) to facilitate shared learning and collective decarbonisation.

1. Roland Berger – Defence Zero Volume 1: Military emissions and potential solutions.

Environmental stewardship

We are committed to high levels of environmental stewardship and aim to responsibly consume resources:

- through the efficient use of energy;
- by reducing all types of waste (e.g. hazardous, non-hazardous, radioactive) where we can; and
- by minimising water use, recognising that this is a valuable resource globally.

We also seek to prevent adverse environmental impacts through the prevention of sources of contamination, and to protect the natural environment from harm and degradation in the geographies where we operate.

Consumption of resources and materials can be different year-on-year, due to differences in geography across our operations and the stage of manufacture of our platforms and programmes.

We are taking a business-led approach to setting reduction targets and driving improvement programmes and activities to support responsible consumption. During 2023, our US business marked Earth Day with a Battle of the Buildings competition. This generated more than 22,743 total energy reduction actions with estimated environmental savings: 9,000 kWh of electricity; 95,000 gallons of water; 1,300 gallons of gas; 500 pounds of plastic and 500 pounds of waste. For 2023, there have been significant reductions in water consumption, compared to 2022, as a result of varying production requirements and infrastructure improvements. Waste production has increased for both non-hazardous and hazardous waste, as a result of factors including production requirements and the review and update of the basis of reporting.

Biodiversity and natural capital

Nature loss and degradation pose a risk to both the environment and society. We are undertaking surveys and assessments to better evaluate how our facilities and operations impact the surrounding natural habitat. In the US, we have completed projects to enhance the underwater ecosystems at our Norfolk and San Diego shipyards, and other efforts have been undertaken to establish water and riparian buffer areas at our Norfolk and York facilities.

Operationally, significant aspects of biodiversity are considered to include protecting natural habitats, conserving protected species and the management of invasive species in and around our sites.

Advocacy

We recognise that addressing climate and environmental matters requires partnership and collaboration across many different entities. We work closely with our defence sector peers through industry associations and with our customers and governments. In the UK, we take leadership roles in key organisations such as the AeroSpace and Defence Industries Association of Europe, ADS Group and the International Association for Engineering Geology and the Environment to actively participate in developing common standards and approaches.

Climate and environmental risk management

Climate and environmental risk is embedded in our approach to risk management (see page 75) through our business and project risk registers. We have identified and assessed climate-related physical and transition risks as part of our decarbonisation strategy.

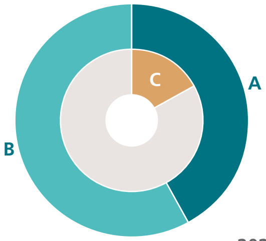
Consideration of current and emerging regulation is key to mitigating risk. Identified regulatory risks include enhanced transparency and regulatory reporting obligations, taxation instruments, and the potential for water restrictions in stressed/scarce geographies.

Understanding how our businesses may be impacted by changing environmental factors is important to mitigating medium- and longer-term risk. A direct environmental risk factor is water scarcity which has the potential to impact our operations, particularly at those sites extracting water for process use. Indirect environmental risks include the impact of customer product use and supply chain risk.

Climate change and the environment is identified as one of the principal risks for the Group (see page 75). Climate-related risks may present as financial or non-financial risks depending on the extent to which their impacts are associated with financial planning or have a wider reputational or strategic impact. During 2023, our sectors continued to incorporate wider climate risk within risk registers, including probability, speed and mitigation impact. This activity will continue in 2024 supported by maturing sector net zero roadmaps.

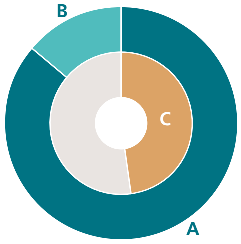
Key environmental data[1]

Water consumption (cubic metres)



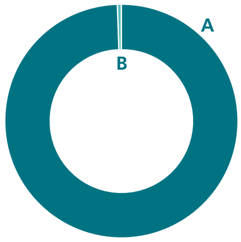
		2023	2022
A	Mains	**2,135,695**	2,409,896
B	Abstracted	**2,925,651**	5,968,417
	Total	**5,061,346**	8,378,313
C	Recycled	**884,906**	728,911

Waste production (tonnes)



		2023	2022
A	Non-hazardous	**58,482**	42,413
B	Hazardous	**9,308**	5,072
	Total	**67,790**	47,485
C	Recycled	**32,870**	33,167

Electricity consumption (kWh)



		2023	2022
A	Grid	**755,301,151**	877,726,240
B	Renewable	**2,083,735**	5,951,873
	Total	**757,384,885**[2]	883,678,113

Read more – Other sustainability information/ GHG methodology statement Page 234 →

1. BAE Systems Internal Audit has reviewed the systems, processes and controls in place to collate, validate and report this data. Based on the procedures and the evidence obtained, nothing has come to its attention that indicates the disclosures have not been properly prepared in accordance with such systems, processes and controls.
2. Deloitte has provided independent limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) and Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the International Auditing and Assurance Standards Board (IAASB). Deloitte's full unqualified assurance opinion, which includes details of the selected metrics assured, can be found at baesystems.com/annual-report.

Environment and climate continued

How we manage climate-related risks and opportunities

BAE Systems Board
Quarterly

Overall responsibility for climate-related risks and opportunities impacting the Group, including consideration of climate-related matters when setting the Group's strategy. The Board is supported by a number of Committees, as shown below.

Nominations Committee

Ensures the Board retains the required skills and experience, including climate-related matters.

Read more Page 94 →

Audit Committee

Reviews and approves TCFD disclosures, including analysis of any financial impact of climate-related risks.

Read more Page 97 →

Environmental, Social and Governance Committee

Oversees the Group's ESG performance, including review of progress against objectives and targets.

Read more Page 102 →

Innovation and Technology Committee

Oversees the Group's ability to make technological advancements through low- or zero-emission technologies.

Read more Page 105 →

Remuneration Committee

Determines the Group's remuneration policy, including performance conditions linked to climate change and ESG-related matters.

Read more Page 107 →

Executive Committee
Monthly

Responsible for managing climate-related risks and opportunities for delivering the decarbonisation strategy, including climate-related expenditure and investments.

Our Group ESG, Culture & Business Transformation Director, who has day-to-day responsibility for environmental issues and ownership of the Group's Environmental Policy, sits on the Executive Committee and provides the Committee with regular updates on our environmental and decarbonisation strategy.

Core Business Processes

Chief Executive's Business Review
Quarterly

Top-level review of progress against decarbonisation strategy and key sector deliverables.

Business Risk
Bi-annual

Management self-assessment of compliance with the Operational Framework and summary of key risks. Includes mandated review of Operational Assurance Statement.

Quarterly Business Review
Quarterly

Management review of the performance of each of the Group's businesses against decarbonisation objectives and targets.

Integrated Business Plan (IBP)
Bi-annual

Annual long-term strategy review and five-year plan for each sector, including investment case to decarbonise.

Sustainability Council
Monthly

Reports to the Group ESG, Culture & Business Transformation Director, providing recommendations for areas of sustainability to be given priority and focus as well as supporting the sectors in implementation of the Group's sustainability agenda.

Net Zero Working Group
Monthly

Reports to the Group ESG, Culture & Business Transformation Director, and co-ordinates the progression of our decarbonisation ambitions. The Group is made up of functional representatives, business leads and environmental specialists.

Businesses/sectors

Each business/sector has net zero leads who progress the decarbonisation ambitions of each business/sector.

Environmental stewardship continued

Task Force on Climate-related Financial Disclosures (TCFD)

The following tables summarise our disclosures relating to the four TCFD Recommendations and 11 Recommended Disclosures pursuant to Listing Rule 9.6.8R(8). We have considered our obligations in respect of climate-related disclosure under the UK Financial Conduct Authority's Listing Rules and confirm that these disclosures are consistent with the relevant Listing Rules and the TCFD Recommendations and Recommended Disclosures (including the implementing guidance set out in the 2021 TCFD Annex), save for – Metrics and Targets, part b. During 2023, we progressed internal workstreams to understand the GHG emissions associated with our global supply chain and in Australia, the Kingdom of Saudi Arabia and the UK, we continued to progress a programme of work to understand the GHG profile of material product types. We are not currently in a position to disclose our total Scope 3 emissions data. During 2024, we will continue to progress internal workstreams to understand our Scope 3 GHG emissions related to our suppliers and products. We expect to be able to make a recommended disclosure in respect of Scope 3 emissions data in our 2025 Annual Report.

Governance

Pillar/recommendation	Overview	Where can information be found?
Disclose the organisation's governance around climate-related risks and opportunities		
a) Describe the Board's oversight of climate-related risks and opportunities.	The Board oversees climate-related risks and opportunities in setting overall strategy, including expenditure and investments as part of the IBP process. It oversees the Nominations Committee, Audit Committee, ESG Committee, Innovation and Technology Committee and Remuneration Committee. The Board, through the ESG Committee, ensures that appropriate climate resilience and environmental programmes are in place and remuneration is set as required to drive the reduction in the Group's environmental impact.	Oversight and management of climate-related risk and opportunity Page 52 → Governance framework Page 86 → The work of the Board Page 91 → Committee reports Page 94 →
b) Describe management's role in assessing and managing climate-related risks and opportunities.	Our Executive Committee is responsible for managing climate-related risks and opportunities and for delivering the decarbonisation programme through our business and value chain. Climate-related risks and opportunities are embedded across our Operational Framework, including roles and responsibilities, key policies and processes.	Oversight and management of climate-related risk and opportunity Page 52 → Governance framework Page 86 →

Strategy

Pillar/recommendation	Overview	Where can information be found?
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material		
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term; and b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	Our decarbonisation strategy supports our purpose and strategic framework in delivering a sustainable business and is an overriding initiative that encompasses our transition plan. It encompasses how we will decarbonise our operations and product and service portfolio, whilst supporting our customers and suppliers in their transition, as a minimum in line with a 1.5°C pathway[1]. The decarbonisation strategy encompasses material climate-related risks and opportunities that have the potential to impact our business model and strategy over the short, medium and long term taking into consideration our assets and infrastructure. In putting together the decarbonisation strategy we have considered the commitments made by the UK Government. We have considered the outputs from our scenario planning work and assessed these as part of our decarbonisation strategy. We can confirm that this strategy and our ongoing approach to business continuity encompasses the material risks and opportunities we have identified through the scenario planning process. These will continue to be monitored, managed and, to the extent necessary, mitigated. These activities will be included within the annual business planning processes, and our current assessment is that the financial risk associated with the impact of climate risk on our operations is appropriately managed and mitigated, and will continue to be in the future.	Our strategic framework Page 12 → Our business model Page 14 → Environment and climate Page 48 → How we manage risk Page 67 → Our principal risks Page 70 → Impact of climate ambitions on the Consolidated financial statements Page 158 → 2023 CDP – baesystems.com/en/sustainability/sustainability-reporting → Other information – scenario planning Page 232 →
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	During 2021 and 2022, we progressed qualitative and quantitative scenario planning covering physical risk, transition risk – regulation and technology and transition opportunity – products. Material climate-related risks and opportunities identified during those processes continue to be monitored, managed and, to the extent necessary, mitigated. We will continue to address material climate-related risks and opportunities as part of our decarbonisation strategy. We anticipate revisiting our scenario planning as part of our next business review in 2025.	Other information – scenario planning Page 232 →

1. Following a Paris-aligned pathway, supporting efforts in limiting global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C – https://unfccc.int/process-and-meetings/the-paris-agreement.

Environment and climate continued

Risk management

Pillar/recommendation	Overview	Where can information be found?
Disclose how the organisation identifies, assesses and manages climate-related risks		
a) Describe the organisation's processes for identifying and assessing climate-related risks; b) Describe the organisation's processes for managing climate-related risks; and c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	Our approach to identifying, assessing and managing environmental risks, including climate-related risk, is embedded within our approach to risk management, via our business and project risk registers. Climate and environmental risks may present as financial or non-financial risks depending on the extent to which their impacts can be quantified, and how they have been classified. Climate change and the environment is identified as a principal risk. Current and emerging regulations are considered as part of the environmental management system, including energy-related taxes and schemes.	Environment and climate Page 48 → Oversight and management of climate-related risk and opportunity Page 52 → How we manage risk Page 67 → Our principal risks Page 70 → Impact of climate ambitions on the Consolidated financial statements Page 158 →

Metrics and targets

Pillar/recommendation	Overview	Where can information be found?
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material		
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	We have reviewed the TCFD Guidance on Metrics, Targets and Transition Plans and the cross-industry metric categories included in that document. We report against the following cross-industry metrics: **GHG emissions** – absolute Scope 1, 2 and 3 (employee and business travel only) emissions, carbon intensity measure. **Capital deployment** – disclosure within 'Impact of climate ambitions on the Consolidated financial statements'. **Remuneration** – 10% ESG weighting for ESG metrics in Performance Share metric. We disclose revenue from alternative energy-related products within our Annual Report (see Power & Propulsion on page 37) and Sustainability Accountability Standards Board (SASB) disclosure – Resource Transformation: Aerospace & Defence sector disclosure. We disclose our energy consumption within our Annual Report. We also disclose other key environmental metrics – water consumption, waste production and electricity consumption. We disclose our investment in R&D within our Annual Report (see page 14).	Environment and climate Page 48 → Segmental review Page 35 → Remuneration Committee report Page 107 → Impact of climate ambitions on the Consolidated financial statements Page 158 → Sustainability Accounting Standards Board (SASB) Disclosure | Sustainability reporting | Sustainability | BAE Systems →
b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks.	We report our absolute GHG Scope 1, 2, 3 (employee and business travel only) emissions in line with Streamlined Energy and Carbon Reporting (SECR) regulations. This data is externally assured, to a limited level of assurance, by Deloitte LLP. We have matured our understanding of Scope 3 emissions related to our industry's value chain – 20-30% of defence industry emissions comes from upstream activities (procured products, transport of suppliers and travel); >65%[1] of defence industry emissions comes from downstream customer use of products/platforms (transport of products, usage of sold products, product disposal). We are continuing to progress internal work streams to understand the GHG emissions related to our suppliers and products. We acknowledge the importance of continuing to partner and collaborate with our customers and suppliers to reduce emissions by 2050.	Key performance indicators Page 26 → Environment and climate Page 48 → GHG emissions and methodology Page 234 →
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Our target is to be net zero across our operations (Scope 1 and 2) by 2030 by reducing operational GHG emissions year-on-year by 4.2%, following a Paris-aligned pathway, limiting warming to 1.5°C, over ten years (against a baseline year of 2020), with a 90% reduction in GHG emissions being achieved by 2050. We are working towards a net zero value chain by 2050. We are continuing to progress internal work streams to understand the GHG emissions related to our suppliers and products and to put in place respective interim reduction targets in line with a 1.5°C pathway[2].	Environment and climate Page 48 → Remuneration Committee report Page 107 →

1. Roland Berger – Defence Zero Volume 1: Military emissions and potential solutions and https://asd-europe.org/climate-change-and-defence.
2. Following a Paris-aligned pathway, supporting efforts in limiting global warming to well-below 2°C above pre-industrial levels and pursuing efforts to limit warming to 1.5°C – https://unfccc.int/process-and-meetings/the-paris-agreement.

From left: Air Vice-Marshal Paul Lloyd, Director Support, Royal Air Force, Minister for Defence Procurement James Cartlidge MP, BAE Systems' Air sector Chief Operating Officer, Ian Muldowney, and Steve Gillard, Regional Director of UK, Middle East and International Defence Sustainability, Boeing.

Reducing reliance on fossil fuels across our products and platforms

We are partnering with our customers and academia to identify and trial new methods to reduce our reliance on fossil fuels, which is fundamental to achieving our net zero Scope 3 ambition.

In 2023, we signed the Defence Aviation Net Zero Strategy Charter – a commitment to positively contribute to the UK Government's net zero ambition and support Defence's Climate Change and Sustainability strategic approach.

We are continuing to collaborate with the Royal Air Force, and wider defence industry, in their goal to reduce carbon emissions. In January 2023, after its successful sustainable aviation fuel trial the previous year, the Royal Air Force blended the remaining sustainable aviation fuel with traditional Jet A1 products (46–48%) to conduct the first air-to-air refuelling sortie with a Typhoon aircraft using sustainable aviation fuel blends.

Additionally, we are partnering with the Royal Navy and Rolls-Royce to trial alternative fuels in naval vessels by blending currently available fuels. We aim to demonstrate a Royal Navy destroyer running on 100% Hydro-treated Vegetable Oil (HVO), significantly reducing GHG emissions with no adverse impact on performance.

Working with academia, we launched a three-year challenge with Southampton and Strathclyde universities in the UK to develop innovative solutions around hydrodynamic improvements and on-board energy consumption to reduce emissions in current warships and future designs.

www.baesystems.com/article →

Social

We are developing an inclusive work environment, and creating opportunities for people and communities where we live and work.

Our social value activities seek to positively contribute to the communities, regions and countries in which we operate and propel the business by ensuring we can attract, develop and retain a talented and diverse workforce that will take us into the future. During 2023, we focused on four areas of social value:

- **Workplace environment** – Creating an attractive, diverse and inclusive environment with an engaged workforce who feel that they belong, their safety and wellbeing are supported and they want to stay.
- **Education and skills** – Attracting, retaining and upskilling talent within our business and inspiring young people to consider science, technology, engineering and mathematics (STEM) careers, while supporting their employability and contributing to economic growth.
- **Supporting local communities** – Working to support the communities where we operate, including charitable sponsorships, donations, employee fundraising and volunteering.
- **Armed forces support** – Being a preferred employer for service leavers and reservists and contributing to organisations that support active service personnel, veterans and their families.

We progressed other activities during 2023 to support wider social value, including work streams on responsible supply chain to develop a diverse supply chain (see page 65).

Workplace environment

Workplace environment encompasses the range of activities that we undertake as an employer of choice, a Group that people want to join and stay in, where employees are engaged and their safety and wellbeing are supported.

Our people strategy

Our people strategy is designed to support our aim to retain, attract and develop talent and is delivered through:

- robust succession planning;
- targeted recruitment;
- focused talent management;
- a culture of inclusivity, learning and development; and
- competitive employee value proposition.

This is underpinned by people policies, guidance and support tools to enable our leaders and enhance the employee experience. Our people policies lay the foundations and our people manager expectations highlight the responsibilities of our leaders, which include: leading with authenticity, fostering a safe and inclusive culture, developing our people and rewarding them accordingly, enabling teams to perform, and establishing and sharing direction and our long-term vision.

Our dedicated employee communications team systematically provides employees with information on all matters that impact them, including the Group's financial and business performance. We also have an established employee experience team who regularly survey different employee populations. Currently, the team serves the UK and in 2024 will expand to Australia and the Kingdom of Saudi Arabia. We also consult with our employees and their representatives regularly on a wide variety of topics. Their views are taken into account in our decision-making processes on matters that affect their interests. We also encourage employees' involvement in Group performance through an employee share scheme.

Diversity, equity and inclusion

We believe that diversity of thought drives innovation and performance and we have set ourselves the following gender and ethnicity goals:

- **Group level** – 50% of Executive Committee members to be women by 2030;
- **UK** – 30% of our workforce to be women by 2030 at the latest;
- **BAE Systems, Inc.** – progress towards greater gender and racial diversity where currently below market availability; and
- **Other countries** – targeted ambitions for other countries in which we operate.

Throughout 2023, we prioritised initiatives around recruitment and retention of underrepresented talent, ensuring they are embedded into our governance system and processes. As at 31 December 2023, 29% of the Executive Committee and 25% of our UK workforce were women.

In 2023, in the UK, 31% of apprentices, 21% of graduates and 25% of experienced professionals recruited were women. In Australia, 26% of our early careers intake (apprentices and graduates) and 23% of experienced hires were women.

In the UK, we run a Women in Engineering Insight Experience encouraging young women (as well as men) to learn more about engineering by gaining first-hand insight at BAE Systems. In 2023, we offered 79 engineering apprenticeships to participants (56 offers to women) in this programme.

At 31 December 2023, in the US, 57% of our executive leadership team members were women and women represented 26% of the overall workforce. These US metrics are the result of not only a continued focus on establishing robust pipelines for recruiting women, but also the recognition of the importance of every employee being able to see themselves reflected at all levels of the organisation. For example, a quarter of our new hires were female, and approximately one-third of our senior leadership population are female.

We have also made progress on ethnicity. In the UK, in 2023, 24% (2022 14%) of graduates and 8% (2022 6.7%) of our apprentices recruited represented different ethnicities. In the US, 29% of our Inc. college and intern hires represented people of colour.

In relation to Board diversity, please see page 84 of this Annual Report.

Our Women in Defence mentoring programme continued alongside our Inspiring Female Leaders group, supporting the development of our female talent pipeline through mentoring and networking.

Beyond our own business, we support initiatives to develop women in STEM and grow female talent across the industry, for example, our Women in Defence mentoring programme.

During 2023, female engineers in the UK ranked our Company second in Universum's[1] Most Attractive Employers list, and second for culturally diverse engineering professionals. BAE Systems has been ranked number one by Engineering Professionals in the UK's Most Attractive Employers list by Universum and Ranstad, and voted 28th in The Times Top 100 UK Graduate Employers. Our business in the Kingdom of Saudi Arabia was also awarded Best Working Environment for Women within the Gulf Cooperation Council by the organisation Great Place to Work.

We are also committed to giving open, full and fair consideration to applications for employment from disabled people and people with health conditions or impairments who meet the requirements for roles. We firmly believe that the inclusion of all of our people, including those who develop disabilities during employment, is vital to the success of our business and ensure training opportunities and appropriate accessibility are available to all.

Sustaining a diverse workforce relies on building an inclusive work environment where employees feel valued, heard and that they belong.

1. World's Most Attractive Employers 2023 – Universum https://universumglobal.com/rankings/wmae/.

In the UK, we have committed to 33 different pledges and commitments to external charters, including veterans, LGBTQ+, mental health, disability, menopause, careers in technology and social mobility.

Our ERGs play an important role in creating a sense of belonging and educating employees about the unique issues our colleagues face in and out of the workplace.

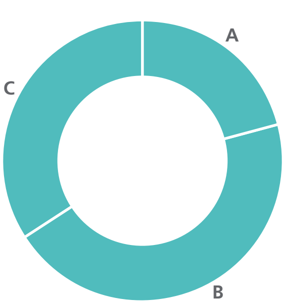
In 2023, in the UK, we also launched a Learning Community site to facilitate peer-to-peer knowledge sharing and best practice, both internally and externally. This includes tools to help people managers build more inclusive teams.

Gender pay gap

We have published our seventh annual gender pay gap report in line with UK regulations. For 2023, our mean gender pay gap for our UK workforce was 7.7% (2022 8.6%) and our median gender pay gap was 8.7% (2022 8.3%). This compares to the UK median gender pay gap of 14.3%[5]. We rely on employing large numbers of employees with STEM qualifications and we, like other companies, face challenges recruiting women with these qualifications because there are significantly fewer women who study and work in these fields. As a result, a greater proportion of our workforce and our senior leadership population are men and this is a major factor in our gender pay gap. We continue to work hard to improve our gender balance and remain steadfast in our commitment to delivering the plans we have in place to increase the number of women in BAE Systems and support the progression of women into senior executive positions.

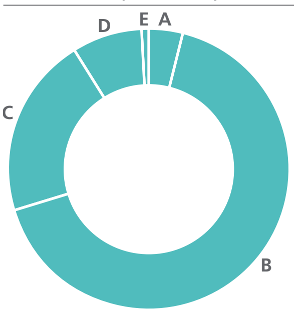
Gender diversity

Age diversity[3,4]



A	Under 30 years	19,000	21%
B	30–50 years	42,000	45%
C	Over 50 years	31,000	34%

UK ethnicity diversity[3]



A	Ethnic minority	1,600	4%
B	White	29,000	67%
C	No data entered	9,100	21%
D	Not disclosed/prefer not to say	3,600	8%
E	Other	<100	<1%

1. Senior managers has the meaning given to that term by section 414C(9) of the Companies Act 2006. Senior managers are defined as employees (excluding executive directors) who have responsibility for planning, directing or controlling the activities of the Group or a strategically significant part of the Group and/or who are directors of subsidiary companies.
2. Executive Committee (excluding executive directors) and their direct reports.
3. As at 31 December 2023, excluding share of equity accounted investments and rounded to the nearest thousand employees.
4. BAE Systems Internal Audit has reviewed the systems, processes and controls in place to collate, validate and report this data. Based on the procedures and the evidence obtained, nothing has come to its attention that indicates the disclosures have not been properly prepared in accordance with such systems, processes and controls.
5. Source: Office for National Statistics, Gender pay gap in the UK: 2023.

Ethnicity pay gap

We published our first UK ethnicity pay gap report in December 2023, following our commitment to Change the Race Ratio and wider ongoing work in response to the Parker Review. We are committed to progressing racial and ethnic minority representation and in order to do this, we need to understand our ethnicity pay gap and supporting data.

We already have a number of programmes underway to progress racial and ethnic minority talent, including RISE, the KPMG mentoring programme and our ERGs. In the UK, we are also committing to growing the number of employees from an ethnic minority background year-on-year and aim to double ethnic minority representation among the senior leadership of the business (Executive Committee and Executive Committee -1) by 2026, from our 2023 baseline.

Disclosure rates

We ask our employees to voluntarily disclose their ethnicity. As at 7 November 2023, 86.3% of our employees have disclosed their ethnicity. 82.3% of our employees identified as White, 4% identified as being in All Other Ethnic Groups and 13.7% did not respond to the survey.

Disclosure categories

There is currently no specific guidance on ethnicity pay gap reporting, so we have mirrored our gender pay gap reporting requirements. We use two groupings – White and All Other Ethnic Groups – to ensure anonymity of employee disclosures.

Our ethnicity pay gap

We have a mean ethnicity pay gap of 3.9% and a median ethnicity pay gap of 5.8%.

Bonus

Looking at the bonuses that our employees received, we have a mean ethnicity bonus gap of –2.3% and a median ethnicity bonus gap of 1.0%.

98% of our White employees received a bonus compared to 93.4% of employees from All Other Ethnic Groups.

Mean ethnicity pay gap

3.9%

Mean ethnicity bonus gap

–2.3%

Median ethnicity pay gap

5.8%

Median ethnicity bonus gap

1.0%

Social continued

We continued to run regular employee engagement surveys and analyse data to understand any differences, between groups of employees, which is regularly reviewed and fed into our DEI strategy.

Recognising our focus on inclusion, we appeared in the Stonewall Top 100 Employers Workplace Equality Index and we have launched an external benchmarking exercise to measure our progress as part of The Employers Network for Equality and Inclusion organisation's Talent and Diversity Evaluation which has awarded us Silver Standard.

In the US, our DEI strategy is focused across three key areas – career, culture and community. Supporting strategic efforts include providing inclusive professional development opportunities (coaching, mentoring and sponsorship), developing culturally conscious, inclusive leaders, enabling optimal mental health and wellbeing, and partnering with various non-profit organisations such as NAMI (National Alliance on Mental Illness). ERGs are at the centre of our efforts to continue fostering a culture where everyone is valued and feels they belong. Finally, accountability for DEI is underpinned by the Inclusive Leader Goal assigned to all people managers through the performance management process, with the aim of achieving transparency through our annual DEI Impact Report.

Priorities for the year ahead

In 2024:

- We will expand the work of our employee experience team from the UK to launch a standardised approach to listening across UK/RoW (United Kingdom, Australia, the Kingdom of Saudi Arabia, Defence Information and Local Markets).
- We will seek to strengthen awareness on managing and supporting neurodiverse employees through training for line managers and employees.
- We will sustain our progress to foster a workplace where differences are valued and employees see themselves reflected at all levels of the organisation by removing barriers, providing opportunities, amplifying voices, and delivering programmes that educate, elevate and inspire our workforce.

Recordable Accident Rate (per 100,000 employees)[1] BONUS KPI

Major injuries recorded[1] BONUS

BONUS

The award of the executive directors' bonuses is dependent upon achievement of improvements in both safety and diversity (see page 123).

1. BAE Systems Internal Audit has reviewed the systems, processes and controls in place to collate, validate and report this data. Based on the procedures and the evidence obtained, nothing has come to its attention that indicates the disclosures have not been properly prepared in accordance with such systems, processes and controls.

Safety, health and wellbeing

Our people's safety is a top priority. During 2023, together with contingent labour, we recruited more than 11,000 new hires and scaled up safety training to ensure our people are safe at work, in addition to increasing awareness around health and wellbeing.

In 2023, the overall safety performance of our operations improved with our recordable accident rate reducing by 12.6%. The majority of this improvement relates to a reduction in recordable injuries within our US business, especially those related to heavy vehicle manufacturing, explosives production and ship repair. However, the number of major injuries, our measure of severity, has increased by 25%, from 32 to 40 during 2023. This has been most marked within our Maritime sector. The majority of these injuries relate to bone fractures due to slips, trips or falls. To address this we have reviewed the controls around our significant safety risks.

To further strengthen our safety culture we focused on three key areas:

- preventative safety management with the aim of investigating, mitigating and learning from incidents that can potentially cause serious injury or a fatality (SIF);
- visible leadership engagement led by our Executive Committee team; and
- continued deployment of safety training for all employees.

These areas of focus are regarded as qualifying metrics linked to the award of our executive bonuses.

In 2023, in the UK, we strengthened our focus on supporting employee mental health and wellbeing. We achieved Tier 2 status in the CCLA Corporate Mental Health Benchmark, up from Tier 3 in 2022 as a result of a sustained collaboration with workplace mental health experts, data providers, charities and UK-listed and global companies.

Our ERG for mental health, MindSet, delivered #breakthestigma roadshows at many of our UK sites with high numbers of male operational workers.

We launched a MindSet chapter in the Kingdom of Saudi Arabia and Australia during the year. In both markets, we have undertaken significant activity to raise awareness of mental health and where to get support including 'Health & Wellbeing' stand-downs in the Kingdom of Saudi Arabia with engagement from over half the workforce.

In the US, our ABLE (Abilities Beyond Limits and Expectations) ERG continued its focus on de-stigmatising mental illness through its Sharing Our Truths storytelling series. Additionally, we expanded our mental health and wellbeing efforts through the creation of our Multicultural Network Inclusive Well-Being team, sharing our wellbeing framework 'The Prescription (Rx) for Well-Being' with nearly 500 employees through various forums, partnering with the National Alliance on Mental Illness and commemorating Mental Health Awareness Month and Minority Mental Health Awareness Month.

Priorities for the year ahead

In 2024, we will:

- expand our mandatory safety training offering; and
- continue to visibly lead on health, safety and wellbeing from the Executive Committee level.

Each of our operating regions will have an additional priority:

- in the UK, we will deploy a psychosocial risk assessment aligned to ISO[1] 45003 to enable a standardised approach to identifying and reducing work-related risks to mental health;
- in the US, we will refresh our peer-to-peer mental health advocacy programme and begin facilitating our 'Prescription (Rx) for Well-Being' sessions with teams;
- in Australia, we will develop a bespoke risk mitigation programme in partnership with a leading psychosocial practitioner in response to new legislation which mandates management of psychosocial hazards at work; and
- in the Kingdom of Saudi Arabia, we will expand our capability to deliver mental health first aid to employees.

1. International Organization for Standardization.

Education and skills

In 2023, we strengthened our recruiting efforts to meet the growth we experienced in all areas of our business and prepare for contracts in new markets. We prioritised recruiting people with the skills required to support our key programmes including engineering, project management and operations. However, we also focused on developing digital, sustainability and entrepreneurial skills which are becoming increasingly important.

In 2023, in the UK, we recruited more than 6,700 experienced professionals as well as 2,400 early careers trainees. This represents an increase of 18% and 37%, respectively, compared to 2022. Together with contingent workers, we recruited more than 11,000 new hires into our sites across the UK.

As part of our plans to upskill our existing workforce, we launched our Global Digital Academy, initially in the UK, to develop employee skills at all levels from leaders to the shop floor. We have two cohorts of employees going through our sustainability apprenticeship with Cranfield University. Sixty current and future leaders have also attended an Entrepreneurial Development Programme with the University of Oxford's Saïd Business School in the last few years, designed to help candidates understand how they can deliver greater efficiency and growth.

In the US, we hired 7,200 people and received offer acceptances of just over 8,000 with a significant focus on attracting talent to our industry. These combined efforts resulted in a 26% increase in applicants to over 300,000 and an 89% offer acceptance rate, an improvement compared to 86% in 2022. We also invested in our existing talent, launching mandatory people manager training to increase capabilities in leading hybrid teams and driving engagement and productivity (Soar with Core4), as well as a CEO-sponsored programme for leaders called 'Senior Seminar: Leading is Learning', using case studies of BAE Systems programmes to enhance performance and development through organisational learning.

Our ability to retain and recruit people with appropriate talent and skills is a principal risk (see page 73) that we continue to take a range of actions to mitigate.

Our early careers programme is the biggest opportunity we have to create the future workforce we need and contribute to social mobility in the regions where we operate.

In 2023, we had c.5,500 apprentices and graduates in training in the UK. Our early careers apprentices achieved a 94% completion rate, compared to a national average rate of 51%[1], playing a key role in strengthening our talent pipeline.

In the US, we continued to increase the number of college interns in LEAP – our internship and co-op programme. We were also ranked 26th on the 2023 Forbes 'America's Best Employers for New Grads' list; coming second in its Aerospace & Defense companies sector.

During 2023, in Australia, we recruited 113 apprentices and graduates, and 40 summer interns and we launched the first degree apprenticeships to meet a demand for software engineering skills which are scarce in Australia.

In 2023, in the Kingdom of Saudi Arabia, we recruited 246 graduates, trainees and apprentices to support growth in the region.

During 2023, we continued our global STEM educational outreach programmes to seek to inspire young people at an early age to choose a career in STEM supporting our future talent pipeline.

In the UK, we invested £180m in skills, education and training in 2022 – almost double our investment in 2020 – and 1,600 employees volunteered 11,308 hours of their time as STEM ambassadors[2]. In 2023, we also launched the 18th annual season of our schools roadshow, jointly with the Royal Navy and Royal Air Force. With space as its central theme, the roadshow delivered an interactive experience for students aged 9 to 12 years old in more than 420 primary and secondary schools nationwide.

In the US, we sponsored the FIRST Championship, the world's largest K-12 robotics event, gathering innovative students from around the globe. The event attracted more than 50,000 attendees from more than 60 countries, impacting more than 18,000 students.

In Australia, our national STEM Outreach programme for Year 4 to 6 students is now in its second year. The programme was delivered in 23 schools and engaged just under 1,500 students.

Priorities for the year ahead

In 2024, we will seek to:

- ensure our new employee intake is diverse, building on the progress made this year;
- progress plans to expand the Global Digital Academy to Australia and the Kingdom of Saudi Arabia;
- in the UK, recruit almost 2,700 early careers colleagues to meet business growth;
- ensure the business and our education providers can provide the placements and training places needed;
- in the UK, continue to promote STEM opportunities to young people in schools. Our schools roadshow for 2024 will have a curriculum theme of 'electricity' and engage more than 400 schools and 100,000 school pupils aged 9 to 12 years, jointly with the Royal Navy and Royal Air Force; and
- in the US, continue to invest in our partnerships focused on diversity in STEM, including NSBE, SHPE, BEYA, SWE, SASE and oSTEM to enable a robust workforce of the future[3]. In addition, we will focus on internal mobility and career development and rolling out a virtual career centre for employees with an enhanced 'My Career' profile.

Community investment

As a Group, we recognise our responsibility to contribute to the communities in which we live and work, as well as to the regions and countries in which we operate.

We contributed £11,267,109[4] (2022 £11,504,152) to local, national and international organisations throughout the year and our employees volunteered 23,705 hours of their time working with charities and not-for-profit organisations supporting those communities which we are part of.

As with all aspects of our sustainability agenda, partnerships are key. We continued to strengthen our long-term relationships with the charities we work with, supporting them wherever possible to help mitigate the rising cost of delivering charitable services. For example, we donated £150,000 to help foodbanks across the UK, taking our total donation over the last four years to more than £600,000.

Our people played a huge role contributing their time and energy to fundraising and volunteering for our charity partners, as they do year after year. Around the world, our employees worked with local organisations in their communities to donate a variety of items including food, clothes, toys and furniture, providing essential resources for those in need.

1. Source: the Department for Education Robert Halfon letter (publishing.service.gov.uk).
2. Oxford Economics 2022 'The Contribution of BAE Systems to the UK Economy' report.
3. NSBE – National Society of Black Engineers. SHPE – Society of Hispanic Professional Engineers. BEYA – Black Engineer of the Year Awards. SWE – Society of Women Engineers. SASE – Society of Asian Scientists and Engineers. oSTEM – Out in Science, Technology, Engineering and Mathematics.
4. Deloitte has provided independent limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) issued by the International Auditing and Assurance Standards Board (IAASB) over the selected metric. Deloitte's full unqualified assurance opinion, which includes details of the selected metrics assured, can be found at baesystems.com/annual-report.

Social continued

Community investment by type

A	Armed forces[1]	32%
B	Education	40%
C	Local community	25%
D	Other	3%

1. Heritage data included in armed forces total.

As well as hosting dedicated fundraising and volunteering activities, such as our armed forces fundraiser 'Skilful Salute' in the UK and combining Group donations with employee-led foodbank drives across our sites, we developed new community partnerships that offered employees new ways of delivering impact for their communities.

In the UK, we are a founding member of Movement to Work, a charity which aims to tackle youth unemployment. In 2023, our Chief Executive, Charles Woodburn, took up the role of Chair of the Charity and we renewed our commitment for a further three years. We delivered 110 work experience placements to young people, 60 of whom went on to secure further education, training or a job, including 39 with BAE Systems.

We continued to develop skills in our supply chain and other communities through partners, such as Be the Business, our sponsorship of Recruit for Spouses, coaching and mentoring, and support to the cadet forces.

We also continued to support local projects close to our sites that served disadvantaged communities. For example, in Australia, we provided our second year of support to Stars Foundation, working with the organisation to support positive social outcomes for indigenous girls and young women across our communities. We also donated £480,000 to InnovateHer, which will benefit 8,000 young women and people from minority groups of less advantaged backgrounds across the North West of England over the next four years, promoting career possibilities in digital and cyber through a series of workshops, digital educational sessions and inspiring assemblies.

In the US, we continued to intentionally invest in local communities, channelling our contributions into social impact partnerships to advance meaningful change. For example, through our partnership with Step Up, members of our Women's Inclusive Network ERG participated as mentors in Step Up's Career Camps – virtual field trips designed to introduce teen girls and young adults to a variety of industries, workplaces and professional cultures that inform their career interests.

Priorities for the year ahead

In 2024, we will:

- improve our volunteering offering to our employees, introducing more opportunities for our employees to support their local communities and introducing a volunteering tool to make it easier for more of our employees to get involved; and
- focus on the impact of what we do by working to better understand the positive difference we are making in our communities and sharing these insights with our different stakeholders.

Armed forces support

Given our Group purpose, supporting the armed forces community is part of who we are. Our activities focus on two areas: working with charitable organisations to support veterans, serving personnel, their families and heritage institutions through our community investment activities; and being a preferred employer for service leavers and reservists. We know that there is a broad talent pool available, aligned with our business operations and ambitions, and we want to be at the top of their list as they look to employment in the private sector.

In 2023, we held our first ever global veteran ERG collaboration session with employee representatives from seven countries coming together virtually to share challenges, knowledge and experiences.

In the UK, we celebrated the 10th year of our commitment to the UK Armed Forces Covenant – for which we hold gold status – and 20 years of support to Combat Stress. We have also developed and launched our first ever Armed Forces Framework which brings together all elements of our support to the Armed Forces Community under one model with data points for each component and a steering group structure with Executive Committee sponsorship. This will aid better decision-making and help us strengthen our overall offering.

We have been working hard to grow the UK veteran talent pool through attendance at the larger career transition workshops and smaller events local to our business, as well as targeted contracts and social media campaigns. We have grown our veteran talent pool this year by more than 80% to 1,000 people. During 2023, 6% of our experienced hires were veterans.

Our Australian business was recognised with a gold award for Best Employer Veteran Support Program, relating to the Vetnet ERG. We were proud to support our charity partner, Legacy, as it carried out a six-month torch relay to celebrate 100 years of support to the families of those who have served and sacrificed. Our employees stood, walked and ran alongside the organisation to celebrate this incredible achievement and raise important funds to enable Legacy to continue to support military families in Australia.

In the US, we continued to attend military and veteran hiring events and employee summits. In 2023, 25% of our new hires were veterans, increasing our total veteran headcount to 17%. We were voted Military-Friendly for the 13th consecutive year by Victory Media (Gold-level 2024) and Awarded 'Best for Vets' for the 10th consecutive year by Military Times (2023). We continued to partner with the US Chamber of Commerce 'Hiring our Heroes' programme to provide transitioning service members with professional training and hands-on experience for work in the civilian world. We are an Executive Committee member of the Virginia Chamber of Commerce Military and Veteran Affairs Council.

Priorities for the year ahead

In 2024, we will:

- work with our community partners and heritage institutions to support important armed forces anniversaries, such as the 80th anniversary of the D-Day landings;
- develop a global veterans' charter to formalise our collaboration across the Group; and
- pilot a Corporate Fellowship programme for transitioning service members in two of our business units.

Marking significant membership growth during the year, our OutLink ERGs in the US (above) and the UK (below) organised participation in Pride parades and events in dozens of cities to support the LGBTQ+ and Ally community.

Creating a sense of belonging

Our ERGs are important to creating an inclusive work environment where everyone feels they belong. Each of our ERGs is sponsored by representatives from our Executive Committee and senior sector and geographical leadership teams. Our ERGs help shape our DEI agenda and support our progress to creating a diverse workforce.

We have six ERGs in the UK spanning gender, ethnicity, disability, LGBTQ+, mental health and wellbeing, and our veterans. The groups feed back to leadership on issues that matter to them and offer employees a nurturing community with regular engagement and activities. Our ERGs are also valuable in raising awareness and educating those who may not directly relate to their focus area, but wish to support as an ally. In 2023, we increased overall membership in our UK ERGs by 28.5% through leadership advocacy, regular engagement within our sectors and early careers population, and raising awareness through our communication channels. We also launched three ERGs in the Kingdom of Saudi Arabia focused on gender, disability, and mental health and wellbeing, as well as two ERGs in Australia to support our First Nations and LGBTQ+ employees.

In BAE Systems, Inc. we have continued our support through the broader Multicultural Network and achieved an 11% increase in membership of our eight US ERGs in 2023.

www.baesystems.com/article →

Responsible business practices

We are committed to ethical and responsible behaviour in everything we do.

Ethics and compliance

Our industry is among the most highly regulated of any sector.

Our global Operational Framework sets out our approach and the mandated policies, processes and standards that apply everywhere we operate. Our Code of Conduct and 'Supplier Principles – Guidance for Responsible Business' (Supplier Principles) outline expectations for all our employees and partners.

Anti-corruption programme

Our customers, shareholders, partners and colleagues expect the highest standards of ethical conduct. We support our employees in understanding the vital role they have to play to conduct business in an ethical and responsible way. We have a zero tolerance policy regarding corruption in all its forms.

Our anti-corruption programme is designed to ensure we adhere to all relevant legal and regulatory requirements recognising the bribery and corruption risks the Group faces (see the 'Laws and regulations' principal risk on page 76). The programme provides our employees with practical guidance, helps them to understand what is expected of them and creates an environment where they feel they can confidently, and confidentially if needed, ask questions and raise concerns.

We regularly test the effectiveness of our programme through internal and external oversight and assurance, including encouraging feedback from our employees and from independent third parties. Risk-based due diligence procedures have been implemented to address bribery, corruption and other financial and non-financial risk, and our policies include processes for risk-based internal and external approvals, ongoing monitoring and repeat due diligence.

We drive improvements in the programme annually to ensure it continues to meet best practice. Our anti-corruption programme also includes our Code of Conduct and ethics training, and is firmly embedded in our Operational Framework through our:

- **Code of Conduct** – which explicitly prohibits the giving or receiving of bribes by BAE Systems employees;
- **Advisers Policy** – which governs the appointment, management and payment of third parties who are engaged to assist with our sales and marketing activities or the strategic development of the Group;
- **Gifts and Hospitality Policy** – which governs the offering, giving or receiving of gifts or hospitality;
- **Conflict of Interest Policy** – designed to ensure that personal conflicts of interest do not impair employees' judgement and damage the Group's integrity and interests; and
- **Facilitation Payments Policy** – designed to ensure that facilitation payments are not paid and that the Group and our employees seek to eliminate the practice of facilitation payments.

Other relevant policies include: Community Investment Policy; Finance Policy; Fraud Prevention Policy; Export Control Policy; Pursuit of Export Opportunities Policy; Lobbying, Political Donations and Other Political Activity Policy; Offset Policy; and Procurement Policy, which include measures to address bribery and corruption risks. The anti-corruption programme guides and supports our employees in making responsible decisions.

Our ethics programme

Our global Code of Conduct lays out the standards and behaviours that we expect of all employees who work for us. It guides us in acting responsibly and ethically in everything we do and outlines the ways in which anyone can seek help and guidance. Our Code is supported by a training and engagement programme to empower people to make ethical decisions. All of our employees are required to complete live, manager-led ethics training annually alongside e-learning programmes of role-specific training, for example, on export controls.

During 2023, we updated our Code of Conduct to include changes to our internal processes and policies and incorporate external best practice. The Code will be rolled out across our business, supported by employee training, during 2024.

In 2023, 98.4% of our employees completed our Business Integrity Scenario training, with the majority of those who did not complete it being employees on secondment, maternity leave, sick leave or other long-term absence. These employees will complete their training on their return to the business.

We engage employees throughout the year on ethics and responsible business. We actively promote our Ethics Officers and Ethics Helpline, to help ensure employees feel they can raise issues and seek guidance in a safe environment.

In the US, we produce monthly 'Ethics Minute' messages to communicate directly on a range of topics, including workplace respect, gifts and hospitalities, conflicts of interest and speaking up, among others. In the UK, we produce regular ethics and compliance communications to spotlight particular areas including gifts and hospitalities, security and export controls.

Raising an ethics concern

Employees can raise a concern anonymously across four primary channels: via our Ethics Officers; by email; on the telephone; and online reporting to our externally run Ethics Helpline service. Our Ethics Officers receive regular role-specific training to ensure that they are equipped with the skills to give guidance to employees raising an issue.

During 2023, we received 1,531 enquiries, an increase of 28% compared to 2022.

There has been a 55% increase in ethics enquiries from the UK, Saudi Arabian and Australian businesses, primarily driven by the Maritime sector. This reflects as a 28% increase globally.

There is a direct correlation between the increase in number of reports received in parallel to engagement activities delivered by the ethics leads in their respective businesses.

Overall, the numbers of reporters seeking guidance has steadily increased with the substantiation rate of allegations remaining consistent. We see this as a positive trend, with employees reaching out for early resolution showing trust in the business and in 'speaking up'.

Of the 1,531 enquiries received, 770 (50%) required investigation, 42% of which were substantiated. The top five categories for investigation were: employee conduct; accounting charge practices (including time-booking matters); employee relations; management practices; and anti-corruption (including conflicts of interest). Of the 770 investigations for 2023, 576 were closed and 194 remain open.

22 ethics enquiries were received about our suppliers. 2 enquiries required investigation and were substantiated.

51% of ethics enquiries came from the US market. The number of ethics reports varies by region. Factors influencing this include the number of individuals working in that region and the cultural propensity of individuals from that region to utilise Speak Up mechanisms.

We value openness, and strive to create a culture where people feel they can speak up freely. Our main metric is the number of enquiries made, and more specifically the number of enquiries per 1,000 employees. We also measure the proportion of requests for guidance compared to reports requiring investigation, anonymity rate and contacts made directly to one of our 245 Ethics Officers (one for approximately every 360 employees) across our business. In 2023, our anonymity rate was 25% compared to 26% from 2022, well below the benchmark rate[1] of 56%.

56% of reports were made directly to Ethics Officers in 2023 – we encourage this route for making reports, as it allows for an immediate response by someone familiar with the local situation.

There has been an overall increase in dismissals due to unethical behaviour in 2023. Dismissals data has been reviewed with no particular trends identified.

Total ethics enquiries[2,3]

2023	1,531
2022	1,196

Anonymity rate

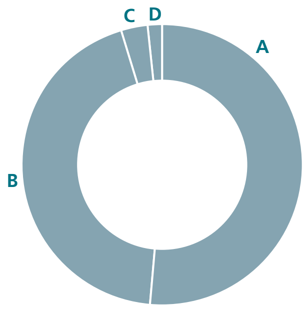
25%

(2022 26%)

Dismissals for reasons relating to unethical behaviour[2]

2023	300
2022	243

2023 ethics enquiries by region



A	US	**787**
B	UK	**673**
C	Kingdom of Saudi Arabia	**47**
D	Australia	**24**

2023 ethics enquiries by type[2]

1	761
2	168
3	21
4	6
5	330
6	125
7	4
8	70
9	7
10	11
11	16
12	9
13	3

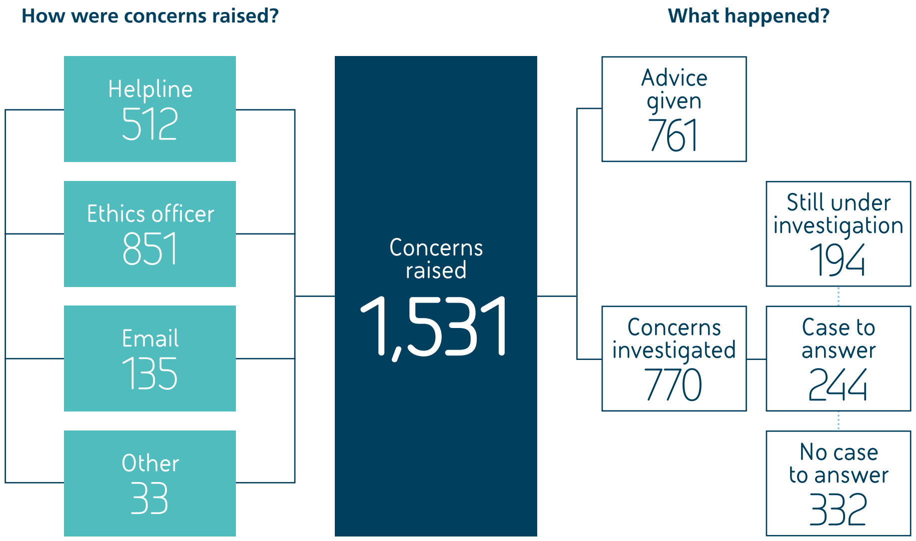
Enquiries that did not lead to investigations

1 Enquiries that led to guidance and advice

Enquiries that led to investigations

2 Accounting charge practices (including time-booking matters)
3 Anti-corruption (including conflicts of interest)
4 Data, technology and trade controls
5 Employee conduct
6 Employee relations
7 Financial misconduct
8 Management practices
9 Policy, process and trading
10 Safety, health and environment
11 Sales, manufacturing and delivery
12 Security and misuse of assets
13 Supplier and procurement

How our Ethics Helpline has been used



1. Navex 2022 anonymity benchmark.
2. BAE Systems Internal Audit has reviewed the systems, processes and controls in place to collate, validate and report this data. Based on the procedures and the evidence obtained, nothing has come to its attention that indicates the disclosures have not been properly prepared in accordance with such systems, processes and controls.
3. Our US business uses the Helpline as a mechanism for people to declare a conflict of interest (e.g. a family member also working at BAE Systems, or a second job) – these are not reports of inappropriate behaviour or requests for guidance, but a simple logging process.

Responsible business practices continued

Improving industry standards

We continue to play our part in setting an example for business partners and seeking to help improve ethics standards across our industry.

We take a proactive leadership role in our engagement with the defence industry, governments, NGOs and other interested parties to develop initiatives that will address the key ethical issues affecting our industry. For example, we take leadership positions with industry ethics groups such as the International Forum on Business Ethical Conduct and the US Defense Industry Initiative. We also regularly interact and support the Institute of Business Ethics and the Ethics & Compliance Initiative, and are proactive members of both the Aerospace and Defence Industries of Europe and the Aerospace, Defence, Security and Space Trade Associations.

Product trading

The defence industry is subject to strict regulatory controls. We maintain stringent internal controls that govern what we sell and to whom. To identify responsible trading risks our Product Trading Policy requires an evaluation on all products, services and trading activities. The process ensures that in addition to a commercial assessment, consideration is given to wider ESG concerns.

Our Product Trading Policy and Responsible Trading Principles help us to make informed decisions about the business opportunities we pursue in accordance with our values.

Export of controlled goods and technologies must be authorised in advance by governments. Failure to comply with all applicable laws and regulations could result in serious penalties for BAE Systems and the individuals concerned, and could harm national security and foreign policy interests. Our Export Control Policy and Procedures are designed to comply with applicable laws and regulations, including sanctions and trade embargoes, as well as to detect and provide timely responses to actual or potential violations, including prompt investigations, disclosures and appropriate remedial actions.

Product safety and quality

We are responsible for ensuring that the products we deliver conform to their design and achieve an agreed level of safety and quality with our customer. We do this by complying with our Product Safety and Quality policies and processes. We define a Product as any goods or services, including intellectual property, developed or traded by BAE Systems. This could be physical such as a platform or sub-system, non-physical such as software or a design licence, or a service such as a maintenance plan or support training package. Our Product Safety Principles apply throughout the product's lifecycle, and certain safety-related responsibilities may extend beyond the formal end of a project or programme.

Human rights

We are committed to respecting and upholding human rights wherever we operate, in the activities that fall under the full, direct control of the Group. Our employees, our suppliers and business partners are all expected to adopt high standards of ethical behaviour. We are committed to conducting business responsibly and maintaining and improving systems and processes to minimise the risk of slavery and human trafficking in our business or supply chain.

Our human rights statement outlines our approach to responsible business behaviour, including in relation to anti-corruption, the environment, as well as our workplace, supply chain, local communities and products.

Our Code of Conduct and other global policies and processes mandated under the Operational Framework, together with our supporting principles and guidance, support our commitment to human rights and are regularly reviewed. Our 'Supplier Principles – Guidance for Responsible Business' communicate the human rights principles we expect of our suppliers (see page 87). We engage suppliers on our Supplier Principles during the supplier evaluation stage and undertake assurance activity as part of ongoing supplier management assessments.

In the UK and Australia, we have modern slavery working groups to progress actions to review and strengthen how modern slavery and human trafficking risk is identified, assessed and managed across our business. We publish our annual responses, including work streams and progress achieved during the year, to the UK and Australian Modern Slavery Acts, and a statement in response to the California Transparency in Supply Chains Act on our website.

Our approach to identifying and assessing human rights risks is embedded within our approach to risk management (see page 67).

Cyber security

As a major defence, aerospace and security company, it is critical that our information technology and operational technology, as well as the products and services we sell, are cyber resilient and the information, intellectual property and data held and processed on them is appropriately secured.

The security of the Group's products and services, data, facilities and IT & OT infrastructure is regularly considered by the Board and senior management and underpins the Group's protective security strategy and influences its engineering, technology, and digital strategies. Our cyber security strategy identifies stakeholder trust in our business and our products as a fundamental enabler to meeting our Group strategy.

We constantly review our cyber security risk and take an agile, proactive approach to mitigating the risk. We do this by efficiently leveraging our core internal capabilities in cyber security, including our specialist threat intelligence service, to maintain a managed risk position as we digitally transform and the threat landscape evolves. For further details, please see Cyber security on page 73.

Our internal Cyber Security Standards are aligned to the National Institute of Standards and Technology Framework and a formal, three layers of defence assurance programme, which is reviewed both internally and externally, is operated to check adherence to these standards and customer requirements. To further increase cyber resilience, the Group's Security Operations Centres perform continual monitoring of activity on core networks.

Responsible supply chain

Our ambition is to be responsible and sustainable across our global business. We cannot achieve this alone, therefore it is important that we collaborate and partner with suppliers to make a positive business impact, and the steps we are taking are detailed below.

In 2023, we spent £14bn with 21,500 directly contracted suppliers worldwide. These relationships are often long lasting due to the complexity of our products and their long lifecycles, so it is critical that our suppliers share our values.

Our success as a business relies on the resilience of our supply chain. It is vital that we collaborate and partner with suppliers to deliver the capability our customers need and to support our suppliers in addressing challenges, including in respect of the products and services they supply to us. By working together with our supply chain we can accelerate our sustainability programmes which benefits us, our customers and wider society.

In the UK, Australia and the Kingdom of Saudi Arabia we have developed a Supply Chain Sustainability Framework that covers how we will engage suppliers on our sustainability strategy.

We communicate our expectations about responsible supply chain and our sustainability ambitions through the distribution of our Supplier Principles document. Our Supplier Principles cover supplier workplace and employee business practices as well as wider sustainability issues.

We strive to work with suppliers who share our approach to responsible business. Our supply chain management starts with our Global Procurement Policy which defines the requirements to be implemented by each of our sectors to support the management of supplier-related risk.

At the contracting stage, we stipulate our expectation that suppliers embrace our standards on ethical behaviour, including those set out in our Supplier Principles.

During 2023, we undertook an annual risk-based assurance activity to test our suppliers' adoption of these principles and to identify any risk areas that required investigation and/or mitigation. We completed this assurance activity with suppliers representing more than 30% of our global spend.

Additionally, our standard terms and conditions require suppliers to comply with all applicable laws and regulations, including those related to human rights, anti-slavery and the environment.

We are committed to maintaining and improving systems and processes that reduce the risk of slavery and human trafficking in our supply chain. During 2023 we continued to assess our tier 1 suppliers against high-risk commodities and locations and we delivered awareness training to targeted employees who are responsible for procurement in our UK businesses. Additionally, we developed and communicated a formal Modern Slavery Reporting Procedure within our UK businesses to escalate reports of and concerns relating to human trafficking and slavery.

Conflict minerals

We expect our suppliers to provide products made from materials, including constituent minerals, that are sourced responsibly, and to support efforts to eradicate the use of any minerals which directly or indirectly finance or benefit armed groups that are perpetrators of serious human rights abuses.

Reporting, disclosure and assurance

We report on progress of our sustainability agenda within our Annual Report and online: baesystems.com/sustainability.

ESG Materiality

We have continued to address the material ESG issues that were identified during our 2021 materiality assessment. During 2023, we scoped a double materiality assessment based on current guidance issued from EFRAG[1], which we will use within the methodology of our next materiality assessment. Results from this assessment will become available during 2024.

Our approach to UN Sustainable Development Goals

We continue to support the UN Sustainable Development Goals (SDGs) and remain committed to making progress on specific goals that are aligned to our sustainability agenda. The SDGs provide a framework for development and addressing the challenges that global populations face from climate change and environmental risks through to managing societal needs and building economic growth.

For more information on the UN Sustainable Development Goals, please visit our website
www.baesystems.com/en/sustainability →

Assurance of data

External assurance of GHG emissions (page 234), energy (page 234) and community investment (page 59) data is provided by Deloitte LLP.

Deloitte statement

Deloitte has provided independent limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) and Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the International Auditing and Assurance Standards Board (IAASB) over the selected metrics identified on pages 234 and 235.

Deloitte's full unqualified assurance opinion, including details of the selected metrics assured
www.baesystems.com/annual-report →

For more information on all aspects of our sustainability reporting, please visit our website
www.baesystems.com/en/sustainability/sustainability-reporting →

1. https://www.efrag.org/News/Public-471/Publication-of-the-3-Draft-EFRAG-ESRS-IG-documents-EFRAG-IG-1-to-3-.

Non-financial and sustainability information statement

The 'Sustainability' section (pages 46 to 66) constitutes the Non-financial and sustainability information statement as required by the Companies Act 2006 as amended, together with the 'Our stakeholders', 'The work of the Board', 'Our business model' and 'Risk' sections listed in the table below, which are incorporated in this Non-Financial and Sustainability Information Statement by reference:

Topic	Our principles, policies and standards that govern our approach	Where to find information in this report
Environmental matters and climate-related disclosures	– Environmental policy – Decarbonisation plan	Environment and climate Page 48 → Addressing climate risks (TCFD) Page 54 →
Employees	– Our People policy – Health and Safety policy – Communications policy – Code of Conduct – Personal Data Protection policy	Our stakeholders Page 24 → Responsible business practices Page 62 → The work of the Board Page 91 →
Respect for human rights	– Code of Conduct – Human Rights Statement	Responsible business practices Page 62 →
Social matters	– Community Investment policy – Commercial policy – Lobbying, Political Donations and other Political Activity policy – Dignity and Respect Standards, in support of our global diversity & inclusion vision – Supplier Principles – Guidance for Responsible Business	Our stakeholders Page 24 → The work of the Board Page 91 → Responsible business practices Page 62 → Environmental, Social and Governance Committee report Page 102 →
Anti-bribery and corruption	– Gift and hospitality policy – Finance policy – Conflicts of Interest policy – Facilitation payments policy	Responsible business practices Page 62 →
Description of principal risks relating to topics mentioned above	– Risk Management policy	How we manage risk Page 67 →
Description of business model		Our business model Page 14 →
Non-financial key performance indicators		Key performance indicators Page 26 →

All our policy summaries can be found on our website: baesystems.com/en/sustainability/governance/oversight/policy-summaries

How we manage risk

Effective management of risks is essential to the delivery of the Group's strategic objectives and the creation of sustainable shareholder value.

Board

The Board has overall responsibility for determining the nature and extent of the risks the Group is willing to take, and ensuring that risks are managed effectively across the Group.

Risk is considered on a regular basis at Board and Board committee meetings and the Board reviews risk (including emerging risk) as part of its business planning and 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.

The Board delegates oversight of certain risk management activities to the Audit, Environmental, Social and Governance and Remuneration Committees.

Audit Committee

The Audit Committee monitors the Group's 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 the Group's system of internal control policies and procedures for the identification, assessment and reporting of risk.

Environmental, Social and Governance Committee

The Environmental, Social and Governance Committee monitors the Group's performance in managing those risks arising in respect of business conduct, health and safety, and the environment. The Committee reports its findings to the Board on a regular basis.

Remuneration Committee

The Remuneration Committee ensures that reputational and other risks from excessive reward, and behavioural risks that can arise from target based incentive plans, are identified and mitigated.

Approach

The Group's Risk Management Policy is set out in the Operational Framework, the Group's detailed governance framework.

The Group's approach to risk management is aimed at the early identification of material risks, mitigating the effect of those risks before they occur and dealing with them effectively if they crystallise.

The Group is committed to the protection of its assets, which include human resources, intellectual and physical property, and financial resources, through an effective risk management process, underpinned where appropriate by insurance.

Reporting within the Group is structured so that key issues are escalated through the management team and ultimately to the Board where appropriate. The underlying principles of the Group's risk management processes are that risks are monitored continuously, associated action plans reviewed, appropriate contingencies provisioned, with this information reported through established management control procedures.

The Board has conducted a review of the effectiveness of the Group's systems of risk management and internal control processes, including financial, operational and compliance controls and risk management systems, in accordance with the UK Corporate Governance Code. The Group has developed a system of internal controls that was in place throughout 2023 and to the date of this report.

As with any system of internal control, the policies and processes that are mandated in the Operational Framework are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

Process

The responsibility for risk identification, analysis, evaluation and mitigation rests with the line management of the sectors and Group functions. They are also responsible for reporting and monitoring key risks in accordance with established policy and processes under the Group's Operational Framework.

The Group's risk management process is set out in the Risk Management Policy, a mandated policy under the Operational Framework, and, in respect of projects, in the Lifecycle Management Framework, a core business process under the Operational Framework.

Identified risks are documented in risk registers showing: the risks that have been identified; characteristics of the risk; the basis for determining mitigation strategy; and what reviews and monitoring are necessary. Each risk is allocated an owner who has authority and responsibility for assessing and managing it.

Project risks are reported and monitored in Group-mandated format Contract Review Packs, which are reviewed by management at monthly Contract Reviews. The financial performance of projects is reported and monitored using Contract Status Reports, which form part of the Contract Review Pack. These include programme margin metrics, which are reviewed regularly by the Executive Committee and Board. Project margin is recognised after making suitable allowances for technical and other risks related to performance milestones yet to be achieved.

How we manage risk continued

In addition, every six months, the businesses and Group functions complete an Operational Assurance Statement (OAS), which is a mandated policy under the Operational Framework. The OAS is in two parts: a self-assessment of compliance with the Operational Framework; and a report showing the key risks for the relevant business and Group function. Together with reviews undertaken by Internal Audit and the work of the external auditors, the OAS forms the Group's process for reviewing the effectiveness of the system of internal controls.

Risks can develop and evolve over time and their potential likelihood and impact may vary over time in response to events. These may include emerging risks, which are considered through the above existing processes, and through the Group's business planning and annual strategy review process.

Executive Committee

The key risks identified by the sectors and Group functions from the risk assessment processes are collated into a report for review by the Executive Committee. In addition, the Group's business planning and annual strategy review process considers longer-term emerging risks and opportunities. The Executive Committee reviews these reports and presentations to identify those issues where the cumulative risk, or possible reputational impacts, could be significant. These reports and presentations are shared with the Board.

Management responsibility for the Group's most significant risks is determined by the Executive Committee.

The risk registers are reviewed regularly by the Executive Committee to monitor the status and progression of mitigation plans. The key risks are reported to the Board on a regular basis.

Principal and emerging risks

The Board has carried out a robust assessment of the principal and emerging risks facing the Group. Principal and emerging risks have been identified, and are managed or mitigated, through the application of the policy and processes outlined above.

Principal risks include those that would threaten the Group's business model, future performance, solvency, liquidity or reputation. Risks have been identified as principal based on the likelihood of occurrence, the potential impact on the Group and the timescale over which they might occur. The principal risks, together with details of how they are being mitigated and managed, are detailed on pages 70 to 77.

The safety of our people and products has long been a high priority for the Group; many of the environments in which our people work are hazardous and many of our products and services inherently pose a safety risk. In the Board's regular review of risks, it has determined that safety ought to be regarded as a principal risk, providing consistency of emphasis between the key safety objectives set for operational management across the business and the risk that the objectives seek to mitigate.

In addition, the risks associated with operating in international markets have been consolidated, with the principal risk from the 2022 Annual Report entitled 'Competition in International Markets' being subsumed within a simplified 'International markets' principal risk. The Board considers that presenting international market risks under a single heading adds clarity to this aspect of the Group's risk profile.

The directors have considered the relevance of the risks of climate change and transition risks associated with the Group's net zero GHG emissions targets when preparing and signing off the Group's accounts.

Our principal risks Page 70 →

Our risk management framework

Board

Overall responsibility for risk management

Risk challenge, monitoring and reporting

Audit Committee

Operational Assurance Statement Risk Registers

Environmental, Social and Governance Committee

Operational Assurance Statement Risk Registers: ESG subset

Executive Committee

Operational Assurance Statement Risk Registers
Core Business Processes

Core Business Processes

Chief Executive's Business Review

Quarterly top-level review of the key operational, financial and non-financial performance issues within the business, and significant forthcoming bids and events

Quarterly Business Review

Quarterly management review of the performance of each of the Group's businesses against their objectives, measures and milestones

Integrated Business Plan

Annual long-term strategy review and five-year plan for each business

Strategic objectives and shareholder value

Project objectives and financial return

Business Risk

Risk Management Policy
(Mandated Policy)

Project Risk

Lifecycle Management Framework
(Mandated Policy)

Identification

Risks recorded in risk registers

Analysis

Risks analysed for impact and probability to determine exposure

Evaluation

Risk exposure reviewed and risks prioritised

Mitigation

Risk owners identified and action plans implemented. Robust mitigation strategy subject to regular and rigorous review

Operational Assurance Statement

Six-monthly management self-assessment of compliance with the Operational Framework and summary of key risks
(Mandated Process)

Lifecycle Management Project Performance Review

Regular management review of project performance, issues and risks to ensure that appropriate decisions and actions are taken

Audit Review Board

Assurance of the Business and Project Risk management processes as mandated in the Audit Charter

See the Group's Operational Framework for definitions of policies, processes and reviews Page 87 →

Our principal risks

Risks are identified based on the likelihood of occurrence, the potential impact on the Group and the timescale over which they might occur. The Group's principal risks are identified below together with a description of how it mitigates those risks. The risks estimated as more significant to the Group (as at the date of this Strategic Report) are placed at the top end of the list.

Key links to strategy

1. Sustain and grow our defence business
2. Continue to grow our business in adjacent markets
3. Develop and expand our international business
4. Inspire and develop a diverse workforce to drive success
5. Enhance financial performance and deliver sustainable growth in shareholder value
6. Advance and integrate our sustainability agenda

Our strategic framework Page 12 →

Government customers, defence spending and terms of trade

The Group's largest customers are governments. The Group is dependent on government defence spending, and the timing and terms of trade of government contracts.

Key links to strategy: 1 2 3 5

Description	Impact	Mitigation
In 2023, 94% of the Group's sales were defence-related. Levels of defence spending by governments are difficult to predict and can fluctuate depending on change of government policy, other political considerations, budgetary constraints, specific threats to national security and macro-economic conditions (including movements in oil prices). From time to time, there have been constraints on government expenditure in a number of the Group's principal markets.	Lower defence spending by the Group's major customers could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.	The business is geographically spread across the US, UK and international defence markets. The diverse product and services portfolio is marketed across a range of defence markets. Many of the countries in which the Group operates have announced increases or are making plans to increase spending to address the elevated threat environment. Whilst governments face global economic and fiscal pressures, the commitment to defence in the Group's major markets remains robust. The Group's principal markets – the UK, US, the Kingdom of Saudi Arabia and Australia – have a significant and sustained commitment to defence and security – see 'Our markets' on pages 18 to 19 of this Annual Report. The Group benefits from a large order backlog, with established positions on long-term programmes in its principal markets. The Group also has a portfolio of commercial businesses, including commercial avionics.
The Group has long-standing relationships and security arrangements with a number of its government customers, including its three largest customers, the governments of the US, UK and the Kingdom of Saudi Arabia, and their agencies (who represented, as at 31 December 2023, 69% of the Group's revenue). It is important that these relationships and arrangements are maintained. In the defence and security industries, governments can typically modify contracts for their convenience or terminate them at short notice. Furthermore, governments from time to time review their terms of trade and underlying policies and seek to impose such new terms and policies when entering into new contracts. Most long-term US government contracts, for example, are funded annually or incrementally and are subject to cancellation if funding appropriations for subsequent periods are not made. Further, the Group's performance on its contracts with some government customers is subject to financial audits and other reviews which can result in adjustments to prices and costs.	Deterioration in the Group's principal government relationships resulting in the failure to obtain contracts or expected funding appropriations, adverse changes in the terms of its arrangements with those customers or their agencies, or the termination of contracts could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.	The Group has established strong and enduring relationships in its principal markets and is recognised as playing a key role in the industrial capability of each of the countries in which it operates. Government customers have sophisticated procurement and security organisations with which the Group has long-standing relationships with well-established and understood terms of business. In the event of a customer terminating a contract for convenience, the Group would typically be paid for work done and commitments made at the time of termination.
The Group's profits and cash flows are dependent, to a significant extent, on the receipt and timing of the award of defence contracts and the profile of cash receipts thereunder.	Amounts receivable under the Group's defence contracts can be substantial and, therefore, the timing of, or failure to receive, awards and associated cash advances and milestone payments could materially affect the Group's profits and cash flows for the periods affected, thereby reducing cash available to meet the Group's capital allocation priorities, potentially resulting in the need to arrange external funding and impacting its investment grade credit rating. This in turn could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.	The Group's balance sheet continues to be managed in line with its policy to retain an investment grade credit rating and to ensure operating flexibility. The Group monitors a rolling forecast of its liquidity requirements to ensure that there is sufficient access to cash to meet its operational needs and maintain adequate headroom.

Contract risk, execution and supply chain

The Group has many contracts, including a number of large contracts and fixed-price contracts, and is dependent upon the delivery of services and component availability, subcontractor performance and key suppliers.

Key links to strategy

1 2 3 4 5 6

Description	Impact	Mitigation
As a major defence, aerospace and security company, the Group executes long-term high-value contracts for the provision of complex, strategically important products and services for its customers. For example, in 2023, 51% of the Group's sales were generated by its 16 largest programmes and, as at 31 December 2023, the Group had 12 programmes with an order backlog in excess of £1bn. A significant portion of the Group's revenue is derived from fixed-price contracts. Actual costs may exceed the projected costs. Assumptions on future rates of inflation on which the fixed prices are agreed may prove to be inaccurate and, since these contracts can extend over many years, it can be difficult to predict the ultimate outturn costs. It is important that the Group delivers on its projects within tight tolerances of quality, time and cost performance in a reliable, predictable and repeatable manner.	The failure by the Group to anticipate technical problems or deliver on its contractual commitments could result in (among other things) the loss, expiration, suspension, cancellation or termination of any one of its large contracts, which could have a material adverse effect on the Group's business, results of operations, financial condition, prospects or reputation. The failure to estimate accurately and control costs on fixed-price contracts could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.	All of the Group's major programmes are managed under the Group's mandated Lifecycle Management process, which includes contract-related risks. Robust bid preparation and approvals processes are well established throughout the Group, with decisions required to be taken at the appropriate level in line with clear delegations of authority. The Group has limited exposure to fixed-price design and development activity which is in general more risk intensive than fixed-price production activity. Further, the Group has a well-balanced spread of programmes and a significant defence order backlog which provides portfolio resiliency and forward visibility. A significant proportion of the Group's largest and most complex contracts are with the UK Ministry of Defence. In the UK, development programmes are normally contracted with appropriate levels of risk being initially held by the customer and contract structures are used to mitigate risk on production programmes, including where the customer and contractor share cost savings and overruns against target prices. A leadership development programme for project directors is in place across the Group, covering the leadership competencies required to manage complex projects containing significant levels of risk and uncertainty.
The Group is dependent upon the delivery of services and materials by suppliers and the assembly of components and subsystems by subcontractors used in its products in a timely and satisfactory manner, on satisfactory commercial terms and in full compliance with applicable terms and conditions. This can be exacerbated where the Group is dependent on either one or a limited number of suppliers. Some of the Group's suppliers or subcontractors may be impacted by the economic environment (including inflationary pressures and material shortages) which could impair their ability to meet their obligations to the Group and to supply on satisfactory commercial terms.	A failure by one or more of the Group's suppliers to provide the agreed-upon materials, components or products or perform the agreed-upon services, on a timely basis, at the agreed price, according to specifications (including compliance with regulatory requirements) or at all may adversely affect the Group's ability to perform its obligations, result in additional costs or delays, require the Group to transition work to other companies (resulting in further additional costs and delay) and/or result in penalties under, or the termination of, customer contracts. This impact is heightened where a supplier is a sole supplier or one of a small number of suppliers. Additionally, the Group could be adversely affected by actions, or issues experienced by, the Group's suppliers which are outside its control, such as misconduct and reputational issues involving the Group's suppliers, which could subject the Group to liability or adversely affect its ability to compete for contracts. Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.	The Group's supply chain function establishes and manages enduring end-to-end integrated supplier arrangements, in partnership with the programmes it supports. In many cases, the Group benefits from long-term programme positions and incumbencies with more stable forward visibility for long-lead items allowing the Group to better manage supplier deliverables against programme requirements. Supply chain management starts with the Group's Global Procurement Policy which defines the requirements to be implemented by each of its sectors for the establishment of procurement controls and the management of supplier-related risk. Risk-based due diligence and audit activity is undertaken for each supplier whom the Group engages. Once a supplier has been approved, and a contract has been executed, the supply chain function continues to monitor that supplier. The supply chain risk management programme is working toward providing an enterprise-wide view of supplier risk, contributing to the continuity of supply and enabling better intelligence of sub-tier supply chain risk. Regular global supply chain meetings are held with senior procurement leaders to ensure that the latest risk data is appropriately shared. The Group seeks to manage inflation risk through its customer contracting arrangements on many of its major programmes, supplier cost management activity and through its long-term supplier agreements.

Our principal risks continued

International markets

The Group operates in international markets.

Key links to strategy

1 2 3 4 5 6

Description	Impact	Mitigation
The Group is an international company conducting business in a number of regions, including the US, Australia and the Middle East. International sales and operations are sensitive to: social and political changes impacting the business environment; economic downturns and inflation; political instability, armed conflict and civil disturbances; the imposition of capital controls; the introduction of burdensome taxes or tariffs; changes to export control, tax and other government policy and regulations in the UK, US and all other relevant jurisdictions; and the inability to obtain or maintain the necessary export licences and other trade restrictions. For example, the risk of the Group's inability to obtain and maintain the necessary export licences for the Group's business in the Kingdom of Saudi Arabia could affect the Group's provision of capability to the country.	Any of these factors could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.	The Group has a balanced portfolio of businesses across a number of markets internationally. The Group benefits from a large order backlog, with established positions on long-term programmes in the US, UK, the Kingdom of Saudi Arabia and Australia. The Group's contracts are often long-term in nature and, consequently, it may be able to mitigate these risks over the term of those contracts. Whilst some of the Group's contracts are on a government-to-government basis, for contracts which are not government-to-government, political risk insurance is held where considered appropriate with regard to the level of risk involved. However, as with all insurance, it does not provide full cover against all potential loss scenarios. The Group has a well-established legal and regulatory compliance structure aimed at ensuring adherence to legal and regulatory requirements and identifying restrictions that could adversely impact the Group's activities, including export control requirements.
Given the international nature of its business, the Group is exposed to volatility arising from movements in currency exchange rates, particularly in respect of the US dollar, euro, Saudi riyal and Australian dollar.	Significant fluctuations in exchange rates to which the Group is exposed could cause volatility in its financial results reported in pounds sterling and could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.	The Group's policy is to hedge all material firm transactional currency exchange rate exposures.
The international markets in which the Group operates are highly competitive and the Group's business depends upon its ability to win and contract for high-quality new programmes in these markets. The Group is dependent upon US and UK government support in relation to a number of its business opportunities in export markets. Furthermore, the Group's competitors may also develop new technologies or offerings, novel support models or more efficient ways to produce existing products that could cause the Group's existing products or services to become obsolete or that could gain market acceptance before the Group's own products or services.	If the Group is unable to compete adequately and/or obtain new business in the international markets in which it operates, there may be a material adverse effect on its business, results of operations, financial condition and prospects.	The Group has an international, multi-market presence, a broad portfolio of products and services, leading capabilities and a track record of delivery on its commitments to its customers. The Group continues to invest in research and development, and to reduce its cost base and improve efficiencies, to remain competitive. In the UK, export contracts can be structured on a government-to-government basis and government support can also involve military training, ministerial support for promotional activities and financial support through UK Export Finance. In the US, most of the Group's defence export sales are delivered through the Foreign Military Sales process, under which the importing government contracts with the US government.

Cyber security

The Group could be negatively impacted by threats to the security of its information technology and operational technology systems and products.

Key links to strategy

1 2 3 4 5 6

Description	Impact	Mitigation
As a major defence, aerospace and security company, it is critical that the Group's information technology and operational technology (IT & OT) infrastructure, as well as the products and services it sells, are cyber resilient and the proprietary, classified, confidential or otherwise protected information, intellectual property and personal data held and processed on them are appropriately secured. Cyber security threats are continuous and evolving, and vary from attacks common to most industries, including those originating both externally and internally, to those from more advanced and persistent, highly organised adversaries, including nation states. The war in Ukraine has also increased Russian-aligned hacktivist activity against pro-Ukraine nations and their defence industries. The cyber security threats faced by the Group include (but are not limited to): an attack impacting the availability of the Group's IT & OT infrastructure and systems and/or those of its customers, partners and suppliers; unlawful attempts to gain access to the Group's proprietary, classified, confidential or otherwise protected information, intellectual property and personal data, and that held or generated by the Group on behalf of its customers, partners and suppliers; and compromise of products and services for the purposes of sabotage or to disable or deny their use and/or alter their performance characteristics. The Group might also be exposed to cyber security risks through an attack on the Group's supply chain.	Given the nature and scope of cyber attacks, it is possible that the Group is unable to defend itself against all cyber-attacks, that unknown vulnerabilities could be exploited or that the Group may otherwise be unable to mitigate customer losses and other potential liabilities (including potential liabilities related to privacy and intellectual property). The Group could potentially be subject to: (a) production downtimes; (b) operational delays; (c) other detrimental impacts to its operations or ability to provide products and services to customers; (d) the compromise, misappropriation, destruction or corruption of the Group's proprietary, classified, confidential or otherwise protected information, intellectual property and personal data, and that held or generated by the Group on behalf of its customers, partners and suppliers; (e) security breaches; (f) other manipulation or improper use of the Group's or third-party systems, networks or products; and/or (g) financial losses from remedial actions, loss of business, or potential liability, penalties, fines and/or damages. Any of these could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.	The security of the Group's products and services, data, facilities and IT & OT infrastructure is regularly considered by the Board and senior management and underpins the Group's strategy and influences its engineering, technology and digital strategies. The Group's internal Cyber Security Standards are aligned to the National Institute of Standards and Technology framework and a formal, three layers of defence assurance programme, which is reviewed both internally and externally, is operated to check adherence to these standards and customer requirements. Additionally, where government customers require formal accreditation of the Group's IT networks, the Group ensures compliance and accreditation. A number of the Group's IT networks are thus formally accredited and/or assessed as compliant by its government customers. Education and awareness to embed a strong cyber security culture across the Group is another vital part of its preventative activities. Employees are subject to mandatory training which, depending on role, covers cyber security, physical security, document marking, security of export-controlled information, and personal data protection. As many cyber-attacks involve email, the Group runs a programme of phishing exercises for all email users across the enterprise. To further increase cyber resilience, the Group's Security Operations Centres perform continual protective monitoring of activity on core networks. The Cyber Incident Response plan feeds into the Group's crisis management plan and regular exercises are conducted across the business to test the Cyber Incident Response plan, including up to the Executive Committee. The Group purchases cyber insurance; however, as with all insurance, it does not provide full cover against all potential loss scenarios. To mitigate the cyber security risk posed by suppliers, the Group includes cyber security-related obligations in its contracts where relevant. Cyber security risk is constantly reviewed and an agile, proactive, approach to mitigating the risk is taken. The Group does this by efficiently leveraging its core internal capabilities in cyber security, including its specialist threat intelligence service, to maintain a managed risk position as it digitally transforms and the threat landscape evolves.

People

The Group's strategy is dependent on its ability to recruit and retain people with appropriate talent and skills.

Key links to strategy

1 2 3 4 5 6

Description	Impact	Mitigation
Competition for the people the Group needs to deliver its strategy, including those with innovative technological capabilities, is high. Competition may be intensified by nationality and regulatory restrictions (including the requirement for security clearances for certain roles), and exacerbated by macroeconomic, industry and labour market conditions more generally.	The loss of key employees or inability to attract the appropriate people on a timely basis could adversely impact the Group's ability to deliver its strategy, meet its business plan and deliver on its contractual commitments, which accordingly could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.	The Group recognises that its employees are key to delivering its strategy and business plan, and focuses on developing the existing workforce and hiring talented people to meet current and future requirements. The Group has well-established graduate recruitment and apprenticeship programmes and, to maximise the contribution that its workforce can make to the performance of the business, has an effective through-career capability development programme. In order to seek to maximise its talent pool, the Group is committed to creating a diverse and inclusive environment for its employees.

Our principal risks continued

Safety

Employees work with hazardous materials and in challenging locations and the Group's products and services, and those of its customers' or suppliers', inherently pose a safety risk.

Key links to strategy

1 2 3 4 5 6

Description	Impact	Mitigation
Given the nature of the Group's business, employees work in challenging locations, perform high-risk activities and at times use hazardous materials. Furthermore, many of the activities that the Group undertakes are in high-hazard industries with inherent risk of harm, such as heavy industrial production including shipbuilding. The risks associated with the Group's activities and working environments can cause harm to its people and those affected by its operations.	There could be significant impacts if the Group fails to meet the necessary standards to adequately mitigate against health and safety risks. The Group may face criminal and civil prosecution in connection with health and safety incidents, which could result in substantial penalties and fines. Furthermore, the Group could be prevented from operating, due to employees being unavailable for work, investigations being conducted or if a regulatory approval or certification is withdrawn, potentially leading to contractual penalties due to loss of productivity or inability to deliver on contractual commitments. Any of these factors could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.	Safety of the Group's personnel, contractor personnel and the wider communities in which the Group operates is a primary concern. The Group monitors its safety performance constantly through leading and lagging indicators and strives to be a leader in safety performance. Safety performance is led at an Executive Committee level by the ESG, Culture and Business Transformation Director and is reported to the Board quarterly (with the Chief Executive providing updates at each Board meeting). Accountability for safety performance at a business level rests with the relevant Managing Director, who is responsible for ensuring compliance with the Group's Safety, Health and Environmental management systems and the Operational Framework. At a user level, every employee receives safety training that is both company-wide and job role-specific. The Group follows recognised safety risk assessment processes that are task specific and seeks to ensure hazards are identified, classified and mitigated against prior to activities taking place. The Group's safety performance and practices are assured both internally and by external consultants to ensure compliance with both Group and regulatory standards.
The Group designs, develops, manufactures and maintains highly complex and specialised products and services. By their very nature, many of the Group's products and services are hazardous and technical, mechanical and other failures may occur from time to time, whether as a result of a manufacturing or design defect, ineffective maintenance, incorrect usage, poorly executed integration with a third party's products or services or through some other cause. In addition, the safety of the Group's products could be compromised as a result of cyber-attacks, such as those that seize control and result in misuse or unintended use of the Group's products, or other intentional acts.	The impact of a catastrophic product, service or system failure or similar safety incident affecting the Group's, its customers' or its suppliers' products or services could be significant and could result in injuries or death, property damage, loss of strategic capabilities, loss of intellectual property, environmental harm, reputational damage or other significant effects. It could also lead to a loss of equipment, product recalls and product liability and warranty claims, other service, repair and maintenance costs, significant damages and other costs (including fines and other remedies), regulatory and environmental liabilities and a reduction in demand for the Group's products and services. Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.	The Group recognises it is vitally important to work with its customers, suppliers and partners to ensure its products continue to work safely, securely and with integrity, within their intended operational environments. The Group ensures the safe design and development of its products through a system of controls centred on its Operational Framework and associated policies and procedures, including those specifically addressing Product Safety and Engineering standards. Assurance of adherence to these aspects of the Operational Framework is provided through regular operating business review, reporting and assessment, with independent assessment of the effectiveness of controls by in-house subject matter experts, Group Internal Audit and external domain regulators. In addition to the above, the Group continues to evolve and improve product safety best practice driven by new technologies and ways of working; liaise across industry and its government customers to develop new safety-related standards; and learn from safety-related failures in adjacent industries.

Acquisitions

The anticipated benefits of acquisitions may not be achieved.

Key links to strategy

1 2 3 4 5 6

Description	Impact	Mitigation
The Group considers investment in value-enhancing acquisitions where market conditions are right and where they deliver on its strategy. There are a number of risks and uncertainties which may arise in these transactions, including (but not limited to): (a) the risks involved in entering new markets; (b) diversion of management attention and Group resources to integration efforts; (c) unidentified issues not discovered in due diligence; (d) the performance of underlying products, capabilities or technologies; and (e) failure of the acquired businesses to perform in line with expectations.	Any of these factors could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In particular, the potential for an impairment of goodwill and other assets could arise.	Whether the Group realises the anticipated benefits from these transactions depends upon the successful integration of the acquired businesses as well as their post-acquisition performance in the markets in which they operate. The Group has established policies and procedures to conduct due diligence, manage the acquisition process, monitor the integration and performance of acquired businesses, and identify potential impairments.

Climate change and the environment

The Group may be impacted by environmental factors, including those relating to climate change.

Key links to strategy

1 2 3 4 5 6

Description	Impact	Mitigation
The Group is subject to comprehensive environmental laws, regulations and permitting requirements in each of the countries in which it operates, including those relating to the impacts of climate change. Such laws and regulations impose standards with respect to air emissions, wastewater discharges, the use, handling and storage of hazardous materials and waste, remediation of soil and groundwater contamination and the prevention of pollution. Increasingly, environmental legislation is seeking to encourage a reduction in GHG emissions. These laws, regulations and/or permitting requirements may be interpreted in different ways, conflict and/or change from time to time (as may any related interpretations and guidance). The Group may also be impacted by environmental factors, including physical risks arising from climate change, such as extreme weather events, for example flooding and storms, and scarcity of water and other resources. In addition, the Group may be impacted by climate change transition risks resulting from the process of adjusting to a low carbon economy. Associated with this are potential risks around (a) the Group's ability to attract and retain future talent; (b) the technology evolution and innovation required to respond to future customer lower-emissions requirements; (c) energy-related taxes; and (d) the increased costs of compliance with energy-related schemes.	Environmental factors, including those relating to climate change, have the potential to materially impact the Group's business and operations. Increasing changes in environmental laws and regulations can expose the Group to increasing unplanned capital and operating costs associated with compliance, remediation and protection of the environment. Breaches of these laws and regulations can result in substantial costs, including fines, penalties or other sanctions, investigations and clean-up costs, and third-party claims for property damage or personal injury as well as the termination of permits. Extreme weather events can impact the Group's operational sites as well as those of its suppliers. The shift to a low carbon economy has the potential to increase the cost of business as the Group transitions to lower-emissions technologies and deals with the disposal of its legacy assets.	The Group has set itself the target of achieving net zero GHG emissions across its operations (Scope 1 and 2) by 2030 and working towards a net zero value chain by 2050 and has developed a plan to deliver this goal which includes exploring green energy options and surveying its buildings to determine how to make them more energy efficient. During 2023, the Group further developed its understanding of climate-related risks and opportunities so that the Group could understand potential unmitigated risks and its business readiness to mitigate any such risks. The Group uses analytical tools to apply natural catastrophe classifications to its sites worldwide. This has informed its strategy as to where to target a programme of specific flood, windstorm and earthquake assessments of the Group's sites and implement the subsequent risk reduction recommendations. The Group maintains property insurance cover which includes property damage and business interruption; however, as with all insurance, it does not provide full cover against all potential loss scenarios. The Group continues to progress a programme of work to understand the GHG emissions profile of its material products. This work will help the Group understand how to further progress efficiency of the Group's products; to research and develop alternate solutions; and to identify how the Group can support future customer decisions and investment in product upgrades and new product development, having due regard for environmental considerations.

Our principal risks continued

Laws and regulations

The Group is subject to risk from a failure to comply with laws and regulations.

Key links to strategy

1 2 3 4 5 6

Description	Impact	Mitigation
The Group operates in a highly regulated environment, across many jurisdictions and is therefore subject to a variety of legal, regulatory and litigation risks. These risks relate to (among other things) trade controls, intellectual property rights, data protection and security, contract-related claims, government contracts (including audits and reviews of those contracts), taxes, environmental matters, sanctions, product safety and reliability, health and safety, employment matters, competition laws and laws governing improper business practices (such as money laundering, false accounting, anti-bribery and corruption, and anti-boycott laws). These laws and regulations may be interpreted in different ways, conflict and/or change from time to time (as may any related interpretations and guidance). For example, export restrictions could become more stringent and political factors or changing international circumstances could result in the Group being unable to obtain or maintain necessary export licences.	Changes in laws and regulations (or the interpretation thereof) could result in higher compliance costs and impact customer or supplier contracts. Uncertainty relating to laws and regulations may also affect how the Group conducts its business and could limit its ability to enforce its rights. A breach of applicable legislation and/or regulations by the Group, its employees, sales representatives, marketing advisers or others working on its behalf could result in significant fines, penalties or other damages and/or the suspension or debarment of the Group from government contracts or the suspension of the Group's export privileges. If customers or other third parties were harmed by the conduct of members of the Group, this may also give rise to legal proceedings, including class actions. Other legal disputes may also arise between members of the Group and third parties relating to matters such as breaches or enforcement of legal rights or obligations arising under contracts, statutes or common law. Adverse findings in any such matters may result in members of the Group being liable to third parties or may result in rights not being enforced or not being enforced in the manner intended or desired. Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.	The Group has a well-established legal and regulatory compliance structure aimed at ensuring adherence to regulatory requirements and identifying restrictions that could adversely impact the Group's activities. Internal and external market risk assessments form an important element of ongoing corporate development and training processes. A uniform global policy and process for the appointment of advisers engaged in business development is in effect and an export control policy mandates compliance with all applicable trade controls requirements. It is important that the Group maintains a culture in which it focuses on responsible business behaviours and that all employees act in accordance with the requirements of the Group's policies, including the Code of Conduct, at all times. Accordingly, it continues to reinforce its ethics programme globally, supporting employees in making ethical decisions and embedding responsible business practices. The Group's internal legal team and, where appropriate, external counsel manage litigation and advise on the management of associated impacts.

Outbreak of contagious diseases

The outbreak of contagious diseases may have an adverse effect on the Company's business, financial condition and results of operations.

Key links to strategy

1 2 3 4 5 6

Description	Impact	Mitigation
An outbreak of a contagious disease could occur which could introduce constraints on both the Company's operations and those of its supply chain.	Contagious diseases, and the measures taken to control them, can have a material adverse effect on the Group's business, results of operations, financial condition and prospects. Areas of the Group's business that could be impacted include a decrease in spending by the Group's customers; an increase in taxation by governments; the failure to obtain awards for contracts; the inability of the Group to execute its contractual obligations on time and within planned budgets; the inability to adequately staff and manage the business; and a lack of availability of funding.	The Group's experience in dealing with the COVID-19 pandemic between 2020 and 2022 will assist it in dealing with any further outbreaks of contagious diseases. This includes the use of safe working practices, the effective use of home working and working collaboratively with government customers to maintain critical defence and security programmes.

Pension funding

An aggregate funding deficit could arise in the Group's defined benefit pension schemes.

Key links to strategy

1 2 3 4 5 6

Description	Impact	Mitigation
The assets held by the Group's defined benefit pension schemes (which, as at 31 December 2023, were £24.0bn) could prove to be insufficient to meet the anticipated liabilities of the schemes, resulting in a funding deficit. Such a funding deficit could be caused by a number of factors including insufficient investment returns and greater than expected member longevity.	If a funding deficit were to arise in any of the schemes, the Group may be required to make deficit repair contributions to those schemes, thereby reducing cash available to meet the Group's other capital allocation priorities. This could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.	The funding positions of the schemes are monitored on a regular basis and the latest triennial actuarial valuations of the Group's UK defined benefit pension schemes showed as at their respective dates that there is no funding deficit in any of those schemes on a technical provisions basis. That position is estimated to have been maintained since then. Each defined benefit scheme pursues an investment strategy designed to provide a high probability that the scheme will be able to satisfy its liabilities as they fall due, even under a range of plausible downside scenarios. To further reduce the risk of deficits arising in the future, the schemes' trustees, in conjunction with the Group, have continued to take action to hedge major risk factors such as inflation and interest rate risk, and longevity risk. All of the Group's UK defined benefit schemes have been closed to new employees since 2012 and, in the US, employees have not accrued salary-related benefits in defined benefit schemes since 2013.

The ranking and evaluation of risks as at the date of this Strategic Report should not be relied upon as a guide to their future ranking and evaluation.

Additional risks and uncertainties currently unknown to the Group, or which the Group currently deems immaterial, may also have an adverse effect on the business or financial condition of the Group.

Viability statement

As required by the provisions of the UK Corporate Governance Code 2018, the Board has undertaken an assessment of the future prospects of the Group, taking into account the Group's current position and principal risks.

This assessment considered both the Group's long-term prospects and also its ability to continue in operation and meet its liabilities as they fall due over its five-year business planning period.

The viability assessment period

The directors have assessed the viability of the Group over a five-year period. This is considered the most appropriate period for the assessment as it is consistent with the Group's five-year business planning cycle.

Analysis of business prospects

The Board has considered the long-term prospects of the Group based on its strategy, markets and business plan as outlined in this report. In its strategic review of the Group, the Board recognised the importance of certain factors that underpin its long-term prospects and viability. In summary, these are:

- a diverse portfolio of businesses based on well-established market positions, providing both complex, high-technology products and programmes, and differentiated technical services and support. In 2023, 40% of Group sales were product/programme related and 39% services and support;
- a geographically diverse business with a high proportion of sales to governments and other major prime defence contractors. In 2023, 33% of revenues were to the US Department of Defense, 25% to the UK Ministry of Defence and 11% to the Kingdom of Saudi Arabia Ministry of Defence and Aviation. The Group's robust order backlog continues to provide a strong foundation for further market diversity and growth;
- long-term visibility of sales and future sale prospects through a substantial order backlog and incumbent positions on major defence programmes; and
- market positions underpinned by a highly-skilled workforce, intellectual property assets and proprietary know-how, which are safeguarded and developed for the future by customer- and Group-funded investment. Such investment is focused on a well-developed understanding of future technologies and the threat environment shaping the long-term defence and aerospace market.

Assessment

The Board's assessment of the Group's prospects was informed by the following business processes:

Risk management process – the Group has developed a structured approach to the management of risk (see above) and principal and emerging risks identified are considered as part of the Board's annual review of the Integrated Business Plan.

The Board recognises that the principal risks identified on pages 70 to 77 could impact the future viability of the Group, and has undertaken more detailed scenario analysis in relation to specific risks that are considered most likely to have a more immediate and severe financial impact on the Group.

The viability assessment has taken into account reasonably plausible, but severe, downside scenarios related to these risks and assessed the impact on the future cash flows, profitability, financial covenants, solvency and liquidity of the Group.

Integrated Business Plan (IBP) – the IBP represents a common process with standard outputs and requirements that produces an integrated strategic and business plan for the Group and also for each of its businesses over the following five years. The use of a five-year period provides a robust planning tool against which long-term decisions can be made concerning, among other things; strategic priorities, addressing the Group's stated net zero target and climate-related risks and opportunities, funding requirements (including commitments to Group pension schemes), returns made to shareholders, capex and resource planning. Longer-term strategic inputs also form part of the IBP process and, where activity is required to meet such long-term priorities, this is provided for in the plan.

The detailed plan is reviewed each year by the Board as part of its strategy review process. Once approved by the Board, the IBP provides the basis for setting all detailed financial budgets and strategic actions across the businesses, and is subsequently used by the Board to monitor performance.

Liquidity and solvency analysis – the Group's liquidity is underpinned by an undrawn committed Revolving Credit Facility (RCF) of £2bn. During the year, the Group entered into a new five-year RCF, with two one-year extension options, taking the expected maturity of the facility to 2030.

This facility is available to meet general corporate funding requirements. The Board regularly reviews an analysis based on the financial output from the IBP, looking at the forecast working capital requirements, cash flow, and committed borrowing (see note 21 on page 189) and other funding facilities available to the Group over the five-year period covered by the IBP. This analysis includes 'stress testing' of the Group's liquidity and solvency under severe, but plausible, scenarios as developed from the IBP, including the following:

- the Group being unable to access debt markets to renew term debt facilities;
- an unfavourable change to the terms of trade the Group enjoys with certain principal customers;
- the inability of the Group to estimate accurately and control costs on significant fixed price contracts; and
- the loss of significant export awards assumed in the IBP.

The scenarios tested included the impact of multiple adverse factors and any mitigating factors.

In August 2023, the Group announced that it had entered into a stock purchase agreement to acquire the Ball Aerospace business from Ball Corporation for $5.5bn. The acquisition completed in February 2024 and was funded through a combination of new external debt, in the form of a bridge loan facility (the 'facility'), and existing cash resources. Following completion of the acquisition, the Group intends to refinance the facility.

As at 31 December 2023, the facility was undrawn. The Board has considered the utilisation of the facility and the anticipated refinancing of the facility, taking into account the Group's investment grade credit ratings, strong balance sheet and track record of raising external debt to fund M&A activity, and the cash outlay associated with the acquisition when making this viability statement.

Conclusion

In undertaking its review of the IBP in 2023, the Board considered the prospects of the Group over the five-year period covered by the process. On the basis of this and other matters considered and reviewed by the Board, the Board has reasonable expectations that the Group will be able to continue in operation and meet its liabilities as they fall due over the following five years. It is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty. Also, this assessment was made recognising the principal risks that could have an impact on the future performance of the Group (see pages 70 to 77).

Going concern statement

Accounting standards require that directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare financial statements on a going concern basis and the Code requires that, if appropriate, this report includes a statement to that effect. Following review, the directors have concluded that it is appropriate to adopt the going concern basis for these financial statements and have not identified any material uncertainties concerning the Group's ability to do so in the 12-month period from the date of approving them.

For this reason, they continue to adopt the going concern basis in preparing the accounts.

Strategic report

The Strategic report was approved by the Board of directors on 20 February 2024.

David Parkes
Company Secretary

Chair's governance letter

Contents

Dear Shareholders

This section focuses on the Company's governance structures, the work of the Board and its committees and how we comply with the UK's Corporate Governance Code 2018 (the Code), and other regulatory requirements.

A change of Chair allows for a proper review of the governance structures and processes already in place. As you would expect, our existing governance practices are robust, with clear standards of behaviour laid out in our Code of Conduct, and a strong operational framework for managing the business from Board level down.

Our committee responsibilities are clear and well managed by individual committee chairs, and we are in the process of updating and refreshing terms of reference and standing agendas for all committees. Some of these changes are in anticipation of changes in UK governance standards; for example, we are updating and refreshing our approach to risk management and assurance. You can read about this in more detail in the report on the activities of the Audit Committee on page 97. Such changes are an essential part of maintaining a robust governance framework on an ongoing basis.

Our governance structures also respect and uphold the special arrangements in place to protect the national security interests of our government customers. These arrangements are essential to our success as an international company and, at the same time, a valued and trusted partner in the security interests of our customers. We have a significant presence in the US, where the Department of Defense is our largest customer. There is more detail on arrangements for managing our US business on page 87.

I am keen to ensure that all non-executive directors have opportunities to visit our operations and engage directly with employees and local leadership teams. This gives directors deeper insight into employee views and our culture. In 2023, the Board visited our Naval Ships' facilities in Glasgow, and also some of our Air operations in Warton, Lancashire where we are working on the GCAP future fighter programme. Along with its broader responsibilities, our Environmental, Social and Governance Committee has been focused on employee issues and you can read more about its activities on page 102. The Innovation and Technology Committee has had its own programme of visits and you can read more about its activities on page 105.

The diversity of background, skills and experience of our Board is key to its strong performance, and there is more detail on our planning for director succession in the Nominations Committee report on page 94.

Effective board performance is a key part of governance, and with a change in Board leadership, we have taken the opportunity to have an external evaluation of board performance, led by No.4. Further details on the evaluation process, its outcomes and actions we will be taking as a result are outlined in more detail on page 95.

Overall the Board is keen to ensure that our future growth is built on a firm foundation of robust and effective governance and a disciplined approach to decision making and programme management.

Cressida Hogg CBE
Chair

Board of directors

Cressida Hogg CBE
Chair

N

Appointed to the Board: 2022
Nationality: UK

Skills, competence and experience
Cressida was appointed Chair of BAE Systems plc in May 2023, having joined the Board as a non-executive director and Chair designate in November 2022. Cressida is also a non-executive director of London Stock Exchange Group plc, where she is the Senior Independent Director. She has previously enjoyed a long executive career, spent largely with 3i Group, during which she developed a deep understanding of large, long-term infrastructure projects and businesses, gaining international experience whilst working in various countries including the US, Canada, India, Australia and the Middle East.

Cressida was awarded a CBE in 2014 for services to infrastructure investment and policy.

Dr Charles Woodburn CBE
Chief Executive

Appointed to the Board: 2016
Nationality: UK

Skills, competence and experience
Charles joined BAE Systems in May 2016 as Chief Operating Officer and became Chief Executive on 1 July 2017.

He is an experienced business leader with over 27 years' experience in the defence and aerospace, and oil and gas industries. Prior to joining the Company in 2016, he was Chief Executive Officer of Expro Group, before which he spent 15 years with Schlumberger Limited holding a number of senior management positions in Asia, Australia, Europe and the US. Charles is a trustee and Chair of the charity Movement to Work. He is a Fellow of the Royal Academy of Engineering.

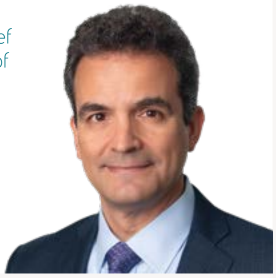
Charles was awarded a CBE in 2023 for services to international trade and skills.

Brad Greve
Chief Financial Officer

Appointed to the Board: 2020
Nationality: US

Skills, competence and experience
Brad joined BAE Systems in 2019 as Group Finance Director Designate and joined the Board on 1 April 2020.

He is a highly experienced executive with deep financial and operational management experience, gained during a career in excess of 30 years in international engineering and technology businesses. Prior to joining the Company, he held a number of senior executive roles in Schlumberger, undertaking roles in Europe, Africa, South America and the US.



Tom Arseneault
President and Chief Executive Officer of BAE Systems, Inc.

Appointed to the Board: 2020
Nationality: US

Skills, competence and experience
Tom was appointed to the Board on 1 April 2020, and serves as President and Chief Executive Officer of BAE Systems, Inc. Throughout his career, Tom has led complex organisations responsible for fulfilling critical and technologically challenging missions. Before becoming President and Chief Executive Officer of BAE Systems, Inc., he held various senior roles within BAE Systems, Inc.

Prior to his senior leadership appointments, Tom managed various organisations and programmes for Sanders, a Lockheed Martin company, until it was acquired by BAE Systems in 2000. Earlier in his career, he held a variety of engineering and programme management positions with General Electric and TASC.

Tom is a member of the Executive committee of the Aerospace Industries Association.

Committee Chair
A Audit Committee
E Environmental, Social and Governance Committee
I Innovation and Technology Committee
N Nominations Committee
R Remuneration Committee

Board of directors continued

Nick Anderson
Non-executive director

E I N

Appointed to the Board: 2020 **Nationality:** UK

Skills, competence and experience

As the former Group Chief Executive of a FTSE 100 industrial engineering company, Nick has a strong record of leading and growing global businesses. His knowledge and experience, particularly in leading international engineering and manufacturing operations, are a particular asset to the Board.

During his tenure as Group Chief Executive of Spirax-Sarco Engineering plc, a position he held for ten years, Nick oversaw the successful global growth of Spirax-Sarco Engineering. Prior to his roles at the company, he was Vice-President of John Crane Asia Pacific and President of John Crane Latin America.

Crystal E Ashby
Non-executive director

E N

Appointed to the Board: 2021 **Nationality:** US

Skills, competence and experience

Crystal has held various senior leadership roles within the energy and healthcare sectors and has considerable expertise in government affairs, legal and regulatory matters. She is currently the Executive Vice President, Chief People Officer, DEI and Communications Officer of the US health insurance company, Independence Blue Cross.

In her executive career, Crystal held various senior leadership roles during a long career with BP America Inc., culminating with her appointment as Executive Vice President of Government and Public Affairs and Strategic University Partnerships and membership of its Americas Leadership Team. She is an Independent Director on the Board of Texas Reliability Entity, Inc. and serves on the Engineering Dean's Leadership Advisory Board at the University of Michigan. She is a National Association of Corporate Directors Fellow and a member of the International Women's Forum and American Bar Association.

Angus Cockburn
Non-executive director

A N R

Appointed to the Board: 2023 **Nationality:** UK

Skills, competence and experience

Angus joined the Board on 6 November 2023.

He was formerly the Group Chief Financial Officer of Serco Group plc and, before that, Chief Financial Officer of Aggreko plc. Angus is Chair of James Fisher & Sons plc and the Senior Independent Director of Ashtead Group plc. He is also the Senior Non-Executive Director of the charitable trust-owned Edrington Group. He is currently a non-executive director of STS Global Income & Growth Trust but will be stepping down from that role later this year. He is a former non-executive director of GKN plc and Howdens Joinery Group PLC. Angus holds an MBA from the IMD Business School in Switzerland, and is also an Honorary Professor at the University of Edinburgh and a member of the Institute of Chartered Accountants of Scotland.

Dame Elizabeth Corley CBE
Non-executive director

A I N R

Appointed to the Board: 2016 **Nationality:** UK

Skills, competence and experience

Dame Elizabeth brings a wealth of investor, governance and boardroom experience to the Board. She is the Chair of Schroders plc and a former non-executive director of Pearson plc and Morgan Stanley Inc. She chairs the board of the Impact Investment Institute, having previously chaired the industry Taskforce on Social Impact Investing for the UK government. She served as Chief Executive Officer of Allianz Global Investors, initially for Europe then globally, from 2005 to 2016. Prior to that, she worked for Merrill Lynch Investment Managers.

Elizabeth is active in representing the investment industry and developing standards within it. She is a member of the CFA Future of Finance Advisory Council, the AQR Institute of Asset Management at the London Business School, the Committee of 200 and the 300 Club.

Elizabeth is also an acclaimed writer, a Fellow of the Royal Society for the encouragement of Arts, Manufactures and Commerce and a trustee of the British Museum.

Dr Jane Griffiths
Non-executive director

A E N

Appointed to the Board: 2020 **Nationality:** UK

Skills, competence and experience

Jane has experience in leading high technology businesses and international corporate leadership. She is Chair of Redx Pharma Plc, an AIM listed company, Chair of Theramex and a non-executive director of Johnson Matthey. Jane is a director of the Spanish healthcare company, Esteve. In her executive career with Johnson & Johnson, she held various executive positions and led its Corporate Citizen Trust in EMEA and sponsored its Women's Leadership Initiative.

Jane previously had been Company Group Chair of Janssen EMEA, Johnson & Johnson's research-based pharmaceutical arm, where she was sponsor of Janssen's Global Pharmaceuticals Sustainability Council. She is a former Chair of the European Federation of Pharmaceutical Industries and Associations, past Chair of the PhRMA Europe Committee and former member of the Corporate Advisory Board of the UK government-backed 'Your Life' campaign, aimed at encouraging more people to study STEM subjects.

Dr Ewan Kirk
Non-executive director

I N R

Appointed to the Board: 2021 **Nationality:** UK

Skills, competence and experience

Ewan has extensive experience in commercialising data science and quantitative analysis. He has led multiple ventures to identify, apply and leverage technology and mathematics research in both business and philanthropy. In 2006, he founded Cantab Capital Partners, a science-driven investment management firm, which was acquired by GAM Investments in 2016 and is one of the top-performing quantitative investment companies in the UK. Prior to founding Cantab, Ewan was Partner and Head of Quantitative Strategies Group at Goldman Sachs.

He is Chair of the Isaac Newton Institute for Mathematical Sciences, Chairman of DeepTech Labs, a UK-based venture capital fund that invests in deep technology businesses, and Co-Chair of the Turner Kirk Trust. In 2023, Ewan became the first Royal Society Entrepreneur in Residence at the Cambridge University at the Centre for Mathematical Sciences. He holds a PhD in General Relativity from the University of Southampton, a MASt in Mathematics from Queen's College, Cambridge, and a BSc in Natural Philosophy and Astronomy from the University of Glasgow.

Stephen Pearce
Non-executive director

A E N

Appointed to the Board: 2019 **Nationality:** AU

Skills, competence and experience

Stephen has more than 20 years' experience as a director of public companies and over 30 years of financial and commercial experience in the mining, oil and gas, and utilities industries. He has held a range of leadership roles including, until recently, Finance Director of Anglo American plc, a position he held for over six years.

He previously served as CFO and as an executive director of Fortescue Metals Group Limited from 2010 to 2016. He is a Fellow of the Institute of Chartered Accountants, a Fellow of the Governance Institute of Australia and a Member of the Australian Institute of Company Directors.

Nicole Piasecki
Non-executive director and Senior Independent Director

I N R

Appointed to the Board: 2019 **Nationality:** US

Skills, competence and experience

Nicole was appointed Senior Independent Director on 1 January 2024. She has extensive experience gained from executive positions within the aerospace industry and leadership of multi-functional teams. She previously held a number of engineering, sales, marketing and business strategy roles during her 25-year career with the Boeing Company, including Vice President and General Manager of the Propulsion Systems Division and Vice President of Business Development & Strategic Integration for Boeing's commercial aircraft business, and President of Boeing Japan.

She is a non-executive director of Weyerhaeuser Company and BWX Technologies, Inc. She also serves on the boards of Kymeta Corporation and Alitheon Inc. She is a senior advisor to Mitsubishi Heavy Industries, Ltd and a director of the US think tank, The Stimson Center. Nicole formerly served on the Federal Aviation Authority's Management Advisory Board, the American Chamber of Commerce in Japan, the US Department of Transportation's Future of Aviation Advisory Committee and the Federal Reserve Bank of San Francisco's Seattle branch. She is a former director of Howmet Aerospace Inc.

Mark Sedwill
Baron Sedwill of Sherborne GCMG, FRGS
Non-executive director

E N

Appointed to the Board: 2022 **Nationality:** UK

Skills, competence and experience

During a long career serving the UK government, Lord Sedwill held a wide range of national security and diplomatic roles in the UK and overseas. In his final decade in public service, he was British Ambassador and NATO Representative in Afghanistan, Foreign Office Political Director and Home Office Permanent Secretary, culminating in his appointments as National Security Adviser (2017 to 2020) and Cabinet Secretary (2018 to 2020). Earlier in his career, he held diplomatic and security posts, serving in Egypt, Syria, Jordan, Cyprus and Pakistan.

He is a senior adviser and Supervisory Board member of Rothschild & Co, and the Senior Independent Director and Senior Deputy Chair of Lloyd's of London. He is also the Chairman of the Atlantic Future Forum and a member of the UK Parliament's House of Lords. Lord Sedwill is a Fellow of the Royal Geographical Society and of the Institute of Directors. He is President of the Special Forces Club and a member of the IISS Advisory Council, a trustee of the RNLI, an Honorary Colonel in the Royal Marines and an Honorary Bencher of Middle Temple.

Membership and attendance for the year ended 31 December 2023

	Board meetings	Committee membership	Audit Committee	Environmental, Social and Governance Committee	Innovation and Technology Committee	Nominations Committee	Remuneration Committee
Cressida Hogg[1]	8/8	N	–	–	–	6/6	–
Nick Anderson	8/8	E I N	–	4/4	3/3	6/6	–
Crystal E Ashby	8/8	E N	–	2/4[7]	–	6/6	–
Angus Cockburn[2]	2/2	A N	2/2	–	–	–	–
Dame Elizabeth Corley	8/8	A I N R	5/5	–	3/3	6/6	5/5
Jane Griffiths	8/8	E N	–	4/4	–	6/6	–
Chris Grigg[3]	8/8	A N R	5/5	–	–	6/6	5/5
Ewan Kirk[4]	8/8	I N R	–	–	3/3	5/6[7]	1/2[7]
Stephen Pearce	8/8	A N	5/5	–	–	6/6	–
Nicole Piasecki[5]	8/8	E I N R	–	4/4	3/3	6/6	5/5
Lord Sedwill	8/8	E N	–	4/4	–	–	–
Charles Woodburn Chief Executive	7/8[6]		–	–	–	–	–
Brad Greve Chief Financial Officer	8/8		–	–	–	–	–
Tom Arseneault President and Chief Executive Officer of BAE Systems, Inc.	8/8		–	–	–	–	–

1. Appointed Chair on 4 May 2023.
2. Joined the Board on 6 November 2023 and appointed to the Audit Committee on 7 November 2023.
3. Retired as non-executive director and Senior Independent Director on 31 December 2023.
4. Appointed to the Remuneration Committee on 1 March 2023.
5. Appointed as Senior Independent Director on 1 January 2024.
6. Could not attend due to customer meeting.
7. Attendance impacted by personal matters.

Committee Chair
A Audit Committee
E Environmental, Social and Governance Committee
I Innovation and Technology Committee
N Nominations Committee
R Remuneration Committee

The average length of appointment of non-executive members of the Board (as at 31 December 2023) was three years and nine months.

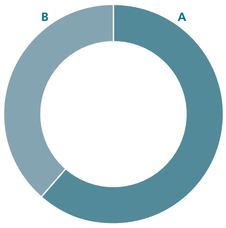
The average length of appointment of executive members of the Board (as at 31 December 2023) was four years.

As a result of Chris Grigg's retirement on 31 December 2023,the following committee reports and associated membership, board diversity and skills data refer to the board composition from 1 January 2024 unless otherwise stated.

Board and Executive Management diversity information

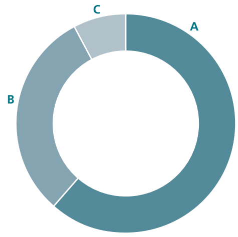
Board information[1]

Gender



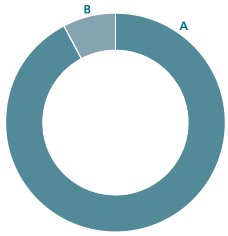
A	Male	8
B	Female	5

Nationality



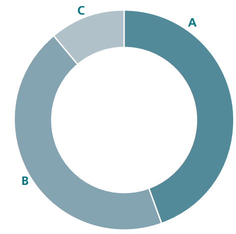
A	UK	8
B	US	4
C	Australia	1

Ethnicity



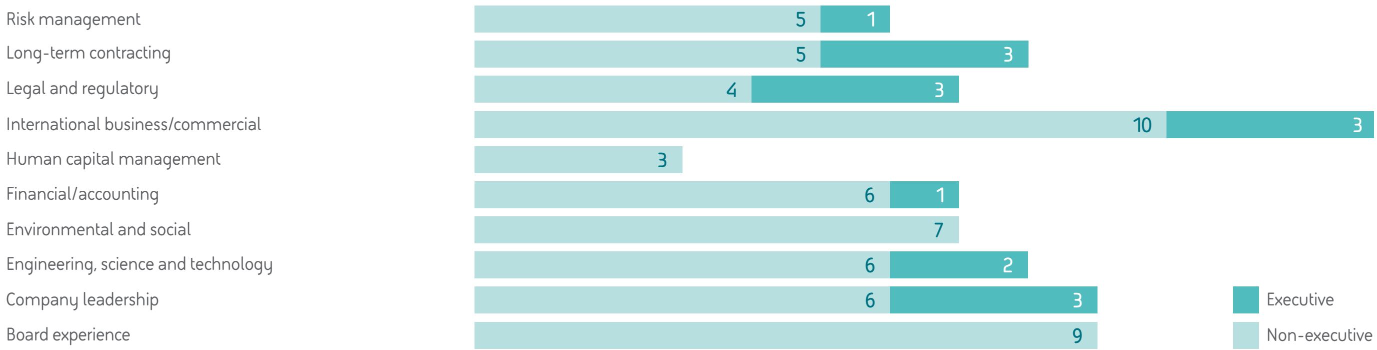
A	White British or other White (including minority White groups)	12
B	Black/African/Caribbean/ Black British	1

Tenure
(independent non-executive directors)



A	Up to three years	4
B	Over three and up to six years	4
C	Over six years	1

Skills and experience



1. Reflective of the Board from 1 January 2024.

Board and Executive Management diversity as at 31 December 2023

In accordance with Listing Rule 9.8.6(9) of the Financial Conduct Authority's (FCA) Listing Rules, these tables set out details of the diversity of the individuals on the Board and Executive Management as at 31 December 2023.

On that date, there were 14 Executive Committee members (including the Chief Executive, President and Chief Executive Officer of BAE Systems, Inc. and the Chief Financial Officer, who are also executive directors) and 14 directors of the Board. The Company Secretary is included in the calculation of executive management.

The data was obtained on a voluntary self-reported basis. Participants were invited to complete a survey through a secure electronic portal, wherein they were asked to confirm their sex and gender identity, and ethnic background. The descriptive categories of sex, gender and ethnic background set out in the survey, were taken verbatim from Listing Rule 9.8.6(9), and therefore correspond precisely with the tables.

On 1 January 2024, following the retirement of Chris Grigg on 31 December 2023, the number of men on the Board reduced to eight. As a result, the number of percentage of women on the Board increased to 38%. Changes were made to the executive management with effect from 1 January 2024 that reduced membership to 13 and increased the percentage of women in executive management to 36%. See Nominations Committee report on page 94 for further information and disclosure on diversity.

Sex and gender identity

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	9	64%	3	11	73%
Women	5	36%	1	4	27%
Other categories	–	–	–	–	–
Not specified/ prefer not to say	–	–	–	–	–

Ethnic background

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	13	93%	4	14	93%
Mixed/Multiple Ethnic groups	–	–	–	1	7%
Asian/Asian British	–	–	–	–	–
Black/African/ Caribbean/Black British	1	7%	–	–	–
Other ethnic group, including Arab	–	–	–	–	–

Board Diversity & Inclusion Policy

This policy sets out the approach to diversity and inclusion in respect of the Board of Directors of BAE Systems plc.

Diversity and inclusion

We are committed to maintaining a diverse and inclusive Board. As a company, we value diversity and are committed to creating a diverse and inclusive working environment for our employees, in which colleagues from any background can fulfil their potential. This is reflected in our clear purpose, values and the behaviours that guide our culture.

The Board understands that diversity is a key attribute to its effectiveness. We aim to maintain a diverse Board, including an appropriate balance of nationalities, gender, ethnicity, skills, knowledge, experience and personal strengths.

Work of the Committee

The Nominations Committee, on behalf of the Board, undertakes a formal, rigorous and transparent approach to succession planning for director appointments. The Committee oversees the development and implementation of succession plans for directors and senior managers.

Appointments and succession plans are based on merit and objective criteria, reflecting the skills, knowledge and experience needed to ensure we have a well-rounded, diverse and effective Board. In the case of Non-Executive Directors, other relevant matters are also taken into account, such as independence and the ability to fulfil time commitments.

Due to the nature of its activities, the UK government holds a Special Share in the Company, ensuring that the Company cannot be non-British controlled. The Special Share also includes provisions requiring that a majority of the directors on the Board are British nationals and the roles of Chair and Chief Executive are also subject to UK nationality restrictions.

The Committee shall aim to comply with the following targets in respect of Board membership:

- At least 40% of Board members shall be women (including those identifying as women).
- At least one of the four senior Board positions (Chair, Chief Executive, Senior Independent Director, Chief Financial Officer) shall be a woman (or identifying as a woman).
- At least one member of the Board shall be from an ethnic minority background (as referenced in categories recommended by the UK's Office for National Statistics).

In line with UK regulatory requirements, the Committee shall report in the Company's annual report on compliance with the above targets.

The Board and Committee will maintain oversight of the range of activities the Company is pursuing aimed at increasing the diversity of our workforce, including the executive pipeline that is essential for Executive Directors' succession planning. In addition, when the Committee engages search consultants, we will use their services to help identify a diverse range of potential non-executive Director candidates and, where necessary, to help with Executive Directors' succession requirements.

Reporting

The Committee will ensure that there is continued appropriate and meaningful disclosure in the Company's annual report against the matters set out in this policy.

Board diversity

Last year, the Committee amended its Diversity and Inclusion Policy (see above) to adopt a target of increasing the level of women on the Board to 40%, and also for at least one of the Chair, Senior Independent Director, Chief Executive or Chief Financial Officer roles to be held by women. These targets are in line with the regulatory requirements introduced recently by the UK's FCA on Board and Executive Committee diversity targets and disclosures.

The membership of the Board's Audit, Remuneration and Nominations committees is drawn from the wider membership of the Board and therefore the membership of these bodies is broadly aligned with the Board's Diversity and Inclusion Policy. The Committee regularly considers the composition of committees, including the needs for particular attributes, skills and experience, when undertaking non-executive search activities.

As at 31 December 2023 (the reference date adopted by the Company pursuant to the FCA's Listing Rules), we did not meet the target of 40% of the Board's membership being women. On that date, 35.7% of the members of the Board were women.

However, as part of our long-term succession plan, Chris Grigg retired as a Director with effect from that day, consequently, since the beginning of the year and up to the 20 February (the latest practicable date for inclusion in this report), that figure increased to 38.5% – just short of the 40% target. Relative to the requirement in the FCA's Listing Rules concerning the four senior Board roles, the Company met that target on the reporting reference date of 31 December 2023, with the role of Chair being held by a woman. In addition, Nicole Piasecki succeeded Chris Grigg as Senior Independent Director and therefore from 1 January 2024 to the date of this report, two of those senior roles were currently held by women. One member of the Board is from a minority ethnic background, and the Company was compliant with that FCA target at the end of the year and that has remained the case.

Progress has been made in promoting greater diversity on the Board over a number of years and that continued during 2023. As detailed above, we are just short of the 40% target in the FCA's Listing Rules and our policy objectives. One Board appointment decision was made in 2023 and, based on merit and the specification agreed for the search, a male candidate was nominated for appointment. As part of the appointment process, the Committee did take steps to ensure that every effort was taken to deliver a diverse list of candidates for consideration.

With regard to diversity in our senior leadership population, the number of women on the Executive Committee has increased to five, 36% of the membership. Currently, 34% of the wider group formed of those executives reporting to an Executive Committee member are women (the same applies if the Company Secretary and his first reports are included).

Governance framework

This is the structure through which we manage the Group including the Board division of responsibilities.

The Board

Role of the Board

The Board is responsible for promoting the long-term sustainable success of the Company, generating value for shareholders, while having regard to its other stakeholders and the impact of its operations on the environment and the communities in which we operate. See page 91 for more information on the work of the Board.

The Board agrees the Company's purpose, values and standards of behaviour expected of all employees, satisfying itself that these and the culture of the business are aligned. The Board also sets the Group's strategy, and oversees and monitors internal controls, risk management and the Company's governance framework. Our robust governance framework, the Operational Framework, is agreed by the Board and sets out how we do business.

Purpose

The Company's purpose (see contents page) recognises that we serve, supply and protect those who serve and protect us, and that we have important wider stakeholder responsibilities that the Board has regard to in its decision making. The Board monitors our strategy, behaviours and culture and their alignment with our purpose.

Culture

Our culture is to be performance driven and values led. The Board is responsible for ensuring that culture is aligned with our purpose, values and strategy.

Strategy

Our strategy (see page 12) is comprised of five key long-term focus areas aligned with our vision and mission. Agreed annually by the Board, it is an important part of how it promotes the long-term sustainable success of the Company.

Board engagement with stakeholders

In considering and engaging with stakeholders, the Directors act in accordance with Section 172 of the Companies Act. The work of the Board during the year is detailed on pages 91 to 93.

Board composition

The Board consists of executive and independent non-executive directors, plus a non-executive chair who was independent in accordance with the UK Corporate Governance Code on her appointment. There is a clear division in the roles and responsibilities of the executive and non-executive directors and between the Chair and Chief Executive which are detailed in our Board Charter (available on the Company's website).

Chair

Leads the Board and is responsible for its overall effectiveness in directing the Company. Also facilitates constructive Board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

Senior Independent Director

Acts as a sounding board for the Chair and also as an intermediary for the other directors as necessary. Annually, or on other occasions as necessary, leading the non-executive directors in appraising the Chair's performance, and providing feedback.

Chief Executive

Responsible for the development and delivery of the strategy agreed by the Board. Developing for the Board's approval, appropriate values and standards to drive the required behaviours and by leading by personal example with regards to company culture.

Company Secretary

Ensuring that Board procedures are complied with and advising the Board on all governance matters. Also supports the Board by ensuring that it has the policies, processes, information, time and resources it needs in order to function effectively.

Principal committees

The Board has established principal committees which focus on particular areas, as set out below. The chair of each committee reports to the Board on the committee's activities after each meeting.

Nominations Committee
Page 94

Audit Committee
Page 97

Environmental, Social and Governance Committee
Page 102

Innovation and Technology Committee
Page 105

Remuneration Committee
Page 107

Executive and other committees

Operational Framework

Agreed annually by the Board, the Operational Framework is a comprehensive statement of mandated governance requirements and delegated responsibilities. The UK Corporate Governance Code's (the Code) principles are embedded within the Operational Framework, and its policies and processes underpin all the disclosures made by the Board pursuant to the Code's provisions.

Our Operational Framework provides a stable foundation from which to deliver our strategy, improve our Group performance and continue to develop our culture.

It is mandatory across all wholly-owned entities and details our organisation, governance framework, core business practices and delegated authorities.

Internal controls

Core Business Processes
This describes the reporting and reviews mandated by the Operational Framework, which provide upwards visibility of project and business performance.

Operational Assurance
A process through which line and functional leaders respectively confirm twice yearly that their businesses and functions are compliant with the Operational Framework.

Internal Audit
Assesses the effectiveness of internal controls through a programme of reviews based on a continuous assessment of business risk across the Group.

We take pride in managing our operations effectively and responsibly

Responsible trading principles

How we conduct business is fundamental to the success of our Company and we mandate a principles-based approach to our business activity. We do not compromise on the way we conduct business, and consistency of this approach is key in defining our reputation.

Product safety policy

We set out principles which describe our approach to product safety to reduce the risk of unintentional harm to people, property and the environment. They apply throughout the life of the Product and throughout the supply chain.

Workplace and operational environment

Our people management expectations are communicated to all employees and set out within our People Policy. We have a zero tolerance policy regarding corruption and our employees are made aware of their role in ensuring we maintain high standards of ethical conduct. Pages 62 to 64 provide further detail about our anti-corruption programme.

The safety and wellbeing of our employees is paramount and our high standards for Health and Safety management provide a common framework to guide our workforce and further information can be found on page 58.

We use our expertise to reduce our global environmental impacts and to develop products and services for our customers which reduce their impacts on the environment. Our climate transition strategy and impact on the environment including greenhouse gas (GHG) emissions, efficient use of resources, land use and biodiversity, and the environmental impact of the Group's supply chain is overseen by the Environmental, Social and Governance Committee.

We are committed to ensuring that IT systems and services are used in a manner which promotes effective communication and working practices within the organisation and to preventing damage to its business or reputation through misuse of those systems.

With the support of our Internal Audit team, our IT assurance and governance programme has been developed to support the effective management of cyber risks.

Suppliers

The Group depends upon its suppliers to provide fully compliant, cost-effective equipment, goods, services and solutions, which are an integral part of the world-class products required by our customers, and also support the effective operations of our businesses and the Group's standards of business conduct. Our supply chain management and Supplier Principles – Guidance for Responsible Business (the Supplier Principles) are focused on high achievement of our standards. Our supplier contracts contain anti-corruption and anti-bribery provisions and stipulate the expectation to compliance, meet our standards on ethical business conduct and Supplier Principles, including safety, environment and human rights.

Product trading policy

Underpins all of our business activity and the policy applies to all Company products, trading, and throughout the product lifecycle. The policy is used to reflect the Company's standards of integrity and help us to thoroughly evaluate the opportunities we pursue.

Risk management policy

We set clear requirements for the management and reporting of risks in support of the delivery of our strategy. Project risks are managed through our Lifecycle Management Framework.

Core business processes

Our IBP represents a common process with standard outputs and requirements that produces an integrated strategic business plan for the Group and also for each of its businesses over the following five years. The IBP is reviewed each year by the Board as part of its strategy review process. Once approved, the IBP provides the basis for setting all detailed financial budgets and strategic actions across the businesses, and is subsequently used by the Board to monitor performance.

As mandated by the Operational Framework, Businesses and Group functions complete a bi-annual Operational Assurance Statement (OAS). The OAS is in two parts: a self-assessment of compliance with the Operational Framework; and a report showing the key financial and non-financial risks for the relevant business and Group functions. Together with reviews undertaken by Internal Audit and the work of the external auditors, the OAS forms the Group's process for reviewing the effectiveness of the system of internal controls.

Lifecycle Management (LCM) Framework describes our approach to the assurance of Projects. LCM is integral to the successful execution of the Group's projects and programmes. Its application provides progressive risk-based assurance throughout the lifecycle to aid decisions, supporting delivery of projects to achieve customer satisfaction, schedule and financial requirements.

The purpose of the Mergers, Acquisitions and Disposals process is to provide a structured approach to managing the acquisitions, strategic joint ventures and disposals. It forms a part of our Strategy and Planning framework in order to support the delivery of the IBP.

National security arrangements

The Group is subject to various national security requirements which are an important part of how we operate as a defence company and meet the needs of our customers. Due to the nature of its activities, the UK government holds a Special Share in the Company, ensuring that the Company cannot be non-British controlled. We also have a Special Security Agreement with the US Department of Defense addressing national security matters relating to the ownership and control of our US defence businesses. Through the Special Security Agreement, our governance structure is augmented by the BAE Systems, Inc. board, which is populated by experienced individuals drawn principally from the US armed forces and intelligence community, and also former Members of Congress.

Similarly, our Australian operations are subject to an Overarching Deed with the Commonwealth of Australia which protects national security and other interests, and allows the Group to own and manage certain Australian defence-related industrial assets. These national security arrangements are an important part of our governance.

Applying the 2018 UK Corporate Governance Code Principles

Applying Principles of Good Governance: The Company has applied the Principles in the UK Corporate Governance Code. Using the principal headings in the Code, the following provides details of how it has applied those Principles and references other parts of these reports to provide more detail. The statements reference the Code Principles.

Principles		Reference
Section 1 – Board leadership and Company purpose		
A.	We have an effective and entrepreneurial Board that promotes the long-term sustainable success of the Company, generates value for shareholders and contributes to wider society.	Sustainability Page 46 → Dividends paid and capital allocation policy objectives Page 17 → Annual Board evaluation Page 95 →
B.	The Board has established the Company's purpose, values and strategy, and satisfied itself that these and its culture are aligned. All directors are required to act with integrity, lead by example and promote the culture they wish to see for the Company.	Our purpose Contents page → Our strategic framework Page 12 → Sustainability Page 46 → Governance framework Page 86 → Environmental, Social and Governance Committee report Page 102 →
C.	Through the Company's integrated strategic planning process the Board has agreed annual and long-term strategic and financial objectives for the Company. The integrated nature of the planning process helps ensure that the necessary resources are in place to meet those objectives. The Board regularly reviews progress against the plan. The Company has a comprehensive controls structure that enables risk to be assessed and managed.	Our business model Page 14 → Governance framework Page 86 →
D.	In order for the Company to meet its responsibilities to shareholders and stakeholders, the directors have established a number of means through which it is able to engage with them in order to better understand their views and expectations.	Our stakeholders Page 24 → The work of the Board Page 91 → Environmental, Social and Governance Committee report Page 102 →
E.	The Board looks to ensure that workforce policies and practices are consistent with our values and support our long-term sustainable growth. All members of our workforce are able to raise any matters of concern through our Ethics Helpline or with a local Ethics Officer.	Our purpose Contents page → Our strategic framework Page 12 → Sustainability Page 46 →
Section 2 – Division of responsibilities		
F.	The Chair leads the Board and is responsible for the overall effectiveness of the Board in directing the Company. In doing so she seeks to demonstrate objective judgement and promotes a culture of openness and debate within the boardroom. The directors are provided with accurate, timely and clear information, to facilitate open and constructive board relations.	Governance framework Page 86 → Annual Board evaluation Page 95 →
G.	The Board comprises the Chair, three executive directors and nine independent non-executive directors[1]. There is a clear division in the roles and responsibilities of the executive and non-executive directors and between the Chair and Chief Executive which are detailed in our Board Charter (available on the Company's website).	Chair's governance letter Page 80 → Governance framework Page 86 →
H.	The non-executive directors have committed to having sufficient time to meet their responsibilities. The non-executive directors provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	Governance framework Page 86 → Governance disclosures Page 80 → Board information Page 81 →
I.	The Company Secretary supports the Board in ensuring the directors have the correct policies, processes, information and time in order to function effectively and efficiently.	Governance framework Page 86 → Annual Board evaluation Page 95 →

Principles		Reference
Section 3 – Composition, succession and evaluation		
J.	The Nominations Committee undertakes a formal, rigorous and transparent approach to succession planning for Board appointments. The Board oversees the development and implementation of succession plans for directors and senior management. Appointments and succession plans are based on merit and objective criteria, whilst also promoting diversity in all forms.	Board information Page 81 → Nominations Committee report Page 94 →
K.	The directors look to maintain a good combination of skills, experience and knowledge on the Board and on its committees. Succession plans take into consideration the lengths of service of directors and the need to regularly refresh Board membership.	Chair's governance letter Page 80 → Board information Page 81 → Nominations Committee report Page 94 →
L.	The Board annual performance evaluation undertaken by the Board in 2023/2024 considered its composition, diversity and how effectively members worked together to achieve objectives. The evaluation included an assessment of the effectiveness of individual members.	Nominations Committee report Page 94 → Annual Board evaluation Page 95 →
Section 4 – Audit, risk and internal control		
M.	The Board through its Audit Committee has established formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and the work they undertake assists the Board in satisfying itself as to the integrity of financial and narrative statements.	Audit Committee report Page 97 →
N.	As detailed in these reports, the directors confirm they consider the 2023 Annual Report and financial statements taken as a whole to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.	Directors' responsibility statement Page 140 →
O.	The Board has established procedures to manage risks. It also oversees the Internal Control Framework and determines the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives.	Our risk management framework Page 69 → Our principal risks Page 70 → Governance framework Page 86 →
Section 5 – Remuneration		
P.	The policies and practices of the Remuneration Committee have been designed to support our strategy and promote the long-term sustainable success of the Company. Executive remuneration is aligned to Company purpose and values and is linked to the successful delivery of our long-term strategy.	Remuneration Committee report Page 107 → Annual remuneration report Page 115 →
Q.	The Remuneration Committee has a formal and transparent procedure for developing policy on executive remuneration and also for determining the remuneration of directors and senior management. Directors are not involved in determining their own remuneration outcome.	Remuneration Committee report Page 107 → Directors' remuneration policy Page 110 →
R.	The Remuneration Committee has the ability to exercise its discretion and independent judgement when agreeing remuneration outcomes. When exercising such discretion it will take into account Company and individual performance, and also wider circumstances.	Remuneration Committee report Page 107 →

1. Since 1 January 2024, there are eight non-executive directors, following the retirement of Chris Grigg on 31 December 2023.

Compliance with the 2018 UK Corporate Governance Code provisions

The Company is subject to the principles and provisions of the Code, a copy of which is available at frc.org.uk. The Company was compliant with the provisions of the Code throughout 2023. The following statements are made in compliance with the Code.

Risk management and internal control statement

The Board is responsible for the Group's risk management and internal control systems. It has delegated responsibility for reviewing in detail the effectiveness of these systems to the Audit Committee, which reports to the Board on its findings so that all directors can take a view on the matter.

An overview of the processes used to identify, evaluate and manage the principal risks can be found on pages 70 to 77. These processes are an integral part of our governance framework, and the Operational Framework, details of which can be found on page 86. The Operational Framework mandates the Operational Assurance Statement (OAS) process, which is owned by the Group's Internal Audit function and is one of the principal processes used by the Board in monitoring the effectiveness of control systems.

The OAS process has been designed to provide assurance with regard to compliance with the policies and processes mandated by the Operational Framework. It is a key element of the Group's governance and is formed of two parts: a self-assessment by businesses and functions of compliance with the Operational Framework; and a report showing their assessment of key risks. Twice a year, the line leaders for our business and the heads of our functions are required to critically analyse compliance relative to a scoring framework, which sets clear standards against which compliance must be assessed. Line and functional leaders are required to assure themselves of the level of compliance for a business, and submit as required supporting information and data to provide evidence of compliance.

The output from the OAS process is reviewed by (and subject to challenge from) the Internal Audit function relative to its understanding of matters within particular businesses. In addition, the OAS risk management process requires that twice-yearly the risks identified in each of the businesses are reported against a set risk framework. The output from the OAS process is provided to the Board and is reviewed in detail by the Audit Committee.

The report to the directors on the output from the OAS process provides granular graphical and narrative analysis of compliance against the requirements of the Operational Framework, and as such is an important part of how the Board monitors and reviews the Company's risk management and internal control systems. Further details of the Board's monitoring and review process can be found in the Audit Committee report on page 97.

The risk management and internal control systems detailed in the Operational Framework were in place throughout the year and the Board, having reviewed their effectiveness, believes they accord with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Viability statement and going concern

As required by the provisions of the Code, the Board has undertaken an assessment of the future prospects of the Group, taking into account the Group's current position and principal risks. This assessment considered both the Group's long-term prospects and also its ability to continue in operation and meet its liabilities as they fall due over its five-year business planning period. This can be found on page 78 of the Strategic report.

Directors

In compliance with the Code, all directors are subject to annual re-election by shareholders. The Board considers all of the non-executive directors (except the Chair) named on pages 81 to 83 of this report to be independent for the purposes of the Code. The Chair was also independent on her appointment in May last year.

Prior to making Board appointments, the Board considers other demands on an individual's time to ensure that, following appointment, directors have sufficient time to meet their Board responsibilities. Non-executive directors are required to seek prior approval before taking on additional external appointments. The Board also considers whether there are any matters that could have a bearing on a non-executive director's independence pursuant to Provision 10 of the Code. The following disclosure is made on these matters:

Dame Elizabeth Corley

Dame Elizabeth Corley, a non-executive director, is a non-executive director and Chair of Schroders plc. Schroders plc is a shareholder in the Company, holding approximately 0.4% of the total share voting rights as at 20 February 2024 (the latest practicable date for inclusion in this report). An assessment was undertaken prior to her appointment to assess whether this relationship could have a bearing on her independence for the purpose of Provision 10 of the Code. It was agreed that the number of shares held by Schroders was not sufficiently material to have a bearing on her independence. The Company was also made aware of steps that have been taken by Schroders to avoid a conflict of interest with regard to any shares it may hold in BAE Systems plc.

Angus Cockburn

In compliance with Provision 15 of the Code, the Nominations Committee considered Angus Cockburn's other commitments prior to his appointment to the Board as a non-executive director in 2023. In particular, it noted his other listed company board appointments, they being his role as non-executive Chair of James Fisher & Sons and non-executive director positions at Ashtead Group and STS Global Income & Growth Trust. Prior to his appointment, it was confirmed that he would be stepping down from the STS Global Income & Growth Trust at its AGM this year.

Recognising that Mr Cockburn will be stepping down from a listed company board later this year (most likely in July) and that all of his other corporate interests are non-executive in nature, the Board is satisfied that he has sufficient time to undertake his duties as a non-executive director of the Company.

The work of the Board

The directors of BAE Systems plc – and those of all UK companies – must act in accordance with a set of general duties. These include a duty under Section 172 of the Companies Act (s.172) to promote the success of the Company, and in doing so the directors must have regard (among other things) to certain stakeholders and other factors. In this statement, on pages 91 to 93, we highlight some of the key decisions and discussions undertaken by the Board in 2023 and stakeholder consideration.

Companies Act 2006, s.172(1)

"A director of a company must act in the way, he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the following factors:

(a) the likely consequences of any decision in the long term;

(b) the interests of the company's employees;

(c) the need to foster the company's business relationships with suppliers, customers and others;

(d) the impact of the company's operations on the community and the environment;

(e) the desirability of the company maintaining a reputation for high standards of business conduct; and

(f) the need to act fairly as between members of the company."

Key matters considered and decisions made in 2023 in respect of the directors' duties under s.172

Shareholder returns

In July 2022, the Board announced a three-year share buyback programme of up to £1.5bn. Good progress was made with that programme and, consequently, in August 2023 the Board considered whether to approve a further buyback programme which would commence after the completion of the 2022 programme. In making the decision to approve a further up to £1.5bn share buyback programme the Board considered its stakeholder obligations, the strength of the Company's financial position and its capital allocation priorities. The members of the Group's pension schemes, comprising a large number of present and former employees, was seen as a key stakeholder group in respect of this decision. The Company is committed to meeting its funding obligations to its pension schemes. Whilst these are long term in nature, the directors noted that the main UK pension scheme was in surplus, and also that the Company would be making additional funding contributions as a consequence of the buyback.

The buyback decision was also only reached after the Board considered, and was satisfied, that it could continue to invest for the long-term success of the Company through research and development funding and other organic investment opportunities. Such funding underpins our ability to meet present and future customer requirements and drive future growth for the benefit of all stakeholders. The Board also considered its ability to invest in future value-enhancing acquisitions, should that be in line with strategy, and was satisfied that its ability to do so would not be unduly impacted by the buyback decision. Having considered these matters and the strength of the balance sheet and business plan, a further buyback programme of up to £1.5bn was approved and announced in August 2023.

Ball Aerospace acquisition

As part of the Board's annual strategic review process, Ball Aerospace had been identified as a business that, if the opportunity arose, would add scale to our US space ambitions and complement our Electronic Systems business. Ball Aerospace is a leading provider of mission-critical space systems and defence technologies, attractively positioned and with an outlook across military and civil space, C4ISR, and missile and munitions markets. The work undertaken over a number of years to identify Ball Aerospace as a potential acquisition target came to fruition last year and, following a detailed review, the Board approved a proposal for its acquisition by our US business.

The Company was successful in its bid to acquire Ball Aerospace for approximately $5.5bn. In approving the proposed acquisition, the Board believed that investing in this high-quality, fast-growing and technology-focused asset would help promote the long-term success of the Company.

Consideration of the acquisition within the context of our capital allocation policy was an important part of the Board's deliberations. The Group's capital allocation policy can be found on page 17. In reaching the decision to acquire Ball Aerospace the Board carefully considered its duties under s.172 of the Companies Act, particularly with regards to long-term capital allocation. That policy has the objective of maintaining the Group's investment grade credit rating and ensuring operational flexibility whilst: meeting its pensions obligations; investing in the business; paying dividends; making accelerated returns to shareholders, when the balance sheet allows; and making value-enhancing acquisitions. The Board made the decision to acquire Ball Aerospace after considering these priorities and the interests of relevant stakeholders.

The work of the Board continued

Next-generation nuclear-powered attack submarine programme

In February last year, the Board considered and agreed the proposed basis under which the Group would enter into a contract with the Ministry of Defence for the next phase of the UK's next-generation nuclear-powered attack submarine, known as SSN-AUKUS. The ambition is for the UK and Australia to both build submarines to this new design, with the construction of the UK's boats taking place principally at the Group's site in Barrow-in-Furness, Cumbria.

The £3.95bn award for the next phase of the UK's next-generation attack submarine programme will cover the development work up to 2028 and enable the Group to progress into the detailed design phase of the programme. In making the decision on the Group's long-term role on this major programme, the Board was very much aware of a range of stakeholders that will benefit from it, particularly suppliers, employees and the local community in Barrow-in-Furness, Cumbria.

The long-term funding secured by the award has enabled the Group to begin the procurement of long-lead items, placing contracts through our supply chain that will mitigate programme risk and widen the economic benefit for these suppliers and the communities they serve.

The Group's employees will benefit from the investment in the SSN-AUKUS and the Group's other submarine programmes. Workforce planning and skills development was an important part of the Board's considerations in approving the Group's participation in the SSN-AUKUS programme. In order to meet our customer commitments, it recognised that we will have to grow the workforce and ensure that we have the range of skills required to deliver this major new programme. We currently have a workforce of over 12,000 in Barrow-in-Furness, Cumbria with plans to recruit an additional 2,700 people. Investment in early careers development is critical for the Submarines business and we plan to recruit and train around 900 apprentices a year to support the long-term success of the business.

Investment in recruiting and training a large skilled workforce benefits the local community. For example, last year we announced the acquisition of former retail properties in Barrow-in-Furness town centre that, working with the local authorities, we will refurbish and convert into modern multi-use units to support our future growth plans. This, together with a number of other local investments, will bring economic advantages to the local area in addition to the Group's long-term commitment to providing high-quality employment opportunities in the town.

Global Code of Conduct

The s.172 duty includes having regard to maintaining a reputation for high standards of business conduct. Our Code of Conduct sets the expected standards of business conduct across the Group. It is a critical part of our ethics and governance framework, and the foundation of our ethical corporate culture. As part of our Operational Framework, it guides what we do and how we do it.

During 2023, the Board undertook its triennial review of the Code of Conduct, aimed at ensuring that it remains up-to-date and aligned with best practice. Everyone in the Group, including the Board, is required to behave in accordance with the standards set by the Code of Conduct when dealing with colleagues, business partners, customers, suppliers, contractors, competitors and other stakeholders. The revised Code of Conduct, approved by the Board and effective from the beginning of 2024, provides additional emphasis on speaking up and reporting concerns. It highlights the need to speak up if something does not feel right and how to do so, whether that is in person to one of our Ethics Monitors, online, by phone or by email.

The Board maintains oversight of the requirement of the Code of Conduct, principally through an annual review of business conduct. Such a review was undertaken in 2023 and this included an analysis of matters raised by employees and how these had been dealt with. The Board also considered the processes in place to further investigate matters raised by employees.

Customers

The Board receives regular updates on customer relationships from the Chief Executive, who meets regularly with our principal customers. During the year, the Board also met with a senior customer official to gain a first-hand understanding of defence procurement priorities and capability requirements, and also the Group's performance as a major supplier to the UK's armed forces.

In the US, customer relationships are managed by the President and Chief Executive Officer of our US business. To the extent allowed by national security considerations, he provides feedback to the Board on BAE Systems, Inc.'s customers.

Given the elevated global threat environment that we saw throughout 2023, one of the key messages that the Board received from many of our national customers last year was the

Warton
In September, the Board visited the Air sector's manufacturing and assembly facilities in Warton. As well as operating existing programmes from the site, such as Typhoon and Hawk, it is the base for the development of the Group's UK future flying combat air demonstrator.

Glasgow
In March, the Board visited our Naval Ships business in Govan and Glasgow, Scotland where construction is underway on the first four City Class Type 26 frigates. In total, eight Type 26 frigates will be constructed in Govan and Scotstoun, with work recently commencing on a new ship build hall at the Govan shipyard to enhance the shipbuilding facilities in Glasgow.

need for the defence industry to respond to increased operational requirements, and to actively engage in how we can help replenish and equip our armed forces customers to meet their urgent needs. In response to customer requirements, we saw increased activity across the Group; one example of which was the significant increase in investment in our UK munitions business and orders received for additional battlefield munitions.

Employees

The principal means by which all members of the Board engage directly with employees is through visits to our sites. During 2023, the Board visited our Naval Ships business in Glasgow and the Air business in Warton, Lancashire.

In Glasgow, directors met with employees and also engaged with local trade union officials. A key part of the visit was an opportunity to meet with different employee groups and engage with them on a range of topics. These included the use of an Employee Resource Group (ERG) to explore different workplace issues, ethical business conduct, health and safety, sustainability within the workplace, supporting early careers and adapting to new technology. Workplace health and safety, and how we can continue to drive improvements in this area was an important part of the Board's learning from the visit. One example of which was developing a better understanding of the role trade unions can play in engaging with employees and reinforcing key safety messaging, such as the use of personal protective equipment.

During the Warton visit, employee engagement with a cross-section of the local workforce took the form of six groups of 12 employees engaging directly with Directors on a variety of topics they wished to raise and discuss. These included issues such as workplace conditions, career opportunities and organisational change.

During the year, individual non-executive directors also visited our businesses elsewhere in the UK and in the US, the Kingdom of Saudi Arabia and Australia.

More information on employee engagement can be found in the ESG Committee report on pages 102 to 104.

Stakeholder engagement

The Company engages with a variety of stakeholders on a regular basis. Feedback is received at a number of different levels and helps inform numerous decisions made on a delegated basis across the Company – but within a well-developed governance structure approved by the Board. Stakeholder feedback is also received by the directors, either directly via executive management or through formal reporting processes. In addition to that shown below, further information on stakeholders and how we engaged in 2023 can be found in the 'Our stakeholders' section of this report (see pages 24–25). Also, further details of the matters covered by the s.172 duty, including environment and climate, workplace environment and community investment can be found in the Sustainability section of the report on pages 46 to 66.

Suppliers

The directors receive information on particular supply chain matters through our regular Board reports. In addition, the Chief Procurement Officer attended a Board meeting last year and provided an update on supply chain matters. The Board was particularly interested in how the Group was managing the post-pandemic supply chain challenges and the actions being taken to increase the level of supply chain resilience. In this respect, the Board was informed about the work initiated to improve sub-tier supplier visibility and help manage potential risks below the Group's direct suppliers. We recognise the vital role that our suppliers play in allowing us to deliver our programmes in line with our commitments to customers. Consequently we work closely with key suppliers and take steps as may be necessary to maintain continuity of supply.

Environment

The Board had regard to environmental considerations during 2023 in a number of different contexts. Elsewhere in this report you will read about our sustainability agenda and how this has a focus on climate risk, what we need to do to address these risks in our own operations and how we can work with stakeholders in our supplier and customer base to address this issue. The Board and its ESG Committee are a key part of the governance and oversight of environment and climate change matters, and these activities are regularly reported and discussed in Board meetings.

Sustainability, and the adoption of new and alternative technologies aimed at reducing environmental impacts, formed part of the Board's strategy review in 2023. The review highlighted opportunities to evolve low-carbon products and develop decarbonisation technologies to meet future defence and civil customer needs. In our US business, the Board continues to see opportunities to leverage our power management and flight controls expertise and broaden our range of electrification offerings, one example of which is our collaboration with Heart Aerospace to define the battery system for its ES-30 regional electric aircraft.

Nominations Committee report

Cressida Hogg
Chair

Membership from 1 January 2024:

Nick Anderson
Crystal E Ashby
Angus Cockburn
Dame Elizabeth Corley
Jane Griffiths
Ewan Kirk
Stephen Pearce
Nicole Piasecki
Lord Sedwill

Dear Shareholders

I am pleased to present my first Nominations Committee report as Chair. As with many companies, all the non-executive Directors are members of the Committee. Therefore, its membership reflects changes to the Board, with Sir Roger Carr and Chris Grigg ceasing to be members during the year and Angus Cockburn joining on his appointment to the Board in November 2023.

Executive succession

The Board and Nominations Committee have a crucial role in planning effectively for senior management succession. I understand why this is an area of focus for many shareholders, and is frequently raised during shareholder meetings. We currently have an excellent leadership team in Charles, Brad and Tom and we are focused on keeping them supported and motivated. However, all companies must have resilience and be able to maintain momentum through management change. The Nominations Committee has been working on our plans throughout 2023, focusing on identifying talent and potential internally and externally.

The heads of our Air and Digital Intelligence businesses retired at the end of 2023. This provided an opportunity to promote some of our most talented managers, and the Nominations Committee was pleased to endorse the appointments of Simon Barnes to lead our Air sector, and Andrea Thompson to head Digital Intelligence. Both have been part of the senior executive development and succession programme for several years.

During 2023 the Committee reviewed the detailed succession plans for the three Executive Directors, and looked at them in the context of wider succession planning across the Group. The plans for these individuals continue to develop and mature, and further work is planned for 2024. The Committee also has to consider nationality requirements in succession planning. National security considerations place certain restrictions on the pool of talent available when considering candidates for certain leadership roles. In particular, the Chief Executive must be a UK national, and the role of President and CEO of BAE Systems Inc. can only be undertaken by a US resident citizen.

To attract and retain talented individuals in leadership roles, the Committee is also very aware that our remuneration needs to be competitive within the wider market context. We are grateful that, to date, shareholders have supported the Board's recommendations on our remuneration policy. Competitive reward and retention will continue to be critical issues for both the Nominations and Remuneration Committees, and ones that underpin the effectiveness of our succession plans.

In addition to the Executive Director succession reviews, during last year we also reviewed executive succession planning processes across the group, recognising the vital importance of this activity in delivering effective long-term Board succession planning. This review showed how we are increasing the resilience of our businesses by positively managing our talent resource. Our talent pipeline is being strengthened, with greater focus on clear succession routes for key executives below the level of the Executive Committee, and more executives being identified and developed for specific roles. We also increased investment in the recognition and retention of high-potential individuals and this more focused approach is achieving results. The Committee is pleased to see that the diversity of our talent pipeline has improved, with 42% of the individuals identified as being up to two jobs away from an Executive Committee role being women, an increase of 9% compared with 2022.

Non-executive succession

As I have already mentioned in my Letter to Shareholders, this has been a year of Board evolution with the retirement of both the Chair and our Senior Independent Director during the course of the year. Following Chris Grigg's retirement, I am pleased that Nicole Piasecki has taken on the role of SID in addition to Remuneration Committee chair.

The Committee has continued to plan for continuity of knowledge and depth of experience as the Board evolves. Angus Cockburn joined the Board and Audit Committee at the end of 2023. Angus is an experienced business leader who will be known to many shareholders from his time as CFO at Aggreko and Serco. He brings deep boardroom experience as both an executive and a non-executive and Chair. Since joining the Board at the beginning of November he has been engaged with learning more about the Company, and an overview of his induction programme is shown below.

When initiating the search that led to Angus Cockburn's appointment, the Committee considered and specified the attributes required in the ideal candidate. The Committee generally uses external search consultants to assist in its appointment activity and engaged the services of Russell Reynolds Associates[1] to lead the search.

When making Board appointments, the Committee also has to consider nationality. As mentioned, there are specific nationality requirements for certain executive roles. In addition, the Special Share provisions in the Company's Articles of Association require that a majority of the members of the Board must be British nationals, and that also applies to the membership of Board Committees.

These nationality requirements must be factored into the Committee's long-term plans for managing Board composition. It also has to be considered when we are looking at Board Committee membership.

Cressida Hogg
Chair of the Nominations Committee

Board evaluation 2023/24

Process

The evaluation was an externally facilitated self-evaluation by an external provider, No 4, who conducted thorough one-on-one interviews with the Board and key individuals. The 2023/2024 evaluation process guided a more strategic review of the Board, and its operation to consider how the Board might make improvements to an already well-functioning Board and also how to be the most effective Board it can be for BAE Systems over the next three to five years.

The evaluation was conducted according to the guidance in the Code. Jan Hall and No 4 have no connection to, or relationship with, the Company or any director.

The process started with briefing meetings where Jan Hall of No 4 met the Chair, Chief Executive, Senior Independent Director and Group Finance Director. These meetings helped her understand the Board, how it operates and the future priorities for BAE Systems, as well as to agree the evaluation's objectives, scope and timetable. No 4 then prepared a discussion guideline which formed the basis of her one-on-one meetings, and this was sent to the individuals who participated in the Board evaluation ahead of her meetings with them.

During January 2024, Jan Hall conducted confidential and detailed interviews with the Board, selected executives, the Company Secretary, BAE Systems' external auditor and independent remuneration adviser, to seek their views on the Board's effectiveness.

The report was shared with the Chair and Chief Executive and then the full Board. It was presented by No 4 and discussed in detail at a meeting of the Board in February 2024.

Content

The Board evaluation addressed the views of directors on matters including:

- organisation for the Board and Committees;
- the Board and Committee agendas and papers;
- strategy development and discussion;
- leadership of the Board and the Committees;
- dynamics and culture of the Board;
- relationships between non-executive directors and management;
- technology development and innovation;
- stakeholder engagement and communication; and
- succession planning and composition of the Board.

Areas for future focus

The Board has agreed to take certain actions based on the outcomes from the evaluation. These deal with the following:

- optimising the scheduling of formal and informal Board time;
- giving more time to discussing senior executive development and succession planning;
- including sessions in strategy discussions on longer term strategic options;
- greater insight into how new technologies are likely to impact the future development of the business; and
- reviewing the Board composition for the longer term.

Conclusions of the evaluation

The overall conclusion of this Board evaluation is that the BAE Systems Board has been operating effectively.

The Board is hugely supportive of the Chief Executive and his team, and recognises the excellent leadership and enormous commitment they bring.

The areas for future focus will serve to further strengthen the Board and ensure it remains effective.

1. Russell Reynolds Associates provide other services to the Company but have no connection to any of its directors.

Nominations Committee report continued

The Nominations Committee's year

February – Committee; May – Committee; June – Committee; July – Committee; September – Committee; November – Committee

February
Committee (London, UK)
- Reviewed Board composition and the membership of its Committees.
- Discussed non-executive director succession planning.
- Reviewed annual performance evaluation.

May
Committee (Farnborough, UK)
- Discussed the role specification for non-executive director search.

June
Committee (Washington DC, US)
- Discussed candidate short-list for non-executive director search.

July
Committee (London, UK)
- Discussed ongoing non-executive committee appointment.

September
Committee (Warton, UK)
- Reviewed succession plans for executive directors.
- Discussed nomination of candidate for appointment as non-executive director.

November
Committee (Horsham, UK)
- Reviewed succession plans for executive directors.
- Reviewed non-executive director's term of appointment.
- Discussed appointment of Senior Independent Director.

Non-executive director induction

The following provides an overview of the induction programme for Angus Cockburn, who was appointed a member of the Board in November 2023.

Business sector overview

Visits completed to date

Maritime and Land
Submarines, Barrow-in-Furness, UK

Maritime and Land
Naval Ships, Glasgow, UK

Visits planned for 2024

BAE Systems, Inc.
Head office, Washington DC, US

BAE Systems, Inc.
Electronic Systems, Nashua NH, US

Air
Warton/Samlesbury, Lancashire, UK

Digital Intelligence
Guildford, Surrey, UK

Executive briefings covering:
- Financial control and reporting
- Legal and regulatory compliance
- Directors' duties and listed company regulation
- ESG and sustainability
- Investor relations
- HR and reward
- Technology management
- Health and safety
- Treasury and corporate finance
- Pension
- Strategic development and business planning
- Employee engagement
- Internal audit
- IT and information security
- Corporate communications
- Community investment

Audit Committee report

Stephen Pearce
Chair

Membership from 1 January 2024:

Angus Cockburn
Dame Elizabeth Corley
Jane Griffiths

Dear Shareholders

This report is intended to provide you with an insight into the activities and key areas we considered for the year-ended December 2023. On page 101 there is an overview of the areas we have reviewed and discussed during the year. As part of this report, I will give a summary of some of our discussions.

The Committee, on behalf of the Board, monitors the Group's internal control environment and the integrity of financial reporting. Additionally, we challenge the management team and the internal and external auditors on a number of areas, including key accounting judgements and control matters. The Committee's Terms of Reference are available on the Company's website.

Committee composition

Our biographies on pages 82 to 83 provide a summary of our skills and our experience, which highlights that all Committee members have the necessary skills, and financial literacy, in order to effectively discharge our duties as an Audit Committee.

During the year, Angus Cockburn joined the Committee and Chris Grigg retired as a non-executive director and member of the Audit Committee on 31 December 2023. I would like to express my thanks to Chris for his contribution to our discussions and welcome Angus. In addition, from 1 January 2024, Dr Jane Griffiths, Chair of the Environmental, Social and Governance Committee, has joined the Audit Committee.

Meeting overview

After four of our meetings, we met privately (without management) with the External Auditors and the Internal Audit Director. Our meetings were also attended by the Board Chair, the Chief Executive, the Chief Financial Officer, the Group General Counsel, the Internal Audit Director, the Group Financial Controller, and the Senior Audit Partners from Deloitte LLP. During the year, I regularly met with the Audit Partners to discuss key issues.

From time-to-time and depending on the matters to be discussed, other senior executives are invited to attend our meetings in order to provide subject matter expertise and further insight.

After each Committee meeting, I report to the Board on the Committee's activities, the key matters discussed and any recommendations from the Committee. In 2023, we met six times during the year and had five formal meetings.

Climate-related financial reporting

To stay abreast of developments, we regularly receive updates from the management team on developments in reporting regulations, including global initiatives and climate-related reporting regulations, in relevant jurisdictions, that could impact the Group.

The Committee is responsible for the oversight of the internal and external assurance processes in regard to ESG data, including the sustainability-related disclosures that are linked to the financial statements, which includes the Task Force on Climate-related Financial Disclosures (TCFD). During our joint Audit and ESG Committee meeting earlier in the year, we reviewed the requirements and the robustness of the assurance processes surrounding the provision of the data underpinning the TCFD disclosures.

We consider the impact of climate-related transition activities and physical risks on financial reporting. We have judged there to be no material impact on the Group's Consolidated financial statements for the year ended 31 December 2023 and we will continue to closely review this position.

External audit

Following a tender process, Deloitte LLP was appointed as the Group's external auditor at the 2018 Annual General Meeting and has completed the first year of its second five-year cycle. Claire Faulkner succeeded John Adam as Senior Audit Partner in 2023.

The Committee monitors engagements with external stakeholders relevant to the Committee's areas of oversight, including the Financial Reporting Council (FRC). During the year, the FRC's Audit Quality Review (AQR) team reviewed Deloitte's audit of the Group's 2022 financial statements as part of its annual inspection of audit firms. The Committee received and reviewed the final report from the AQR team which identified no key findings or other findings and noted several areas of good practice.

During the year, the Committee reviewed and agreed the scope of the external audit plan in respect of the auditors' review of the half-year accounts, and of their audit of the full-year accounts, taking into consideration key audit risks and other particular areas of focus for the Group. We also reviewed and approved the fees for this work and the audit engagement letters.

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014

The Company has complied with the Statutory Audit Services Order issued by the UK Competition and Markets Authority for the financial year ended 31 December 2023.

Audit Committee report continued

Assessing the effectiveness of External Audit

Who we surveyed to inform our assessment on the effectiveness of the Group's External Auditor

Senior Finance Executives | Internal Audit Director

What we surveyed

Partners & Audit Teams | Planning Scope & Execution | Communication & Reporting | Challenge & Insight

Outcome

The Committee noted that the output of the review was broadly positive and consistent with prior years. Participants felt that the external auditor provided robust and constructive challenge and overall delivered an effective audit.

On the basis of the review following the 2023 year-end audit, the Committee has proposed to the Board that it recommends that shareholders support the re-appointment of Deloitte LLP at the 2024 AGM.

Auditor independence

We oversee the relationship with the external auditor and regularly assess their effectiveness, in order to ensure that they retain their independence and objectivity.

As part of this process, we formerly consider when it would be appropriate to complete a competitive tender process for the external audit. We do so in line with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, concerning the frequency and governance of tenders for the appointment of the external auditor.

During the year, the Committee concluded that Deloitte remained effective in its role as external auditor. In view of this, and having considered the continued objectivity, independence and effectiveness of the auditors, the Committee considers it to be in the best interests of the Company's shareholders for Deloitte LLP to remain as external auditors for the upcoming financial year. The scope and output of our annual review of the external auditor's independence and effectiveness is discussed below.

We will continue to review the effectiveness and independence of Deloitte LLP as external auditor and will ensure that an audit tender is conducted no later than the 2028 financial year.

Non-audit services policy

We maintain a policy on non-audit services which is aligned to the FRC's 2019 Revised Ethical Standard of Permitted Audit-Related and Non-Audit Services. The policy prohibits certain activities from being undertaken by the auditor and places restrictions on the employment of former employees of the auditor.

The policy permits the provision of Audit-Related Services and Permitted Non-Audit Services up to limits that are pre-approved by the Committee, with specific Committee approval required beyond such limits. As such, these matters were approved by the Committee and were compatible with the general standard of independence for auditors. Prior to approving any non-audit work, the Committee considered the nature of the services, and concluded that the provision of these services did not impair the independence of the external auditor. Further information about the audit and non-audit fees for 2023 is disclosed in note 3 to the Consolidated financial statements on page 165.

Internal audit

The Group's Internal Audit function is independent and has no responsibility for operational business management. Through its assurance activities, it is able to independently review the effectiveness of internal control systems and processes.

Committee meetings are attended by the Internal Audit Director and the VP Internal Audit, Inc. The Internal Audit Director provides regular reports to the Committee on the assessment of the Group's risk management activities, internal controls and corporate governance framework.

The scope and authority of the Internal Audit function is defined within its charter and we review and approve the Internal Audit plan and any changes to its programme. We received updates on the execution of the Internal Audit Plan, relevant findings and enhancement opportunities and remediation plans.

During the year, the Internal Audit Director announced his intention to retire and the Committee oversaw the identification and appointment of a successor. Prior to their appointment, we reviewed the suitability of the individual, examining their skills, qualifications and ability to undertake the post and continue the delivery of robust assurance activities and focus on quality by the Internal Audit function.

Effectiveness of the Internal Audit function

In 2023, in accordance with the International Standards for the Professional Practice of Internal Auditing, an External Quality Assessment of the Internal Audit function was conducted by Ernst & Young.

The results showed that the Internal Audit function was well established and well respected across the Group. We were pleased to learn that the remit, role, mandate, and independence and objectivity were understood by stakeholders. The function was found to be 'Proficient' across all components of the EY Internal Audit maturity model (Purpose, People and Process), which demonstrated an overall increase in the function's maturity and establishment, since the previous assessment five years ago. The assessment also provided some useful suggestions for further development. The implementation of these areas of development and overall effectiveness of the Internal Audit function will continue to be an area of focus for the Committee.

Risk management and internal controls

A key focus for the Committee in 2023 has been the oversight of the evolution and maturity of the Group's business risk management processes. During the year, we received updates on the progress of various risk and internal controls improvements, including undertaking a deep dive on internal controls and risk management. We also continued to review the IT control environment and enhancements recommended. The work undertaken sets a solid foundation for the recently announced changes, required by the UK Corporate Governance Code 2024, which will apply from 1 January 2026.

The Group's Risk Management and Internal Control Framework are designed to manage, rather than eliminate, the risk of failure to achieve its strategic objectives. It can only therefore provide reasonable and not absolute assurance against material misstatement or loss.

We discussed, in detail, the evolution of the business risk management process. In particular, we were pleased with the work to further develop improved business risk management processes. An overview of the Group's risk management systems and principal risks are provided on pages 67 to 77 of this Annual Report.

As part of our responsibilities, we review the Group's risk management and Internal Control Framework, including overseeing the effectiveness of the operation of the relevant policies, standards and procedures in operation. The six-monthly OAS process, coupled with the risk register, provides the basis for our review of the effectiveness of internal controls and risk management.

The OAS returns comprise submissions by each business or function. The amalgamated output highlights trends and provides the context which supports the identification and monitoring of risks. Following reviews by the Executive Committee and the Group Audit Review Board, an assessment is made on the probability of the risks arising and potential impact to the Group's five-year IBP. The most significant of these, as measured through potential impact and probability, are the Group's principal risks as set out on pages 70 to 77.

In considering the effectiveness of internal controls and risk landscape, the Committee received updates from the Group General Counsel, Group Financial Controller, Group Treasurer, Group Tax Director, Internal Audit Director and the External Auditor, on material developments within the legal, regulatory and financial context of the Group. These internal control and risk management processes are part of the Group's governance framework (page 86).

As a whole this governance framework underpins our financial and narrative reporting processes and seeks to provide reasonable assurance that the Annual Report and financial statements are prepared in accordance with applicable standards.

Financial statements and narrative reporting

As in previous years, the Committee reviewed all significant issues concerning the financial statements which include the going concern and viability statements. In considering the Group's Annual Report, the Committee assessed whether the report was fair, balanced and understandable and also whether it provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

In order to make this determination, we received updates on the internal verification processes which had taken place, and used that to assist our assessment of the disclosures made within the Annual Report. We also received early sight of the draft Annual Report and Accounts, in advance of final review and sign-off by the Board, allowing us the opportunity to consider the Annual Report as a whole.

After careful review and consideration of all relevant information, the Committee was satisfied that, taken as a whole, the 2023 Annual Report and Accounts are considered to be fair, balanced and understandable and we therefore affirmed this view to the Board.

The Committee also agreed the parameters of, and subsequently reviewed the reports which supported the going concern statement (see page 79) and the statement on the Board's assessment of the prospects of the Group (see the viability statement on page 78).

The assessment of the going concern and the directors' viability statement is underpinned by assessments of reasonably plausible, but severe, downside scenarios related to the Group's principal risks and assessed the impact on the future cash flows, profitability, financial covenants, solvency and liquidity of the Group. As part of this process, we also considered the period covered by the viability statement and we continue to be of the view that a five-year period remains the most appropriate timespan for the Group, given the business planning cycle and the long-term nature of a number of the Group's programmes.

Overview of the process to ensure that the Group's Annual Report, taken as a whole, is fair, balanced and understandable and provides information necessary for shareholders to assess the Group's position and performance, business model and strategy

1. Fulsome guidance issued to all the contributors at operational level
2. A verification process dealing with the factual content of the reports
3. Thorough reviews undertaken at different levels in the Group that aim to ensure consistency and overall balance
4. A comprehensive review by the directors and the Executive Committee

Audit Committee report continued

The principal areas of judgement considered concerning the 2023 financial statements were as set out below.

Margin recognition

The estimation of contract margin and the level of revenue and profit to recognise in a single accounting period requires the exercise of management judgement. The Committee reviewed key estimates and judgements applied in determining the financial status of the more significant programmes.

Pensions

Accounting for pensions and other post-employment benefits involves making estimates when measuring the Group's retirement benefit obligations. These estimates require assumptions to be made about uncertain events, such as discount rates, inflation rates and longevity. As at 31 December 2023, a number of the Group pension schemes remain in an accounting surplus. The Group has recognised the surpluses on the basis that the future economic benefits are unconditionally available to the Group. These have been recognised after deducting a 35% withholding tax, which would be levied prior to the future refunding of any surplus and have been presented on a net basis as this is not deemed to be an income tax of the Group. We have reviewed this presentation and concluded this estimate is appropriate based on the Group's ability to access its defined benefit surpluses.

We reviewed the methodology used to allocate a proportion of the net post-employment benefit surpluses to equity accounted investments and concluded that this continues to be appropriate with reference to agreement between the Company and the retirement benefit schemes. We also considered the disclosures in respect of the sensitivity of the surplus to changes in these key assumptions (see note 24 to the Consolidated financial statements on pages 191 to 202).

Taxation

Computation of the Group's tax expense and liability, the provisioning for potential tax liabilities and the level of deferred tax asset recognition are underpinned by management judgement and estimation of the amounts that could be payable.

We noted that the UK Government has now enacted legislation to embed Pillar 2 within UK tax law. While the legislation became effective from 1 January 2024, we reviewed the disclosure requirements ahead of this date to make an initial assessment of the expected impact of the new legislation on the Group going forward. Although the Group continues to work through the impact of the legislation, we believe the disclosures are appropriate given the complexity of the legislation. Management will continue to work through the impact of the legislation so as to comply with the requirements for 2024.

Tax policy ultimately remains a matter for the Board's determination, we reviewed the Group's tax strategy. Twice during the year, we reviewed the Group's tax expense and tax provisions, and discussed these with the Group Tax Director.

Acquisition of Ball Aerospace

On 17 August 2023, the Group announced its intention to acquire 100% of the share capital of the Ball Aerospace division for consideration of $5.5bn (£4.4bn), The acquisition completed on 16 February 2024.

Given the limited time since the acquisition date and the size and complexity of the transaction, the Group is working through the accounting under IFRS 3 Business Combinations and is unable to reasonably estimate and determine the fair value of net assets acquired and resulting goodwill at the date of this report. The Group will work through the fair value exercise under IFRS 3 and the Committee will review the provisional disclosures that will be reported in the Group's 2024 half-year results.

Stephen Pearce
Chair of the Audit Committee

The Audit Committee's year

February					June	July				November	December
	Committee				Committee	Committee				Meeting Committee	Committee

February

Committee (London, UK)

- Reviewed the financial statements and specific disclosures, including viability and going concern, for recommendation to the Board.
- Received a presentation from the Group Financial Controller and Group Treasurer in respect of work supporting the viability and going concern statements.
- Considered the accounting, financial control and audit issues reported by the external auditor that flowed from the audit work.
- Reviewed the effectiveness of the external audit process.
- Received a report from the Group Tax Director.
- Reviewed external auditor independence and nature and value of non-audit services.

Joint session with the Environmental, Social and Governance Committee:

- Considered output from the six-monthly OAS review.
- Reviewed the procedures and outputs for the identification, assessment and reporting of risk.
- Agreed final iteration of the 2023 Internal Audit programme.
- Reviewed ESG assurance map.
- Received an update on limited assurance work undertaken by Deloitte on various ESG matters.
- Considered development of ESG-related disclosures, including climate change and TCFD reporting requirements.

June

Committee (Washington DC, US)

- Agreed the 2023 external audit plan and scope.
- Reviewed external auditor independence.
- Agreed external audit engagement letter and fee.
- Considered any emerging accounting issues prior to the half year.
- Received a presentation from VP, Internal Audit, for the US businesses.
- Reviewed the Non-Audit Services Policy.
- Reviewed the nature and value of non-audit services.
- Agreed external audit partner successors for the US and UK/RoW businesses.

July

Committee (Videoconference)

- Reviewed the financial statements and specific disclosures, including going concern, for recommendation to the Board.
- Received a presentation from the Group Financial Controller and Group Treasurer in respect of work supporting the going concern statement, together with an update on viability.
- Considered the accounting, financial control and audit issues reported by the external auditor that flowed from the half-year review work.
- Received a report from the Group Tax Director.
- Considered output from the six-monthly OAS review.
- Reviewed the procedures and outputs for the identification, assessment and reporting of risk.
- Reviewed external auditor independence and the nature and value of non-audit services.
- Discussed the outcome of the External Quality Assessment of the Internal Audit department.

November

Meeting (London, UK)

- Informal meeting with the Internal Audit Director and external auditor.

Committee (Sussex, UK)

- Undertook a deep dive on the proposed changes to the UK Corporate Governance Code and the implications of the UK Economic Crime and Corporate Transparency Act 2023.
- Received an update on the finance modernisation programme from the Chief Financial Officer.

December

Committee (Videoconference)

- Considered any emerging accounting issues prior to the year end.
- Considered the external auditor's controls report.
- Considered output of the Internal Audit Director's report.
- Received a report on export control compliance from the Chief Counsel Export Control and Compliance.
- Reviewed the risk radar.
- Set the parameters for work supporting the viability and going concern statements.
- Received technical accounting and reporting updates.
- Discussed the first iteration of the 2024 Internal Audit programme.
- Reviewed the Internal Audit Charter.
- Reviewed external auditor independence and the nature and value of non-audit services.

The Committee holds a quarterly session with the Internal Audit Director and external auditor without management present. The Audit Committee Chair also meets with the Chief Financial Officer, the Internal Audit Director and the external auditor on an ad hoc basis.

Environmental, Social and Governance Committee report

Jane Griffiths
Chair

Membership from 1 January 2024:

Nick Anderson
Crystal E Ashby
Stephen Pearce
Lord Sedwill

Dear Shareholders

This summary provides you an overview of the discussions of the Environmental, Social and Governance Committee during 2023. Page 104 below gives an outline of our key areas of focus and the timeline of activities. Our Terms of Reference can be found on the Company's website and provides further details of the Committee's responsibilities.

At each meeting, we received progress updates from Executive Committee members and senior leadership, against delivery of the Group's ESG programme and various initiatives. During the year, we met four times and, after each Committee meeting, I reported to the Board on the Committee's activities, the key matters discussed and any recommendations from the Committee.

Committee composition

Our biographies, on pages 82 to 83, provide a summary of the Committee member skills and our experience which highlights that our collective skills enable us to properly oversee the Company's progress on ESG matters.

Environment and climate transition

Environmental factors, including those related to climate change, are one of the Group's principal risks. The Group's decarbonisation ambitions, with regard to net zero GHG emissions (Scopes 1 and 2) by 2030, are embedded within the strategic framework and climate transition matters are considered as part of the IBP. As such, climate transition and climate resilience remained important areas of discussion during our meetings this year.

We received updates from the Climate Resilience & Environment Director, on the impact of climate change on the Group's activities, transition risks and opportunities and also considered areas such as material scarcity and supplier vulnerability. The impact of the Group's activities on the climate, nature and biodiversity were also examined by the Committee. Further detail on the Group's decarbonisation strategy can be found on pages 48 to 50. We were pleased to hear of the various decarbonisation activities underway, such as:

- investment in power purchase agreements;
- site consolidation and building energy efficiency initiatives; and
- the development of decarbonisation products.

As approved by shareholders at the 2023 AGM, the long-term incentive plan features an ESG objective. In 2023, the ESG metric had a 10% weighting and was based on the reduction of Group GHG emissions (Scope 1 and 2) aligned to a science-based pathway. In assessing performance against this objective, we noted that the Group had achieved a reduction of 11% in Scope 1 and 2 GHG emissions.

Workplace environment

The Committee received reports on the various workplace environment initiatives that had been undertaken across the Group, to create and maintain a positive and welcoming workforce environment. Safety, wellbeing and the approach to diversity, equity and inclusion (DEI) are integral to the Group's employer of choice approach.

Safety

The Committee was pleased to see the inclusion of safety as a principal risk. Employee and product safety have long been key areas of focus for the Group, the Board and this Committee. The inclusion of safety as a principal risk formalises that this remains a key area of focus, and provides consistency between the objectives and the risk that those objectives seek to mitigate.

Whilst we were pleased to note an overall improvement in the safety performance, with the reduction of the recordable injury rate by 12.6% compared to 2022, we noted that there had been an increase in the number of major injuries, by 25%.

At various points in the year, we heard from our Safety, Health and Wellbeing and DEI Director who provided updates as to the initiatives being taken to address the potential increase in the severity of injuries which occurred during the year. We learned that the following initiatives had been implemented, with a view to improving safety culture and awareness:

- engagement on safety continued with a Group-wide focus on safety culture, face-to-face training, leading indicators and visible leadership;
- additional training materials had been made to managers and individual contributors providing scenario-based learning and improvements made to new employee inductions;
- a Group-wide software platform, which would allow managers and individuals to review safety and input safety data, leading to improved identification of Serious Injury or Fatality (SIF) and sharing best practice; and
- a standardised approach to safety investigations had been articulated which required different injury types and potential SIFs, to be investigated at various levels, with major injuries being reviewed in detail by the UK and US CEOs.

Diversity, equity and inclusion

As part of every meeting, we review an ESG data dashboard, which includes key performance indicators for areas such as safety and DEI. At our meeting in February, we had a deep dive into the Group's progress in respect of its DEI ambitions. In particular, we were pleased to note the progress made through recruitment efforts; a fuller explanation of this progress can be found on page 56.

The Group has a wide range of ERGs that have seen an overall membership increase of 27.5% compared to 2022. We heard of the various campaigns which brought authenticity and personal perspectives on matters such as mental health, menopause and veteran workplace integration.

In 2023, the Group had a record early careers intake with the recruitment of 1,323 apprentices and 1,113 graduates and undergraduates in the UK. The Committee were pleased to learn that 31% of the apprentice intake were female, and this proportion surpassed the national average of 10% within engineering and manufacturing apprentice placements.

The work being done across the Group to become a preferred employer for service leavers, was an area of interest for us. A Global Veterans Network had been established during the year, with membership from the Australian, Canadian, Indian, Saudi Arabian, Swedish, UK and US businesses.

The Group's performance on DEI is a non-financial component of the annual incentive plan for senior executives. These objectives operate as a downward underpin to the incentive, reducing incentive payment if performance is not at the expected levels.

We set, measure and determine the level of performance achieved against all ESG objectives and make a recommendation to the Remuneration Committee.

The 2023 DEI objectives were:

- within UK/RoW: increasing gender diversity in mid-management employees and increasing the proportion of employees from minority ethnic backgrounds; and
- within BAE Systems, Inc.: increasing gender diversity in mid-management roles and increasing the proportion of employees from minority ethnic backgrounds, in each case compared to 2022.

Details of the objectives for the 2024 annual incentive plan may be found on page 114.

Communities

The communities in which we operate and the Group's impact are an area of focus for this Committee and the Board. During our meetings, we review the community impact and investments being made across the Group. At the end of the year, we reviewed the contributions and commitments which had been made in 2023. Overall, £4.8m had been invested in STEM education initiatives, £2.9m donated in support of armed forces charities, £1.3m provided to local community projects and £448k contributed to heritage projects.

Employee voice

In accordance with Provision 5 of the UK Corporate Governance Code (the Code), the Board maintains an effective mechanism to engage with the workforce. The Committee undertakes some employee engagement on behalf of the Board. This approach is regularly reviewed, to ensure its effectiveness, taking into account contemporary employee engagement practices.

As a Board, we discuss employee engagement matters and feed back important elements of conversations and observations from our interactions. Site visits provide useful insight into employee voice, as well as the considerations and concerns of the local communities in which we operate. Together with data and reports from senior management, our site visits, meetings and opportunities discussions with employees give us good perspective into the matters important to our employees and their communities.

Jane Griffiths
Chair of the Environmental, Social and Governance Committee

Summary of employee engagement undertaken by the Board and its Committees

Key

Board/committee/director
Date
Location
Themes and activity

Board
March
Site visit. Glasgow – Scotstoun and Govan
Discussions on culture, early careers, safety and gender diversity

ESG Committee Chair
April
Video calls with UK SHE and DEI team
Discussions on safety culture, new SHIELD system, safety performance and DEI initiatives

ESG Committee Chair
May
Video calls with Australia SHE team
Discussions on safety culture improvements and integration of safety within business teams

ESG Committee Chair
June
Site visit with Shared Services team

Board
June
Dinner with BAE Systems, Inc. Senior Leadership Team
Discussions on culture and key challenges

Board members
June
Chair's awards
Discussions on employee wellbeing and culture

Innovation and Technology Committee
July
Site visit to Rochester
Discussions on early careers, diversity and community

Board
September
Site visit to Warton
Discussions on innovation, culture, key skills and education

Information on further employee engagement undertaken by members of the Board can be found on pages 92 to 93.

Environmental, Social and Governance Committee report continued

The Environmental, Social and Governance Committee's year

February — Committee
June — Committee
September — Committee
December — Committee

February

Committee (London, UK)

- Received an update on the progress of the Group's net zero programme and reviewed some key developments in the Group's sustainable technologies.
- Discussed the application of the Group's Lobbying policies.
- Reviewed workplace safety and wellbeing.
- Discussed the progress being made in respect of DEI ambitions.
- Joint meeting with the Audit Committee to review TCFD requirements, non-financial risk register and agree the 2023 Internal Audit programme.

June

Committee (Washington DC, US)

- Performed a deep dive on the Group's safety performance to date.
- Received a briefing on the progress of the Group's diversity, DEI programmes.
- Discussed the progress of the Group's environment and climate transition – net zero programme.
- Reviewed the Group's approach to employee engagement on ESG matters.

September

Committee (Preston, UK)

- Performed a deep dive on various stakeholders perspectives of the Group's ESG performance.

December

Committee (Videoconference)

- Received an update on the Group's social value activities, particularly in respect of skills and education, communities and employee wellbeing.
- Reviewed the 2023 safety and DEI performance in respect of the outcomes of the annual incentive plan.
- Considered the initial proposed objectives and annual incentive targets for 2024 in respect of safety and DEI.

Innovation and Technology Committee report

Ewan Kirk
Chair

Membership from 1 January 2024:

Nick Anderson
Dame Elizabeth Corley
Nicole Piasecki

Dear Shareholders

I am pleased to present this report of the Innovation and Technology Committee and provide a summary of our activities during 2023. Our Terms of Reference can be found on the Company's website which gives further details of the Committee's responsibilities.

We met three times during the year and after each meeting I reported the key takeaways from our discussions and interactions with employees during our site visit to the Board. All of our discussions and our site visit were undertaken in accordance with national security requirements of the UK and other nations. In all of our conversations, we are particularly cognisant of and observe the requirements of BAE Systems, Inc.'s Special Security Agreement.

Technologies

As part of our standing meeting agenda, we review the Group's research and development activities and consider relevant emerging and current technologies.

During the Board strategy reviews, we hear from the Group Chief Technology and Information Officer (CTIO) and BAE Systems, Inc.'s Senior Vice President of Strategy & Corporate Development on the Group's landscape, customer priorities and the key technology drivers for the Group's global customers. As part of our Committee meetings, we review these technologies in more detail and develop a further understanding of the Group's ability to effectively respond to customer needs.

In the year we learned that, due to the evolving nature of conflicts, there is increasing demand for agile technologies with higher levels of resilience and interconnectivity between tactical and strategic assets, as well as command systems.

A brief summary of our discussions about these key technology focus areas is provided below.

Space

We reviewed the progress made in respect of Azalea™, the Group's low Earth orbit, multi-sensor satellite cluster. The 2024 acquisition of Ball Aerospace will enhance the Group's already existing capabilities to design, build and operate satellites and satellite systems.

Sustainability and electrification

Sustainability remains an area of focus for the Group and its customers who wish to meet national decarbonisation commitments. We heard about the ongoing work in regards to sustainable alternatives such as novel maritime heat to power solutions, hybrid power and propulsion, hydrogen and methanol fuel cells and aircraft electrification programmes.

Quantum technologies

We also discussed quantum sensing and the potential incorporation into our products, and specifically, within navigation and detection technologies. Quantum sensing has potential to provide more accurate and sensitive measurements when used for Position, Navigation and Timing, which reduces the need for GPS technologies. Developments in quantum sensing could also enable the detection of underwater and stealth vehicles. During the year, we learned of the work being undertaken by the UK business, working with key universities to understand the capability of these technologies and how they could be integrated and applied in our products.

Autonomy, uncrewed systems and Artificial Intelligence (AI)

As part of our Board strategy discussions, we noted the increased use of uncrewed and autonomous systems in various domains and the changing nature of warfare. The Group is working on its various programmes to develop autonomous and counter autonomous solutions.

As a Committee, we discussed the investments being made in AI and the ability to increase autonomy within design and manufacturing processes, as well as enhancing and creating new capability within platforms and services. We understand that any proposed application of AI in defence and security must be carefully considered and applied in line with regulatory and legal frameworks and we acknowledge ongoing work by our customers to establish appropriate principles and policies. The Board will continue to monitor developments in this and other technology areas.

Innovation and Technology Committee report continued

Multi-domain and digital integration

Multi-domain capabilities and digital integration continues to be an area of focus for the Group and therefore an area of discussion for this Committee. Integration across the air, sea, land, cyber and space domains was increasingly important for customers.

The CTIO and Technology Director provided us with updates on our own programme to develop multi-domain and integration autonomous solutions. We understood that these capabilities could be implemented within existing and developing products and services, as well as those of third parties, and deliver improved interoperability or augment product performance. We heard about the progress being made to improve network robustness and resilient connectivity, and the investments in developing high-fidelity synthetic environments that could be used for training and the preparation and planning of missions. Further information on our integration work can be found on page 20.

Innovation culture

From an innovation culture standpoint, we were pleased to learn that the activities and discussions required to deliver against our integration, autonomy and other programmes, led to increased collaboration with various teams across business units. A new cross-sector manufacturing technology strategy has been articulated. This is aligned to overall Group strategy and associated key technology drivers and will help create a better understanding of where we can collaborate and help deliver a more innovative culture.

We heard about the Company's grand technology challenges whereby business unit teams and university partners are funded and tasked with devising innovative approaches to technical challenges. Additionally, an entrepreneurial development programme sponsored by the CTIO team has been created. Various cohorts of product owners and engineers were brought together to collaborate and were encouraged to broaden their skillsets in an effort to augment innovation and develop entrepreneurial skills.

Ewan Kirk
Chair of the Innovation and Technology Committee

The Innovation and Technology Committee's year

March — Meeting
July — Meeting, Site visit
October — Meeting

March

Meeting (London, UK)

– Strategic context.
– Discussion on advanced programmes.
– Review of culture.
– Discussion on sustainability projects.

July

Dinner (London, UK)

– Dinner with key member of the Electronic Systems sector to better understand innovation culture, challenges and key areas of management focus.

Site visit (Rochester, UK)

– Strategic context, challenges and opportunities.
– Informal lunch with employees to understand and hear first-hand experiences.
– Product demonstrations and conversations with employees.

October

Meeting (Videoconference)

– Strategic context.
– Agreed key areas of focus for 2024.
– University partnerships.
– Review of Committee operations and key themes.

Remuneration Committee report

Nicole Piasecki
Chair

Membership from 1 January 2024:
Angus Cockburn
Dame Elizabeth Corley
Ewan Kirk

Contents

Remuneration Committee

We achieve our objectives with an executive remuneration programme that:

- offers competitive pay that allows us to retain and attract top talent;
- emphasises pay for performance that drives superior financial results and value creation;
- provides strong alignment with the interests of our shareholders;
- mitigates unnecessary and excessive risk-taking; and
- considers the needs of our entire workforce.

2023 – another year of strong performance

- Group underlying EPS up 14%
- Group order intake at record levels
- Total Shareholder Return of 144.8% over three years, one of the highest performers in the FTSE 100

Dear Shareholders

On behalf of the Board, I am pleased to present the Remuneration Committee's report for 2023, and to share our decisions in respect of the remuneration outcomes for 2023.

The Remuneration Committee remains responsible for the full spectrum of senior executive employment matters, including ensuring remuneration structures, measures and targets that reward performance and determine appropriate outcomes. This is considered in the context of how performance has been delivered, aligned with both company values and shareholder interests. The Company has been mindful of the needs of our entire workforce in last year's inflationary environment with regard to higher average salary increases. Lower-paid and mid-level employees in the UK and some other jurisdictions also received special lump sum payments in 2023, in addition to a performance-related bonus and annual award of shares.

This year, we have sought to make the remuneration report simpler and easier to read, by including a 'quick read' section on pages 110 to 114 summarising the remuneration policy for each component of pay, and detailing its application and outcome for 2023.

Achievements against each of the performance targets for 2023 are detailed on page 113, showing total remuneration for each executive director. A summary of the 2024 remuneration framework is included on page 114.

I hope that you will find these improvements useful to our annual remuneration reporting. A full copy of our Remuneration Policy can be found on the Company's website at www.baesystems.com/rempolicy.

Pay and performance in 2023

BAE Systems has delivered another year of strong performance.

In 2023, each of our business sectors delivered improved financial and operating results, supported by higher defence spending and highly relevant capabilities to meet the current threat environment. As a result, each of our key performance indicators have exceeded target, including Group underlying EPS up 14%, Group order intake of £37bn and Total Shareholder Return of 144.8% over three years, making BAE Systems one of the highest performers in the FTSE 100.

Within this context, and considering overall business performance, the Committee has determined the following outcomes for the annual and long-term incentive plans:

Annual incentive

For executive directors, 75% of their annual bonus opportunity is determined by financial performance, and 25% is determined by the achievement of key strategic objectives.

The financial performance targets are agreed by the Committee at the beginning of the year, in line with the Integrated Business Plan (IBP), with appropriate performance levels set at threshold, target and stretch. For 2023, the financial outcomes exceeded stretch, with most but not all of the key strategic objectives achieved (see page 123). The Committee determined annual bonus outcomes of around 98% of maximum for each of the executive directors for 2023. One-third of the bonus amounts are deferred into shares for a further three years, in accordance with our Remuneration Policy.

Our CEO pay is 84% performance-based, with 58% paid in shares, and a minimum shareholding requirement of 300% of salary.

Remuneration Committee report continued

Long-term incentive

Performance Share awards were granted to executive directors in 2021 with vesting subject to the achievement of stretching goals for relative total shareholder return (TSR), earnings per share (EPS) growth, cash flow and strategic progress metrics incorporating operational excellence (on time delivery of key projects), return on capital, and advances in technology.

For the three-year performance period ended 31 December 2023, TSR grew by 144.8%, with average annual EPS growth of 13.3% per annum and free cash flow of £6.2bn over the period, exceeding the stretch targets set in 2021. Not all of the strategic progress metrics were fully achieved (see page 124) and therefore the Committee determined vesting of the Performance Shares of 97.9% of maximum for the executive directors.

Before approving the outcomes, the Committee considered overall financial performance and whether there had been a windfall gain due to market volatility at around the time of grant in March 2021. The 2021 Performance Share awards were granted on 25 March 2021 at a share price of £4.999. Having considered the share price movements around the time of grant, and also having retrospectively reviewed share price performance since grant, the Committee was satisfied that the level of vesting and values for the 2021 Performance Shares is appropriate.

The Committee has discretion to reduce formulaic outcomes if appropriate. The Committee did not consider it necessary in respect of the 2023 pay outcomes. Accordingly, the Remuneration Policy as approved by shareholders in 2023, operated as intended throughout the year, in the context of company performance and overall pay outcomes.

Taking care of our people

High price inflation continued during the year, resulting in increased cost of living adjustments. Employees in the UK received an average 6% pay increase in 2023, and will receive pay increases in 2024 averaging 4.5% for executives and 5.2% for collectively-bargained (manual and professional) employees. In addition, UK collectively bargained and mid-level non-collectively bargained employees (representing around 88% of the total UK workforce) received a further £750 lump sum payment in August 2023, in addition to the £1,000 lump sum payment received in January 2023, to help with the higher cost of living.

The First Rate Credit Union, owned and run by current and retired employees of BAE Systems, also provided assistance to employees during 2023.

Additionally, UK employees are eligible to receive a performance-related bonus, plus an annual award of shares worth £629 for 2023, as well as company pension contributions, free matching shares through the all-employee Share Incentive Plan, life insurance, income protection insurance, and access to shopping discounts, and other health and wellbeing benefits through a flexible benefits platform, including a 24/7/365 employee assistance helpline.

In the US, average salary increased by 5% for 2023. For 2024, average salary increases of around 4% are expected, with additional off-cycle increases for critical talent.

Summary of key decisions and outcomes

- 2024 salary increase for executive directors is 4.5%, in line with the low end of increases for the UK workforce.
- 2023 annual bonus payouts for executive directors are around 98% of maximum.
- 2024 annual bonus will be based 75% on IBP stretch goals for earnings, cash and order intake, and 25% based on the achievement of strategic objectives with a safety and DEI underpin.
- Performance Shares granted in March 2021 will vest at 97.9% of maximum based on three-year performance to 31 December 2023.
- Performance Shares to be granted in 2024 will be subject to the same performance measures as applied in 2023, with stretching targets.

Executive director pay in 2024

The Committee is comfortable that the internal pay relativity reference points set out in this report and external market positioning, provide justification that the current remuneration structure is appropriate. Accordingly, for 2024, no revisions are proposed to the executive remuneration framework that would constitute a change to the Remuneration Policy.

Base salary

In line with the low end of the pay increases for UK employees in 2024, the executive directors have received base salary increases of 4.5% with effect from 1 January 2024.

Annual incentive

The annual bonus structure and opportunity for executive directors will remain unchanged in 2024, with 75% determined by financial performance and 25% determined by the achievement of key strategic objectives. For 2024, the performance measures and weightings will continue to be based on earnings, cash and order intake, with performance targets set in line with the Integrated Business Plan (IBP).

Long-term incentives

The Committee rebalanced the performance measures in 2023, to better align with business goals, introducing a return on capital employed (ROCE) measure and adding specific and measurable environmental, social and governance (ESG) goals. For 2024, the Committee has maintained the same performance measures and weightings.

> We received strong shareholder support for our Remuneration Policy in 2023, with more than 97% in favour.

> We need a Remuneration Policy that enables us to respond quickly to competitive threats.

The competitive environment

We continue to operate in a very competitive market for skills and talent, not only in the UK, but throughout our major markets in the United States, Australia, the Kingdom of Saudi Arabia, and other key international markets.

Our employees are highly skilled and experienced, and critical to the delivery of our future business ambitions. Accordingly, our approach to remuneration needs to be flexible and appropriate to the various markets in which we compete for talent.

Two of our executive directors have US nationality, with one based in the US, leading our US business representing 43% of our global revenues. Many of our employees are in demand globally, so we need a Remuneration Policy that enables us to respond quickly to competitive threats from wherever they arise.

The Remuneration Policy approved by shareholders at the 2023 AGM provided renewed opportunity to compete in this increasingly challenging environment, and I am grateful for the feedback and support of shareholders at the 2023 AGM who voted for our Remuneration Policy proposals with more than 97% in favour.

We will continue to keep our Remuneration Policy under review, to ensure that it remains sufficient to recruit and retain employees that are critical to our future success.

Committee changes

I cannot close without thanking the Committee for their knowledge, insight and challenge during the year, and in particular, Chris Grigg who retired from the Board and Committee in December 2023. I am delighted that both Ewan Kirk and Angus Cockburn have joined and will further strengthen the Committee.

In conclusion

I hope that you will find this year's report a clear account of the Committee's considerations, decisions and explanation of the remuneration outcomes for 2023. Furthermore, I hope that you will continue to support the Committee in its determination to enable fair and effective remuneration linked to business results and shareholder returns, while securing the key skills needed for our future success.

On behalf of the Board

Nicole Piasecki
Chair of the Remuneration Committee

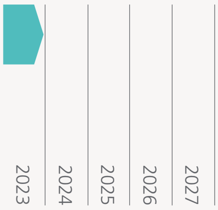
Quick read summary

Remuneration policy summary and 2023 implementation

This section summarises the key features of the remuneration policy approved by shareholders at the 2023 AGM. Please refer to the 2022 Annual Report (available on the Company's website) for full details.

Remuneration element and time horizon | **Policy summary** | **2023 implementation**

Base salary



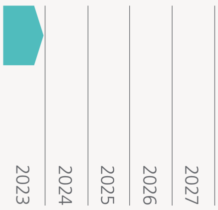
Operation
Base salaries are reviewed annually, taking into account performance, skills, the scope of the role, and the individual's time in role.

Opportunity
Increases for executive directors will generally not exceed the average percentage increase for employees as a whole. As a maximum, in exceptional circumstances (e.g. a material increase in job size or complexity, or for a recently appointed executive director where salary has been positioned low against the market), the increase is not expected to exceed 10% in any single year for executive directors performing in the same role.

Performance
Business and individual performance will be taken into consideration.

Base salary	Effective 1 January 2023	Effective 1 January 2024	% increase
Charles Woodburn	£1,180,635	£1,233,764	4.5%
Brad Greve	£750,150	£783,907	4.5%
Tom Arseneault	$1,094,080	$1,143,314	4.5%
UK employees below board (average)			4.5% – 5.2%

Pension



Operation
For UK executive directors, a defined contribution pension plan, or a salary supplement in lieu, or some combination thereof. Base salary is the only element of pensionable remuneration. The President and CEO of BAE Systems, Inc. participates in the US Defined Benefit pension plans and a US Section 401(k) defined contribution plan.

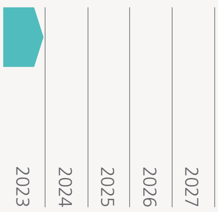
Opportunity
The maximum employer contribution for the Chief Executive has been aligned to the weighted average of the UK workforce. The maximum employer contribution for any new UK executive director is in line with the level available to new joiners to the wider UK workforce. The maximum annual accrual for the US Defined Benefit pension plans is $1,500, and the maximum 401(k) contribution is 6% of base salary, capped at applicable US regulatory limits.

Performance
No performance conditions.

Pension contributions during 2023	(% of salary)
Charles Woodburn	14%
Brad Greve	8%
Tom Arseneault	US DB + 401(k)

(see page 121)

Benefits



Operation
Employment benefits which are competitive in line with relevant home market.

Opportunity
The maximum amount is the cost of providing the benefits, subject to the limits of those benefit plans and any tax or regulatory limits.

Performance
No performance conditions.

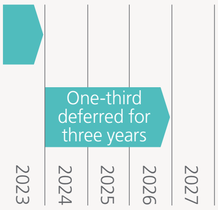
Benefits during 2023 include:

- Transportation benefits
- Financial and tax advice support
- Medical benefits

(see page 121).

Remuneration element and time horizon	Policy summary	2023 implementation

Annual incentive



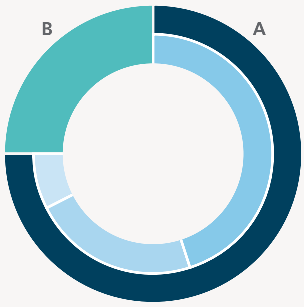
Operation
Annual cash bonus linked to in-year financial performance, corporate responsibility and other non-financial objectives. One-third of the total net bonus is compulsorily deferred for three years into shares without any matching. Malus and clawback provisions apply.

Opportunity
No bonus for below threshold performance, with 20% of maximum at threshold; 50% of maximum at target; 100% of maximum at stretch; and payout determined on a straight-line basis for performance in-between.

Performance
75%-80% of targets will relate to financial metrics aligned with long-term earnings and cash. The non-financial element will be based on a combination of personal performance objectives that provide clear line of sight to our strategic objectives including those in relation to ESG, safety measures, diversity, equity and inclusion.

	At target (% of salary)	At maximum (% of salary)	Actual 2023 (% of max)
Charles Woodburn	112.5%	225%	98.375%
Brad Greve	100%	200%	98.125%
Tom Arseneault	112.5%	225%	98%

2023 performance measures
UK executive directors

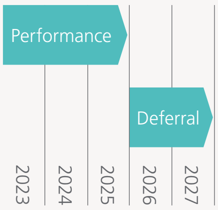


A Financial performance 75%
- EPS 45%
- Cash 22.5%
- Order intake 7.5%

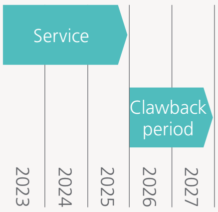
B Key strategic objectives 25%
(see page 123)

Long-Term Incentives

Performance shares



Restricted shares (US executive director)



Operation
Performance Share awards are subject to three-year performance conditions. For UK executive directors, shares are deferred for a further two years and vest from the fifth anniversary of grant, and for US executive directors the shares vest in three equal tranches on the third, fourth and fifth anniversaries of grant.

US executive directors receive Restricted Shares, subject to remaining employed for three years after grant, with a requirement to retain those shares for a further two-year clawback period.

Opportunity
Nil vesting for below threshold performance, with 25% of maximum at threshold; 50% of maximum at target; 100% of maximum at stretch; and vesting on a straight-line basis between these points.

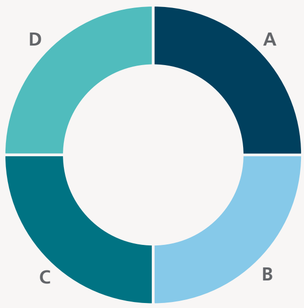
Performance
Direct financial measures based on the KPIs that drive our financial ambitions, linked to long-term strategic priorities. The Committee has discretion to override the formulaic outcome if it is not reflective of underlying performance. Malus and clawback provisions apply.

No performance conditions for Restricted Shares.

Performance shares	Maximum opportunity (% of salary)	2023 grant (% of salary)	Vesting based on performance ending in 2023 (% of max)
Charles Woodburn	370%	370%	97.9%
Brad Greve	335%	335%	97.9%
Tom Arseneault	440%[1]	440%[1]	97.9%

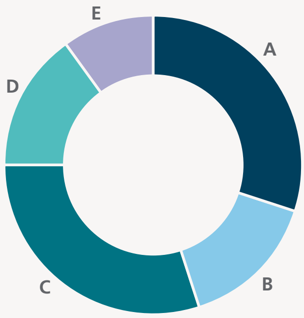
1. Plus 150% salary in Restricted Shares.

2021 grant performance measures (performance period ended 2023)



A	Group EPS growth	25%
B	TSR vs FTSE 100	25%
C	Cash flow	25%
D	Strategic progress	25%

2023 grant performance measures



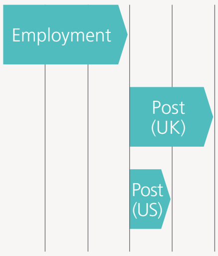
A	Group EPS growth	30%
B	TSR vs FTSE 100	15%
C	Cash flow	30%
D	ROCE	15%
E	ESG	10%

Quick read summary continued

Remuneration policy summary and 2023 implementation continued

Remuneration element and time horizon	Policy summary	2023 implementation

Minimum Shareholding Requirement (MSR)



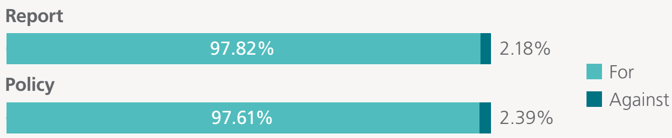
Executive directors are required to establish and maintain a minimum shareholding equal to a set percentage of base salary. Executive directors are expected to achieve 50% of the MSR as quickly as possible, and achieve the full MSR within a five-year period.

If an executive director leaves employment for any reason, they are required to maintain a minimum level of shares for a minimum period post-cessation.

	Full MSR (% of salary)	Post-cessation MSR (% of salary)	Actual shareholding 31 December 2023 (% of salary)
Charles Woodburn	300%	300% for two years	485%
Brad Greve	200%	200% for two years	150%
Tom Arseneault	425%	300% for one year	1,176%

Shareholder voting

The outcomes of shareholder voting on the resolutions to approve the annual Remuneration Report at the 2023 AGM, and the latest vote (in 2023) on the Directors' Remuneration Policy are shown in the charts opposite.

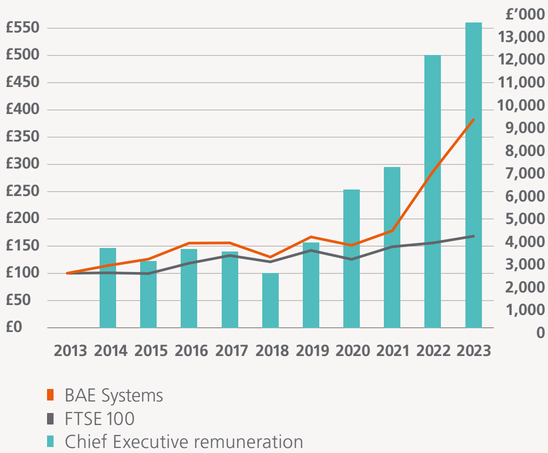


Total Shareholder Return (TSR)

The total return to BAE Systems' shareholders (including share price growth and dividends) over the ten-year period to 31 December 2023, compared to the FTSE 100 index.

£100 invested in BAE Systems on 31 December 2013 was worth £381.74 by 31 December 2023, compared to £167.98 if invested in the FTSE 100.

The bars in the chart represent total remuneration of the Chief Executive.



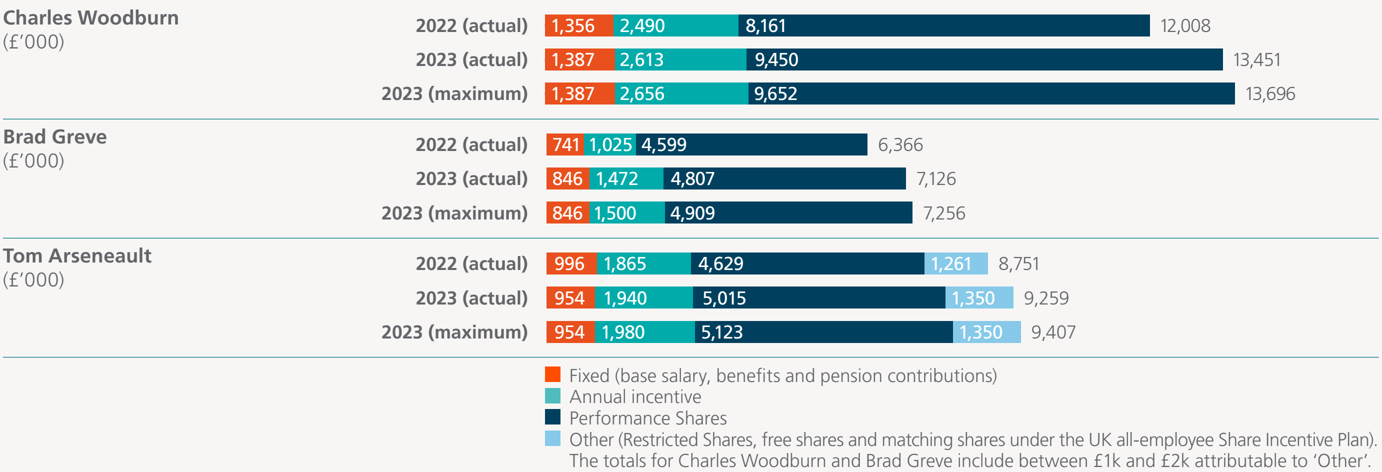
2023 performance outcomes

	Actual performance against targets set for 2023				Weight (% of maximum)		
	Threshold	Target	Stretch	Actual	UK executive directors	US executive director	% of maximum achieved
Annual bonus							
Group underlying EPS	54.2p	57.0p	58.7p	63.5p	45.0%	15.0%	100%
Group net cash/(debt)	£(2,942)m	£(2,542)m	£(2,142)m	£(1,108)m	22.5%	7.5%	100%
Group order intake	£19.7bn	£20.8bn	£21.8bn	£37.3bn	7.5%	2.5%	100%
Inc. underlying EBIT	$1,580.9m	$1,650.9m	$1,695.9m	$1,715.8m		30.0%	100%
Inc. net cash/(debt)	$2,383m	$2,608m	$2,833m	$3,210m		15.0%	100%
Inc. order intake	$11.3bn	$11.9bn	$12.4bn	$19.8bn		5.0%	100%
Key strategic objectives	See key strategic objectives on page 123				25.0%	25.0%	92%–93.5%
					100%	**100%**	**98%–98.375%**
Long-term incentives							
Annual average EPS growth (3-year)	3.0% per annum	5.0% per annum	7.0% per annum	13.3% per annum	25.0%	25.0%	100%
TSR vs FTSE 100	13.6% median		53.5% 80th percentile	144.8%	25.0%	25.0%	100%
Free cash flow	£3.7bn	£4.0bn	£4.2bn	£6.2bn	25.0%		100%
Inc. operating cash flow	$3,754m	$3,979m	$4,429m	$4,985m		25.0%	100%
Strategic progress metrics							
– Operational excellence (on time delivery) UK executive directors	–5%	Improvement in 3-year average	+3%	+6.4%	8.3%	–	100%
– Operational excellence (on time delivery) US executive director	–5%	Improvement in 3-year average	+3%	+5.8%	–	8.3%	100%
– Return on capital employed	14.98%	15.23%	15.48%	17.22%	8.3%	8.3%	100%
– Advance technology	50%	75%	100%	87.5%	8.3%	8.3%	75%
					100%	**100%**	**97.9%**

Note: Actual results adjusted to be on a comparable basis with the targets, including alignment of foreign exchange rates.

Total remuneration

The charts below provide a breakdown of the total remuneration received by the executive directors and their maximum total remuneration opportunity.



The values for the 2020 Performance Shares which vested based on the three-year performance period ended 31 December 2022, have been updated to reflect the share price at the date of vesting on 25 March 2023 (£9.73). This was not known at the date of publication of the 2022 Annual Report, so the Performance Shares vesting values were based on the three-month average share price to 31 December 2022 (£8.127). Further details can be found on page 120.

Quick read summary continued

2024 remuneration framework

		Charles Woodburn CEO	Brad Greve CFO	Tom Arseneault President and CEO Inc.
Base Salary		£1,233,764	£783,907	$1,143,314
Pension and benefits	Pension	Defined contribution (14% of salary)	Defined contribution (8% of salary)	US defined benefit and Section 401(k) defined contribution
	Benefits	Transportation benefits Financial and tax advice support Medical benefits		
Annual Incentive	On-target/maximum opportunity (% salary)	112.5%/225%	100%/200%	112.5%/225%
	Performance condition	75% financial (earnings, cash and order intake) 25% non-financial (key strategic objectives)		
	Deferral into Deferred Bonus Plan	One-third compulsorily deferred for three years		
Performance Shares	Grant (% salary)	370%	335%	440%
	Performance condition	30% three-year diluted underlying EPS growth 15% relative TSR vs FTSE 100 30% cash flow 15% return on capital employed 10% ESG metrics		
	Vesting	Three-year performance conditions, vests in year 5		Three-year performance conditions and vested shares released one-third in years 3, 4, 5
Restricted Shares	Grant (% salary)	n/a		150%
	Vesting	n/a		Three-year service condition and two-year clawback period
Minimum Shareholding Requirement	(% salary)	300%	200%	425%
	Post-cessation shareholding requirement (% salary)	300% for two years	200% for two years	300% for one year

Annual remuneration report

for the year ended 31 December 2023

This section provides further detail on the remuneration of the executive directors, as well as the remuneration of the non-executive directors (including the Chair), during the financial year ended 31 December 2023. Together with the Committee Chair's report and quick read summary on pages 110 to 114 inclusive, it will be proposed for an advisory vote by shareholders at the 2024 Annual General Meeting (AGM).

It has been prepared on the basis prescribed in Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

UK Corporate Governance Code 2018

Reporting against Code requirements can be found as follows:

Strategic rationale for our directors' remuneration Pages 116 and 119 →

Appropriateness of our remuneration Pages 116, 118 and 132–133 →

Addressing Provision 40 factors Page 118 →

Operation of our policy Pages 107–112 →

Engagement with shareholders Page 117 →

Engagement with workforce Page 117 →

Exercise of discretion Pages 107–109 →

Contents

Statement of voting

Shareholder voting on the resolutions to approve the Annual remuneration report and the Directors' remuneration policy put to the 4 May 2023 AGM were:

Annual remuneration report

Votes for	%	Votes against	%	Total votes cast	Votes withheld (abstentions)
2,159,695,607	97.82	48,155,233	2.18	2,207,850,840	1,023,290

Directors' remuneration policy

Votes for	%	Votes against	%	Total votes cast	Votes withheld (abstentions)
2,150,307,412	97.61	52,732,857	2.39	2,203,040,269	5,851,354

The current Directors' remuneration policy approved at the 2023 AGM is available on the Company's website at www.baesystems.com/rempolicy.

Annual remuneration report continued

Our reward approach and strategic rationale

Our people strategy is designed to support our aim to retain, attract and develop talent. This is delivered through robust succession planning, targeted recruitment, focused talent management, a culture of inclusivity, learning and development and a competitive employee value proposition.

Accordingly, as set out in its terms of reference (available on our Company website at baesystems.com), the Remuneration Committee has responsibility for determining the policy for executive director remuneration and ensuring that it is aligned to the Company's values and clearly linked to the successful delivery of its long-term strategy. As part of this, the Committee reviews group workforce remuneration and related policies, and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive remuneration. This was considered as part of the core principles in the renewal of the 2023 Remuneration Policy (2023 Policy), including how reward policy and practice compares across the wider workforce.

The table below sets out our strategic rationale for each element of remuneration and how our remuneration structure applies for the different groups of employees within BAE Systems.

<table>
<tr><th>Remuneration element and strategic rationale</th><th>Executive directors</th><th>Executive Committee</th><th>Senior executives</th><th>Middle management</th><th>Wider workforce</th></tr>
<tr><td>Base salary
Recognises market value of role and individual's skills, experience and performance to ensure the business can attract and retain talent.</td><td colspan="4">Base salaries are based on a market pay approach, taking into account performance, skills, the scope of the role, and the individual's time in role.
Normally reviewed annually with increases typically in line with the wider workforce.</td><td>Base salary is either subject to negotiation with recognised trades unions and/or is set in line with market and/or performance.</td></tr>
<tr><td>Pension and benefits
Provides employment and post-retirement benefits that are market competitive as part of overall package.</td><td colspan="5">Range of employment benefits and competitive post-retirement benefits in line with relevant home market.</td></tr>
<tr><td>Short-term incentives
Drives and rewards annual performance of both financial and non-financial metrics, including leadership behaviours, in order to deliver sustainable growth in shareholder value.
Compulsory deferral into shares increases alignment with long-term shareholder interests.</td><td colspan="2">Annual cash bonus linked to in-year financial performance, corporate responsibility and other non-financial objectives.
Compulsory deferral for three years into shares without any matching.</td><td>Annual cash bonus linked to in-year KPIs and other personal objectives and behaviours. Compulsory deferral for three years into shares without any matching (for the majority of UK and Rest of World executives).</td><td>Annual cash bonus linked to in-year business and individual performance.</td><td>In UK businesses, cash bonus typically based on in-year business and/or individual performance.
None in US, Australia or the Kingdom of Saudi Arabia.</td></tr>
<tr><td rowspan="2">Long-term incentives
Longer term reward, predominantly in shares, providing alignment with interests of our shareholders.
Performance shares drive our financial ambitions for the Company, with measures linked to our key long-term strategic priorities including our sustainability agenda, aligned to the interests of our shareholders.
Restricted shares are designed to predominantly help ensure remuneration for senior US-based executives is competitive in the local market.</td><td colspan="5">Eligible employees may participate in and receive free matching shares in our Company Share Incentive Plan (SIP) or international equivalent.
The Company rewards eligible employees with annual award of free shares, or cash equivalent, based on our Group financial performance.</td></tr>
<tr><td>Performance shares are subject to three-year performance conditions (and further holding requirements).
Restricted shares vest subject to remaining employed for three years, with a further two-year clawback period (applicable in the US only).</td><td colspan="2">Performance shares are subject to three-year performance conditions.
Restricted shares vest subject to remaining employed for three years (predominantly applicable in the US).</td><td colspan="2"></td></tr>
</table>

Engagement with our shareholders

In line with our commitment to full transparency and engagement with our shareholders on the topic of executive remuneration, the Remuneration Committee Chair periodically writes to our major shareholders and also the Institutional Shareholder Services, the Investment Association and Glass Lewis, to set out our planned remuneration changes.

In particular, during the formulation of the 2023 Policy, the Remuneration Committee Chair engaged directly with and met our major shareholders to discuss and seek their views on potential changes. The Remuneration Chair values direct engagement with our shareholders and made herself available for such meetings to hear their perspective on remuneration matters which helped shape the 2023 Policy.

Engagement with our workforce

The safety, wellbeing, skills, capabilities and commitment of our people are critical to ensuring the long-term sustainability of our business and delivering the innovation needed to solve our customers' complex challenges. Effective engagement enables our employees to contribute to improving business performance and helps us to create an environment in which everyone is safe, valued and can fulfil their potential.

Both the Board as a whole and the ESG Committee undertake workforce engagement. Feedback from the ESG Committee on its engagement activities, and insights from the Board's own conversations and observations from employee interactions at site visits and in various other forums, all provide useful context. This, coupled with data and reports from senior management, gives good perspective for the Board into employee voice, including matters important to the wider workforce. Further detail on Board and ESG Committee employee engagement can be found on pages 93 and 103.

During 2023, we used a range of channels to engage with employees across the Group, including in-person and virtual meetings, briefings, conferences, toolbox talks, safety stand-downs, events and listening forums at all levels. Leaders provided regular updates as well as attending events throughout the year. We also engaged with employees using digital channels including our Employee App, intranet, email and TV systems.

Our Employee Resource Groups (ERGs) are important to creating an inclusive work environment where everyone feels they belong, and educating employees about the unique issues our colleagues face in and out of the workplace. We also consult with our employees and their representatives regularly and on a wide variety of topics. Their views are taken into account in our decision-making processes on matters that affect their interests.

Engagement with our trades unions

Engagement forums continued with trades unions in Australia and the UK and labour unions in the US.

Engagement on executive remuneration

This report is the principal means through which we communicate and engage with employees on how executive remuneration aligns with that of the wider workforce. Over 53,000 of the Company's employees who are shareholders in the Company receive email communications with a direct link to this report on the Company's website and an invitation to vote on the resolutions being put to the Annual General Meeting (AGM), including those resolutions on executive remuneration. The results of employee shareholder voting on the AGM resolutions, including those relating to executive remuneration and the renewal of our remuneration policy in 2023, are subsequently reported to the Board for discussion. This is not used to seek feedback on individual outcomes.

Engagement on wider workforce remuneration

The Committee regularly undertakes in-depth sessions to build its understanding of reward arrangements applicable to the wider workforce across different populations and geographies. The Committee has continued to deepen its approach, not only due to the broader governance requirements, but because it believes that well-designed remuneration can be a tool of culture change and progressive improvement in Company performance. Such sessions provide assurance that the remuneration for the wider workforce is consistent with market trends, with regulation, and support an inclusive work environment in line with our focus on Diversity, Equity and Inclusion.

These sessions have covered a range of topics including the outcome of the annual reward review, spotlight on the total reward package within different workforce populations and geographies and the outcome of our UK gender and ethnicity pay analysis.

Annual remuneration report continued

Remuneration principles

The Committee has established six core principles which underpin our approach to executive remuneration. The principles are aligned to the Company's strategic objectives, taking account of shareholder expectations and the remuneration factors set out in Provision 40 of the UK Corporate Governance Code (the Code). The Committee considered these principles in the renewal of our 2023 Policy, whilst being mindful of the alignment and fairness of remuneration with the wider workforce. The table below shows this close alignment between the Committee's core principles and the Code's factors, including how the Committee addresses each factor.

Factor within Provision 40	How the Committee addresses the factor
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	In line with our commitment to full transparency and engagement with our shareholders on the topic of executive remuneration, the Remuneration Committee Chair periodically engages with our major shareholders to set out the changes planned. In a year of significant change, the Remuneration Committee Chair will consult with our major shareholders to discuss and seek views on potential changes. The Company consults directly with the broader employee population on their remuneration through a variety of methods including virtual meetings, explanatory guides hosted on the intranet, human resources or business-led briefings, direct line manager engagement and materials posted to employees' homes (see also page 117 for engagement on executive pay).
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	Simple three-part construct of salary, annual incentive and long-term incentives has been in use for a number of years. Use of a single 'umbrella' LTI plan allowing for simplicity and flexibility of design.
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	Full range of design features exist within remuneration arrangements to take risks into account as follows: – malus and clawback mechanisms within annual and long-term incentives; – Remuneration Committee application of reasonable discretion to override formulaic outcomes; and – safety targets expected to be met in all circumstances, with a downward underpin applying within the annual incentive in the event of below-target performance.
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	Our remuneration policy contains the following: – maximum award levels and vesting outcomes applicable to annual and long-term incentives; and – as set out above in Risk, the Committee has the ability to apply malus, clawback and reasonableness discretion where appropriate.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	Performance conditions attached to annual and long-term incentive arrangements require a minimum level of performance to be achieved before any payout is made. There is a direct link between an individual's reward and their contribution to driving strategy and increasing Company performance. No payment is made for poor performance. Any individual's performance that is below expectations is dealt with as part of our performance management process – any individual leaving due to performance issues would not be entitled to any incentive payments.
Alignment to culture Incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	As set out on pages 116 and 119, there is a direct link between driving BAE Systems' strategy and an individual's reward, with incentive measures chosen as they align with the Company's shared strategic objectives. As shown to the right, the Committee has applied six core principles which underpin the philosophy and approach to executive remuneration to ensure alignment to the Company's strategic objectives.

Remuneration Committee core principles

Simplicity
Clarity and simplicity of design; ease of understanding by executives and external stakeholders.

Motivational
Plans are relevant and meaningful with clear line of sight between actions and reward outcomes; metrics and targets which drive superior performance and value for shareholders.

Aligned with shareholder interests
Close alignment of reward outcomes and shareholder experience; long-term share ownership and 'skin in the game' for executives.

Globally competitive
Reward opportunity aligned to relevant competitive employment market; enabling mobility across different businesses and geographies.

Reflects ESG progress
Embedding the sustainability agenda to benefit all stakeholders; compliance and scrutiny of executive pay and fairness relative to the wider workforce.

Flexibility
Transparent and responsible application of discretion to override formulaic outcomes; ability to respond to special/unforeseen circumstances during life of binding policy.

Strategic alignment of our incentives

The chart below shows how our remuneration framework directly aligns to our shared strategic objectives through the use of incentive arrangements that support the Company's strategy.

Shared strategic objectives

How our strategic objectives are measured in our incentives

	Sustain and grow our defence and security business	Continue to grow our business in adjacent markets	Develop and expand our international business	Enhance financial performance and deliver sustainable shareholder growth	Inspire and develop a diverse workforce to drive success	Advance and integrate our sustainability agenda
Annual incentive						
Earnings per share	●	●		●		
Free cash flow	●			●		
Order intake	●	●	●	●		
Key strategic objectives	●	●	●	●	●	●
Long-term incentive						
Earnings per share	●	●		●		
Relative Total Shareholder Return	●	●	●	●		
Cash flow	●	●		●		
Return on capital employed	●	●	●	●		
Environmental, social and governance				●	●	●

Implementation of our policy in the year ending 31 December 2024

For the purposes of the Companies Act 2006, the Directors' remuneration policy (the Policy) has been operating in practice since the date of its approval on 4 May 2023 at the 2023 AGM (and is available on the Company's website). The remuneration for 2024 will be implemented as follows:

- The salary of the executive directors with effect from 1 January 2024 is: Chief Executive £1,233,764; Chief Financial Officer £783,907; and the President and Chief Executive Officer of BAE Systems, Inc. $1,143,314.
- Annual and Long-Term Incentive opportunity levels are in line with the 2023 Policy as set out on page 114.
- Long-Term Incentive awards of Performance Shares only for UK executive directors, and Performance Shares and Restricted Shares for our US executive director.
- The performance metrics applicable to the 2024 Annual Incentive will remain 75% on financial metrics relating to earnings, cash and order intake at a Group level, and additionally, in the case of the US executive director, at a BAE Systems, Inc. level. The cash metric will be measured on free cash flow, replacing the former net cash/(debt) metric. The remaining 25% will continue to be based on the achievement of key strategic objectives. The weightings of the financial metrics are:

For UK executive directors:	For US executive director:
Group EPS – 45%	Group EPS – 15%
Group free cash flow – 22.5%	Group free cash flow – 7.5%
Group order intake – 7.5%	Group order intake – 2.5%
	BAE Systems, Inc. EBIT – 30%
	BAE Systems, Inc. free cash flow – 15%
	BAE Systems, Inc. order intake – 5%

  Key strategic objectives designed to support the Group's strategy and with Safety and Diversity, Equity and Inclusion (DEI) applying as a downward underpin on this element – 25%.

  The Committee is of the view that bonus targets for the Annual Incentive are commercially sensitive and that it would be detrimental to the Company to disclose them in advance. The targets will be disclosed retrospectively after the end of the relevant financial year.
- The performance measures and weightings for 2024 for the Long-Term Incentives are set out on pages 114 and 125.

Annual remuneration report continued

'Single figure' of remuneration – executive directors (audited)

The following table shows the single total figure of remuneration for each executive director in respect of qualifying services for the 2023 financial year, together with comparatives for 2022.

	Fixed				Variable						
						LTIP[5]					
	Base salary[1] £'000	Benefits[2] £'000	Pension[3] £'000	Total fixed £'000	AIP[4] £'000	Face value £'000	Share appreciation £'000	Total LTIP £'000	Other[6] £'000	Total variable £'000	**Total £'000**
2023											
Charles Woodburn	**1,181**	**41**	**165**	**1,387**	**2,613**	4,012	5,438	**9,450**	**1**	**12,064**	**13,451**
Brad Greve	**750**	**36**	**60**	**846**	**1,472**	2,041	2,766	**4,807**	**1**	**6,280**	**7,126**
Tom Arseneault	**880**	**60**	**14**	**954**	**1,940**	2,129	2,886	**5,015**	**1,350**	**8,305**	**9,259**
2022											
Charles Woodburn	1,135	37	184	1,356	2,490	3,626	4,535	8,161	1	10,652	12,008
Brad Greve	657	31	53	741	1,025	2,043	2,556	4,599	1	5,625	6,366
Tom Arseneault	851	56	89	996	1,865	2,057	2,572	4,629	1,261	7,755	8,751

The above table has been subject to audit.

The single figure table of remuneration for the Chair and non-executive directors is on page 130.

1. This column relates to the base salary received by the executive directors.

   Tom Arseneault is paid in US dollars with the disclosed figures being converted into pounds sterling at the required exchange rate. Tom Arseneault's 2023 salary reflects his 4% increase and the exchange rate fluctuations experienced during 2023.

2. The benefits received by the executive directors are detailed on page 121.

3. The figures for Charles Woodburn and Brad Greve relate to a salary supplement in lieu of Company pension contributions and the added pension value received in the year from their defined contribution schemes in respect of the employer contributions. The figures for Tom Arseneault include company contributions paid into his Section 401(k) defined contribution arrangements. The figures for Tom Arseneault also reflect defined benefit arrangements calculated in line with the method set out in Section 229 of the Finance Act 2004 using a capitalisation factor of 20 for the life pension, a x10 factor for the ten-year pension and a x1 factor for the lump sum benefit (see page 121).

4. Further detail on bonus payments is provided on pages 122 and 123. One-third of the net bonus paid will be deferred compulsorily into BAE Systems shares for a three-year period, without additional performance conditions.

5. These columns relate to the estimated or actual value of Long-Term Incentive Plans for which the performance period ended in the relevant financial year.

   The 2023 values in the LTIP columns are calculated on the basis of the three-month average share price of £10.6475 as at 31 December 2023 and relates to the vesting portion including shares deriving from notional reinvested dividends, of the 2021 Performance Share award for which the performance period ended on 31 December 2023. Vesting is 97.9% overall for UK directors and 97.9% overall for the US director. See page 124 for further detail.

   As required by regulation, the estimated vesting values for the awards shown in the 2022 columns (which were calculated in the 2022 Annual Report on the basis of the three-month average share price of £8.1272 as at 31 December 2022) have been adjusted to reflect the actual value on the vesting of the Performance Share award in March 2023 based on the then share price of £9.73 and excludes the value of the shares deriving from notional reinvested dividends in respect of Performance Share awards already disclosed in a prior year's single figure remuneration table. The figures reported in the 2022 column in the 2022 Annual Report on the estimated basis were Charles Woodburn: £6,846k; Brad Greve: £3,842k and Tom Arseneault: £3,869k. The respective figures in the 2022 Total and Total variable remuneration columns have been recast accordingly. Additionally, the Chief Executive's single total figure for 2022 as referenced on pages 112, 113, 132 and 133 has been recast.

6. This column includes (i) the value of Free Share awards under the UK all-employee Share Incentive Plan (SIP) of £629 for Charles Woodburn and Brad Greve, and their respective Matching Shares under voluntary investment in the SIP; and (ii) for Tom Arseneault, the value of the 2023 grant of Restricted Shares (£1,350k). This award formed part of Tom Arseneault's 2023 LTIP allocation but is required to be reported under 'Other' as it has no performance conditions attached.

There were no payments to former directors in 2023.

Benefits (audited)

Benefits received by the executive directors are detailed below.

	Transportation benefits[1]		Financial and tax advice support		Medical benefits[2]		Total	
	2023 £'000	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000	**2023 £'000**	2022 £'000
Charles Woodburn	**25**	25	**8**	6	**8**	6	**41**	37
Brad Greve	**20**	19	**8**	6	**8**	6	**36**	31
Tom Arseneault	**25.5**	21.5	**12**	12	**22.5**	22	**60**	55.5

1. For UK executive directors includes Company car or cash allowance. For US executive director includes private use of chauffeur-driven car and Company aircraft.
2. For UK executive directors includes private medical insurance and medical benefits. For US executive director includes private medical and executive medical benefits, dental benefits, insured life cover and disability benefits.

Pension entitlements

Total pension entitlements (audited)

					Figures included in the remuneration table on page 120		
Director	Age	Normal retirement age	Accrued benefit at 1 January 2023[1] £	Accrued benefit at 31 December 2023[1] £	Added pension value received in the year from defined benefit scheme £	Added pension value received in the year from defined contribution scheme £	Total £
Charles Woodburn	52	65	66,229	80,485	n/a	8,500	8,500
Brad Greve	56	65	27,304	38,424	n/a	8,500	8,500
Tom Arseneault	60	65	See notes below		–	14,317	14,317

1. Accrued benefit for Charles Woodburn and Brad Greve is the total value of their defined contribution account, including employee contributions and investment returns.

The above table has been subject to audit.

Charles Woodburn participates in the Mercer Master Trust – BAE Systems Retirement Savings Plan (BAESRSP), which is a defined contribution arrangement. The Company contributes the maximum into the BAESRSP arrangement as permitted by the Annual Allowance (£4,000 per annum to 5 April 2023; £10,000 per annum from 6 April 2023). A 14% salary supplement is paid in lieu of the Company contributions in excess of those permitted by the Annual Allowance which are paid into the BAESRSP.

Brad Greve also participates in the BAESRSP. The Company contributes the maximum into the BAESRSP arrangement as permitted by the Annual Allowance (£4,000 per annum to 5 April 2023; £10,000 per annum from 6 April 2023). An 8% salary supplement is paid in lieu of the Company contributions in excess of those permitted by the Annual Allowance which are paid into the BAESRSP.

Tom Arseneault participates in US defined benefit and Section 401(k) arrangements as follows:

Arrangement	Accrued benefit at 1 January 2023	Accrued benefit at 31 December 2023
BAE Systems ERP Qualified Plan – life pension	$39,348 per annum	$39,348 per annum
BAE Systems ERP 2006 Qualified Plan – lump sum	$84,000	$85,000
12/31/2004 BRP Restoration Plan – life pension	$5,283 per annum	$5,283 per annum
2007 BRP – ten-year pension	$101,177 per annum	$97,416 per annum
Section 401(k)	$1,421,754	$1,719,441

The accrued defined benefit for Tom Arseneault is an annual pension and lump sum payable at retirement prior to any reduction for early retirement. Tom Arseneault also participates in a Section 401(k) defined contribution arrangement set up for US employees in which the Company will match his contributions up to a maximum contribution of 6% of salary, up to US regulatory limits (2024 $23,000; 2023 $22,500). In 2023, the Company paid contributions of $18,250 into this arrangement. The accrued Section 401(k) benefit for Tom Arseneault is the total value of his Section 401(k) account including both employee and company contributions as well as investment returns.

Annual remuneration report continued

Annual bonus (audited)

The 2023 annual bonuses are based on performance for the year ended 31 December 2023. 75% of the bonus opportunity is determined by financial performance, and 25% is based on the achievement of key strategic objectives.

The figures in the table below represent the total annual bonus amounts to be paid, including the cash amount payable in March 2024 (two-thirds of total), and the amount deferred into BAE Systems shares for a further three years to be released in March 2027 subject to malus and clawback provisions (one-third of total).

2023 annual bonus for Charles Woodburn and Brad Greve

	2023 performance range and outcome								Weighted vested outcome (%)	
Performance measure	Threshold (20% max)	Target (50% max)	Stretch (100% max)	Actual	Percentage of maximum achieved		Weighting		Charles Woodburn	Brad Greve
Financial										
Group underlying EPS	54.2p	57.0p	58.7p	63.5p	100%	x	45%	=	45%	45%
Group net cash/(debt)	£(2,942)m	£(2,542)m	£(2,142)m	£(1,108)m	100%	x	22.5%	=	22.5%	22.5%
Group order intake	£19.7bn	£20.8bn	£21.8bn	£37.3bn	100%	x	7.5%	=	7.5%	7.5%
Non-financial										
Key strategic objectives	See page 123									
Charles Woodburn					93.5%	x	25%	=	23.375%	
Brad Greve					92.5%	x				23.125%
Total (% of maximum)							**100%**	=	**98.375%**	**98.125%**
									x	x
Maximum bonus opportunity (% salary)									225%	200%
									x	x
2023 base salary									£1,180,635	£750,150
									=	=
2023 annual bonus									**£2,613,261**	**£1,472,169**

2023 annual bonus for Tom Arseneault

	2023 performance range and outcome								Weighted vested outcome (%)	
Performance measure	Threshold (20% max)	Target (50% max)	Stretch (100% max)	Actual	Percentage of maximum achieved		Weighting		Tom Arseneault	
Financial										
Group underlying EPS	54.2p	57.0p	58.7p	63.5p	100%	x	15%	=	15%	
Group net cash/(debt)	£(2,942)m	£(2,542)m	£(2,142)m	£(1,108)m	100%	x	7.5%	=	7.5%	
Group order intake	£19.7bn	£20.8bn	£21.8bn	£37.3bn	100%	x	2.5%	=	2.5%	
BAE Systems, Inc. underlying EBIT	$1,580.9m	$1,650.9m	$1,695.9m	$1,715.8m	100%	x	30%	=	30%	
BAE Systems, Inc. net cash/(debt)	$2,383m	$2,608m	$2,833m	$3,210m	100%	x	15%	=	15%	
BAE Systems, Inc. order intake	$11.3bn	$11.9bn	$12.4bn	$19.8bn	100%	x	5%	=	5%	
Non-financial										
Key strategic objectives	See page 123									
Tom Arseneault					92%	x	25%		23%	
Total (% of maximum)							**100%**	=	**98%**	
									x	
Maximum bonus opportunity									225%	
									x	
2023 base salary									$1,094,080	
									=	
2023 annual bonus									**$2,412,446**	**£1,939,686**

A Safety and DEI underpin applies to the non-financial element, with the requirement to uphold and deliver our commitment to high standards of safety and a diverse and inclusive workforce. Performance in respect of this underpin was determined by the Environmental, Social and Governance Committee (whose composition is stated on page 102). For 2023, improvements in our overall safety requirements were met. The overall safety performance of our operations improved with our recordable accident rate reducing by more than 12% and the majority of this improvement relating to a reduction in recordable injuries within our US business. There has been continued year on year improvement in diversity for both increased gender diversity in mid-management roles and increased proportion of employees from minority ethnic backgrounds. The Committee therefore concluded that the underpin requirements had been met and there would be no reduction to the executive directors' bonuses for 2023.

Key strategic objectives

Achievement against key strategic objectives represents 25% of the annual bonus opportunity. These objectives relate to the delivery of the Group's strategy centred on maintaining and growing our business, securing growth opportunities through advancing our strategic priorities including our sustainability agenda, and demonstrating leadership behaviours. An underpin applies to the outturn of the non-financial element, with a requirement to uphold and deliver our commitment to high standards of safety, and a diverse and inclusive workforce. Executive directors and Executive Committee members are collectively responsible for, and required to support, a set of shared common strategic objectives.

Key
- ● Below target
- ● Target
- ● At or exceeds stretch

Shared strategic objective	Assessment of strategic objective
Sustain and grow our defence and security business ● – Improve project outcomes ● – Increase internal collaboration ● – Increase supply chain collaboration ● – Resource for future growth	– Increased project management capability, understanding and application of Life Cycle Management (LCM). – Leveraged capabilities across geographies to develop new cross-sector products and services. – Early adoption of sub-tier supply chain process improvements. – Improved the effectiveness of our recruitment process to deliver accurate in-year recruitment demand plan to support programme delivery resourcing and capabilities.
Continue to grow our business in adjacent markets ● – Evolve new technology opportunities	– Significant progress achieved against our strategic technology growth themes demonstrated through major internal development milestones against certain advanced projects.
Develop and expand our international business ● – Pursue growth ● – Win new orders	– Delivered significant progress against our non-home or non-core market growth ambitions. – Exceeded targets to win and progress specific international orders.
Inspire and develop a diverse workforce to drive success ● – Grow our talent and succession pipeline ● – Increase Diversity & Inclusion	– Increased diversity of experience in our talent pipeline through increased mobility across the Company. – Improvements in diversity of talent in relation to gender, ethnicity and people of colour representation.
Enhance financial performance and deliver sustainable shareholder growth ● – Increase our efficiency and effectiveness ● – Improve project performance	– Reduced day to day costs of running the business as percentage of revenue. – Delivered net improved project performance margins per Group salients.
Advance and integrate our sustainability agenda ● Environment – Progress towards net zero – Increase supply chain environmental engagement – Technology emissions ● Social – Improve safety performance – Increase diversity ● Governance – Enhance our risk management performance – Increase our investor ratings	– Decarbonisation of own operations (scope 1 and 2) ahead of SBTi milestone. – Launched global supply chain decarbonisation strategy and supply chain engagement programme. – Completed assessment of Scope 3 product use SBTi emissions baseline for our products and services. – Year on year improvements in safety performance and safety training compliance. – Linked to objective to inspire and develop a diverse workforce to drive success. – Reduced overall significant Group risk rating. – Increased investor ESG ratings through improved data, progress in key ESG material areas and transparency of reporting.

Charles Woodburn Chief Executive	Brad Greve Chief Financial Officer	Tom Arseneault President and Chief Executive Officer of BAE Systems, Inc.
Payout (% of maximum): **93.5%**	**Payout (% of maximum):** **92.5%**	**Payout (% of maximum):** **92.0%**
Safety and DEI underpin: **100%**	**Safety and DEI underpin:** **100%**	**Safety and DEI underpin:** **100%**
Overall non-financial outturn: **93.5%**	**Overall non-financial outturn:** **92.5%**	**Overall non-financial outturn:** **92.0%**

Annual remuneration report continued

Long-Term Incentive Plan (LTIP) performance (audited)

The 2021 LTIP award is dependent upon performance of Earnings Per Share (EPS), Total Shareholder Return (TSR), Cash Flow and a Strategic Progress metric, each in equal measure, over the three years ended 31 December 2023. The following table summarises the achievement of the vesting outcomes of the respective performance conditions.

	Actual performance against targets					Weight (percentage of maximum)		Weighted vested outcome (%)	
Key performance indicators	Threshold (25% vesting)	Target (50% vesting)	Stretch (100% vesting)	Actual	Percentage of maximum achieved	UK executive directors	US executive director	UK executive directors	US executive director
Annual average EPS growth (three-year)	3% pa	5% pa	7% pa	13.3% pa	100%	25%	25%	25%	25%
TSR vs FTSE 100	13.6% median		53.5% 80th percentile	144.8%	100%	25%	25%	25%	25%
Free cash flow	£3.7bn	£4.0bn	£4.2bn	£6.2bn	100%	25%		25%	
BAE Systems, Inc. operating cash flow	$3,754m	$3,979m	$4,429m	$4,985m	100%		25%		25%
Strategic progress metrics									
– Operational excellence (on time delivery) UK executive directors	–5%	Improvement in 3-year average	+3%	6.4%	100%	8.3%	–	8.3%	–
– Operational excellence (on time delivery) US executive director	–5%	Improvement in 3-year average	+3%	5.8%	100%	–	8.3%	–	8.3%
– Return on capital employed	14.98%	15.23%	15.48%	17.22%	100%	8.3%	8.3%	8.3%	8.3%
– Advance technology	50%	75%	100%	87.5%	75%	8.3%	8.3%	6.3%	6.3%
						100%	**100%**		
Overall vesting								**97.9%**	**97.9%**

2021 Performance Shares

For the EPS performance measure, in line with the Committee's agreed principles, measurement in constant currency is used to ensure that the calculation of EPS is not impacted by currency exchange rate fluctuations, upwards or downwards. In reviewing the composition of EPS growth, no one-off amounts were deemed relevant in the overall consideration of the achievement of the EPS outturn. The Committee was therefore satisfied that the performance condition was achieved at a vesting level of 100% of the EPS portion.

TSR performance exceeded the upper quintile (top 20%) of the FTSE 100 comparator group, and therefore vesting is at maximum. In confirming this outcome, the Committee also considered the secondary condition and determined that there had been a sustained improvement in the Company's underlying financial performance.

Group free cash flow exceeded stretch requirements over the performance period and will therefore vest at maximum. In the case of BAE Systems, Inc. operating cash flow, which applies to our US executive director, the stretch performance requirements were also met and will vest at maximum.

As set out in the table above, Strategic Progress is based equally on the three metrics of operational excellence, ROCE and advance technology metrics. Operational excellence, measured by the metric of on-time delivery, achieved improvements in the three-year average which were in excess of stretch performance for all sectors. Return on capital employed over the period exceeded the stretch performance requirement. In relation to the advance technology metric, not all the key project milestones were met in relation to the advanced technology programmes, and accordingly this metric will vest at 75%.

Before approving the outcomes, the Committee considered the overall financial performance and whether there had been a windfall gain due to market volatility at around the time of grant in March 2021. Having considered the share price movements at the time of grant, and also having retrospectively reviewed share price performance since grant, the Committee was satisfied that the level of vesting and values for the 2021 Performance Shares are appropriate. Therefore, given the Company's underlying business performance over the three-year performance period and share price history, the Committee believes the vesting outturn of 97.9% for the 2021 Performance Share award is appropriate.

Description of share plans

Long-term incentives operate under the BAE Systems LTIP approved by shareholders at the 2014 AGM and the BAE Systems Long-Term Incentive Plan 2023. The latter was approved by shareholders at the 2023 AGM, the terms of which remain substantially the same as the BAE Systems Long-Term Incentive Plan 2014. The main vehicles in use are Performance Shares and Restricted Shares.

From 2018 executive directors no longer receive share option awards. Up to and including 2022, share options have been used below executive director level without performance conditions and are generally exercisable between three and ten years from grant.

LTIP Performance Shares

Since 2018, awards to UK executive directors are subject to a three-year performance period but will not vest until the fifth anniversary of grant and will be exercisable until the seventh anniversary of grant. For US executive directors, the awards are automatically delivered in three equal tranches at the end of years three, four and five, subject to the performance condition being achieved. Shares under award attract notional reinvested dividends prior to tranche vesting.

For existing awards granted up to and including 2024 the following metrics and weightings apply.

Metric	Awards granted up to and including 2020	Awards granted in 2021 and 2022	Awards granted from 2023
Earnings per share (EPS)	50%	25%	30%
Total Shareholder Return (TSR)	50%	25%	15%
Free or Operational cash flow		25%	30%
Operational excellence		8.3%	
Return on Capital Employed (ROCE)		8.3%	15%
Advance technology		8.3%	
Environmental, social and governance (ESG)			10%

The description of the performance conditions are shown below. Details of the performance conditions attached to the 2019 award are set out in the 2021 Annual Report and those in respect of the 2020 award are set out in the 2022 Annual Report, available on the Company's website.

Metric	Performance condition
EPS	Rate of average annual diluted underlying EPS growth over the three-year performance period, with 25% vesting at 3% average growth per annum, 50% vesting at 5% average growth per annum and 100% vesting at 7% average growth per annum, with vesting on a straight-line basis between these parameters.
TSR	The proportion of the award capable of vesting is determined by: (i) The Company's TSR measured against a single comparator group of the companies in the FTSE 100 index. No shares vest if the Company's TSR is less than the median TSR achieved by the comparator group, with 25% vesting at median, 100% vesting if the Company's TSR is in the top quintile and vesting on a straight-line basis between these two parameters; and (ii) whether there has been a sustained improvement in the Company's underlying financial performance. In taking such a view, the Committee may consider (but not exclusively) the following financial metrics: net cash/debt; EBIT[1]; order book; turnover; risk; and project performance.
Free or Operational cash flow	Three-year cumulative free cash flow (FCF) at a Group level for UK executive directors, and three-year Operating Cash Flow (OCF) in respect of BAE Systems, Inc. business for the US executive director. 25% vesting at threshold, 50% vesting at target and 100% vesting at stretch, with vesting on a straight-line basis between these parameters. Due to commercial sensitivity, the targets will be disclosed retrospectively after the end of the relevant financial year.
Operational excellence	Focuses on the adherence to project plans of mission-critical projects. Measured by the metric of On Time Delivery, evaluated against an approved set of customer contracts, in a manner consistent with the normal course of business. Contracts are representative of each main business sector, having regard to execution risk, scale and duration. For our US executive director, On Time Delivery will be measured against BAE Systems, Inc. contracts only. The Company's robust quality and safety processes will continue to apply. Target performance achieved for equal or better than aggregated On Time Delivery three-year average. Threshold and stretch performance levels will also apply, with final vesting outturn between 0% and 100% of this element.
ROCE	25% vesting for 25bps reduction in ROCE compared to prior year IBP, 50% vesting for three-year ROCE consistent with prior year IBP and 100% vesting for 25bps improvement in ROCE compared to prior year IBP, with vesting on a straight-line basis between these parameters. Due to commercial sensitivity, the targets will be disclosed retrospectively after the end of the relevant financial year.
Advance technology	Effective programme delivery for major technology programmes will be used to measure our effectiveness at driving technology adoption. Over the three-year performance period, the selected projects will be measured against their key project milestones. The vesting outcome will be derived from the outturn of each of the projects (between 0% and 100% of this element). Due to commercial sensitivity, the projects will be disclosed retrospectively after the end of the relevant financial year.
ESG	Objective to reduce Group GHG emissions (Scope 1 and 2) aligned to a science-based pathway of 1.5°C, year-on-year over ten years. Measurement over three-year performance period. 25% vesting for minimum 5% reduction, 50% vesting for 12.6% reduction and 100% vesting for 14% reduction. Vesting on a straight-line basis between these targets.

1. With effect from 2021, the Group adopted the underlying EBIT profitability measure in place of the previously reported EBITA measure. Details of this are provided in the Alternative performance measures section on page 227.

Note that in accordance with the Directors' remuneration policy, Performance Share awards granted to executive directors are subject to application of reasonableness discretion in light of other important factors in the business.

Annual remuneration report continued

Description of share plans continued

LTIP Restricted Shares

Restricted Shares are not subject to a performance condition as they are designed to help ensure remuneration for senior US executives is competitive in the local market and also to assist in mitigating retention risks in respect of certain key executives. The shares are subject only to the condition that the participant remains employed by the Group at the vesting date (three years after the award date). Shares under award attract notional reinvested dividends prior to vesting. Awards made to the US executive director are subject to a further two-year clawback period after the initial three-year vesting period.

Share interests

Scheme interests awarded during the financial year (audited)

Scheme	Type of interest	Date of grant	Number of shares	Basis of award (% of salary)	Face value of award[1] £	Exercise price £	Date to which performance is measured (three years to)	Performance condition	Percentage of interests receivable if minimum performance achieved[2]
Charles Woodburn									
LTIP PS[TSR]	Performance Shares/nil cost option	24.03.23	67,205	55.5%	655,249	nil	31.12.25	TSR/secondary financial measure	25%
LTIP PS[EFRG]	Performance Shares/nil cost option	24.03.23	380,830	314.5%	3,713,092	nil	31.12.25	EFRG	25%
Brad Greve									
LTIP PS[TSR]	Performance Shares/nil cost option	24.03.23	38,661	50.25%	376,945	nil	31.12.25	TSR/secondary financial measure	25%
LTIP PS[EFRG]	Performance Shares/nil cost option	24.03.23	219,082	284.75%	2,136,049	nil	31.12.25	EFRG	25%
Tom Arseneault									
LTIP PS[TSR]	Performance Shares	24.03.23	41,260	44.7%	402,285	n/a	31.12.25	TSR/secondary financial measure	25%
LTIP PS[EORG]	Performance Shares	24.03.23	233,804	253.3%	2,279,589	n/a	31.12.25	EORG	25%
LTIP PS[TSR]	Performance Shares	05.05.23	18,864	21.3%	187,357	n/a	31.12.25	TSR/secondary financial measure	25%
LTIP PS[EORG]	Performance Shares	05.05.23	106,898	120.7%	1,061,711	n/a	31.12.25	EORG	25%
LTIP RS	Retention	24.03.23	138,455	150%	1,349,936	n/a	n/a	n/a	n/a

1. The value of the award is calculated on the date of grant by reference to the middle market quotation at the close of the preceding day (£9.75 for the grants made on 24 March 2023 and £9.932 for the grants made on 5 May 2023).
2. Each of the four performance conditions in the EFRG and EORG metrics are measured separately.

Key: LTIP – Long-Term Incentive Plan. PS – Performance Shares. RS – Restricted Shares. TSR – Total Shareholder Return. EFRG – Earnings per share, Free cash flow, Return on Capital Employed and ESG measure. EORG – Earnings per share, BAE Systems, Inc. Operating Cash Flow, Return on Capital Employed and ESG measure.

The Performance Share awards set out above have five performance conditions with these conditions weighted as follows: EPS: 30%; TSR: 15%; Cash generation: 30%; ROCE: 15%; and ESG measure: 10%. Further detail on these performance conditions is set out on page 125.

Tom Arseneault's May 2023 Performance Share grant reflects the increase in Performance Share award level from 298% of salary to 440% of salary in the 2023 Remuneration Policy agreed by shareholders at the 2023 AGM.

Note: Performance Shares and Restricted Shares – Shares under award attract notional reinvested dividends prior to vesting. Performance Shares are intended to be free share awards and for UK executive directors are structured as a nil cost option to give the participant more flexibility as to the timing of the benefit. For the US executive director, awards of Performance Shares are classified as conditional share awards (rather than share options) and are deliverable on the third, fourth and fifth anniversary of grant, subject to attainment of the performance condition. For the UK executive directors, shares vest on the fifth anniversary of grant.

The table above has been subject to audit.

Statement of directors' shareholdings and share interests

Minimum Shareholding Requirement (MSR)

Executive directors are required to establish and maintain a minimum personal shareholding equal to a set percentage of base salary as set out in the table below. Executive directors are required to achieve their Initial Value as quickly as possible, and achieve their Subsequent Value within a five-year time period. Where an executive director has not achieved their MSR, the consequence is a restriction on the number of shares that can be sold on exercise or release, until their MSR Subsequent Value is met. Where an executive director has met less than the Initial Value (50% of their MSR), they must retain 50% of the net value (i.e. the value after the deduction of exercise/sale costs and tax) of shares acquired through the various share schemes; if they have met the Initial Value but not the Subsequent Value (i.e. between 50% and 100% of their MSR), they must retain 25% of the net value. In the event that the executive director has not met the Subsequent Value at the end of the five-year period, the Committee will set out their proposed remedial actions at that time. The Committee has discretion to increase the Initial Value and/or Subsequent Value. Shares owned beneficially by the director and his/her spouse count towards the MSR.

Where an executive director leaves employment for any reason, a post-cessation shareholding policy will apply. For UK executive directors, the policy is based on the full MSR continuing to apply for a period of two years. For US executive directors, the policy is based on the MSR of 300% of salary applying for a period of one year. Executive directors will be required to sign a contract on leaving employment to ensure compliance with this policy. Any case of non-compliance would be dealt with by the Committee.

The following table sets out MSR Initial Value and Subsequent Value and actuals as at 31 December 2023.

Charles Woodburn and Tom Arseneault have shareholdings in excess of their respective MSRs. Brad Greve has been gradually building up his shareholding. His first LTI award will vest in 2025, having already met the performance condition, and being subject to continued employment.

	Initial Value	Subsequent Value	Actual	Achieved MSR
Charles Woodburn	150%	300%	485%	Yes
Brad Greve	100%	200%	150%	Expected within the required 5 years
Tom Arseneault	212.5%	425%	1,176%	Yes

The actual MSR figures in the table are provided as at 31 December 2023, based on the year-end share price of £11.105.

The higher MSR values applicable to Tom Arseneault recognise the higher LTI opportunity and broader US market practice.

There are MSR requirements in place for the majority of the employee population who receive LTIPs.

There are no shareholding requirements for the Chair or the non-executive directors.

Annual remuneration report continued

Statement of directors' shareholdings and share interests continued

Share interests as at 31 December 2023 (audited)

The interests of the directors who served during the year ended 31 December 2023 in the shares of BAE Systems plc, or scheme interests in relation to those shares, were as follows:

	Shares	Scheme interests: Options and awards over shares					
		Share awards with performance conditions	Share awards without performance conditions	Share options with performance conditions	Share options with performance conditions, vested but unexercised	Share options without performance conditions	Total scheme interests
Charles Woodburn	515,815	–	–	3,563,332	–	–	3,563,332
Brad Greve	101,802	–	–	1,386,630	–	–	1,386,630
Tom Arseneault	908,712	1,477,502	521,305	–	–	1,435,729	3,434,536

Note: The share options without performance conditions were granted to Tom Arseneault prior to him being appointed as an executive director. These options are vested but unexercised. The related breakdown of these options is shown on page 129.

The interests of the non-executive directors who served during the year ended 31 December 2023 in the shares of BAE Systems plc were as follows:

	Shares
Chair	
Sir Roger Carr[1]	166,549
C M Hogg	–
Non-executive directors	
N J Anderson	14,000
C E Ashby	–
A G Cockburn[2]	2,000
Dame Elizabeth Corley	19,000
J V Griffiths	10,117
C M Grigg[3]	24,555
E M Kirk	–
S T Pearce	10,000
N W Piasecki	–
Lord Sedwill	–

1. Figures shown as at 4 May 2023, the date of retirement from the Board.
2. Appointed to the Board on 6 November 2023.
3. Retired from the Board on 31 December 2023.

The interests of directors include those of their connected persons. Details of the share interests in options and awards held by the executive directors as at 31 December 2023 are given on page 129 together with details of options exercised in 2023.

Performance Shares granted under the LTIP are classified as share awards with performance conditions for the US executive director and as nil-cost options with performance conditions for the UK executive directors.

Since 31 December 2023, both Charles Woodburn and Brad Greve have each acquired an additional 37 shares under the Partnership and Matching Shares elements of the Share Incentive Plan so that their beneficial shareholdings at the date of this report stood at 515,852 and 101,839 respectively.

There have been no other changes in the interests of the directors in the shares of BAE Systems plc between 31 December 2023 and 20 February 2024 (the latest practicable date for inclusion in this report).

Breakdown of scheme interests (audited)

Charles Woodburn

Options and awards held as at 31 December 2023

	31 December 2023	Date of grant	Exercise price £	Date from which exercisable or part exercisable
LTIP PS^TSR	**285,227**[1]	20.03.18	nil	20.03.23
LTIP PS^EPS	**285,227**[1]	20.03.18	nil	20.03.23
LTIP PS^TSR	**55,416**[2]	20.03.19	nil	20.03.24
LTIP PS^EPS	**350,737**[2]	20.03.19	nil	20.03.24
LTIP PS^TSR	**373,737**[2]	25.03.20	nil	25.03.25
LTIP PS^EPS	**373,737**[2]	25.03.20	nil	25.03.25
LTIP PS^TSR	**204,936**[2]	25.03.21	nil	25.03.26
LTIP PS^EFS	**614,806**[3]	25.03.21	nil	25.03.26
LTIP PS^TSR	**142,869**[4]	24.03.22	nil	24.03.27
LTIP PS^EFS	**428,605**[4]	24.03.22	nil	24.03.27
LTIP PS^TSR	**67,205**[4]	24.03.23	nil	24.03.28
LTIP PS^EFRG	**380,830**[4]	24.03.23	nil	24.03.28
	3,563,332			

Brad Greve

Options and awards held as at 31 December 2023

	31 December 2023	Date of grant	Exercise price £	Date from which exercisable or part exercisable
LTIP PS^TSR	**210,626**[2]	25.03.20	nil	25.03.25
LTIP PS^EPS	**210,627**[2]	25.03.20	nil	25.03.25
LTIP PS^TSR	**104,239**[2]	25.03.21	nil	25.03.26
LTIP PS^EFS	**312,718**[3]	25.03.21	nil	25.03.26
LTIP PS^TSR	**72,669**[4]	24.03.22	nil	24.03.27
LTIP PS^EFS	**218,008**[4]	24.03.22	nil	24.03.27
LTIP PS^TSR	**38,661**[4]	24.03.23	nil	24.03.28
LTIP PS^EFRG	**219,082**[4]	24.03.23	nil	24.03.28
	1,386,630			

Tom Arseneault

Options and awards held as at 31 December 2023

	31 December 2023	Date of grant	Exercise price £	Date from which exercisable or part exercisable
LTIP PS^TSR	**4,560**[2]	20.03.19	n/a	20.03.24
LTIP PS^EPS	**28,858**[2]	20.03.19	n/a	20.03.24
LTIP PS^TSR	**141,331**[2]	25.03.20	n/a	25.03.24
LTIP PS^EPS	**141,331**[2]	25.03.20	n/a	25.03.24
LTIP PS^TSR	**108,764**[2]	25.03.21	n/a	25.03.24
LTIP PS^EOS	**326,290**[3]	25.03.21	n/a	25.03.24
LTIP PS^TSR	**81,386**[4]	24.03.22	n/a	24.03.25
LTIP PS^EOS	**244,156**[4]	24.03.22	n/a	24.03.25
LTIP PS^TSR	**41,260**[4]	24.03.23	n/a	24.03.26
LTIP PS^EORG	**233,804**[4]	24.03.23	n/a	24.03.26
LTIP PS^TSR	**18,864**[4]	05.05.23	n/a	05.05.26
LTIP PS^EORG	**106,898**[4]	05.05.23	n/a	05.05.26
	1,477,502			
LTIP SO	**258,380**	25.03.15	5.43	25.03.18
LTIP SO	**289,258**	23.03.16	4.99	23.03.19
LTIP SO	**267,026**	21.03.17	6.49	21.03.20
LTIP SO	**268,594**	20.03.18	5.82	20.03.21
LTIP SO	**352,471**	20.03.19	4.85	20.03.22
	1,435,729			
LTIP RS	**218,987**	25.03.21	n/a	25.03.24
LTIP RS	**163,863**	24.03.22	n/a	24.03.25
LTIP RS	**138,455**	24.03.23	n/a	24.03.26
	521,305			

Share Options – options exercised during 2023

	Exercised during the year	Exercise price £	Date of grant	Date of exercise	Market price on exercise £
LTIP SO	304,245	4.12	26.03.14	27.03.23	9.81

Note: The Share Options granted to Tom Arseneault between 2014 and 2019 as set out above were granted prior to him being appointed as an executive director and do not have performance conditions attached to them. Options are normally exercisable between the third and tenth anniversary of their grant. Share options granted to him from 2015 onwards are subject to a two-year clawback period after the initial three-year vesting period.

1. All shares vested in accordance with agreed terms.
2. Subject to a performance condition that has been met.
3. A small portion of the outstanding option or award will partially lapse after the end of the financial year having not met the full performance condition.
4. Subject to a performance condition that is yet to be tested.

Note: As reported in the Remuneration Committee Chair's report in the 2021 Annual Report, in light of the volatility in the market during March 2021, the Committee attached an additional condition to the 2021 awards to retain the ability to exercise discretion to ensure that the value of the 2021 awards at vesting is appropriate. The outcome is reported on page 124.

The tables above have been subject to audit. Performance conditions for the LTIP are detailed on pages 125 to 126.

Executive directors' service contracts

All executive directors have rolling service agreements which may be terminated in accordance with the terms of those agreements.

Dates of appointment for executive directors:

Name	Date of appointment	Expiry of current term
Charles Woodburn[1]	1 July 2017	12 months either party
Brad Greve	1 April 2020	12 months either party
Tom Arseneault[2]	1 April 2020	60 days either party

1. Appointed to the Board as Chief Operating Officer on 9 May 2016; appointed as Chief Executive with effect from 1 July 2017.
2. Tom Arseneault's contract of employment automatically renews for a one-year period from 31 December each year, unless one party gives the other at least 60 days' notice.

Details of notice periods and terms of the Chair and non-executive directors are on page 131.

In accordance with the UK Corporate Governance Code, all directors are subject to annual election or re-election at the Company's AGM.

Annual remuneration report continued

'Single figure' of remuneration for the Chair and non-executive directors (audited)

		Fixed								Variable			
	Committee membership as at 31 December 2023	Fees £'000		Benefits £'000		Other £'000		Total fixed remuneration £'000		Total variable remuneration £'000		**Total £'000**	
		2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Chair													
Sir Roger Carr[1]	–	**243**	700	**–**	–	**–**	–	**243**	700	**–**	–	**243**	700
C M Hogg[2]	N	**486**	14	**–**	–	**–**	–	**486**	14	**–**	–	**486**	14
Non-executive directors													
N J Anderson	E I N	**110**	85	**8**	1	**–**	9	**118**	95	**–**	–	**118**	95
C E Ashby	E N	**99**	85	**6**	4	**9**	9	**114**	98	**–**	–	**114**	98
A G Cockburn[3]	A N	**16**	n/a	**–**	n/a	**–**	n/a	**16**	n/a	**–**	–	**16**	n/a
Dame Elizabeth Corley	A I N R	**121**	85	**2**	1	**–**	9	**123**	95	**–**	–	**123**	95
Dame Carolyn Fairbairn[4]	–	**n/a**	30	**n/a**	1	**n/a**	–	**n/a**	31	**–**	–	**n/a**	31
J V Griffiths	E N	**120**	110	**3**	1	**–**	9	**123**	120	**–**	–	**123**	120
C M Grigg[5]	A N R	**143**	110	**–**	–	**–**	9	**143**	119	**–**	–	**143**	119
E M Kirk	I N R	**131**	110	**3**	1	**–**	9	**134**	120	**–**	–	**134**	120
S T Pearce	A N	**120**	110	**1**	1	**–**	9	**121**	120	**–**	–	**121**	120
N W Piasecki	E I N R	**143**	101	**11**	6	**9**	14	**163**	121	**–**	–	**163**	121
Lord Sedwill[6]	E N	**99**	14	**–**	–	**–**	–	**99**	14	**–**	–	**99**	14
I P Tyler[4]	–	**n/a**	38	**n/a**	1	**n/a**	–	**n/a**	39	**–**	–	**n/a**	39

1. Retired from the Board and as Chair on 4 May 2023.
2. Appointed to the Board on 1 November 2022 and as Chair on 4 May 2023.
3. Appointed to the Board on 6 November 2023.
4. Retired from the Board on 5 May 2022.
5. Retired from the Board on 31 December 2023.
6. Appointed to the Board on 1 November 2022.

Committee Chair
A Audit Committee
E Environmental, Social and Governance Committee
I Innovation and Technology Committee
N Nominations Committee
R Remuneration Committee

The amounts in the 'Benefits' column relate to travel expenses and subsistence and the amounts in the 'Other' column relate to the travel allowance discontinued from 1 April 2023. There were no payments to former directors in 2023.

Chair of the Board

The fee for the Chair of the Board is set by the Remuneration Committee.

Sir Roger Carr's fee was at the rate of £700,000 per annum through to his retirement at the close of the 2023 AGM. Cressida Hogg succeeded Sir Roger Carr as Chair on 4 May 2023, and receives the same fee and benefits as her predecessor. Her fee will not be reviewed again until 1 April 2025.

Non-executive directors

Fees for the non-executive directors, which are reviewed periodically, were reviewed in February 2024 by the Board without any of the non-executive directors present, i.e. by the Chair and executive directors. It was agreed that from 1 April 2024, the base fee paid to each non-executive director should be increased by 4.6%; the supplementary fee paid to the Senior Independent Director and each of the Committee Chairs (except the Nominations Committee Chair) be increased by 4.3%; and the Committee membership fee be increased by 33.3% to better reflect the time commitment and bring them more in line with the market.

The fee structure on a per annum basis is as follows:

	Fee per annum up to 31 March 2023	Fee per annum from 1 April 2023	Fee per annum from 1 April 2024
Fee paid to all non-executive directors	£85,000	£88,400	£92,500
Supplementary fees			
Senior Independent Director	£25,000	£35,000	£36,500
Audit Committee Chair	£25,000	£35,000	£36,500
Remuneration Committee Chair	£25,000	£35,000	£36,500
Environmental, Social and Governance Committee Chair	£25,000	£35,000	£36,500
Innovation and Technology Committee Chair	£25,000	£35,000	£36,500
Committee membership fee (per Committee except Nominations)	nil	£15,000	£20,000
Travel allowance per meeting for air travel of more than five hours (one way) subject to a maximum of six travel allowances per annum	£4,500	nil	nil

The single figure table of remuneration for the executive directors is on page 120.

Annual percentage change in directors' remuneration

As required by regulations, the table below shows the percentage change in remuneration between the years ended 31 December 2023 and 2022, and prior years, for executive directors, non-executive directors and average employee remuneration. As required by legislation, employees are those employed by the BAE Systems plc entity on a full-time equivalent basis. The percentage increases represent the change in total remuneration between each reported year, and therefore may indicate significant increases when comparing with a prior part-year.

	2022/2023 % change			2021/2022 % change			2020/2021 % change			2019/2020 % change		
	Salary/ fees	**Benefits[1]**	**Annual bonus**	Salary/ fees	Benefits[1]	Annual bonus	Salary/ fees	Benefits[1]	Annual bonus	Salary/ fees	Benefits[1]	Annual bonus
Executive directors												
C N Woodburn	**+4.0**	**+11.0**	**+4.9**	+2.5	+56.4	+2.9	+12.7	+17.7	+39.1	+6.9	–3.9	–12.1
B M Greve[2]	**+14.1**	**+14.2**	**+43.6**	+5.6	+79.3	+6.0	+36.0	+44.2	+68.7	n/a	n/a	n/a
T A Arseneault[2]	**+3.3**	**+7.1**	**+4.0**	+15.0	+24.1	+15.8	+27.9	+156.9	+115.4	n/a	n/a	n/a
Current non-executive directors												
C M Hogg[3]	**+3,333.6**	**n/a**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
N J Anderson[2]	**+29.5**	**+642.4**	**n/a**	0.0	–42.7	n/a	+500.0	+81.0	n/a	n/a	n/a	n/a
C E Ashby[4]	**+16.2**	**+51.7**	**n/a**	+200.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
A G Cockburn[5]	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dame Elizabeth Corley	**+42.7**	**+69.7**	**n/a**	0.0	–47.6	n/a	+1.5	0.0	n/a	+4.7	–100.0	n/a
J V Griffiths[2]	**+9.1**	**+288.3**	**n/a**	0.0	–82.2	n/a	+72.5	0.0	n/a	n/a	n/a	n/a
E M Kirk[4]	**+19.4**	**+101.7**	**n/a**	+75.8	+92.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a
S T Pearce[6]	**+9.1**	**–20.3**	**n/a**	0.0	–50.0	n/a	+1.1	+90.4	n/a	+133.0	–4.0	n/a
N W Piasecki[6]	**+40.7**	**+72.2**	**n/a**	+19.2	n/a	n/a	+1.5	–100.0	n/a	+79.5	–35.5	n/a
Lord Sedwill[3]	**+597.4**	**n/a**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Former non-executive directors												
Sir Roger Carr[5]	**–65.2**	**0.0**	**n/a**	0.0	0.0	n/a	0.0	0.0	n/a	0.0	0.0	n/a
Dame Carolyn Fairbairn[3,4]	**n/a**	**n/a**	**n/a**	–58.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
C M Grigg	**+29.6**	**n/a**	**n/a**	0.0	n/a	n/a	+7.3	0.0	n/a	+28.1	–100.0	n/a
I P Tyler[3]	**n/a**	**n/a**	**n/a**	–65.2	–8.8	n/a	+1.1	+8.9	n/a	+3.6	–64.7	n/a
Average employee[7]	**+6.0**	**+6.0**	**+63.3**	+4.5	+4.5	+9.2	+1.5	+1.5	+28.4	+2.5	+2.5	–2.0

1. Where benefit figures are £nil as is often the case for non-executive directors, the benefits percentage change is shown as n/a.
2. 2020 remuneration for Brad Greve, Tom Arseneault, Nick Anderson and Jane Griffiths reflects their part-year from joining the Board during 2020.
3. 2023 remuneration for Cressida Hogg reflects her appointment as Chair on 4 May 2023; 2022 remuneration for Cressida Hogg and Lord Sedwill reflects their part-year from joining the Board during 2022; and reflects part-year for Dame Carolyn Fairbairn and Ian Tyler on stepping down from the Board during 2022.
4. 2021 remuneration for Crystal Ashby, Dame Carolyn Fairbairn and Ewan Kirk reflects their part-year from joining the Board during 2021.
5. 2023 remuneration for Angus Cockburn reflects his part-year from joining the Board during 2023; and reflects part-year for Sir Roger Carr on stepping down from the Board during 2023.
6. 2019 remuneration for Stephen Pearce and Nicole Piasecki reflects their part-year from joining the Board during 2019.
7. Figures are provided in respect of the relevant median average employee of BAE Systems plc as determined on a full-time equivalent basis and with the annual bonus estimated on the accrued expected financial outturn in respect of 2023. The relatively large change in average employee annual bonus for 2023 partly reflects the increase in bonus opportunity for our executive grades in line with the market.

Chair and non-executive directors – letters of appointment

The appointment of Cressida Hogg as Chair is documented in a letter of appointment. Her appointment as Chair will automatically terminate if she ceases to be a director of the Company. Her appointment is for three years ending on 4 May 2026 unless terminated earlier in accordance with the Company's Articles of Association or by the Company or by the Chair giving not less than six months' notice. The Chair's appointment is to be reviewed by the Nominations Committee prior to the end of the three-year term and the Chair may be invited to serve for an additional period.

Non-executive directors do not have service contracts but do have letters of appointment detailing the basis of their appointment. The non-executive directors are normally appointed for an initial three-year term that, subject to review, may be extended subsequently for further such terms. Non-executive directors do not have notice periods. The dates of their original appointment and expiry of their current term are shown below:

Name	**Date of appointment**	**Expiry of current term**
Nick Anderson	1 November 2020	31 October 2026
Crystal E Ashby	1 September 2021	31 August 2024
Angus Cockburn	6 November 2023	5 November 2026
Dame Elizabeth Corley	1 February 2016	31 January 2025
Jane Griffiths	1 April 2020	31 March 2026
Ewan Kirk	1 June 2021	31 May 2024
Stephen Pearce	1 June 2019	1 June 2025
Nicole Piasecki	1 June 2019	1 June 2025
Lord Sedwill	1 November 2022	31 October 2025

In accordance with the UK Corporate Governance Code, all directors are subject to annual election or re-election at the Company's AGM. Details of service contracts and notice periods of the executive directors are on page 129.

Annual remuneration report continued

Pay comparisons

Pay ratio of Chief Executive to UK average employee

The Committee is mindful of the relationship between the Chief Executive's remuneration and the remuneration of BAE Systems' employees more generally. The table below shows the ratio of total remuneration for the Chief Executive to that of other UK employees at 25th percentile, median (50th percentile) and 75th percentile.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2023	**Option B**	**264:1**	**191:1**	**181:1**
2022	Option B	256:1	185:1	168:1
2021	Option B	171:1	140:1	99:1
2020	Option B	121:1	103:1	89:1
2019	Option B	90:1	72:1	59:1
2018	Option B	61:1	48:1	38:1

The reporting regulations permit three different calculation methodologies for determining the pay ratio:

- **Option A** – using actual remuneration for all UK employees to determine median, 25th and 75th percentiles for the relevant financial year;
- **Option B** – using representative data points for median, 25th and 75th percentiles (consistent with our gender pay gap reporting); and
- **Option C** – using any other available pay data.

The table above has been calculated using Option B, which is considered the most appropriate and consistent methodology for reporting. The calculations for the relevant representative employees were undertaken as at 31 December 2023. BAE Systems has around 40,000 employees in the UK, operating on different human resources and payroll systems, with 2023 bonus amounts for some employees not able to be determined until after publication of this report. Accordingly, it is not possible to determine the exact 2023 total remuneration for all employees within the reporting timescale, and therefore it is not possible to accurately report using Option A.

To ensure Option B provides a sufficiently accurate representation of the UK workforce, we consider the total pay and benefits for a number of employees centred around each of the quartiles. This allows any anomalies that may arise (such as if an employee left part way through the year) to be adjusted or excluded. Taking an average of the remaining figures provides a robust representation of each quartile.

The total full-time equivalent pay and benefits for the relevant employees have been calculated on the same basis as the Chief Executive's single total figure remuneration. For pension-related benefits, employer pension costs have been estimated using the employer contribution rates applicable to the member's pension scheme. No other estimates or adjustments have been used in the calculation and no remuneration items have been omitted.

Our reward framework across the Group is based on a consistent set of principles, including managing reward by reference to external competitor benchmarks (see page 116). Our Chief Executive's total remuneration comprises a significant proportion in variable pay and therefore the single total figure will vary considerably depending on the outturn of the Annual and Long-Term Incentive Plans. The employees in the calculation would not typically participate in any long-term incentive plans and receive a significantly higher proportion of their remuneration in the form of fixed pay. The ratio at the three quartiles is consistent with our market-based approach to reward, with the ratio increasing as the Chief Executive's remuneration is compared with that of more junior employees. The overall picture presented by the ratios is also consistent with our pay, reward and progression policies.

£	25th percentile	50th percentile	75th percentile
Total pay and benefits	50,923	70,473	74,344
Salary component	39,087	45,527	57,344

The pay ratio in 2023 has increased by approximately 3% at 25th and 50th percentiles, and 8% at the 75th percentile relative to 2022. The total pay and benefits figures have increased at each quartile in part reflecting the actions taken by the Company to address the increased cost of living and other salary and incentive improvements. The pay ratio has been impacted by the increase in the Chief Executive's remuneration for 2023, primarily as a result of share price appreciation on the 2021 Performance Share award between the grant and vesting dates. In considering the median pay ratio since 2018, the recent upward trend corresponds to the increased LTI vesting payouts as shown on page 133.

Gender pay

The BAE Systems 2023 gender pay gap report is available on the Company's website at baesystems.com. The average (mean) gender pay gap for our UK workforce was 7.7% in favour of men (2022 8.6%). We rely on employing large numbers of employees with STEM qualifications and we, like other companies, face challenges recruiting women with these qualifications because there are significantly fewer women who study and work in these fields. As a result, a greater proportion of our workforce and our senior leadership population are men and this is a major factor in our gender pay gap. We continue to work hard to improve our gender balance and remain steadfast in our commitment to delivering the plans we have in place to increase the number of women in BAE Systems and support the progression of women into senior executive positions.

Ethnicity pay

BAE Systems voluntarily published its first UK ethnicity pay gap report in December 2023. We are committed to progressing racial and ethnic minority representation and in order to do this, we need to understand our ethnicity pay gap and supporting data. For 2023, we have an average (mean) ethnicity pay gap of 3.9%. 86.3% of our employees have voluntarily disclosed their ethnicity; 82.3% identify as White and 4% identify as All Other Ethnic Groups. We already have a number of programmes underway to progress racial and ethnic minority talent, and are committing to growing our ethnic minority population year-on-year.

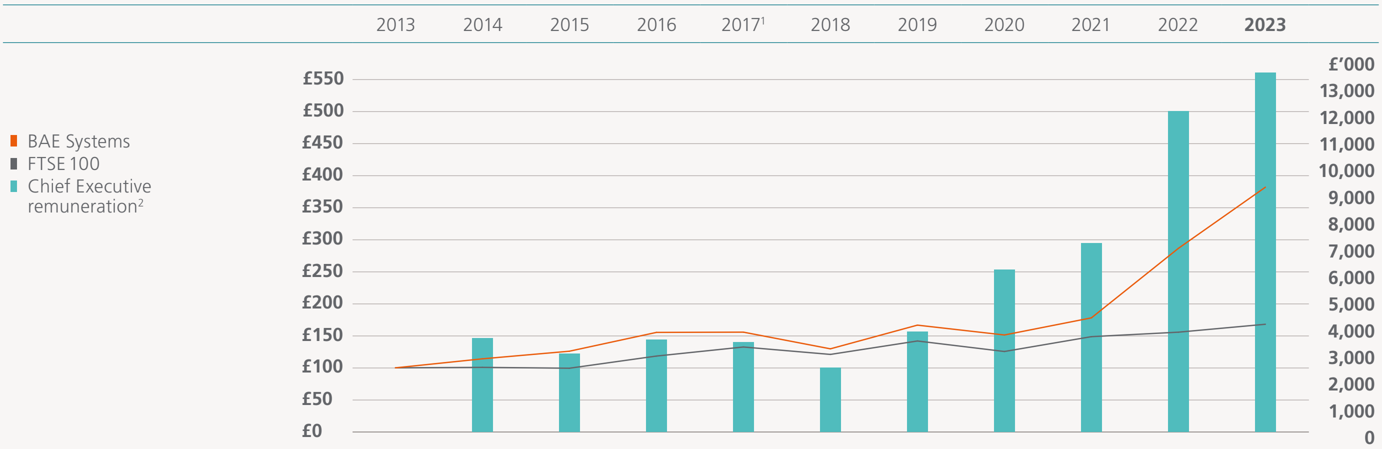
Total Shareholder Return (TSR) performance and Chief Executive pay

The chart below shows the value as at 31 December 2023 of £100 invested in BAE Systems shares on 31 December 2013, compared to £100 invested in the FTSE 100 on the same date. If invested in BAE Systems that shareholding would be worth £381.74 on 31 December 2023, compared to £167.98 if invested in the FTSE 100.

The FTSE 100 was chosen as the comparator because it is a broad equity index of which BAE Systems is a constituent member, and reflects the investment interests of our UK shareholder base. In addition, the FTSE 100 forms 100% of the TSR performance measure for Long-Term Incentive (LTI) awards made since 2021, and 50% for LTI awards between 2016 and 2020.

The chart demonstrates the strong long-term alignment of our Chief Executive pay with the returns to shareholders. This alignment is achieved by ensuring a high proportion of the Chief Executive's remuneration is in shares, with performance conditions based on measures that directly support the implementation of our strategy.

Value at 31 December 2023 of £100 investment at 31 December 2013



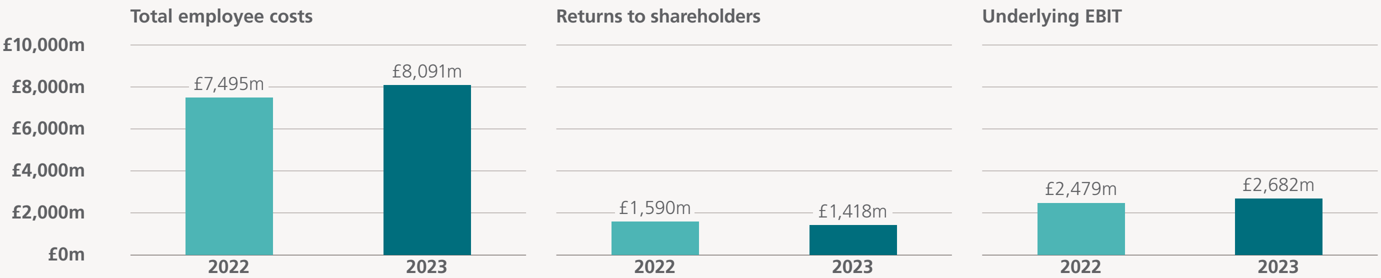
Change in Chief Executive's remuneration over ten years

	2014	2015	2016	2017[1]	2018	2019	2020	2021	2022	**2023**
Chief Executive's single total figure (£'000)										
Charles Woodburn	–	–	–	1,279	2,416	3,747[3]	6,080	7,071	12,008	**13,451**
Ian King	3,519	2,929	3,463	2,086	n/a	n/a	n/a	n/a	n/a	**n/a**
	3,519	2,929	3,463	3,365	2,416	3,747[3]	6,080	7,071	12,008	**13,451**
Bonus paid as a percentage of maximum										
Charles Woodburn	–	–	–	75.8%	65.6%	95.6%	78.7%	97.1%	97.5%	**98.4%**
Ian King	74.3%	72.4%	82.3%	75.9%	n/a	n/a	n/a	n/a	n/a	**n/a**
LTI as a percentage of maximum vesting										
Charles Woodburn	–	–	–	n/a	nil	10.9%[3]	100%	57.9%	100%	**97.9%**
Ian King	16.8%	nil	nil	11.3%	n/a	n/a	n/a	n/a	n/a	**n/a**

1. In 2017, Charles Woodburn succeeded Ian King as Chief Executive on the latter's retirement. Ian King's remuneration is shown from the start of 2017 until 30 June 2017 and Charles Woodburn's remuneration is shown from 1 July 2017 to the end of that year.
2. Plotted as a bar chart on the secondary y-axis.
3. Total remuneration includes the value of share plans vesting that were granted prior to appointment as Chief Executive.

Relative importance of spend on pay

The chart below shows the relative importance of expenditure on pay[1] compared to returns to shareholders[2]. Underlying EBIT[3] is shown for information.



1. Wages and salaries increased by approximately 5.45% per employee in 2023, excluding the impact of exchange translation.
2. Returns to shareholders comprise dividends to ordinary shareholders paid in the year and share repurchases in 2022 (£788m) and 2023 (£561m).
3. Underlying EBIT is the Group's principal measure of operational profitability as defined in the Alternative performance measures section on page 227.

Annual remuneration report continued

Remuneration Committee composition and advisers

The Committee members comprise Nicole Piasecki as Chair, Angus Cockburn (from 1 January 2024), Dame Elizabeth Corley, and Ewan Kirk (from 1 March 2023). Chris Grigg also served as a Committee member throughout the year until he retired from the Board on 31 December 2023. Committee attendance is shown on page 83. Advisers to the Remuneration Committee are shown below.

During the year under review, the Committee received material assistance and advice on remuneration policy from the Group Reward Director, Roger Fairhead, and the Group Human Resources Director, Tania Gandamihardja. Charles Woodburn in his role as Chief Executive also provided advice that was of material assistance to the Committee.

Adviser	Services provided	Appointment	Governance	Fees (in respect of services provided to the Committee)
Willis Towers Watson (WTW)	Since July 2022, independent adviser to the Committee, including attendance at Remuneration Committee meetings.	Committee appointment.	The Committee is aware that WTW provides unrelated services to the Company in the areas of benefits and pensions.	£101,510 Fee basis: Fixed fee/hourly
	Also provided information on remuneration market practice, market trends and benchmarking of the remuneration packages for the senior executive population.	By the Company at the request of the Committee.	The Committee is satisfied that the WTW lead adviser and team who provide remuneration advice to the Committee do not have connections with the Group, or the individual directors, that could impair their independence or objectivity. WTW is a member of the Remuneration Consultants Group (RCG) and is a signatory to the RCG's code of conduct.	
Linklaters	Provided legal services principally advice relating to remuneration policy.	By the Company with the approval of the Committee.	Only provides legal compliance, legal drafting and review services, and does not advise the Committee. The Committee is aware that Linklaters is one of a number of legal firms that provide legal advice and services to the Company on a range of matters. Linklaters is regulated by the Law Society.	£4,559 Fee basis: Hourly

The Remuneration Committee's year

January – Committee; February – Committee; May – Committee; November – Committee; December – Committee

January
Committee (Videoconference)
- Assessed outturn of 2022 annual incentive key strategic objectives.
- Agreed 2023 annual incentive key strategic objectives.
- Received an update on provisional 2022 financial performance for incentive purposes.
- Approved 2023 weightings remuneration for Executive Committee members.

February
Committee (London, UK)
- Determined 2022 bonuses for executive directors and Executive Committee members for payment in March 2023.
- Approved 2022 Group All-Employee Free Share Plans payments.
- Determined vesting outcome for Spring 2020 Long-Term Incentive awards.
- Approved grant of 2023 Long-Term Incentive awards and associated performance targets.
- Reviewed feedback from shareholder consultation on proposed 2023 Policy.
- Approved 2022 Directors' remuneration report.

May
Committee (London, UK)
- Reviewed feedback from shareholder consultation and May 2023 Annual General Meeting.
- Noted the findings of the Gender Pay Gap and Ethnicity Pay Gap reports.
- Received a performance update on annual incentive and in-flight long-term incentive awards.

November
Committee (West Sussex, UK)
- Received a deep-dive into specific areas of wider workforce remuneration.
- Provided feedback on the proposed re-structure and key features of the draft 2023 Directors' remuneration report.
- Reviewed level of executive directors' and Executive Committee members' shareholdings relative to their Minimum Shareholding Requirement.
- Received an executive remuneration market and regulatory update.
- Noted the performance update on annual incentive and in-flight long-term incentive awards.

December
Committee (Videoconference)
- Approved executive directors' salary increases from 1 January 2024.
- Agreed the structure and financial metrics for the 2024 annual incentive plan.
- Agreed the structure, weightings and metrics for the 2024 Long-Term Incentive awards.

Directors' Remuneration Report

The Directors' Remuneration Report was approved by the Board of directors on 20 February 2024.

Nicole Piasecki
Chair, Remuneration Committee

Statutory and other regulatory information

Company registration

BAE Systems plc is a public company limited by shares registered in England and Wales with the registered number 01470151.

Directors

The current directors who served during the 2023 financial year are listed on pages 81 to 83. On 6 November 2023, Angus Cockburn was appointed to the Board as a non-executive director.

Cressida Hogg, who was appointed to the Board as a non-executive director and Chair designate on 1 November 2022, succeeded Sir Roger Carr as Chair at the conclusion of the Company's Annual General Meeting (AGM) on 4 May 2023 when Sir Roger retired from the Board. Chris Grigg also served on the Board until 31 December 2023.

Dividend

An interim dividend of 11.5p per share was paid on 30 November 2023. The directors propose a final dividend of 18.5p per ordinary share. Subject to shareholder approval, the final dividend will be paid on 3 June 2024 to shareholders on the share register on 19 April 2024.

AGM

The Company's AGM will be held on 9 May 2024.

Disclosures required under Listing Rule 9.8.4

There are no disclosures required to be made under the FCA's Listing Rule 9.8.4 which have not already been disclosed elsewhere in this Report. Details of Long-term incentives can be found within the Annual Remuneration Report on page 115 and details of dividend waivers can be found in note 26 of the Consolidated financial statements on page 204.

Office of Fair Trading undertakings

As a consequence of the merger between British Aerospace and the former Marconi Electronic Systems businesses in 1999, the Company gave certain undertakings to the Secretary of State for Trade and Industry (now the Secretary of State for Business and Trade). In February 2007, the Company was released from the majority of these undertakings and the remainder have been superseded and varied by a new set of undertakings. Compliance with the undertakings is monitored by a compliance officer. Further information regarding the undertakings and the contact details of the compliance officer may be obtained through the Company Secretary at the Company's registered office or through the Company's website.

Other information that is relevant to the Directors' report, and which is incorporated by reference into this report

Further information	Reference
Disclosures in relation to the use of financial instruments	Financial statements Page 181 →
Particulars of important events affecting the Group which have occurred since 31 December 2022	Chief Executive's review Page 8 → Segmental review Page 35 →
An indication of likely future developments in the business of the Group	Chief Executive's review Page 8 → Our investment in technology Page 20 → Segmental review Page 35 →
An indication of the activities of the Group in the field of research and development	Our business model Page 14 →
Actions taken to introduce, maintain or develop arrangements aimed at employees	Social Page 56 →
GHG emissions	Other sustainability information Page 234 →
Employee engagement (including regarding employee interests and encouraging employees to be shareholders)	Social Page 56 →
Fostering business relationships with suppliers, customers and others	Our stakeholders Page 24 →
Policy in relation to employment of disabled persons	Social Page 56 →

Trades Unions

We have structures in place to work with Trades Union representatives in our local markets, where it is appropriate and legally acceptable. Of our UK workforce, 71% are covered by collective bargaining agreements. Approximately 55% of the UK workforce are Trades Union members. In the US, approximately 12% of the workforce is covered by a collective bargaining agreement. In Australia, approximately 20% of the workforce is covered by a collective bargaining agreement.

Profit forecast

In its half year results announcement published on 2 August 2023, the Group made the following statement in respect of the year ending 2023, which is regarded as a profit forecast for the purposes of the FCA's Listing Rule 9.2.18 and which replaced the profit forecast made in the Company's 2022 Annual Report.

"While the Group is subject to geopolitical and other uncertainties, the following upgraded guidance is provided on current expected operational performance. The guidance is based on the measures used to monitor the underlying financial performance of the Group. Guidance is provided on the basis of an exchange rate of $1.24:£1, which is in line with the actual 2022 exchange rate, therefore guidance is the same for both reported and constant exchange rates.

For the year ending 31 December 2023, underlying EBIT is expected to increase in the range of 6% to 8%. Underlying earnings per share is expected to increase in the range of 10% to 12%."

For the year ended 31 December 2023, Underlying EBIT was £2,682m and Underlying earnings per share was 63.2p.

See Financial review on pages 28 to 33 for more information.

Political donations

No political donations were made in 2023.

Issued share capital

As at 31 December 2023, BAE Systems' issued share capital of £80,964,698 comprised 3,238,587,861 ordinary shares of 2.5p each and one Special Share of £1. This figure includes 360,315 ordinary shares purchased under the share buyback programme immediately prior to the year end, but not yet settled at that point, which the Company deems to have been cancelled on purchase.

Statutory and other regulatory information continued

Share buyback

During the year, 58,689,756 ordinary shares of 2.5p each were repurchased under the buyback programme of up to £1.5bn announced on 28 July 2022 and such repurchased shares have been cancelled. The total consideration for the purchase of these shares, including commission and stamp duty, was £557,736,206.

The percentage of called up share capital (excluding treasury shares) as at 31 December 2023, which the shares repurchased in 2023 represents, is 1.93%.

Treasury shares

As at 1 January 2023, the number of shares held in treasury totalled 220,086,959 (having a total nominal value of £5,502,174 and representing 6.7% of the Company's called up share capital as at 31 December 2022). During 2023, the Company used 16,045,254 treasury shares (having a total nominal value of £401,131 and representing 0.5% of the Company's called up share capital as at 31 December 2023) to satisfy awards under the Free and Matching elements of the Share Incentive Plan (4,131,918 shares in aggregate), awards under the Free and Matching elements of the International Share Incentive Plan (412,848 shares in aggregate), awards vested under the Performance Shares element of the Long-Term Incentive Plan (4,897,752 shares), awards vested under the Restricted Shares element of the Long-Term Incentive Plan (1,895,084 shares) and options exercised under the Share Options element of the Long-Term Incentive Plan and Executive Share Option Plan (4,707,652 shares). The treasury shares utilised in respect of the Share Incentive Plan, the International Share Incentive Plan, and the Performance and Restricted Shares elements of the Long-Term Incentive Plan were disposed of by the Company for nil consideration. The 4,707,652 shares disposed of by the Company in respect of the Share Options element of the Long-Term Incentive Plan and the Executive Share Option Plan were disposed of by the Company for an aggregate consideration of £23,367,600. As at 31 December 2023, the number of shares held in treasury totalled 204,041,705 (having a total nominal value of £5,101,043 and representing 6.3% of the Company's called up share capital at 31 December 2023).

The rights to treasury shares are restricted in accordance with the Companies Act and, in particular, the voting and dividend rights attaching to these shares are automatically suspended.

Rights and obligations of ordinary shares

On a show of hands at a general meeting every holder of ordinary shares present in person and entitled to vote shall have one vote, and every proxy entitled to vote shall have one vote (unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution; or if the proxy has been instructed by one or more shareholders to vote either for or against a resolution and by one or more of those shareholders to use their discretion how to vote). On a poll, every member present in person or by proxy and entitled to vote shall have one vote for every ordinary share held. Subject to the relevant statutory provisions and the Company's Articles of Association, holders of ordinary shares are entitled to a dividend where declared or paid out of profits available for such purposes. Subject to the relevant statutory provisions and the Company's Articles of Association, on a return of capital on a winding-up, holders of ordinary shares are entitled, after repayment of the £1 Special Share, to participate in such a return. There are no redemption rights in relation to the ordinary shares.

Rights and obligations of the Special Share

The Special Share is held on behalf of the Secretary of State for Business and Trade (the 'Special Shareholder'). Certain provisions of the Company's Articles of Association cannot be amended without the consent of the Special Shareholder. These provisions include the requirement that no foreign person, or foreign persons acting in concert, can have more than a 15% voting interest in the Company, the requirement that the majority of the directors are British, and the requirement that the Chief Executive or any executive Chair are British.

The holder of the Special Share is entitled to attend a general meeting, but the Special Share carries no right to vote or any other rights at any such meeting, other than to speak in relation to any business in respect of the Special Share. Subject to the relevant statutory provisions and the Company's Articles of Association, on a return of capital on a winding-up, the holder of the Special Share shall be entitled to repayment of the £1 capital paid up on the Special Share in priority to any repayment of capital to any other members.

The holder of the Special Share has the right to require the Company to redeem the Special Share at par or convert the Special Share into one ordinary share at any time.

Restrictions on transfer of securities

The restrictions on the transfer of shares in the Company are as follows:

- the Special Share may only be issued to, held by and transferred to the Special Shareholder or their successor or nominee;
- the directors shall not register any allotment or transfer of any shares to a foreign person, or foreign persons acting in concert, who at the time have more than a 15% voting interest in the Company, or who would, following such allotment or transfer, have such an interest;
- the directors shall not register any person as a holder of any shares unless they have received: (i) a declaration stating that upon registration, the share(s) will not be held by foreign persons or that upon registration the share(s) will be held by a foreign person or persons; (ii) such evidence (if any) as the directors may require of the authority of the signatory of the declaration; and (iii) such evidence or information (if any) as to the matters referred to in the declaration as the directors consider appropriate;
- the directors may also refuse to register any instrument of transfer of shares unless the instrument of transfer is in respect of only one class of share and it is lodged at the place where the register of members is kept, accompanied by a relevant certificate or such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer;
- the directors may refuse to register an allotment or transfer of shares in favour of more than four persons jointly;
- where a shareholder has failed to provide the Company with certain information relating to their interest in shares, the directors can, in certain circumstances, refuse to register a transfer of such shares;
- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws);
- restrictions may be imposed pursuant to the Listing Rules of the Financial Conduct Authority whereby certain of the Group's employees require the Company's approval to deal in shares; and
- awards of shares made under the Company's Long-Term Incentive Plan 2023, Long-Term Incentive Plan 2014, Deferred Bonus Plan, Share Incentive Plan, International Share Incentive Plan, Group All-Employee Free Shares Plan and International Profit Sharing Scheme are subject to restrictions on the transfer of shares prior to vesting and/or release.

The Company is not aware of any arrangements between its shareholders that may result in restrictions on the transfer of shares and/or voting rights.

Significant direct and indirect holders of securities

As at 31 December 2023, the Company had been advised of the following significant direct and indirect interests in the issued ordinary share capital of the Company:

Name of shareholder	Percentage notified
Barclays PLC	3.98%
BlackRock, Inc.	9.90%
The Capital Group Companies, Inc.	12.98%
Investco Limited	4.97%
Silchester International Investors LLP	3.01%
WCM Investment Management, LLC	3.00%

No disclosable interests have been notified to the Company between 31 December 2023 and 20 February 2024 (the latest practicable date for inclusion in this report). As far as BAE Systems plc is aware, all of the shareholders listed in the table above have held more than 3% of, or 3% of voting rights attributable to BAE Systems plc's ordinary shares.

Exercise of rights of shares in employee share schemes

The trustees of the employee trusts do not seek to exercise voting rights on shares held in the employee trusts other than on the direction of the underlying beneficiaries. No voting rights are exercised in relation to shares unallocated to individual beneficiaries. The trustees of the employee trusts also waive their entitlement to receive dividends in respect of shares that are the beneficial property of the trusts.

Restrictions on voting deadlines

The notice of any general meeting shall specify the deadline for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be proposed at the general meeting. The number of proxy votes for, against or withheld in respect of each resolution are publicised on the Company's website after the meeting.

Appointment and replacement of directors

Subject to certain nationality requirements mentioned below, the Company may by ordinary resolution appoint any person to be a director.

The directors also have the power to make appointments to the Board at any time. Any individual so appointed will hold office until the next AGM and shall then be eligible for re-election.

The majority of directors holding office must be British. Otherwise, the directors who are not British shall vacate office in such order that those who have been in office for the shortest period since their appointment shall vacate their office first, unless all of the directors otherwise agree among themselves. Any director who holds the office of either Chair (in an executive capacity) or Chief Executive shall also be British.

The Company must have not less than six directors holding office at all times. If the number is reduced to below six, then such number of persons shall be appointed as directors as soon as is reasonably practicable to reinstate the number of directors to six. The Company may by ordinary resolution from time to time vary the minimum number of directors.

All directors will stand for election or re-election in 2024 as required by the Company's Articles of Association and in compliance with the UK Corporate Governance Code.

Amendment of the Company's Articles of Association

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. Where class rights are varied, such amendments must be approved by the members of each class of shares separately.

In addition, certain provisions of the Articles of Association cannot be amended without the consent of the Special Shareholder. These provisions include the requirement that no foreign person, or foreign persons acting in concert, can have more than a 15% voting interest in the Company, the requirement that the majority of the directors are British, and the requirement that the Chief Executive or any executive Chair are British.

Powers of the directors

The directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation, and the Articles of Association.

At the 2023 AGM, the directors were given the power to buy back a maximum number of 305,567,916 ordinary shares at a minimum price of 2.5p each. The maximum price was the higher of (i) an amount equal to 105% of the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such ordinary shares are contracted to be purchased, and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange.

This power will expire at the earlier of the conclusion of the 2024 AGM or if earlier, at the close of business on 30 June 2024. A special resolution will be proposed at the 2024 AGM to renew the Company's authority to acquire its own shares.

At the 2023 AGM, the directors were given the power to issue new shares up to a nominal amount of £25,461,446. This power will expire on the earlier of the conclusion of the 2024 AGM or if earlier, at the close of business on 30 June 2024. Accordingly, a resolution will be proposed at the 2024 AGM to renew the Company's authority to issue further new shares.

Conflicts of interest

As permitted under the Companies Act 2006, the Company's Articles of Association contain provisions which enable the Board to authorise conflicts or potential conflicts that individual directors may have.

To avoid potential conflicts of interest the Board requires the Nominations Committee to check that any individuals it nominates for appointment to the Board are free of potential conflicts. In addition, the Board's procedures and the induction programme for new directors emphasise a director's personal responsibility for complying with the duties relating to conflicts of interest. The procedure adopted by the Board for the authorisation of conflicts reminds directors of the need to consider their duties as directors and not grant an authorisation unless they believe, in good faith, that this would be likely to promote the success of the Company. As required by law, the potentially conflicted director cannot vote on an authorisation resolution or be counted in the quorum. Any authorisation granted may be terminated at any time and the director is informed of the obligation to inform the Company without delay should there be any material change in the nature of the conflict or potential conflict so authorised.

Directors' indemnities

The Company has entered into deeds of indemnity with all of its current directors and those persons who were directors for any part of 2023 which are qualifying indemnity provisions for the purpose of the Companies Act 2006.

The directors of BAE Systems Pension Funds Trustees Limited, BAE Systems 2000 Pension Plan Trustees Limited, BAE Systems Executive Pension Scheme Trustees Limited and Alvis Pension Scheme Trustees Limited benefit from indemnities in the governing documentation of the BAE Systems Pension Scheme, the BAE Systems 2000 Pension Plan, the BAE Systems Executive Pension Scheme and the Alvis Pension Scheme, respectively, which are qualifying indemnity provisions for the purpose of the Companies Act 2006.

All such indemnity provisions are in force as at the date of this Directors' report.

Statotory and other regulatory information continued

Change of control – significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination, alteration or other similar rights in the event of a change of control of the Company:

- The Company and BAE Systems Holdings Inc. have entered into a £2bn Revolving Credit Facility dated 27 September 2023. The facility provides that, in the event of a change of control of the Company, the lenders are entitled to renegotiate terms, or if no agreement is reached on negotiated terms within a certain period, to call for the repayment or cancellation of the facility. The Revolving Credit Facility was undrawn as at 31 December 2023.
- The Company and BAE Systems Holdings Inc. have entered into a $5.525bn Bridge Loan Facility dated 21 August 2023, as amended on 8 December 2023. The facility provides that, in the event of a change of control of the Company, the lenders are entitled to renegotiate terms, or if no agreement is reached on negotiated terms within a certain period, to call for the repayment or cancellation of the facility. The Bridge Loan Facility was undrawn as at 31 December 2023.
- The Company has entered into a Restated and Amended Shareholders Agreement with European Aeronautic Defence and Space Company EADS N.V. (EADS) and Finmeccanica S.p.A. (Finmeccanica) relating to MBDA S.A.S. dated 18 December 2001 (as amended). In the event that control of the Company passes to certain specified third-party acquirors, the agreement allows EADS and Finmeccanica to exercise an option to terminate certain executive management level nomination and voting rights, and certain shareholder information rights of the Company in relation to the MBDA joint venture. Following the exercise of this option, the Company would have the right to require the other shareholders to purchase its interest in MBDA at fair market value.
- The Company and EADS have agreed that if Finmeccanica acquires a controlling interest in the Company, EADS will increase its shareholding in MBDA to 50% by purchasing the appropriate number of shares in MBDA at fair market value.
- The Company, BAE Systems, Inc., BAE Systems (Holdings) Limited and BAE Systems Holdings Inc. entered into a renewed Special Security Agreement, effective date of 5 January 2023, with the US Department of Defense regarding the management of BAE Systems, Inc. in order to comply with the US government's national security requirements. In the event of a change of control of the Company, the Agreement may be terminated or altered by the US Department of Defense.
- In June 2017, BAE Systems Surface Ships Limited entered into a contract with the UK Ministry of Defence (MoD) for the manufacture of the first batch of three Type 26 frigates. This contract was amended and restated in November 2022 to include the manufacture of the second batch of five Type 26 frigates. Where the MoD considers that a proposed change of control of BAE Systems Surface Ships Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK or where the change of control would result in increased costs to the MoD under the contract, then the change of control shall not proceed until agreement with the MoD is established. If there is a change of control without notice or notwithstanding the objection of the MoD on such grounds, then the MoD may terminate the contract with immediate effect.
- The FMSP Ships Engineering Management and Delivery agreement between BAE Systems Surface Ships Limited and the MoD was entered into on 31 March 2021 for the provision of surface ship engineering management and delivery services relating to HM Naval Base Portsmouth. Where the MoD considers that a proposed change of control of BAE Systems Surface Ships Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK, then the change of control shall not proceed until agreement with the MoD is established. If there is a change of control without notice or notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the agreement.
- In November 2020, BAE Systems Global Combat Systems Munitions Limited and the MoD entered into a 15-year agreement for the provision of ammunition to UK forces (the Next Generation Munitions Solution (NGMS) agreement) from 2023 to 2037. Where the MoD has any concerns regarding a proposed change of control of BAE Systems Global Combat Systems Munitions Limited (or its direct or indirect holding company) and such concerns are not resolved, then if the change of control proceeds, the MoD may terminate the contract.
- In November 2015, BAE Systems Marine Limited entered into a contract with the MoD for the design, construction, testing and commissioning of Boat 5 of the Astute Class programme. In March 2016, BAE Systems Marine Limited entered into a contract with the MoD for the design, construction, testing and commissioning of Boat 6 of the Astute Class Programme. In March 2018, BAE Systems Marine Limited entered into a contract with the MoD for the design, construction, testing and commissioning of Boat 7 of the Astute Class Programme. Where the MoD considers that a proposed change of control of BAE Systems Marine Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK, then the change of control shall not proceed until agreement is established with the MoD. In the event that there is a change of control notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the agreements immediately.
- In December 2011, BAE Systems Marine Limited entered into a contract with the MoD for the design of the Dreadnought submarines. Where the MoD considers that a proposed change of control of BAE Systems Marine Limited (or its direct or indirect holding company) would be contrary to the defence, national interest or national security of the UK, then the change of control shall not take place until agreement is reached with the MoD on how to proceed. In the event that there is a change of control notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the contract with immediate effect.
- In September 2016, BAE Systems Marine Limited entered into a contract with the MoD for the initial phase of manufacturing activities for the Dreadnought Class programme. This contract was extended and amended in March 2022 to include continuation of manufacturing and associated activities on all four boats in the class. Where the MoD considers that a proposed change of control of BAE Systems Marine Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK, then the change of control shall not proceed until agreement is established with the MoD. In the event that there is a change of control, notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the agreements immediately.

- In June 2023, BAE Systems Marine Limited entered into a contract with the MoD for the funding of facilities required for the SSN-AUKUS Class programme. In July 2023, BAE Systems Marine Limited entered into a contract with the MoD for the development of the design of the SSN-AUKUS Class of submarines and long lead item procurement for that programme. In each contract where the MoD considers that a proposed change of control of BAE Systems Marine Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK, then the change of control shall not proceed until agreement is established with the MoD. In the event that there is a change of control notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the agreements immediately.
- In December 2018, BAE Systems' subsidiary, ASC Shipbuilding Pty Limited, entered into a contract providing the framework for the design and manufacture of Hunter Class Frigates for the Royal Australian Navy (Head Contract). As part of the acquisition of ASC Shipbuilding Pty Limited from the Australian Commonwealth, BAE Systems Australia Limited entered into a Sovereign Capability and Option Deed (SCOD). Under the Head Contract and the SCOD, if there is a change of control of ASC Shipbuilding Pty Limited or BAE Systems Australia Limited or, in the case of the Head Contract, there is a change of control of the Company as guarantor, consent is required from the Australian Commonwealth Government prior to any change of control occurring. If there is a change of control without notice or notwithstanding an objection, the Commonwealth may terminate the Head Contract, take any action to mitigate an actual or potential threat to Australia's national security interests, or exercise its call option under the SCOD and regain ownership of ASC Shipbuilding Pty Limited.
- In March 2022, the Hawk Integrated Support contract was entered into between BAE Systems (Operations) Limited and the MoD for the provision of support services to the Royal Air Force's fleet of Hawk fast jet trainer aircraft and the Royal Air Force Aerobatic Team Aircraft. Where the MoD has any concerns about the actual or proposed change of control of BAE Systems (Operations) Limited (or its direct or indirect holding company), which may include, but not limited to, potential threats of national security, then the MoD shall advise the contractor in writing of any concerns it may have. The MoD may terminate the contract within six months of such actual or proposed change of control.
- In June 2021, BAE Systems Australia Limited entered into a contract providing the framework for the provision of in-service support for the Hawk aircraft until June 2031. If there is a change of control of BAE Systems Australia Limited or BAE Systems plc without consent from the Australian Commonwealth Government, the Australian Commonwealth may terminate the contract.
- In April 2019, BAE Systems (Operations) Limited, Rolls Royce, MBDA and Leonardo entered into a contract with the MoD for the Tempest Programme to develop and mature future combat air-related technologies and concepts. Since then further contract funding has been awarded. This contract provides that where the MoD has any concerns about the actual or proposed change of control of BAE Systems (Operations) Limited (or its direct or indirect holding company), which may include, but not limited to, such change of control having an impact on the reputation or public perception of the MOD or national security, then the MoD shall advise the contractor in writing of any concerns it may have and the MoD may terminate the contract.
- In June 2021, BAE Systems (Operations) Limited entered into a contract with the MoD for the Future Combat Air System Acquisition Programme Concept and Assessment Phase Contract to advance the concepting and technology of the next-generation Combat aircraft. In 2023, additional MoD funding of approximately £800m was awarded. This contract provides that where the MoD has any concerns about the actual or proposed change of control of BAE Systems (Operations) Limited (or its direct or indirect holding company), which may include, but not limited to, potential threats of national security, then the MoD shall advise the contractor in writing of any concerns it may have. The MoD may terminate the contract within six months of it being notified of such actual or proposed change of control.
- In May 2024, BAE Systems Hägglunds AB entered into a contract with Försvarets Materielverk and the Ministry of Defence of the Czech Republic (MoD Czech Republic) for the manufacture of 246 CV90 MkIV infantry fighting vehicles. The contract provides that any change of control of BAE Systems Hägglunds AB (or its direct or indirect holding company) is subject to the MoD Czech Republic's consent.

In addition, the Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

Auditor

Deloitte LLP has indicated its willingness to be re-appointed as the Company's auditor and a resolution proposing its re-appointment will be put to the 2024 AGM.

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report, and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the UK (IFRS) and applicable law, and have elected to prepare the parent company financial statements in accordance with UK accounting standards, including Financial Reporting Standard (FRS) 101, Reduced Disclosure Framework.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company, and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the UK;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006.

Statutory and other regulatory information continued

The directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulation, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and regulation.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Controls over financial reporting

Through implementation of the Operational Framework, internal control procedures are in place to support the approval of the financial statements of the Group.

Management is responsible for reviewing the financial reports and disclosures to ensure that they have been subject to adequate verification and comply with applicable standards and legislation (including reviewing data for consolidation into the Group's financial statements to ensure that it gives a true and fair view of the Group's results in compliance with applicable accounting policies). Where appropriate, management reports its conclusions to the Audit Committee, which debates such conclusions and provides further challenge. Finally, the Board scrutinises and approves results announcements and the Annual Report and ensures that appropriate disclosures have been made.

This governance process ensures that both management and the Board are given sufficient opportunity to debate and challenge the financial statements of the Group and other significant disclosures before they are made public.

Statement of disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Responsibility statement of the directors in respect of the Annual Report and financial statements

Each of the directors listed below confirms that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the undertakings included in the consolidation taken as a whole; and
- the Strategic report and Directors' report (which together comprise a management report for the purposes of DTR 4.1.8R), taken together, include a fair review of the development and performance of the business, and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, each of the directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Cressida Hogg	Chair
Charles Woodburn	Chief Executive
Tom Arseneault	President and Chief Executive Officer of BAE Systems, Inc.
Brad Greve	Chief Financial Officer
Nick Anderson	Non-executive director
Crystal Ashby	Non-executive director
Angus Cockburn	Non-executive director
Dame Elizabeth Corley	Non-executive director
Jane Griffiths	Non-executive director
Ewan Kirk	Non-executive director
Stephen Pearce	Non-executive director
Nicole Piasecki	Non-executive director
Lord Sedwill	Non-executive director

On behalf of the Board

Cressida Hogg
Chair

20 February 2024

Directors' report

The Directors' report was approved by the Board of directors on 20 February 2024.

David Parkes
Company Secretary

Financial statements

Auditor's report

Consolidated financial statements

Company financial statements

Group accounting policies

Material accounting policies are included within the relevant note to the Consolidated financial statements.

Independent Auditor's report
to the members of BAE Systems plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of BAE Systems plc (the "Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated income statement;
- the Consolidated and Company statements of comprehensive income;
- the Consolidated and Company statements of changes in equity;
- the Consolidated and Company balance sheets;
- the Consolidated cash flow statement;
- the related notes 1 to 35 in the Consolidated financial statements; and
- the related notes 1 to 13 in the Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the year are disclosed in note 3 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- revenue and margin recognition on long-term contracts; and
- valuation of post-employment benefit obligations.

Within this report, key audit matters are identified as follows:

∧ Increased level of risk

≈ Similar level of risk

∨ Decreased level of risk

Materiality

The materiality that we used for the audit of the Group financial statements was £100.0m (2022: £87.5m) which was determined on the basis of profit before tax excluding adjusting items and fair value and foreign exchange movements relating to financial instruments, as described further in section 6 below.

Scoping

We performed a combination of full scope audit procedures and audits of specified account balances on certain components. Together these procedures addressed:

- 85% of revenue (2022 – 89%);
- 85% of profit before tax (2022 – 86%); and
- 91% of total assets (2022 – 91%).

The remaining components were subject to other procedures, including conducting analytical reviews, making enquiries of management, and evaluating the Group's control environment.

Significant changes in our approach

Last year goodwill was included as a key audit matter. As a result of the level of headroom, we consider the risk to have significantly reduced and concluded the valuation of goodwill no longer represents a key audit matter.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of the directors' process for determining the appropriateness of the going concern basis;
- evaluating the Group's existing access to sources of financing, including existing debt, undrawn committed bank facilities and financing for the Ball Aerospace acquisition;
- obtaining an understanding of relevant controls over the going concern models prepared by management, including the review of the inputs and assumptions used in those models;
- testing the accuracy of management's models, including agreement to the most recent Board approved budgets and forecasts;
- challenging the key assumptions underpinning these forecasts by:
  - reading analyst reports, industry data and other external information and comparing these with management's estimates;
  - comparing forecast revenue with the Group's order book and historical performance;
  - evaluating the historical accuracy of forecasts prepared by management;
  - considering potential macro-economic impacts on the forecasts as a consequence of the current geo-political environment;
  - assessing the sensitivity of the headroom to key assumptions; and
- assessing the appropriateness of the Group's disclosure concerning the going concern basis.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent Auditor's report continued

5.1. Revenue and margin recognition on long-term contracts ≈

Refer to page 97 (Audit Committee Report), Note 1 (key sources of estimation uncertainty) and Note 2 (accounting policy and financial disclosures)

Revenue:
£23,078m (2022: £21,258m)

Operating profit:
£2,573m (2022: £2,384m)

Key audit matter description

The estimation of both overall lifetime contract margin and the appropriate level of revenue and profit to recognise in any single accounting period requires the exercise of judgement. Within the Group's contract portfolio there are a number of programmes where there is a high degree of estimation required in reaching these judgements. Key estimates include forecast costs to complete on contracts, the impact of assumed learning efficiencies over the life of a programme, the schedule completion dates, and the appropriateness of contingency held against the risk of future cost growth. Consequently, we consider that revenue and margin recognition represent a key audit matter.

We focussed a greater proportion of audit effort on a number of contracts where we consider there to be a higher degree of judgement required and designed contract-specific procedures to mitigate the associated risks.

In order to identify contracts where there is the greatest risk of material misstatement, we undertook a contract risk assessment process at each reporting unit utilising data analytics, the latest contract information, our understanding of the business, the results of prior audits and review of external information about market and geo-political conditions which might impact certain contracts. We held meetings with key finance and contract managers, attended quarterly business review meetings and other key management meetings, read and understood underlying contract documentation and obtained support for key contract judgements. In addition, we looked for contracts that might have higher levels of judgement associated with the risk of schedule delivery or technical complexity, fixed price contracts which increase the risk of contract losses and other indicators that could increase the risk of a material impact on the financial statements.

As a result of our risk assessment, we identified one contract where we consider there to be an elevated risk of misstatement, owing to the high degree of judgement required in estimating the trading margin position impacting the 2023 financial statements.

How the scope of our audit responded to the key audit matter

Our contract testing approach included:

Testing the relevant controls

- We obtained an understanding of and tested relevant financial and IT controls across the Group's project accounting processes established to ensure that contracts are appropriately forecast, managed, controlled and reported.
- We observed the controls in operation by attending a sample of project contract status review meetings, quarterly business review meetings and Group-level meetings to validate the various levels of challenge applied to the forecasts.

Challenging assumptions and estimates

To gain assurance over the contract judgements and estimates made, our work included:

- inspection of customer contracts – inspecting customer contracts to gain an understanding of key contractual terms;
- enquiry – making enquiries of programme management and other operational personnel to obtain an understanding of the performance of the projects throughout the year and at year-end;
- historical forecasting accuracy – evaluating historical forecasting accuracy of costs against actual costs, including on similar programmes, and challenging future cost expectations with reference to those data points;
- site visits – conducting production site visits to inform our challenge of the cost to complete estimates and understanding of contract status;
- tests of detail of costs to date and estimates to complete – testing the underlying calculations used in the contract assessments for sensitivity, accuracy and completeness, including the estimated costs to complete the contract alongside associated contingencies and testing a sample of expenditure to date. In auditing the cost to complete, we have challenged the key assumptions with reference to previous programmes and current run-rate data, resource availability, supply chain issues (such as inflation and contract delivery schedule) and other factors that could impact on contract and schedule risk;
- inspection and validation of external evidence – examining external evidence to assess contract status, timeframe for delivery and any variation of consideration (including associated recoverability of contract balances), such as customer correspondence. For certain contracts, this evidence was validated by meeting with the customer directly;
- legal – enquiring with in-house legal counsel regarding contract-related litigation and claims and analysing legal opinions where applicable; and
- stand back assessment – considering whether there were any indicators of management override of controls or bias in arriving at their reported position, including a stand back assessment of the contract position.

Key observations

As a result of the audit procedures outlined above, we consider the judgements made by the Group in recognising revenue and profit to be reasonable.

5.2. Valuation of post-employment benefit obligations ≈

Refer to page 97 (Audit Committee report), Note 1 (key sources of estimation uncertainty) and Note 24 (accounting policy and financial disclosures)

The Group's share of the net IAS 19 Employee benefits surplus was: £229m (2022: £646m net surplus), and comprised scheme assets of £23,985m (2022: £25,343m) and defined benefit obligations of £23,247m (2022: £23,868m).

Key audit matter description

The post-employment schemes are held across the group in the UK and US, as well as an end of service benefit provided to employees in Saudi Arabia and other locations. The key audit matter set out below is in relation to the UK post-employment schemes.

We identified the following two areas of focus of our procedures as a key audit matter in the current year:

Scheme assets

Given the size and nature of the schemes' assets, there is significant audit effort required in ensuring the valuation of assets is appropriate.

Certain asset classes are inherently more judgmental to value and have a higher level of associated valuation risk, namely:

- Private Equity investments;
- Pooled Investment Vehicles without published market prices;
- Private Placements;
- Longevity swap derivatives; and
- Property assets.

In addition, on 1 December 2023, the Group moved its primary investment manager to a third-party service provider. This has resulted in a transfer of the established control environment to the third-party service provider.

Defined benefit obligations

The key judgements relating to the post-employment benefit obligation liabilities include:

- discount rates;
- inflation assumptions for the UK schemes, including the basis for determining the inflation risk premium; and
- mortality assumptions.

Given the significant size of the post-employment benefit obligations at year-end, small changes to these input assumptions can lead to material changes in the net surplus.

How the scope of our audit responded to the key audit matter

Scheme assets

In relation to asset valuations, we have performed the following procedures with increased focus on those assets with a higher valuation risk as noted above:

- we obtained a detailed understanding and performed walkthroughs of management's process and reviewed relevant internal controls reports from service providers, with specific focus on understanding key controls relating to the valuation of certain asset classes;
- we tested the pension asset valuation controls for a number of the asset classes operated both by management and relevant service providers;
- we sought and obtained third party confirmations from asset managers and/or custodians or other supporting evidence to test existence and valuation as appropriate;
- in conjunction with our actuarial specialists, we challenged the fair value assumptions used to value the longevity swaps including the future projected mortality rates and discount rates;
- we assessed publicly available information on the assets (including fact sheets and prospectuses), comparing to internal and external benchmarks (i.e. market prices, relevant indices or comparably priced instruments);
- in the case of specialist asset classes, such as properties, we involved our specialists to challenge the third-party valuations performed with reference to recent market transactions, rental yields, and movements in relevant indices; and
- we tested relevant controls and performed substantive procedures over the transfer of data to the new third-party service provider.

Defined benefit obligations

In relation to post-employment benefit obligations, we have performed the following procedures:

- we obtained a detailed understanding and performed walkthroughs of management's process, with specific focus on understanding relevant controls relating to the valuation of the post-employment benefit obligation;
- we assessed the relevant control environment of the third-party administrators who maintain membership data on behalf of the Group through review of their ISAE 3402 controls reporting, and considered and responded to any findings therein;
- we assessed the competence, capability and objectivity of the actuaries engaged by management to perform the valuations of the schemes;
- in conjunction with our actuarial specialists, we challenged the assumptions used in the valuation of the defined benefit obligation, including assessing and challenging the reasonableness of the assumptions against available market data and benchmarking against peers;
- we made enquiries regarding the climate impact on the underlying assumptions;
- we considered the adjustment made to the Continuous Mortality Investigation ("CMI") 2022 mortality projections that applies an increased weighting factor to reflect the potential long-term impacts of Covid-19 on future mortality rates, with reference to advice the Group has received from its actuaries; and
- we agreed a sample of cash contributions made into the pension funds.

Key observations

We concluded our testing of the assets and are satisfied that they are appropriately valued. When taken together, we consider the discount rate, inflation and other key pension assumptions used in calculating the UK post-employment benefit obligation to be within our independently developed reasonable range.

Independent Auditor's report continued

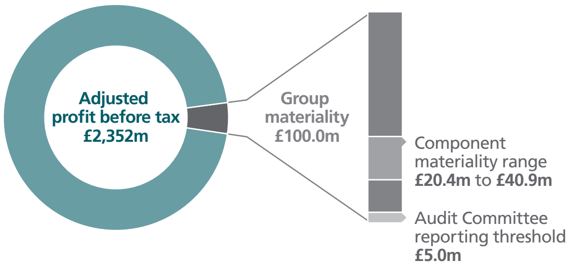
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	£100.0m (2022: £87.5m)	£65.0m (2022: £34.2m)
Basis for determining materiality	4.3% of adjusted profit before tax of £2,352m (2022: 4.3% of adjusted profit before tax of £2,034m). This metric excludes adjusting items of £40m and fair value adjustments and foreign exchange movements on financial instruments of £66m, as detailed in note 2 and 6 of the financial statements.	0.4% of total assets of £18,369m, capped at 65% of group materiality (2022: 0.7% of net assets of £4,712m).
Rationale for the benchmark applied	Adjusted profit before tax was considered to be the most relevant benchmark as it is considered the most stable and comparable profit metric. The adjustments relate to items we consider appropriate to exclude and not reflective of the underlying performance of the business. We consider the measure suitable having also considered the other relevant benchmarks such as revenue, where our materiality equates to 0.8%, and net assets, where our materiality equates to 1.0%.	We consider total assets to be the key benchmark used by members of the Company in assessing financial position as the primary purpose of the entity is to hold investments.
Component materiality	The work performed on components identified in our Group audit scope (excluding the Company) was completed to a component materiality level between £20.4m and £40.9m (2022: £20.0m and £33.7m).	



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	70% (2022: 70%) of Group materiality	70% (2022: 70%) of Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: – the quantum and nature of the uncorrected misstatements identified in the prior year audit; – our assessment of the potential for uncorrected misstatements in the current year; – our risk assessment, including our assessment of the overall control environment; – no substantial changes to the business have been noted from the prior year; and – the size and nature of the contract-based significant risks of material misstatement identified.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £5m (2022: £4.375m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

We performed our scoping of the Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the audit risks. This exercise has considered the relative size of each reporting unit's contribution to revenue, profit before tax and adjusted profit before tax, alongside further financial or contractual risks, which we consider to be present.

We determined which reporting units are financially significant by reference to a number of factors, including financial contribution and risk profile. This resulted in us performing full scope audits for six (2022: six) reporting units located in the UK, Saudi Arabia and the US, and included the Group's largest joint venture, MBDA S.A.S. ("MBDA"). Additionally, our audit planning identified twenty-one non-financially significant reporting units, located in the UK, Saudi Arabia, Australia, Sweden and the US, where we considered there to be a reasonable possibility of material misstatement in specific balances within the financial statements.

As a result of our risk assessment procedures and the detailed scoping exercise performed at the planning stage of our audit, we determined that it was appropriate to rotate certain non-financially significant reporting units in and out of our Group audit scope in the current year. We directed component auditors to perform an audit of specified account balances or specified audit procedures on the respective income statements and balance sheets for these reporting units.

For all other reporting units not included in full scope, specified account balance scope or specified audit procedure scope, we performed centrally directed analytical review procedures to confirm our conclusion that there was no significant risk of material misstatement in the residual population.

We also audited the consolidation process and performed audit procedures on centrally managed balances including treasury, post-employment benefit obligations, litigation and claims, goodwill, tax, and head office costs.

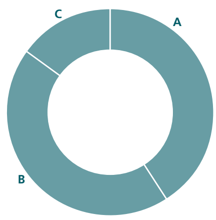
As each of the reporting units maintains separate financial records, we engaged component auditors from the Deloitte member firms in the US, UK, Saudi Arabia, Sweden and Australia to perform procedures at all the wholly owned components under our direction, supervision and review. This approach also allowed us to engage local in-scope auditors who have appropriate knowledge of local regulations to perform the audit work, under a common Deloitte audit approach.

In respect of MBDA, we engaged with the entity's non-Deloitte auditors to perform a full scope audit under our direction, supervision and review.

The Company is located in the United Kingdom and audited directly by the Group audit team.

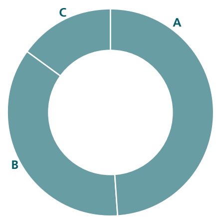
The twenty-six reporting units within either full or specified account balance scope contribute the following proportions to total Group results.

Revenue



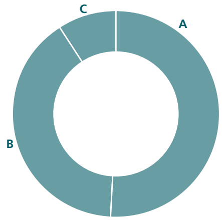
A	Full audit scope	**41%**
B	Specified account balances	**44%**
C	Specified audit procedures and review at Group level	**15%**

Profit before tax



A	Full audit scope	**49%**
B	Specified account balances	**36%**
C	Specified audit procedures and review at Group level	**15%**

Total assets



A	Full audit scope	**51%**
B	Specified account balances	**40%**
C	Specified audit procedures and review at Group level	**9%**

Independent Auditor's report continued

7.2. Our consideration of the control environment

We focussed our controls assessment on the Group's contract accounting processes. For each reporting unit where revenue is in scope, we obtain an understanding of key contract controls, such as with respect to the estimation of contract costs and the amount of contract revenue to recognise in the period. We also tested certain relevant revenue controls. At each reporting unit we also considered key controls relevant to other income statement and balance sheet items where they were considered relevant to our audit for risk assessment purposes.

The Group operates a range of IT systems which underpin the financial reporting process. These vary by business and/or by geography. For all reporting units that were subject to either a full scope or audit of specified balances, we identified relevant IT systems for the purpose of our audit work. These were typically the principal Enterprise Resource Planning ("ERP") systems for each reporting unit that underpin the general ledger and contract accounting balances, and in some cases also included ancillary/ feeder systems into the main ERP.

In the current year our controls approach was principally designed to inform our risk assessment and also to allow us to test the operating effectiveness of certain relevant revenue controls. We also assessed relevant general IT controls. The Group continues to invest in its IT systems and there is an ongoing programme of remediating any control findings where they are identified through its own assurance framework, including Internal Audit, or through the external audit. As part of our controls work, we identified certain control deficiencies that management is in the process of remediating as disclosed in the Audit Committee report on page 97. Where deficiencies have been identified and the remediation activity remained ongoing during the year, or the remediated controls were not effective throughout the whole accounting period, we did not seek to place reliance on those relevant controls for the purpose of our audit.

We also considered head office controls relating to central balances and processes such as post-employment benefit obligations, consolidation and financial reporting, treasury, tax, and the Group's planning and budgeting process.

During the course of our audit, we placed reliance on a number of relevant contract accounting controls and certain valuation controls in relation to pension scheme assets.

7.3. Our consideration of climate-related risks

We have engaged with both the central finance and sustainability functions to gain an understanding of the Group's assessment of, and the process undertaken to both identify and quantify, the Group's climate-related risks. We have engaged our climate specialists in our assessment to consider broader industry and market-wide practice.

We completed an independent climate-based risk assessment in order to consider the potential impact of climate change on the Group's financial statements incorporating both business specific knowledge and wider industry awareness. We used this to assess the completeness of the Group's identified risks. In addition, component teams have considered the local regulatory and legal environment, and therefore the likelihood of unidentified environmental claims arising. As set out by management in pages 158 and 159 to the financial statements, the areas of financial reporting principally impacted are those reliant on future forecasts or future performance, notably recoverability of goodwill.

In relation to the Group's future forecasts, we considered the appropriateness of amounts included by management in relation to climate change in the context of the underlying businesses' specific needs and existing asset base, including engaging with segment management to understand the process undertaken to identify required activities to achieve the Group's Net Zero target. We also assessed whether these disclosures reflect our understanding of the Group's approach to climate. With respect to the financial statements, we considered whether the current assessed impact of climate change required further or enhanced disclosure as part of critical accounting estimates. However, we concluded the current presentation as a factor within the estimate of goodwill, rather than a material driver of these estimates, is proportionate to the relative risk of the Group and currently assessed potential financial impact.

7.4. Working with other auditors

Our oversight of component auditors included directing the planning of their audit work and understanding their risk assessment process to identify key areas of estimates and judgement, as well as supervising the execution of their audit work. We issued detailed referral instructions to the component auditors, reviewed and supervised their work through a number of visits to each of the component auditors during the planning and performance stages of our audit, alongside frequent remote communication. Further, we challenged the related component inter-office reporting and findings from their work, reviewed underlying audit files, attended component audit closing meetings in person, or virtually where in person attendance was not possible, and held regular remote communication to interact on any related audit and accounting matters which arose. Additionally, all teams were involved in our annual planning workshop, which was led by the Group audit team. Visits to meet with component teams in the UK, US, Australia and Kingdom of Saudi Arabia were also conducted by either the lead audit partner or senior members of the engagement team.

The BAE Systems, Inc. reporting units in the US and businesses owned via BAE Systems, Inc., such as Hägglunds a Swedish subsidiary, are subject to a Department of Defence Special Security Arrangement ("SSA"), which is a US government requirement setting out specific protocols that foreign controlled companies must comply with in order to be able to undertake government defence contracts. As part of this there is restriction on the flow of information outside of the US. Therefore, for the US and related reporting units there are restrictions around access to the audit files and specific workpapers for non-US nationals. As such, and consistent with previous years, we have designed alternative procedures, including involvement of an additional independent US national partner, to ensure appropriate direction, supervision and review of the US component team.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent Auditor's report continued

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal legal counsel, internal audit, directors and the Audit Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's industry;
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud; and
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations, including obtaining an understanding of the Group's bribery and corruption and whistleblowing policies.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the level of judgement involved in estimating costs to complete on long-term contracts and the subsequent impact on revenue and margin recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pension legislation, and taxation legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty, including in respect of export controls, defence contracting and anti-bribery and corruption legislation.

11.2. Audit response to risks identified

As a result of performing the above, we identified revenue and margin recognition on long-term contracts as a key audit matter, and identified the contract with the greatest judgement related to the potential risk of fraud owing to the level of estimation uncertainty and exercise of management judgement required. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee, in-house legal counsel and where appropriate, circularising external legal counsel, concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and reviewing correspondence with relevant regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 79;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 78;
- the directors' statement on fair, balanced and understandable set out on page 140;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 68;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 90; and
- the section describing the work of the Audit Committee set out on page 97.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the members on 10 May 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years covering the years ended 31 December 2018 to 31 December 2023.

15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.15R – DTR 4.1.18R, these financial statements will form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R. We have been engaged to provide assurance on whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R and will publicly report separately to the members on this.

Claire Faulkner
Senior Statutory Auditor

For and on behalf of
Deloitte LLP Statutory Auditor

London, United Kingdom
20 February 2024

Consolidated income statement for the year ended 31 December

	Note	2023 £m	2023 Total £m	2022 £m	2022 Total £m
Continuing operations					
Revenue	2		**23,078**		21,258
Operating costs	3		**(20,917)**		(19,269)
Other income	5		**204**		215
Share of results of equity accounted investments	2,12		**208**		180
Operating profit	2		**2,573**		2,384
Finance income		**172**		47	
Finance costs		**(419)**		(442)	
Net finance costs	6		**(247)**		(395)
Profit before tax			**2,326**		1,989
Tax expense	7		**(386)**		(315)
Profit for the year			**1,940**		1,674
Attributable to:					
Equity shareholders			**1,857**		1,591
Non-controlling interests			**83**		83
			1,940		1,674
Earnings per share	8				
Basic earnings per share			**61.3p**		51.1p
Diluted earnings per share			**60.4p**		50.5p

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2023 Other reserves[1] £m	2023 Retained earnings £m	2023 Total £m	2022 Other reserves[1] £m	2022 Retained earnings £m	2022 Total £m
Profit for the year		**–**	**1,940**	**1,940**	–	1,674	1,674
Other comprehensive income							
Items that will not be reclassified to the income statement:							
Consolidated:							
Remeasurements on post-employment benefit schemes and other investments	13,24	**–**	**(669)**	**(669)**	–	2,851	2,851
Tax on items that will not be reclassified to the income statement	7	**–**	**4**	**4**	–	(357)	(357)
Share of the other comprehensive (expense)/income of associates and joint ventures accounted for using the equity method (net of tax)	12	**–**	**(25)**	**(25)**	–	116	116
Items that may be reclassified to the income statement:							
Consolidated:							
Currency translation on foreign currency net investments		**(510)**	**–**	**(510)**	1,172	–	1,172
Reclassification of cumulative currency translation reserve on disposal of subsidiaries	33	**–**	**–**	**–**	(17)	–	(17)
Fair value loss arising on hedging instruments during the year	15	**(4)**	**–**	**(4)**	(102)	–	(102)
Cumulative fair value (gain)/loss on hedging instruments reclassified to the income statement		**(19)**	**–**	**(19)**	5	–	5
Tax on items that may be reclassified to the income statement	7	**3**	**–**	**3**	24	–	24
Share of the other comprehensive income/(expense) of associates and joint ventures accounted for using the equity method (net of tax)	12	**11**	**–**	**11**	(8)	–	(8)
Total other comprehensive (expense)/income for the year (net of tax)		**(519)**	**(690)**	**(1,209)**	1,074	2,610	3,684
Total comprehensive (expense)/income for the year		**(519)**	**1,250**	**731**	1,074	4,284	5,358
Attributable to:							
Equity shareholders		**(511)**	**1,175**	**664**	1,053	4,186	5,239
Non-controlling interests		**(8)**	**75**	**67**	21	98	119
		(519)	**1,250**	**731**	1,074	4,284	5,358

1. An analysis of other reserves is provided in note 26.

Consolidated statement of changes in equity for the year ended 31 December

	Note	Attributable to equity holders of BAE Systems plc						
		Issued share capital £m	Share premium £m	Other reserves[1] £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2022		85	1,252	5,887	212	7,436	232	7,668
Profit for the year		–	–	–	1,591	1,591	83	1,674
Total other comprehensive income for the year		–	–	1,053	2,595	3,648	36	3,684
Total comprehensive income for the year		–	–	1,053	4,186	5,239	119	5,358
Share-based payments (inclusive of tax)	29	–	–	–	127	127	–	127
Cumulative fair value loss on hedging instruments transferred to the balance sheet (net of tax)		–	–	8	–	8	–	8
Ordinary share dividends	26	–	–	–	(802)	(802)	(166)	(968)
Purchase of own shares	26	(3)	–	3	(793)	(793)	–	(793)
At 31 December 2022		82	1,252	6,951	2,930	11,215	185	11,400
Profit for the year		**–**	**–**	**–**	**1,857**	**1,857**	**83**	**1,940**
Total other comprehensive expense for the year		**–**	**–**	**(511)**	**(682)**	**(1,193)**	**(16)**	**(1,209)**
Total comprehensive (expense)/income for the year		**–**	**–**	**(511)**	**1,175**	**664**	**67**	**731**
Share-based payments (inclusive of tax)	29	**–**	**–**	**–**	**132**	**132**	**–**	**132**
Cumulative fair value gain on hedging instruments transferred to the balance sheet (net of tax)		**–**	**–**	**(38)**	**–**	**(38)**	**–**	**(38)**
Ordinary share dividends	26	**–**	**–**	**–**	**(857)**	**(857)**	**(88)**	**(945)**
Purchase of own shares	26	**(1)**	**–**	**1**	**(558)**	**(558)**	**–**	**(558)**
Proceeds from unclaimed asset programme		**–**	**1**	**–**	**–**	**1**	**–**	**1**
At 31 December 2023		**81**	**1,253**	**6,403**	**2,822**	**10,559**	**164**	**10,723**

1. An analysis of other reserves is provided in note 26.

Consolidated balance sheet as at 31 December

	Note	2023 £m	2022 £m
Non-current assets			
Intangible assets	9	**12,099**	12,644
Property, plant and equipment	10	**3,635**	3,235
Right-of-use assets	11	**1,311**	1,425
Investment property		**57**	63
Equity accounted investments	12	**832**	787
Other investments	13	**84**	99
Contract and other receivables	14	**633**	618
Post-employment benefit surpluses	24	**804**	1,297
Other financial assets	15	**227**	322
Deferred tax assets	16	**609**	338
	20	**20,291**	20,828
Current assets			
Inventories	17	**1,156**	976
Trade, contract and other receivables	14	**6,185**	6,166
Current tax	18	**160**	133
Other financial assets	15	**205**	252
Cash and cash equivalents	19	**4,067**	3,107
		11,773	10,634
Total assets		**32,064**	31,462
Non-current liabilities			
Loans	21	**(4,432)**	(5,189)
Lease liabilities	11	**(1,273)**	(1,375)
Contract liabilities	22	**(1,955)**	(945)
Other payables	23	**(1,594)**	(1,441)
Post-employment benefit obligations	24	**(575)**	(651)
Other financial liabilities	15	**(227)**	(272)
Deferred tax liabilities	16	**(10)**	(5)
Provisions	25	**(332)**	(338)
		(10,398)	(10,216)
Current liabilities			
Loans and overdrafts	21	**(679)**	(53)
Lease liabilities	11	**(147)**	(241)
Contract liabilities	22	**(3,865)**	(3,882)
Trade and other payables	23	**(5,436)**	(4,990)
Other financial liabilities	15	**(295)**	(328)
Current tax	18	**(285)**	(103)
Provisions	25	**(236)**	(249)
		(10,943)	(9,846)
Total liabilities		**(21,341)**	(20,062)
Net assets		**10,723**	11,400
Capital and reserves			
Issued share capital	26	**81**	82
Share premium		**1,253**	1,252
Other reserves	26	**6,403**	6,951
Retained earnings		**2,822**	2,930
Total equity attributable to equity holders of BAE Systems plc		**10,559**	11,215
Non-controlling interests		**164**	185
Total equity		**10,723**	11,400

Approved by the Board of BAE Systems plc on 20 February 2024 and signed on its behalf by:

C N Woodburn
Chief Executive

B M Greve
Chief Financial Officer

Consolidated cash flow statement for the year ended 31 December

	Note	**2023 £m**	2022 £m
Profit for the year		**1,940**	1,674
Tax expense	7	**386**	315
Adjustment in respect of research and development expenditure credits	5	**(53)**	(35)
Share of results of equity accounted investments	2,12	**(208)**	(180)
Net finance costs	6	**247**	395
Depreciation, amortisation and impairment	3	**787**	767
Net gain on disposal of property, plant and equipment, and investment property	3,5	**(10)**	(3)
Gain in respect of business disposals	3,5	**–**	(93)
Gain on disposal of non-current investments	5	**–**	(7)
Cost of equity-settled employee share schemes	4	**110**	101
Movements in provisions		**–**	(54)
Difference between pension funding contributions paid and the pension charge		**(169)**	1
(Increase)/decrease in working capital:			
Inventories		**(223)**	(93)
Trade, contract and other receivables		**(287)**	(1,069)
Trade and other payables, and contract liabilities		**1,635**	1,485
Tax paid net of research and development expenditure credits received		**(395)**	(365)
Net cash flow from operating activities		**3,760**	2,839
Dividends received from equity accounted investments	12	**134**	94
Interest received		**126**	32
Principal element of finance lease receipts		**10**	9
Purchase of property, plant and equipment, and investment property		**(826)**	(599)
Purchase of intangible assets		**(131)**	(94)
Purchase of non-current other investments		**–**	(8)
Proceeds from funding related to assets		**149**	157
Proceeds from sale of property, plant and equipment, and investment property		**19**	18
Proceeds from sale of non-current other investments		**–**	7
Purchase of subsidiary undertakings and equity accounted investments, net of cash and cash equivalents acquired	12,32	**(14)**	(162)
Cash flow in respect of business disposals, net of cash and cash equivalents disposed	33	**(8)**	124
Net cash flow from investing activities		**(541)**	(422)
Interest paid		**(356)**	(269)
Equity dividends paid	26	**(857)**	(802)
Purchase of own shares	26	**(561)**	(788)
Dividends paid to non-controlling interests		**(88)**	(166)
Principal element of lease payments		**(292)**	(236)
Cash inflow from derivative financial instruments (excluding cash flow hedges)		**193**	533
Cash outflow from derivative financial instruments (excluding cash flow hedges)		**(389)**	(205)
Cash inflow from draw-down of loans		**162**	–
Cash outflow from repayment of loans		**–**	(400)
Net cash flow from financing activities	27	**(2,188)**	(2,333)
Net increase in cash and cash equivalents		**1,031**	84
Cash and cash equivalents at 1 January		**3,107**	2,917
Effect of foreign exchange rate changes on cash and cash equivalents		**(71)**	106
Cash and cash equivalents at 31 December	19	**4,067**	3,107

Notes to the Consolidated financial statements

1. Preparation of the Consolidated financial statements

Basis of preparation

BAE Systems plc (the parent company) is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the parent company's registered office is shown on page 236.

Following review, the directors have concluded that it is appropriate to adopt the going concern basis for these financial statements and have not identified any material uncertainties concerning the Group's ability to do so in the 12-month period from the date of approving them. Accordingly, the Consolidated financial statements of BAE Systems plc have been prepared on a going concern basis, and in accordance with UK-adopted international accounting standards and the Companies Act 2006.

The Consolidated financial statements are presented in pounds sterling and, unless stated otherwise, rounded to the nearest million. They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments).

Transactions in foreign currencies are translated at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date, with the resulting exchange differences recognised in the income statement.

Material accounting policies

The material accounting policies applied in the preparation of these Consolidated financial statements are set out in the relevant notes. These policies have been applied consistently to all the years presented, unless otherwise stated. The directors believe that the Consolidated financial statements reflect appropriate judgements and estimates, and provide a true and fair view of the Group's financial performance and position.

Key sources of estimation uncertainty

The application of the Group's accounting policies requires the use of estimates. In response to the potential impact of risks and uncertainties, the Group undertakes risk assessments and scenario planning in order to be able to respond to potential rapid changes in circumstances. The Group considers a range of estimates and assumptions in the application of its accounting policies and management's assessment of the carrying value of assets and liabilities. In the event that these estimates or assumptions prove to be inaccurate, there may be an adjustment to the carrying values of assets and liabilities within the next year. Potential areas of the Group's financial statements which could be materially impacted may include, but are not limited to:

Accounting policy	Description	Note
Revenue and profit recognition	The Group accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers. For most of the Group's contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired. The ultimate profitability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks which are reliant on the knowledge and experience of the Group's project managers, engineers and finance and commercial professionals. Material changes in these estimates could affect the profitability of individual contracts. Revenue and cost estimates are reviewed and updated at least quarterly, or more frequently as determined by events or circumstances. The long-term nature of many of the Group's contracts means that judgements are made in estimating future costs on a contract, as well as when risks will be mitigated or retired. The impact of global supply chain issues, volatility in global gas and energy prices, and the ongoing response to climate change, have increased uncertainty in relation to these judgements and estimates. The Group continues to work closely and collaboratively with its key customers to deliver effectively on its contracts and commitments. However, the volume, scale, complexity and long-term nature of its programmes mean that potential sensitivities would be wide-ranging and not practicable to calculate. Owing to the potential future impact of current uncertainties, the Group's estimates and assumptions related to revenue recognition could be impacted by issues such as reduced productivity as a result of operational disruption, production delays and increased costs as a result of disruption to the supply chain, changing working practices to move towards our net zero ambitions, or where there is uncertainty as to the recovery from customers of programme costs incurred. The Group has recognised £0.3bn of revenue in respect of performance obligations satisfied or partially satisfied in previous years (2022 £0.3bn). This continues to provide an approximation of the potential revenue sensitivity arising as a result of management's estimates and assumptions for variable consideration, future costs, and technical and other risks, however it may not reflect the full potential impact on the contract receivables and contract liabilities balances.	2

Notes to the Consolidated financial statements continued

1. Preparation of the Consolidated financial statements continued

Accounting policy	Description	Note
Post-employment benefit obligations	A number of actuarial assumptions are made in assessing the value of post-employment benefit obligations, including the discount rate, inflation rate and mortality assumptions. For each of the actuarial assumptions used, there is a wide range of possible values and management estimates a point within that range that most appropriately reflects the Group's circumstances. If estimates relating to these actuarial assumptions are no longer valid or change due to changing economic and social conditions, then the potential obligations due under these schemes could change significantly. Discount and inflation rates could change significantly as a result of a prolonged economic downturn, monetary policy decisions and interventions or other macroeconomic issues. The impact of estimates made with regard to mortality projections may also change. Similarly, the values of many assets are subject to estimates and assumptions, in particular those which are held in unquoted pooled investment vehicles. The associated fair value of these unquoted pooled investments is estimated with consideration of the most recently available valuations provided by the investment or fund managers. These valuations inherently incorporate a number of assumptions, including the impact of climate change, on the underlying investments. The overall level of estimation uncertainty in valuing these assets could therefore give rise to a material change in valuation within the next 12 months. Furthermore, estimates are required around the Group's ability to access its defined benefit surpluses, and on what basis, which then determines the associated rate of tax to apply. Depending on the outcome, judgement is then required to determine the presentation of any tax payable in recovering a surplus. Note 24 provides information on the key assumptions and analysis of their sensitivities.	24

Critical judgements made in applying accounting policies

In the course of preparing the Consolidated financial statements and when applying its accounting policies, the Group has been required to make judgements with regard to the actions required to enable the business to continue to meet customers' requirements in an operating environment still dominated by global economic uncertainties. No critical judgements have been made in the process of applying the Group's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the Consolidated financial statements.

Impact of climate ambitions on the Consolidated financial statements

In preparing the Consolidated financial statements management has considered the potential impact of climate change, both in the context of the disclosures included in the Strategic report, and the impact of climate-related risks and opportunities and the Group's net zero ambitions and decarbonisation activities on the Group's financial results.

As a responsible defence business, sustainability is embedded in our strategic framework, with one of the Group's long-term objectives to advance and integrate our ESG agenda. The products and services we provide are complex, diverse and developed over extended periods of time. Sustainability and the impact of our operations is considered in the planning and ongoing production of our products and services, including incorporation of the impact of the Group's net zero ambitions and decarbonisation activities. These are embedded in our financial reporting, forecasting and governance processes.

Estimates and judgement are required in determining how the Group will pursue its net zero ambitions. These, as well as mitigating actions required from the detailed review of climate risks and opportunities identified within the TCFD disclosures on page 53, have been factored into the current and future plans of the Group through the Integrated Business Plan (IBP). The IBP is the Group's annual long-term strategy review and five-year plan for each segment, including the investment case to decarbonise.

There are a number of core practices and processes that support the business to remain resilient and adapt to the impacts of climate change, whilst controlling the financial impacts to the Group. These include:

- **Maintenance and investment in our infrastructure** – our products are designed and built to remain in service for decades to come, and require development and construction over a significant period of time. In order to deliver complex engineering and technologically advanced products, we continuously invest in the maintenance and upkeep of our global sites and facilities. The Group regularly invests in its facilities to ensure they are maintained and adapted to enable our operations. Regular maintenance and investing in Group infrastructure is embedded in our strategy, and the expected associated costs are reflected in our IBP. Insurance also provides underlying cover for more immediate and unexpected impacts of climate change.
- **Investment in renewable energy** – during the year, the Group has entered into a number of Power Purchase Agreements (PPAs) to invest in renewable energy, providing long-term security of energy and pricing.
- **Proactive estate management** – a large part of our business is based on sites that are leased to the Group, as reflected in our right-of-use assets in the Consolidated financial statements. Although some facilities, such as shipyards, are required to be in certain locations, many of our operations are not tied to a particular location. Given the long-term outlook of our business, future physical impacts of climate change could be mitigated through movement of activities on these sites to facilities that will be less impacted by climate change. As and when sites are identified that would benefit from relocation, the associated costs are reflected within the IBP. We have not currently identified any sites which require relocation due to climate change. We also use opportunities of new building and refurbishment to upgrade energy efficiency.

The more immediate financial impacts of climate-related risks, and the actions being taken to address them, are reflected in the financial results of the Group for the year. These are not considered to have had a material impact. Areas impacted by climate-related risks and opportunities include:

- **Intangible assets** – the annual impairment review uses cash flow projections from the IBP, which incorporates any financial impact of climate-related risks and opportunities identified. This includes product repair and adaptation, as well as investment in facilities to progress the Group's net zero ambitions. All Cash-Generating Units showed sufficient headroom after incorporation of climate-related costs and opportunities.

1. Preparation of the Consolidated financial statements continued

- **Property, plant and equipment** – the useful economic life of existing capitalised assets across the Group has been reviewed in light of any repairs, upgrades to existing infrastructure, or future investment in facilities that will be required as a result of the climate-related risks and opportunities identified across our sites. No significant impairment of assets has been identified from this review.
- **Right-of-use assets, lease liabilities, and financial assets and liabilities** – the Group has entered into a number of PPAs during the year to provide more sustainable energy from renewable sources, including a new wind farm development and a number of solar projects across our UK enterprise, which will be completed in Q4 2026 and 2024 respectively. Once the projects are completed, and where the accounting for these agreements falls within the scope of IFRS 16 Leases, the relevant right-of-use assets and corresponding liabilities will be recognised in the Consolidated financial statements. The associated costs of the arrangement will be recognised in line with the term of the agreement. The Group has also considered whether any embedded derivatives have arisen, within the scope of IFRS 9 Financial Instruments, as a result of the PPAs entered into during the year. None are considered to exist at the balance sheet date, however this will continue to be monitored as the associated contractual arrangements are refined and the construction of the facility approaches completion.
- **Pension plans** – in assessing the value of pension assets for the UK schemes, the Group has considered the impact of climate change which is incorporated into the cash flow projections used in valuing infrastructure investment assets and pooled investment vehicle cash flows upon which the Group bases its assessment. There is also alignment between the UK Main Scheme and the Group's climate change objectives with consistent long-term net zero ambitions. This has not materially impacted the Group's net pension position during the year.
- **Deferred tax assets** – the recoverability of deferred tax assets are dependent on the future availability of profits, which in turn could be impacted by climate-related matters. The recoverability of deferred tax assets have been reviewed against the Group's future forecasts resulting from the IBP process, which incorporate identified climate-related risks and opportunities. No material risk to the recoverability of deferred tax assets has been identified.
- **Recoverability of contract and trade receivables** – our customers are also impacted by climate-related matters. The Group actively monitors credit risk in relation to defence-related sales to government customers or subcontractors to governments, which is considered extremely low as the probability of default is insignificant. For non-government commercial customers the Group assesses the impact of any credit losses but this is not considered to be material to the financial statements.
- **Share-based payments** – the award of Performance Shares within the 2023 Director's Long-Term Incentive framework has a 10% weighting based on the reduction of Group GHG emissions (Scope 1 and 2) aligned to a science-based pathway. The ability to meet this target will impact the amount and timing of any share-based payments over the term of the policy. The introduction of this condition has not materially impacted the financial results of the Group for the current year.

Changes in accounting policies

The following standards, interpretations and amendments to existing standards became effective on 1 January 2023 and have not had a material impact on the Group:

- IFRS 17 Insurance Contracts, effective from 1 January 2023;
- Amendments to IAS 1: Presentation of Financial Statements, effective from 1 January 2023;
- Amendments to IFRS Practice Statement 2: Disclosure of Accounting Policies, effective from 1 January 2023;
- Amendments to IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, effective from 1 January 2023; and
- Amendments to IAS 12: Income Taxes, effective from 1 January 2023.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2023. These either have been, or are expected to be, endorsed by the UK Endorsement Board and are not expected to have a material impact on the Group:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current, effective from 1 January 2024;
- Amendments to IAS 1: Non-current Liabilities with Covenants, effective from 1 January 2024;
- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements, effective from 1 January 2024;
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or joint venture; and
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback, effective from 1 January 2024.

Consolidation

The financial statements of the Group consolidate the results of the Company and its subsidiary entities, and include its share of results of equity accounted investments accounted for under the equity method.

A subsidiary is an entity controlled by the Group. The Group controls a subsidiary when it is exposed, or has the rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The results of subsidiaries are included in the income statement from the date of acquisition, or up until the date of disposal.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated financial statements.

Joint ventures are accounted for under the equity method and the Consolidated income statement includes the Group's share of their profits and losses, the Consolidated statement of comprehensive income includes its share of their other comprehensive income and expense, and the Consolidated balance sheet includes its share of their net assets within equity accounted investments.

The assets and liabilities of overseas subsidiaries and equity accounted investments are translated at the exchange rates ruling at the balance sheet date. The income statements of such entities are translated at average rates of exchange during the year. All resulting exchange differences are recognised directly in a separate component of equity. Translation differences that arose before the transition date to IFRS (1 January 2004) are presented in equity, but not as a separate component. When a foreign operation is sold, the cumulative exchange differences recognised in equity since 1 January 2004 are recognised in the income statement as part of the profit or loss on sale.

Notes to the Consolidated financial statements continued

2. Segmental analysis and revenue recognition

Revenue and profit recognition

Revenue represents income derived from contracts for the provision of goods and services, over time or at a point in time, by the Group to customers in exchange for consideration in the ordinary course of the Group's activities.

The Group accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers. For most of the Group's contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired.

The ultimate profitability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks which are reliant on the knowledge and experience of the Group's project managers, engineers, and finance and commercial professionals. Revenue and cost estimates are reviewed and updated at least quarterly, or more frequently as determined by events and circumstances.

The Group typically enters into the following types of contracts with customers:

– to design, build or create assets uniquely available to the customer such as ships and aircraft;
– to service or maintain assets over a period of time;
– to give access to software and licences; and
– to offer bespoke services to customers, for example through training or the offering of cyber, intelligence and security capabilities.

Revenue is recognised against each of these types of contracts in line with the following accounting policies.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

In some cases, the Group provides warranties to its customers to give them assurance that its products and services will function in line with agreed-upon specifications. Warranties are not provided separately and, therefore, do not represent separate performance obligations. As they are not provided separately, these are not considered to be insurance contracts in scope of IFRS 17 Insurance Contracts. A provision for warranties is recognised when the underlying products and services are sold (see note 25 for further details).

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as variable price mechanisms, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the Group's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are typically no observable stand-alone selling prices. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin consistent with the Group's pricing principles.

Whilst payment terms vary from contract to contract, on many of the Group's contracts, an element of the transaction price is received in advance of delivery. When cash is received in advance of goods or services being delivered a contract liability is recognised. The Group therefore has significant contract liabilities (note 22). The Group's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price. UK Ministry of Defence contracting rules prohibit the inclusion of financing in the sales price. Negotiations on competitive international export contracts do not make allowance for the cash payment profile.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied and control of the goods and services is transferred to the customer.

For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

– the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
– the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
– the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

The Group has determined that most of its contracts satisfy the over-time criteria, either because the customer simultaneously receives and consumes the benefits provided by the Group's performance as it is performed (typically services or support contracts, for example in the case of ongoing maintenance and support of aircraft and flying capability), or the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date (typically development or production contracts, such as in the production of ships or aircraft to customers' unique specifications).

2. Segmental analysis and revenue recognition continued

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on costs incurred in the year. Revenue and attributable margin are calculated by reference to reliable estimates of the transaction price and total expected costs, after making suitable allowances for technical and other risks including the impact of global economic uncertainties and climate change. Revenue and associated margin are therefore recognised progressively as costs are incurred and as risks have been mitigated or retired. The Group has determined that this method appropriately depicts the Group's performance in transferring control of the goods and services to the customer.

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

When it is probable that total contract costs will exceed total contract revenue the expected loss is recognised immediately as an expense.

Software licences

The Group sells software licences either separately or together with other goods and services, including computer hardware and implementation, hosting and support. Revenue recognition in respect of software licences sold as part of a bundle of goods and services is considered separately when the licence is determined to be a separate performance obligation. Software licences either represent a right to access the Group's intellectual property as it exists throughout the licence period or a right to use the Group's intellectual property as it exists at the point in time at which the licence is granted. Revenue in respect of a right to access licence is recognised over the licence term or, in relation to perpetual licences, over the related customer relationship. Revenue in respect of a right to use licence is recognised on delivery of the software to the customer or, if the customer chooses not to access and take delivery of the software, on expiry of the licence arrangement. A software licence is considered to be a right to access the Group's intellectual property as it exists throughout the licence period if all of the following criteria are satisfied:

– the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property;
– the licence directly exposes the customer to the effects of those activities; and
– those activities do not result in the transfer of a good or service to the customer.

Contract modifications

The Group's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing, or creates newly enforceable, rights and obligations. The effect of a contract modification on the transaction price, and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates, is recognised in one of the following ways:

1. prospectively, as an additional, separate contract;
2. prospectively, as a termination of the existing contract and creation of a new contract; or
3. as part of the original contract using a cumulative catch-up.

The majority of the Group's contract modifications are treated under either 1 (for example, the requirement for additional distinct goods or services) or 3 (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary and may result in different accounting outcomes.

Costs to obtain a contract

The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded, such as sales commission.

Costs to fulfil a contract

Contract fulfilment costs in respect of over-time contracts are expensed as incurred. Contract fulfilment costs in respect of point in time contracts are accounted for under IAS 2 Inventories.

Reporting segments

The Group has five sectors which, together with HQ, make its six reporting segments as defined by IFRS 8 Operating Segments:

– **Electronic Systems** comprises the US- and UK-based electronics activities, including electronic warfare systems, navigation systems, electro-optical sensors, military and commercial digital engine and flight controls, precision guidance and seeker solutions, next-generation military communications systems and data links, persistent surveillance capabilities, space electronics and electric drive propulsion systems.
– **Platforms & Services**, with operations in the US, Sweden and UK, manufactures and upgrades combat vehicles, weapons and munitions, and delivers services and sustainment activities, including naval ship repair, and the management and operation of two government-owned ammunition plants.
– **Air** comprises the Group's UK-based air build and support activities for European and international markets, US programmes, development of Future Combat Air Systems and FalconWorks®, alongside our business in the Kingdom of Saudi Arabia and interests in our European joint ventures: Eurofighter and MBDA.
– **Maritime** comprises the Group's UK-based maritime and land activities, including major submarine, ship build and support programmes as well as our Australian business.

Notes to the Consolidated financial statements continued

2. Segmental analysis and revenue recognition continued

Reporting segments continued

- **Cyber & Intelligence** comprises the US-based Intelligence & Security business and UK-headquartered Digital Intelligence business, which have been aggregated together due to the similarities of the services offered. Together, they cover the Group's cyber security activities for national security, central government and government enterprises.
- **HQ** comprises the Group's head office and UK-based shared services activities, together with a 49% interest in Air Astana as at 31 December 2023.

The Board (the chief operating decision maker as defined by IFRS 8 Operating Segments) monitors the results of these reporting segments to assess performance and make decisions about the allocation of resources. Segmental performance is evaluated based on key performance indicators – sales[1] and underlying EBIT[1]. Net finance costs and tax expense are managed on a Group basis.

Sales[1] and revenue by reporting segment

	Sales[1]		Deduct Group's share of revenue of equity accounted investments		Add Subsidiaries' revenue from equity accounted investments		Revenue	
	2023 £m	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Electronic Systems	**5,458**	5,057	**(255)**	(73)	**253**	73	**5,456**	5,057
Platforms & Services	**3,922**	3,688	**(80)**	(90)	**–**	–	**3,842**	3,598
Air	**8,058**	7,698	**(2,946)**	(2,651)	**1,405**	1,239	**6,517**	6,286
Maritime	**5,536**	4,598	**(150)**	(119)	**5**	5	**5,391**	4,484
Cyber & Intelligence	**2,321**	2,205	**–**	–	**–**	–	**2,321**	2,205
HQ	**471**	420	**(461)**	(410)	**–**	–	**10**	10
	25,766	23,666	**(3,892)**	(3,343)	**1,663**	1,317	**23,537**	21,640
Intra-group sales/revenue	**(482)**	(410)	**–**	1	**23**	27	**(459)**	(382)
	25,284	23,256	**(3,892)**	(3,342)	**1,686**	1,344	**23,078**	21,258

	Intra-group revenue		Revenue from external customers	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Electronic Systems	**157**	115	**5,299**	4,942
Platforms & Services	**46**	43	**3,796**	3,555
Air	**33**	29	**6,484**	6,257
Maritime	**86**	71	**5,305**	4,413
Cyber & Intelligence	**127**	114	**2,194**	2,091
HQ	**10**	10	**–**	–
	459	382	**23,078**	21,258

Sales[1] and revenue by customer location

	Sales[1]		Revenue	
	2023 £m	2022[2] £m	**2023 £m**	2022[2] £m
UK	**6,629**	5,428	**6,102**	4,918
Rest of Europe	**2,706**	2,201	**1,533**	1,230
US	**10,672**	10,166	**10,700**	10,157
Canada	**177**	125	**177**	125
Kingdom of Saudi Arabia	**2,688**	2,539	**2,687**	2,540
Qatar	**711**	1,156	**450**	885
Rest of Middle East	**225**	263	**178**	225
Australia	**949**	854	**943**	853
Rest of Asia and Pacific	**421**	420	**264**	283
Africa, and Central and South America	**106**	104	**44**	42
	25,284	23,256	**23,078**	21,258

1. Sales and underlying EBIT are alternative performance measures defined in the Alternative performance measures section on page 227. Sales includes both revenue from the Group's own subsidiaries as well as recognising the strategic importance in its industry of its equity accounted investments. It is presented here as our internal measure of segmental performance and to provide additional information on performance to the user.
2. Sales and revenue figures for 2022 to UK and Rest of Europe have been re-presented to reflect the workshare on the Typhoon programme.

2. Segmental analysis and revenue recognition continued

Revenue from external customers by domain

	2023					2022				
	Air £m	**Maritime £m**	**Land £m**	**Cyber £m**	**Total £m**	Air £m	Maritime £m	Land £m	Cyber £m	Total £m
Electronic Systems	**4,611**	**170**	**518**	**–**	**5,299**	4,404	145	393	–	4,942
Platforms & Services	**37**	**1,099**	**2,660**	**–**	**3,796**	41	1,043	2,471	–	3,555
Air	**6,380**	**104**	**–**	**–**	**6,484**	6,223	34	–	–	6,257
Maritime	**200**	**4,714**	**391**	**–**	**5,305**	268	3,778	367	–	4,413
Cyber & Intelligence	**637**	**305**	**234**	**1,018**	**2,194**	250	274	127	1,440	2,091
	11,865	**6,392**	**3,803**	**1,018**	**23,078**	11,186	5,274	3,358	1,440	21,258

Revenue by major customer

Revenue from the Group's three principal customers, which individually represent over 10% of total revenue, is as follows:

	2023 £m	2022 £m
US Department of Defense	**7,518**	7,439
UK Ministry of Defence	**5,766**	4,721
Kingdom of Saudi Arabia Ministry of Defence and Aviation	**2,607**	2,425

Revenue from the UK Ministry of Defence and the US Department of Defense was generated by the five reporting segments, excluding HQ. Revenue from the Kingdom of Saudi Arabia Ministry of Defence and Aviation was generated by the Air segment.

Operating profit/(loss) by reporting segment

	Underlying EBIT[3]		Adjusting items		Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles		Finance and tax expense of equity accounted investments		Operating profit/(loss)	
	2023 £m	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Electronic Systems	**878**	838	**21**	–	**(93)**	(91)	**–**	–	**806**	747
Platforms & Services	**354**	326	**21**	–	**–**	–	**(2)**	(4)	**373**	322
Air	**949**	849	**–**	(1)	**–**	(1)	**(1)**	(38)	**948**	809
Maritime	**425**	356	**–**	–	**–**	–	**(2)**	(4)	**423**	352
Cyber & Intelligence	**199**	232	**–**	78	**(20)**	(19)	**–**	–	**179**	291
HQ	**(123)**	(122)	**(2)**	14	**(3)**	–	**(28)**	(29)	**(156)**	(137)
	2,682	2,479	**40**	91	**(116)**	(111)	**(33)**	(75)	**2,573**	2,384
Net finance costs									**(247)**	(395)
Profit before tax									**2,326**	1,989
Tax expense									**(386)**	(315)
Profit for the year									**1,940**	1,674

Notes to the Consolidated financial statements continued

2. Segmental analysis and revenue recognition continued

Share of results of equity accounted investments within reporting segments

	Underlying EBIT[3]		Adjusting items		Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles		Net finance and tax expense		Share of results of equity accounted investments	
	2023 £m	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Electronic Systems	**10**	4	**–**	–	**–**	–	**–**	–	**10**	4
Platforms & Services	**(1)**	11	**–**	–	**–**	–	**(2)**	(4)	**(3)**	7
Air	**164**	164	**–**	–	**–**	–	**(1)**	(38)	**163**	126
Maritime	**13**	11	**–**	–	**–**	–	**(2)**	(4)	**11**	7
HQ	**55**	65	**–**	–	**–**	–	**(28)**	(29)	**27**	36
	241	255	**–**	–	**–**	–	**(33)**	(75)	**208**	180

3. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 227. It provides a measure of operating profitability, excluding one-off events or adjusting items that are not considered to be part of the ongoing operational transactions of the business, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group. It is presented here as our internal measure of segmental performance and to provide additional information on performance to the user.

Adjusting items

Adjusting items are items of financial performance which have been determined by management as being material by their size or incidence and not relevant to an understanding of the Group's underlying business performance. Adjusting items include profit or loss on business transactions, the impact of substantively enacted tax rate changes, and costs incurred which are one-off in nature, for example non-routine costs or income relating to post-retirement benefit schemes, and other items which management has determined as not being relevant to an understanding of the Group's underlying business performance.

2023

Adjusting items in 2023 comprises a £60m settlement gain on a US pension annuity buy-out recognised within Electronic Systems, Platforms & Services and Cyber & Intelligence, partially offset by £13m costs related to the Ball Aerospace acquisition in Electronic Systems, and £7m related to current and historical business acquisitions in Cyber & Intelligence and HQ.

2022

Adjusting items in 2022 comprises a £94m gain on the disposal of the Financial Services business in Digital Intelligence, £16m costs related to current and historical business transactions, and a £13m gain related to past service on the pension schemes.

Performance obligations

The Group's order book, which represents its unsatisfied performance obligations, as at 31 December 2023 was £58.0bn (2022 £48.9bn).

The Group expects that approximately 34% (2022 33%) of the order book will be recognised as revenue during the next year, with the remainder largely recognised over the following four (2022 four) years.

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on costs incurred in the year. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method appropriately depicts the Group's performance in transferring control of the goods and services to the customer. Accordingly, revenue of £0.3bn (2022 £0.3bn) was recognised during the year in respect of performance obligations satisfied or partially satisfied in previous years.

3. Operating costs

Research and development

The Group undertakes research and development activities either on its own behalf or on behalf of customers, including research and development expenditure in relation to the Group's Sustainability Accelerator Fund.

Group-funded expenditure on research, and on development activities not meeting the conditions for capitalisation, is written off as incurred and charged to the income statement.

	Note	**2023 £m**	2022 £m
Inventories recognised as an expense		**7,873**	7,094
Staff costs	4	**8,091**	7,495
Depreciation		**564**	549
Amortisation	9	**218**	215
Impairment – intangible assets	9	**5**	1
Impairment – property, plant and equipment and right-of-use assets	10,11	**–**	2
Current and historical business transaction costs	32	**20**	16
Loss on disposal of property, plant and equipment, and investment property		**1**	2
Other operating charges		**4,145**	3,895
Operating costs		**20,917**	19,269

Operating costs includes research and development expenditure of £274m (2022 £276m) funded by the Group. Development investment of £8m (2022 £11m) was capitalised during the year (see note 9).

Fees payable to the Company's auditor and its associates included in operating costs

	2023			2022		
	UK £'000	**Overseas £'000**	**Total £'000**	UK £'000	Overseas £'000	Total £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**3,043**	**–**	**3,043**	2,963	–	2,963
Fees payable to the Company's auditor and its associates for other services to the Group:						
The audit of the Company's subsidiaries	**5,444**	**6,953**	**12,397**	5,184	7,413	12,597
Total audit fees	**8,487**	**6,953**	**15,440**	8,147	7,413	15,560
Audit-related assurance services[1]	**1,281**	**52**	**1,333**	805	3	808
Other non-audit services	**13**	**–**	**13**	1	–	1
Total non-audit fees[2]	**1,294**	**52**	**1,346**	806	3	809
Total fees payable to the Company's auditor and its associates	**9,781**	**7,005**	**16,786**	8,953	7,416	16,369

1. Audit-related assurance services principally comprises fees in respect of the review of the Group's half-yearly report, along with ESEF, controls and ESG assurance work.
2. In addition to the amounts shown above, the auditor received fees of £518k (2022 £446k) for the audit of the BAE Systems UK pension schemes and £423k (2022 £534k) for the audit of BAE Systems pension schemes in the US.

Notes to the Consolidated financial statements continued

4. Employees

The average and year-end numbers of employees, excluding employees of equity accounted investments, were as follows:

	Average		At year end	
	2023 Number '000	2022 Number '000	**2023 Number '000**	2022 Number '000
Electronic Systems	**17**	16	**18**	16
Platforms & Services	**12**	12	**12**	12
Air	**20**	19	**20**	19
Maritime	**26**	23	**28**	24
Cyber & Intelligence	**11**	11	**11**	11
HQ	**3**	2	**3**	2
	89	83	**92**	84

The aggregate staff costs of Group employees, excluding employees of equity accounted investments, were as follows:

	Note	**2023 £m**	2022 £m
Wages and salaries		**6,983**	6,350
Social security costs		**536**	485
Share-based payments	29	**110**	101
Pension costs – defined contribution plans	24	**309**	299
Pension costs – defined benefit plans	24	**128**	230
Other post-employment benefit costs	24	**25**	30
		8,091	7,495

5. Other income

	Note	**2023 £m**	2022 £m
Research and development expenditure credits		**53**	35
Operating lease income from investment property		**3**	3
Operating lease income from subleasing right-of-use assets		**1**	1
Profit on disposal of businesses	33	**–**	94
Profit on disposal of non-current investment		**–**	7
Gain on sale of property, plant and equipment		**–**	1
Profit on disposal of investment property		**11**	4
Management recharges to equity accounted investments	30	**8**	8
Royalties		**28**	30
Pensions settlement gain	24	**60**	–
Other		**40**	32
Other income		**204**	215

6. Net finance costs

Finance income and finance costs

Finance income and finance costs are recognised in the income statement in the year in which they are incurred.

	Note	2023 £m	2022 £m
Interest income on cash and other financial instruments		**130**	34
Interest income on finance lease receivables	11	**1**	1
Net present value gains on provisions and other payables		**–**	12
Net interest income on post-employment benefit obligations	24	**41**	–
Finance income		**172**	47
Interest expense on loans and other financial instruments		**(286)**	(221)
Facility fees		**(14)**	(4)
Interest expense on lease liabilities	11	**(53)**	(48)
Net present value expenses on provisions and other payables		**(9)**	(4)
Net interest expense on post-employment benefit obligations	24	**–**	(37)
(Loss)/gain on remeasurement of financial instruments at fair value through profit or loss[1,2]		**(267)**	396
Foreign exchange gains/(losses)[2,3]		**210**	(524)
Finance costs		**(419)**	(442)
Net finance costs		**(247)**	(395)

1. Comprises gains and losses on derivative financial instruments, principally held to manage the Group's exposure to interest rate fluctuations on current and anticipated external borrowings and exchange rate fluctuations on balances with the Group's subsidiaries and equity accounted investments.
2. The net gain or loss on remeasurement of financial instruments at fair value through profit or loss and the net gain or loss on foreign exchange are presented within finance costs as the gains and losses relate to the same underlying transactions.
3. The foreign exchange gains/losses primarily reflects exchange rate movements on US dollar-denominated borrowings.

Notes to the Consolidated financial statements continued

7. Tax expense

Income tax expense comprises current and deferred tax. Current and deferred tax is recognised in the Consolidated income statement, except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is not recognised for temporary differences:

- on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, except for transactions giving rise to equal taxable and deductible temporary differences, or to temporary differences associated with right-of-use assets and lease liabilities;
- related to investments in subsidiaries and equity accounted investments to the extent that it is probable that they will not reverse in the foreseeable future; and
- arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The Group's underlying effective tax rate is sensitive to the geographical mix of profits and shall be impacted, from 2024 onwards, by the UK's enactment of the Organisation for Economic Co-operation and Development's Global Anti-Base Erosion Model Rules (Pillar Two). The Group has applied the temporary exemption issued by the International Accounting Standards Board from the accounting for deferred taxes under IAS 12. Accordingly the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes. Whilst the Group does not anticipate a material quantitative impact from Pillar Two legislation for the 2024 financial year there are expected to be significant and complex compliance obligations.

Tax expense

	2023 £m	2022 £m
Current tax		
UK:		
Current year	**(103)**	(115)
Adjustments in respect of prior years	**(8)**	(1)
	(111)	(116)
Overseas:		
Current year	**(477)**	(354)
Adjustments in respect of prior years	**(132)**	(15)
	(609)	(369)
Total current tax	**(720)**	(485)
Deferred tax		
UK:		
Origination and reversal of temporary differences	**(11)**	11
Adjustments in respect of prior years	**(13)**	(3)
Tax rate adjustment	**1**	4
	(23)	12
Overseas:		
Origination and reversal of temporary differences	**228**	132
Adjustments in respect of prior years	**129**	27
Tax rate adjustment	**–**	(1)
	357	158
Total deferred tax	**334**	170
Tax expense	**(386)**	(315)

	2023 £m	2022 £m
UK	**(134)**	(104)
Overseas	**(252)**	(211)
Tax expense	**(386)**	(315)

7. Tax expense continued

Reconciliation of tax expense

The following table reconciles the theoretical income tax expense, using the UK corporation tax rate, to the reported tax expense. The UK corporation tax rate increased from 19% to 25% with effect from 1 April 2023. A blended rate of 23.5% is used in the reconciliation below to reflect this change (2022 19.0%). The reconciling items represent, besides the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from differences between the local tax base and the reported financial statements.

	2023 £m	2022 £m
Profit before tax	**2,326**	1,989
UK corporation tax rate	**23.5%**	19.0%
Expected income tax expense	**(547)**	(378)
Effect of tax rates in foreign jurisdictions, including US state taxes	**(7)**	(54)
Expenses not tax effected	**(19)**	(19)
Income not subject to tax	**125**	68
Research and development tax credits	**22**	15
Adjustments in respect of prior years	**(24)**	8
Adjustments in respect of equity accounted investments	**48**	34
Tax rate adjustment	**1**	3
Other	**15**	8
Tax expense	**(386)**	(315)

Tax recognised in other comprehensive income

	2023			2022		
	Before tax £m	**Tax benefit/ (expense) £m**	**Net of tax £m**	Before tax £m	Tax (expense)/ benefit £m	Net of tax £m
Items that will not be reclassified to the income statement:						
Consolidated:						
Remeasurements on post-employment benefit schemes and other investments	**(669)**	**4**	**(665)**	2,851	(285)	2,566
Tax rate adjustment	**–**	**–**	**–**	–	(72)	(72)
Share of the other comprehensive (expense)/income of associates and joint ventures accounted for using the equity method	**(25)**	**–**	**(25)**	140	(24)	116
Items that may be reclassified to the income statement:						
Consolidated:						
Currency translation on foreign currency net investments	**(510)**	**–**	**(510)**	1,172	–	1,172
Reclassification of cumulative currency translation reserve on disposal of subsidiary	**–**	**–**	**–**	(17)	–	(17)
Fair value loss arising on hedging instruments during the year	**(4)**	**1**	**(3)**	(102)	25	(77)
Cumulative fair value (gain)/loss on hedging instruments reclassified to the income statement	**(19)**	**2**	**(17)**	5	(1)	4
Share of the other comprehensive income/(expense) of associates and joint ventures accounted for using the equity method	**12**	**(1)**	**11**	(9)	1	(8)
	(1,215)	**6**	**(1,209)**	4,040	(356)	3,684

Notes to the Consolidated financial statements continued

7. Tax expense continued

Tax recognised in other comprehensive income continued

	2023			2022		
	Other reserves £m	**Retained earnings £m**	**Total £m**	Other reserves £m	Retained earnings £m	Total £m
Current tax						
Consolidated:						
Remeasurements on post-employment benefit schemes and other investments	**–**	**76**	**76**	–	57	57
	–	**76**	**76**	–	57	57
Deferred tax						
Consolidated:						
Remeasurements on post-employment benefit schemes and other investments	**–**	**(72)**	**(72)**	–	(342)	(342)
Tax rate adjustment	**–**	**–**	**–**	–	(72)	(72)
Fair value loss arising on hedging instruments during the year	**1**	**–**	**1**	25	–	25
Cumulative fair value gain/(loss) on hedging instruments reclassified to the income statement	**2**	**–**	**2**	(1)	–	(1)
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	**(1)**	**–**	**(1)**	1	(24)	(23)
	2	**(72)**	**(70)**	25	(438)	(413)
Tax on other comprehensive (expense)/income	**2**	**4**	**6**	25	(381)	(356)

8. Earnings per share

The weighted average number of ordinary shares used in calculating earnings per share is the number of ordinary shares outstanding at the start of the year, less the weighted average number of shares repurchased, plus the weighted average number of shares issued within the year (including those issued from treasury), and those shares held in trust that are no longer contingently returnable (i.e. all performance conditions attached to them are met, excluding the passage of time). The number of ordinary shares outstanding at the start of the year is calculated by taking the total number of ordinary shares in issue, less treasury shares and shares held in trust which are contingently returnable (i.e. where the performance conditions attached to those shares have not been met, excluding the passage of time). The weighted average number of ordinary shares purchased, issued or released is calculated by reference to the day on which each transaction occurred.

The weighted average number of ordinary shares used in calculating diluted earnings per share is the weighted average number of ordinary shares outstanding, plus the number of ordinary shares which are considered potentially dilutive ordinary shares in respect of share incentive schemes, should the vesting conditions have been met as at the year end.

	2023			2022		
	£m	**Basic pence per share**	**Diluted pence per share**	£m	Basic pence per share	Diluted pence per share
Profit for the year attributable to equity shareholders	**1,857**	**61.3**	**60.4**	1,591	51.1	50.5

	2023 Millions	2022 Millions
Ordinary shares in issue as at 1 January	**3,297**	3,404
Less:		
Treasury shares as at 1 January	**(220)**	(237)
Shares held in trust which were contingently returnable as at 1 January	**(22)**	(23)
Number of ordinary shares outstanding as at 1 January	**3,055**	3,144
Net weighted average number of ordinary shares repurchased in year	**(24)**	(32)
Weighted average number of ordinary shares used in calculating basic earnings per share	**3,031**	3,112
Incremental ordinary shares in respect of employee share schemes	**41**	41
Weighted average number of ordinary shares used in calculating diluted earnings per share	**3,072**	3,153

9. Intangible assets

Intangible assets are carried at cost or valuation, less accumulated amortisation and impairment losses.

Cost or valuation

Goodwill

Under the acquisition method for business combinations, goodwill is the acquisition-date fair value of the consideration transferred, less the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of joint ventures and associates is included in the carrying value of equity accounted investments. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Software

Software includes:

- **Computer software licences** acquired for use within the Group are capitalised as an intangible asset on the basis of the costs incurred to acquire and bring to use the specific software;
- **Software development costs** that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Group-funded expenditure associated with enhancing or maintaining computer software programmes for sale is recognised as an expense as incurred; and
- **Software as a service** cloud computing arrangements are not deemed to be controlled by the Group, and costs associated with the implementation and ongoing receipt of these services are expensed as the costs are incurred.

Development costs

Development costs funded by the Group on activities applied to a plan or design for the production of new or substantially improved products are capitalised as an internally generated intangible asset if certain conditions are met. The costs capitalised include materials, direct labour and related overheads.

Programme and customer-related

Intangible assets recognised by the Group include those relating to ongoing programmes within businesses acquired, mainly in respect of customer relationships and order backlog. These assets are initially recognised at their fair value at the acquisition date.

Other

Other intangible assets includes patents, trademarks and licences.

Amortisation

Goodwill is not amortised, but is tested annually for impairment, and carried at cost less accumulated impairment losses. Amortisation on intangible assets, excluding goodwill, is charged to the income statement on a straight-line basis over their estimated useful lives.

For programme-related intangibles, amortisation is set on a programme-by-programme basis over the life of the individual programme. Amortisation for customer-related intangibles is also set on an individual basis.

The estimated useful lives are as follows:

Software	up to 5 years
Development costs	up to 10 years
Programme and customer-related	up to 15 years
Other	up to 20 years

The Group has no indefinite-life intangible assets other than goodwill.

Impairment of intangible assets, property, plant and equipment, right-of-use assets, investment property and equity accounted investments

The carrying amounts of the Group's intangible assets (excluding goodwill), property, plant and equipment, right-of-use assets, investment property and equity accounted investments are reviewed at each balance sheet date to determine whether there is any indication of impairment, as required by IAS 36 Impairment of Assets. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that are not yet available for use, impairment testing is performed annually. In estimating the asset's recoverable amount, the Group takes into consideration the impact of the Group's sustainability ambitions.

Goodwill is tested annually for impairment. For the purposes of impairment testing, goodwill is allocated to Cash-Generating Units (CGUs), or a group of CGUs on a consistent basis. The impairment calculations require the use of estimates of the future profitability and cash-generating ability of the CGU to determine its value in use based on the Group's five-year IBP and the pre-tax discount rate used in discounting these projected cash flows.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount, which is the greater of its value in use and its fair value less cost of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses are recognised in the income statement. An impairment loss in respect of goodwill is not reversed. An impairment loss in respect of other intangible assets, property, plant and equipment, investment property and equity accounted investments is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Consolidated financial statements continued

9. Intangible assets continued

	Note	Goodwill £m	Software £m	Development costs £m	Programme and customer-related £m	Other £m	Total £m
Cost or valuation							
At 1 January 2022		15,624	893	116	551	110	17,294
Additions:							
Acquired separately		–	76	–	–	–	76
Internally developed		–	6	11	–	–	17
Business acquisitions	32	91	–	–	66	5	162
Disposals[1]		–	(34)	–	–	–	(34)
Business disposals		(191)	–	–	–	–	(191)
Transfer from property, plant and equipment		–	5	–	–	–	5
Foreign exchange adjustments		1,069	27	14	71	15	1,196
At 31 December 2022		16,593	973	141	688	130	18,525
Additions:							
Acquired separately		–	111	–	–	1	112
Internally developed		–	11	8	–	–	19
Business acquisitions	32	3	–	–	–	8	11
Disposals[1]		–	(49)	–	(3)	(2)	(54)
Foreign exchange adjustments		(545)	(25)	(8)	(39)	(4)	(621)
At 31 December 2023		**16,051**	**1,021**	**141**	**646**	**133**	**17,992**
Amortisation and impairment							
At 1 January 2022		4,714	569	79	170	46	5,578
Amortisation		–	106	2	95	15	218
Impairment charge		–	1	–	–	–	1
Disposals[1]		–	(34)	–	–	–	(34)
Business disposals	33	(168)	–	–	–	–	(168)
Foreign exchange adjustments		228	21	10	21	6	286
At 31 December 2022		4,774	663	91	286	67	5,881
Amortisation		–	103	4	97	14	218
Impairment charge		–	5	–	–	–	5
Disposals[1]		–	(49)	–	(3)	(2)	(54)
Foreign exchange adjustments		(109)	(20)	(7)	(18)	(3)	(157)
At 31 December 2023		**4,665**	**702**	**88**	**362**	**76**	**5,893**
Net book value							
At 31 December 2023		**11,386**	**319**	**53**	**284**	**57**	**12,099**
At 31 December 2022		11,819	310	50	402	63	12,644
At 1 January 2022		10,910	324	37	381	64	11,716

1. Includes intangible assets with £nil net book value no longer used by the Group.

9. Intangible assets continued

Impairment testing

The recoverable amount of the Group's goodwill is based on value in use, estimated using risk-adjusted future cash flow projections from the five-year Integrated Business Plan (IBP) and a terminal value based on the projections for the final year of that plan, with a long-term growth rate of 2% applied for each significant group of Cash-Generating Units (CGUs). The IBP process includes the use of historical experience, available government spending data and the Group's order backlog, as well as the impact of evolving issues such as global economic uncertainty and climate change. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital and adjusted for factors specific to the market in which the CGU operates, have been used in discounting these projected risk-adjusted cash flows.

Significant CGUs

A summary of the significant CGUs is presented below.

		Allocated goodwill		Pre-tax discount rate	
Cash-Generating Unit	Key assumptions	**2023 £bn**	2022 £bn	**2023 %**	2022 %
Electronic Systems	Continued demand from the US Government for electronic warfare systems (where the business has a leadership position), other technology-based solutions and growth in the commercial avionics market	**5.0**	5.2	**9**	9
Platforms & Services	Continued demand in the Group's principal markets for existing and successor military tracked vehicles, naval guns, missile launchers, artillery systems, munitions, upgrade programmes and support, and in the US for complex infrastructure, maritime and aviation services	**3.6**	3.8	**9**	9
Maritime	Continued demand, primarily from the UK and Australian Governments, for existing and successor programmes for submarines, complex warships and munitions. This includes upgrade and sustainment programmes in these areas as well as in the field of air, electronic systems and wide-area surveillance	**1.5**	1.5	**10**	10

The headroom, calculated as the difference between net assets including allocated goodwill as at 31 December 2023 and the value in use calculations, for the CGUs listed above is shown below. The table also shows the headroom assuming a 1% reduction in the terminal value growth rate assumption, a 2% increase in the discount rate and a 1% reduction in the operating margin used in the value in use calculations, considered to be reasonable worst-case scenarios in the current economic climate.

	Headroom as at 31 December		Headroom assuming a 1% reduction in the terminal value growth rate assumption		Headroom assuming a 2% increase in the discount rate		Headroom assuming a 1% reduction in operating margin	
Cash-Generating Unit	**2023 £bn**	2022 £bn	**2023 £bn**	2022 £bn	**2023 £bn**	2022 £bn	**2023 £bn**	2022 £bn
Electronic Systems	**6.0**	5.4	**4.3**	3.8	**2.5**	2.0	**5.2**	4.5
Platforms & Services	**2.5**	2.1	**1.6**	1.3	**0.6**	0.3	**1.9**	1.5
Maritime	**5.7**	4.2	**4.8**	3.5	**2.6**	1.7	**4.8**	3.5

Other CGUs

The remaining goodwill balance of £1.3bn (2022 £1.3bn) is allocated across multiple CGUs. No individual CGU exceeds 10% of the Group's total goodwill balance. The majority of the projected cash flows within these CGUs is primarily underpinned by expected levels of government spending on defence, aerospace and security, and the Group's ability to capture a broadly consistent market share.

Capital commitments

At 31 December 2023, capital expenditure of £44m (2022 £41m) in respect of intangible assets was contracted for but not provided for in the accounts.

Notes to the Consolidated financial statements continued

10. Property, plant and equipment

Cost

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of demonstration assets is written off as incurred. The reimbursement of the cost of an item of property, plant and equipment by way of a government grant is presented as deferred income and recognised in the income statement on a basis consistent with the depreciation of the asset over its estimated useful life.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided, normally on a straight-line basis, to write off the cost of items of property, plant and equipment over their estimated useful lives to any estimated residual value, using the following rates:

Buildings	up to 50 years, or the lease term if shorter
Plant and machinery:	
Computing equipment and motor vehicles	4 to 5 years
Other equipment	10 to 20 years, or the project life if shorter

No depreciation is provided on freehold land and assets in the course of construction.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date, taking into consideration the impact on the assets' useful economic lives as a result of the Group's sustainability ambitions.

Impairment

The carrying amounts of the Group's property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment in accordance with the policy shown in note 9.

10. Property, plant and equipment continued

	Note	Land and buildings £m	Plant and machinery £m	Total £m
Cost				
At 1 January 2022		2,754	3,756	6,510
Additions		302	289	591
Business acquisitions	32	–	1	1
Transfer to intangible assets		–	(5)	(5)
Reclassification between categories		16	(16)	–
Disposals		(45)	(131)	(176)
Foreign exchange adjustments		143	227	370
At 31 December 2022		3,170	4,121	7,291
Additions		413	411	824
Reclassification between categories		(38)	38	–
Disposals		(33)	(104)	(137)
Foreign exchange adjustments		(82)	(127)	(209)
At 31 December 2023		**3,430**	**4,339**	**7,769**
Depreciation and impairment				
At 1 January 2022		1,191	2,467	3,658
Depreciation charge for the year		109	218	327
Impairment charge		–	2	2
Disposals		(40)	(125)	(165)
Foreign exchange adjustments		79	155	234
At 31 December 2022		1,339	2,717	4,056
Depreciation charge for the year		112	232	344
Disposals		(30)	(100)	(130)
Foreign exchange adjustments		(47)	(89)	(136)
At 31 December 2023		**1,374**	**2,760**	**4,134**
Net book value				
At 31 December 2023[1]		**2,056**	**1,579**	**3,635**
At 31 December 2022[1]		1,831	1,404	3,235
At 1 January 2022		1,563	1,289	2,852

1. Includes £1,145m (2022 £991m) of assets at Barrow-in-Furness, UK funded by the UK government.

Assets in the course of construction

Included in the above analysis, the following balances relate to those assets which are still in the course of construction:

	Land and buildings £m	Plant and machinery £m	Total £m
At 31 December 2023	**750**	**394**	**1,144**
At 31 December 2022	547	292	839

Capital commitments

At 31 December 2023, capital expenditure of £442m (2022 £403m) in respect of property, plant and equipment was contracted for but not provided for in the Consolidated financial statements.

Assets pledged as security

Within the Land and buildings balance, there are assets with a carrying amount of £62m (2022 £nil) which the Group cannot pledge as security for borrowings, or sell to another entity.

Notes to the Consolidated financial statements continued

11. Leases

The Group as lessee

All leases in which the Group is lessee are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between repayment of the lease liability and finance cost. The finance cost is charged to the income statement over the lease term to produce a constant periodic rate of interest on the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured as the present value of future lease payments, discounted using the interest rate implicit in the lease. Where this rate is not determinable, the Group's incremental borrowing rate is used, which is the interest rate the Group would have to pay to borrow the amount necessary to obtain an asset of similar value, in a similar economic environment with similar terms and conditions.

The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made (net of any incentives received from the lessor) before the commencement of the lease, any initial direct costs and any restoration costs.

The carrying amounts of the Group's right-of-use assets are reviewed at each balance sheet date to determine whether there is any indication of impairment in accordance with the policy shown in note 9.

Payments in respect of short-term leases, low-value leases and leases of intangible assets are charged to the income statement on a straight-line basis over the lease term.

The Group leases land, buildings, vehicles and equipment under non-cancellable lease arrangements. The leases have varying terms, including escalation clauses, renewal rights and purchase options. None of these terms represents unusual arrangements or creates material onerous or beneficial rights or obligations.

Right-of-use assets

		2023			2022		
	Note	**Land and buildings £m**	**Plant and machinery £m**	**Total £m**	Land and buildings £m	Plant and machinery £m	Total £m
Net book value at 1 January		**1,400**	**25**	**1,425**	1,075	16	1,091
Additions during the year		**115**	**19**	**134**	397	20	417
Business acquisitions	32	**–**	**–**	**–**	1	–	1
Lease modifications during the year		**20**	**(1)**	**19**	50	1	51
Depreciation charge for the year		**(202)**	**(12)**	**(214)**	(205)	(12)	(217)
Business disposals	33	**–**	**–**	**–**	(3)	–	(3)
Foreign exchange adjustments		**(53)**	**–**	**(53)**	85	–	85
Net book value at 31 December		**1,280**	**31**	**1,311**	1,400	25	1,425

11. Leases continued

Lease liabilities

A maturity analysis of the future undiscounted lease payments in respect of the Group's lease liabilities is presented in the table below:

	2023 £m	2022 £m
Payments due:		
Within one year	**197**	290
Between one and five years	**537**	632
Later than five years	**1,229**	1,227
Total undiscounted gross payments	**1,963**	2,149
Deduct: Impact of discounting	**(543)**	(533)
Lease liabilities	**1,420**	1,616

The Group is also committed to future undiscounted lease payments of £68m in respect of leases which had not yet commenced at 31 December 2023 (2022 £5m).

The total cash outflow for leases in the year ended 31 December 2023, including short-term leases and low-value leases, amounted to £376m (2022 £314m).

Amounts recognised in the Consolidated income statement

	2023 £m	2022 £m
Included in operating costs:		
Depreciation on right-of-use assets	**(214)**	(217)
Short-term lease expense	**(25)**	(25)
Low-value lease expense	**(5)**	(5)
	(244)	(247)
Included in net finance costs:		
Interest income on finance lease receivables	**1**	1
Interest expense on lease liabilities	**(53)**	(48)
	(52)	(47)

Notes to the Consolidated financial statements continued

12. Equity accounted investments

Equity accounted investments comprise joint ventures and associates. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement. An associate is an entity over which the Group has significant influence but not control or joint control.

The Group recognises its share of the profit or loss and other comprehensive income of equity accounted investments as a separate line in the Consolidated income statement and Consolidated statement of comprehensive income, respectively.

The carrying value of an equity accounted investment comprises the Group's share of net assets and purchased goodwill, and is assessed for impairment as a single asset. The carrying amounts of the Group's equity accounted investments are reviewed at each balance sheet date to determine whether there is any indication of impairment, in accordance with the policy shown in note 9.

Group summary

The Group has two individually material joint ventures which are Eurofighter Jagdflugzeug and MBDA, the carrying values of which are included on the next page.

The Group also has a number of individually immaterial joint ventures and associates, the carrying values of the most significant at 31 December 2023 are as follows: Rheinmetall BAE Systems Land (RBSL) (£84m); Air Astana (£84m); FADEC International (£47m); Panavia Aircraft (£20m); and FNSS (£16m). The following table shows a reconciliation of the opening to closing carrying values for both the Group's principal and other joint ventures and associates.

	Principal equity accounted investments £m	Other joint ventures £m	Other associates £m	Total £m
At 1 January 2022	354	115	85	554
Group's share of profit for the year	126	46	8	180
Group's share of remeasurements on post-employment benefit schemes	140	–	–	140
Tax on items that will not be reclassified to the income statement	(24)	–	–	(24)
Foreign exchange adjustments	(10)	–	(1)	(11)
Amounts (debited)/credited to hedging reserve	(2)	4	–	2
Tax on items that may be reclassified to the income statement	1	–	–	1
Group's share of total comprehensive income for the year	231	50	7	288
Dividends received from equity accounted investments	(83)	(11)	–	(94)
Foreign exchange adjustments	26	13	–	39
At 31 December 2022	528	167	92	787
Group's share of profit for the year	165	39	4	208
Group's share of remeasurements on post-employment benefit schemes	(24)	(1)	–	(25)
Foreign exchange adjustments	3	3	–	6
Amounts credited to hedging reserve	2	4	–	6
Tax on items that may be reclassified to the income statement	(1)	–	–	(1)
Group's share of total comprehensive income for the year	145	45	4	194
Acquisition of equity accounted investments	–	5	–	5
Dividends received from equity accounted investments	(110)	(24)	–	(134)
Foreign exchange adjustments	(12)	(8)	–	(20)
At 31 December 2023	**551**	**185**	**96**	**832**

12. Equity accounted investments continued

Principal equity accounted investments

Joint venture	Principal activities	Shareholding	Principally operates in
Eurofighter Jagdflugzeug	Management and control of the European Typhoon programme	33%	Germany
MBDA	Development and manufacture of guided weapons	37.5%	Europe

The following tables summarise the financial information of the Group's principal equity accounted investments included in their own financial statements, as adjusted for fair value adjustments at acquisition and differences in accounting policies, and reconcile this to the Group's interest in those equity accounted investments.

	2023		2022	
	Eurofighter Jagdflugzeug £m	**MBDA £m**	Eurofighter Jagdflugzeug £m	MBDA £m
Revenue (100%)	**4,169**	**3,871**	3,693	3,590
Underlying EBIT[1] excluding depreciation and amortisation	**23**	**568**	19	574
Depreciation and amortisation	**(4)**	**(138)**	(4)	(152)
Finance income	**3**	**145**	2	25
Finance costs	**(3)**	**(13)**	(2)	(13)
Tax expense	**(9)**	**(130)**	(6)	(105)
Profit for the year (100%)	**10**	**432**	9	329
Remeasurements on post-employment benefit schemes, net of tax	**–**	**(65)**	–	310
Amounts credited/(debited) to hedging reserve, net of tax	**–**	**4**	–	(4)
Foreign exchange adjustments	**–**	**8**	(5)	(24)
Total comprehensive income for the year (100%)	**10**	**379**	4	611
Group's share of total comprehensive income for the year	**3**	**142**	1	230
Non-current assets	**29**	**2,717**	30	2,464
Cash and cash equivalents	**43**	**4,109**	42	2,650
Current assets excluding cash and cash equivalents	**9,089**	**4,626**	8,591	4,697
Current assets	**9,132**	**8,735**	8,633	7,347
Non-current financial liabilities excluding trade and other payables, and provisions	**–**	**(15)**	–	(10)
Other non-current liabilities	**(45)**	**(85)**	(47)	(20)
Non-current liabilities	**(45)**	**(100)**	(47)	(30)
Current financial liabilities excluding trade and other payables, and provisions	**(9)**	**–**	(10)	–
Other current liabilities	**(9,077)**	**(9,942)**	(8,581)	(8,416)
Current liabilities	**(9,086)**	**(9,942)**	(8,591)	(8,416)
Net assets (100%)	**30**	**1,410**	25	1,365

1. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 227.

	2023			2022		
	Eurofighter Jagdflugzeug £m	**MBDA £m**	**Total £m**	Eurofighter Jagdflugzeug £m	MBDA £m	Total £m
Group's share of net assets	**10**	**529**	**539**	8	512	520
Goodwill adjustment	**–**	**12**	**12**	–	8	8
Carrying value	**10**	**541**	**551**	8	520	528

	2023			2022		
	Eurofighter Jagdflugzeug £m	**MBDA £m**	**Total £m**	Eurofighter Jagdflugzeug £m	MBDA £m	Total £m
Dividends received	**2**	**108**	**110**	3	80	83

Contingent liabilities

The Group is not aware of any material contingent liabilities in respect of its equity accounted investments.

Notes to the Consolidated financial statements continued

13. Other investments

Other investments are carried at fair value through other comprehensive income.

	2023 £m	2022 £m
Other investments at fair value through other comprehensive income	**84**	99

14. Trade, contract and other receivables

Trade and contract receivables are measured at amortised cost under IFRS 9 Financial Instruments as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Contract receivables represent amounts for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprise costs incurred plus attributable margin.

Trade receivables, contract receivables, amounts owed by equity accounted investments and finance lease receivables include a provision for expected credit losses. The Group measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Group writes off a receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation.

US deferred compensation plan assets are measured at fair value in accordance with IAS 19 Employee Benefits.

	Note	**2023 £m**	2022 £m
Non-current			
Contract receivables		**18**	20
Prepayments		**215**	201
Accrued income		**–**	1
US deferred compensation plan assets		**340**	328
Finance lease receivables		**15**	24
Other receivables		**45**	44
		633	618
Current			
Contract receivables		**3,377**	3,473
Trade receivables		**1,196**	1,506
Amounts owed by equity accounted investments	30	**77**	75
Prepayments		**933**	509
Accrued income		**19**	62
US deferred compensation plan assets		**42**	39
Finance lease receivables		**9**	10
Other receivables[1]		**532**	492
		6,185	6,166

1. Includes £231m (2022 £329m) in relation to VAT receivable in the Kingdom of Saudi Arabia.

Trade receivables are stated net of a provision for expected credit losses. Disclosures relating to the ageing of trade receivables and movements in the provision for expected credit losses are provided in note 15.

15. Other financial assets and liabilities and financial risk management

Derivative financial instruments and hedging activities

The international nature of the Group's business means it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations, the Group's policy is to hedge all material firm transactional exposures.

The Group uses interest rate derivative instruments to manage the Group's exposure to interest rate fluctuations on its borrowings and deposits by varying the proportion of fixed rate debt relative to floating rate debt over the forward time horizon.

The Group uses foreign exchange derivative instruments to manage the Group's exposure to currency fluctuations on its borrowings and deposits with the Group's subsidiaries and equity accounted investments.

In accordance with its Treasury Policy, the Group does not hold derivative financial instruments for trading purposes.

The Group aims to achieve hedge accounting treatment for all derivatives that hedge material foreign currency exposures.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, such instruments are stated at fair value at the balance sheet date. The fair values are estimated by discounting expected future cash flows based on reputable third-party forecast data, and then adjusting for credit risk, including the Group's own credit risk, and market risk.

Fair value through profit or loss

Gains and losses on derivative financial instruments that are not designated as cash flow hedges are recognised within net finance costs in the income statement for the year.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows relating to a highly-probable forecast transaction (income or expense) or recognised asset or liability, the effective portion of any change in the fair value of the instrument is recognised in other comprehensive income and presented in the hedging reserve in equity. Amounts recognised in equity are removed from the hedging reserve and included in the cost of the underlying transaction or reclassified to the income statement when the underlying transaction affects profit or loss. These amounts are presented within the same line item in the income statement as the underlying transaction, typically revenue or operating costs. The ineffective portion of any change in the fair value of the instrument is recognised in the income statement within net finance costs immediately. The Group treats the foreign currency basis element of the designated foreign exchange derivative hedging instruments as a cost of hedging and as such it is excluded from the hedge designation. Any hedges entered into on behalf of equity accounted investments (note 30) are classified as cash flow hedges.

	2023		2022	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Non-current				
Cash flow hedges – foreign exchange contracts	**127**	**(170)**	175	(237)
Debt-related derivative financial instruments	**100**	**(57)**	147	(35)
	227	**(227)**	322	(272)
Current				
Cash flow hedges – foreign exchange contracts	**162**	**(184)**	229	(249)
Debt-related derivative financial instruments	**–**	**(21)**	–	–
Other foreign exchange/interest rate contracts	**43**	**(90)**	23	(79)
	205	**(295)**	252	(328)

Debt-related derivative financial instruments

The debt-related derivative financial instruments represent the fair value of cross-currency, interest rate and foreign exchange derivatives relating to the US$800m 3.8% bond, repayable 2024, the US$500m 7.5% bond, repayable 2027, the US$1,300m 3.4% bond, repayable 2030, and the US$400m 5.8% bond, repayable 2041 (see note 21).

Notes to the Consolidated financial statements continued

15. Other financial assets and liabilities and financial risk management continued

Interest rate risk

The Group's objective is to manage its exposure to interest rate fluctuations on borrowings through varying the proportion of fixed-rate debt relative to floating rate debt with derivative instruments, including interest rate and cross-currency swaps.

The Group's interest rate management policy is that a minimum of 50% (2022 50%) and a maximum of 90% (2022 90%) of borrowings is maintained at fixed interest rates. At 31 December 2023, the Group had 86% (2022 85%) of fixed-rate debt and 14% (2022 15%) of floating rate debt based on a gross debt of £5.1bn (2022 £5.0bn), including debt-related derivative financial assets.

Based on contracted maturities and/or repricing dates, the following amounts are exposed to interest rate risk over the future as shown below:

	2023			2022		
	Within one year £m	**Between one and two years £m**	**Later than two years £m**	Within one year £m	Between one and two years £m	Later than two years £m
Cash and cash equivalents	**4,067**	**–**	**–**	3,107	–	–
Loans and overdrafts	**703**	**–**	**–**	745	745	–

The floating rate debt has been predominantly achieved by entering into interest rate swaps which swap the fixed-rate US dollar interest payable on debt into either floating rate sterling or US dollars. At the end of 2023, the Group had a total of $0.9bn (2022 $0.9bn) of this type of swap outstanding with a weighted average duration of 0.8 years (2022 1.8 years). In respect of the fixed-rate debt, the weighted average period in respect of which interest is fixed was 12.4 years (2022 12.9 years). Given the level of short-term interest rates during the year, the average cost of the floating rate debt was 7.7% (2022 4.2%) on US dollars. The cost of the fixed-rate debt was 3.7% (2022 3.7%).

Additionally, the Group has entered into $1.0bn (£0.8bn) of interest rate derivatives to partially manage the Group's exposure to fixed interest rate risk on the anticipated raising of capital in 2024.

IBOR reform

The Group has interest rate swaps that reference USD LIBOR, with a combined notional value of $0.9bn, that mature in October 2024. During the year, the Group adhered to the International Swaps and Derivatives Association (ISDA) 2020 IBOR Fallbacks Protocol, which will be used to calculate the USD floating rates applicable for these interest rate swaps between the period post cessation of USD LIBOR and maturity of the swaps. The Group has no other derivatives that reference IBOR benchmarks.

Sensitivity analysis

A change of 100 basis points in short-term rates applied to the average fixed/floating mix and level of borrowings would vary the interest cost to the Group by approximately £7m (2022 £7m).

In respect of cash deposits, given the fluctuation in the Group's working capital requirements, cash is generally invested for short-term periods based at floating-interest rates. A change of 100 basis points in the average interest rates during the year applied to the average cash deposits would vary the interest receivable by approximately £29m (2022 £19m). Should interest rates fluctuate by a different rate to those disclosed, the impact can be linearly interpolated.

15. Other financial assets and liabilities and financial risk management continued

Liquidity risk

Contractual cash outflows on financial liabilities

The contracted cash outflows on loans and overdrafts, derivative financial instruments and other financial instruments at the reporting date are shown below, classified by maturity. The cash outflows are shown on a gross basis, are not discounted, are translated at the spot rate and include estimated interest payments where applicable. Contracted cash outflows reflect the gross cash outflow on derivative financial instruments and exclude the broadly offsetting cash inflows for the receive leg of derivatives that are settled separately to the pay leg.

	2023					2022				
		Contracted cash outflow					Contracted cash outflow			
	Carrying amount £m	**Within one year £m**	**Between one and five years £m**	**Later than five years £m**	**Total £m**	Carrying amount £m	Within one year £m	Between one and five years £m	Later than five years £m	Total £m
Cash outflows without directly offsetting inflows										
Accruals[1]	**(1,758)**	**(1,739)**	**(19)**	**–**	**(1,758)**	(2,025)	(1,997)	(28)	–	(2,025)
Trade and other payables[2]	**(2,681)**	**(2,660)**	**(21)**	**–**	**(2,681)**	(2,154)	(2,126)	(28)	–	(2,154)
Lease liabilities	**(1,420)**	**(197)**	**(537)**	**(1,229)**	**(1,963)**	(1,616)	(290)	(632)	(1,227)	(2,149)
Loans and overdrafts	**(5,111)**	**(825)**	**(1,585)**	**(4,794)**	**(7,204)**	(5,242)	(199)	(2,377)	(4,893)	(7,469)
	(10,970)					(11,037)				
Cash outflows with largely offsetting inflows[3]										
Cash flow hedges – financial assets	**289**	**(6,003)**	**(4,623)**	**(135)**	**(10,761)**	404	(7,434)	(4,444)	(443)	(12,321)
Cash flow hedges – financial liabilities	**(354)**	**(6,775)**	**(6,127)**	**(477)**	**(13,379)**	(486)	(8,258)	(5,758)	(741)	(14,757)
Other foreign exchange/interest rate contracts – financial assets	**43**	**(2,674)**	**–**	**–**	**(2,674)**	23	(2,364)	–	–	(2,364)
Other foreign exchange/interest rate contracts – financial liabilities	**(90)**	**(1,468)**	**–**	**–**	**(1,468)**	(79)	(1,693)	–	–	(1,693)
Debt-related derivatives – financial assets	**100**	**(23)**	**(370)**	**(36)**	**(429)**	147	(58)	(534)	(1,124)	(1,716)
Debt-related derivatives – financial liabilities	**(78)**	**(92)**	**(141)**	**(1,053)**	**(1,286)**	(35)	(47)	(47)	–	(94)
	(90)					(26)				
	(11,060)					(11,063)				

1. Accruals presented in the table excludes £910m (2022 £719m) of accruals which are non-financial liabilities.
2. Trade and other payables excludes other taxes and social security costs, deferred income and US deferred compensation plan liabilities (see note 23) on the basis that these are non-financial liabilities.
3. Cash outflows in relation to derivatives presented in this table do not include the cash inflows which would be received when closing out the trades. These cash inflows are expected to largely offset all outflows presented within this table.

Borrowing facilities

The Group's objective is to maintain adequate undrawn committed borrowing facilities.

At 31 December 2023, the Group had a committed Revolving Credit Facility (RCF) of £2bn (2022 £2bn). The RCF was undrawn throughout the year. The RCF also acts as a backstop to Commercial Paper issued by the Group. In 2023, the Group entered into a new five-year RCF, with two one-year extension options, taking the expected maturity of the facility to 2030. At 31 December 2023, the Group had no Commercial Paper in issue (2022 £nil).

At 31 December 2023, the Group also had a committed undrawn bridge loan facility of US$4.0bn (£3.1bn) to support the Group's financing requirements for the acquisition of Ball Aerospace which completed on 16 February 2024. Prior to completion, the full bridging facility was drawn down. See note 34 on page 213.

Notes to the Consolidated financial statements continued

15. Other financial assets and liabilities and financial risk management continued

Currency risk

The Group's objective is to reduce its exposure to transactional volatility in earnings and cash flows from movements in foreign currency exchange rates, mainly the US dollar, euro, Saudi riyal and Australian dollar.

The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency-denominated transactions. All material firm transactional exposures are hedged using foreign exchange forward contracts and the Group aims, where possible, to apply cash flow hedge accounting to these transactions.

The currency and notional amount of the designated hedging instruments match the currency and principal amounts of the forecast transactions being hedged, therefore the hedging instruments and hedged items have values which will generally move in opposite directions because of the same hedged risk. As the critical terms of the hedging instruments match those of the hedged items, an economic relationship can be demonstrated on an ongoing basis.

The hedge ratio is 1:1 on the basis that the notional amount of the designated hedging instruments matches the principal amount of the forecast foreign currency sales/purchases designated as the hedged items. The Group does not designate groups of items with offsetting risk positions as hedged items.

The Group considers the potential sources of hedge ineffectiveness to be:

- valuation adjustments for credit risk made to derivative hedging instruments at each hedge effectiveness measurement date;
- changes to the timing and amount of forecast transactions; and
- non-occurrence of the designated hedged items.

Ineffectiveness due to foreign currency basis was highly immaterial.

The Group enters into derivative contracts with varying maturities up to 2032. The following table presents the sterling nominal amounts of the foreign currency contracts used to hedge foreign currency risk, split by maturity profile, along with the exchange rate:

		2023				2022			
		Currency purchased		Currency sold		Currency purchased		Currency sold	
(Purchase)/sale contracts	Maturity date	Weighted average hedged rate	Notional value of currency purchased £m	Weighted average hedged rate	Notional value of currency sold £m	Weighted average hedged rate	Notional value of currency purchased £m	Weighted average hedged rate	Notional value of currency sold £m
Sterling/US dollar	Within one year	1.26	(2,762)	1.27	2,657	1.23	(2,790)	1.24	3,060
	Between one and five years	1.26	(1,608)	1.27	1,898	1.28	(1,423)	1.30	2,171
	Later than five years	1.33	(13)	1.40	5	1.40	(31)	1.29	19
Sterling/euro	Within one year	1.12	(2,725)	1.12	2,525	1.12	(3,689)	1.12	3,299
	Between one and five years	1.10	(2,913)	1.09	2,702	1.09	(2,576)	1.09	2,583
	Later than five years	1.07	(136)	1.07	133	1.08	(383)	1.07	388
Other	Within one year	n/a	(2,208)	n/a	2,209	n/a	(2,873)	n/a	2,869
	Between one and five years	n/a	(1,795)	n/a	1,781	n/a	(1,437)	n/a	1,455
	Later than five years	n/a	(333)	n/a	326	n/a	(379)	n/a	378
Cash flow hedges			**(14,493)**		**14,236**		(15,581)		16,222

The effect of cash flow hedges on the Group's financial position and performance for the year is as follows:

	2023				2022			
(Purchase)/sale contracts	Change in the value of hedging instruments since 1 January £m	Change in the value of hedged items since 1 January £m	Notional amount £m	Carrying amount £m	Change in the value of hedging instruments since 1 January £m	Change in the value of hedged items since 1 January £m	Notional amount £m	Carrying amount £m
Sterling/US dollar	44	(44)	177	(29)	(106)	106	1,006	(102)
Sterling/euro	(5)	5	(414)	(2)	9	(9)	(378)	17
Other	(43)	43	(20)	(34)	(5)	5	13	3
Cash flow hedges	**(4)**	**4**	**(257)**	**(65)**	(102)	102	641	(82)

15. Other financial assets and liabilities and financial risk management continued

Currency risk continued

Sensitivity analysis

The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. The Group does not hedge the translation effect of exchange rate movements on the income statements or balance sheets of foreign subsidiaries and equity accounted investments it regards as long-term investments.

The estimated impact on foreign exchange gains and losses in net finance costs of a ten cent movement in the closing sterling to US dollar exchange rate on the retranslation of US dollar-denominated bonds held by BAE Systems plc is approximately £229m (2022 £258m).

The Group enters into cash flow hedges in order to manage all material firm transactional exposures. The estimated impact on fair value gains and losses in other reserves of a ten cent movement in the closing sterling to US dollar exchange rates on the transactional cash flow hedges is approximately £16m (2022 £94m). The estimated impact of a ten cent movement in the closing sterling to euro exchange rate on the transactional cash flow hedges is approximately £35m (2022 £35m).

Credit risk

For trade receivables, contract receivables, amounts due from equity accounted investments and finance lease receivables, the Group measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Group's assessment is that credit risk in relation to defence-related sales to government customers or subcontractors to governments is extremely low as the probability of default is insignificant; therefore the provision for expected credit losses is immaterial in respect of receivables from these customers. For all non-government commercial customers, the Group assesses expected credit losses, including risk arising from global economic uncertainty; however, this is not considered material to the financial statements. The Group considers that default has occurred when a receivable is past 180 days overdue, because historical experience indicates that these receivables are generally not recoverable. The Group recognises a provision of 100% against all receivables over 180 days past due unless there is evidence that individual receivables in this category are recoverable.

The carrying amount of the Group's financial assets represents the maximum exposure to credit risk.

Movements on the provision for expected credit losses are as follows:

	2023 £m	2022 £m
At 1 January	**20**	15
Net remeasurement of loss allowance	**3**	7
Amounts written off	**(3)**	(2)
At 31 December	**20**	20

For contract receivables, amounts due from equity accounted investments and finance lease receivables the expected credit loss provision is immaterial as the probability of default is considered insignificant.

The Group writes off a receivable when there is evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation. None of the trade receivables that were written off during the year are still subject to enforcement activity. The ageing of trade receivables is detailed below:

	2023			2022		
	Gross £m	Provision £m	Net £m	Gross £m	Provision £m	Net £m
Not past due	**822**	**–**	**822**	969	–	969
Up to 180 days overdue	**336**	**(1)**	**335**	499	(1)	498
Past 180 days overdue	**58**	**(19)**	**39**	58	(19)	39
	1,216	**(20)**	**1,196**	1,526	(20)	1,506

Cash management

Cash flow forecasting is performed by the businesses on a monthly basis. The Group monitors a rolling forecast of its liquidity requirements to ensure that there is sufficient cash to meet operational needs and maintain adequate headroom.

Surplus cash held by the businesses over and above balances required for working capital management is loaned to the Group's centralised treasury department. Surplus cash is invested in instant-access current accounts, short-term deposits and money market funds, choosing instruments with appropriate maturities or sufficient liquidity to provide adequate headroom as determined by cash flow forecasts.

The Group's objective is to monitor and control counterparty credit risk and credit limit utilisation. The Group adopts a conservative approach to the investment of its surplus cash which is deposited for short periods with financial institutions with investment-grade (BBB- and above) credit ratings. The cash and cash equivalents balance at 31 December 2023 of £4,067m (2022 £3,107m) was invested with 42 (2022 44) financial institutions. A credit limit is allocated to each institution taking account of its market capitalisation, credit rating and credit default swap price. The cash and cash equivalents of the Group are invested in non-speculative financial instruments which are usually highly liquid, such as short-term deposits. Therefore, the Group believes it has reduced its exposure to counterparty credit risk through this process.

Notes to the Consolidated financial statements continued

15. Other financial assets and liabilities and financial risk management continued

Credit risk continued

The cash and cash equivalents balance is subject to review for impairment under IFRS 9, and due to the high credit ratings of the counterparties set out below, no impairment has been recognised within the year:

Counterparty credit rating at 31 December	**2023**	2022
AAA to AA-	**60%**	67%
A+ to A-	**39%**	32%
BBB+ to BBB-	**1%**	1%

Offsetting financial assets and liabilities

Financial assets and liabilities are offset, and the net amount reported in the balance sheet, when there is a legally enforceable right to offset the recognised amounts. The following table sets out the Group's financial assets and financial liabilities which are subject to a master netting agreement. The master netting agreements regulate settlement amounts in the event a party defaults on their obligations.

	2023			2022		
	Balance sheet £m	**Amounts not offset £m**	**Net balances £m**	Balance sheet £m	Amounts not offset £m	Net balances £m
Assets						
Other financial assets	**432**	**(382)**	**50**	574	(455)	119
Liabilities						
Other financial liabilities	**(522)**	**382**	**(140)**	(600)	455	(145)

16. Deferred tax

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets/(liabilities)

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2023 £m	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Property, plant and equipment	**17**	48	**(118)**	(126)	**(101)**	(78)
Intangible assets	**41**	15	**(2)**	(2)	**39**	13
Capitalised research and development	**458**	149	**–**	–	**458**	149
Provisions and accruals	**229**	233	**–**	–	**229**	233
Goodwill	**–**	–	**(352)**	(352)	**(352)**	(352)
Pension/post-employment schemes:						
Deficits	**80**	97	**–**	–	**80**	97
UK additional pension contributions	**–**	60	**–**	–	**–**	60
US deferred compensation plans	**106**	102	**–**	–	**106**	102
Share-based payments	**94**	64	**–**	–	**94**	64
Financial instruments	**21**	17	**(1)**	(1)	**20**	16
Other items, including tax losses carried forward	**28**	45	**(2)**	(16)	**26**	29
Deferred tax assets/(liabilities)	**1,074**	830	**(475)**	(497)	**599**	333
Set off of tax	**(465)**	(492)	**465**	492	**–**	–
Net deferred tax assets/(liabilities)	**609**	338	**(10)**	(5)	**599**	333

16. Deferred tax continued

Movement in temporary differences during the year

	At 1 January 2023 £m	Foreign exchange adjustments £m	Acquisitions and disposals £m	Recognised in income £m	Recognised in equity £m	**At 31 December 2023 £m**
Property, plant and equipment	(78)	7	–	(30)	–	**(101)**
Intangible assets	13	–	–	26	–	**39**
Capitalised research and development	149	(17)	–	326	–	**458**
Provisions and accruals	233	(13)	–	9	–	**229**
Goodwill	(352)	21	–	(21)	–	**(352)**
Pension/post-employment schemes:						
Deficits	97	(3)	–	(2)	(12)	**80**
UK additional pension contributions	60	–	–	–	(60)	**–**
US deferred compensation plans	102	(6)	–	10	–	**106**
Share-based payments	64	–	–	13	17	**94**
Financial instruments	16	–	–	1	3	**20**
Other items, including tax losses carried forward	29	(5)	–	2	–	**26**
	333	(16)	–	334	(52)	**599**

	At 1 January 2022 £m	Foreign exchange adjustments £m	Acquisitions and disposals £m	Recognised in income £m	Recognised in equity £m	At 31 December 2022 £m
Property, plant and equipment	(59)	(12)	–	(7)	–	(78)
Intangible assets	15	2	(13)	9	–	13
Capitalised research and development	–	4	–	145	–	149
Provisions and accruals	203	25	–	5	–	233
Goodwill	(302)	(39)	–	(11)	–	(352)
Pension/post-employment schemes:						
Deficits	430	3	–	20	(356)	97
UK additional pension contributions	118	–	–	–	(58)	60
US deferred compensation plans	110	13	–	(21)	–	102
Share-based payments	28	–	–	12	24	64
Financial instruments	(9)	1	–	3	21	16
Other items, including tax losses carried forward	11	3	–	15	–	29
	545	–	(13)	170	(369)	333

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following items:

	2023		2022	
	Gross amount £m	**Unrecognised deferred tax asset £m**	Gross amount £m	Unrecognised deferred tax asset £m
Deductible temporary differences, including tax credits	**2**	**2**	9	9
Tax losses carried forward	**438**	**89**	464	93
	440	**91**	473	102

These assets have not been recognised as the incidence of future profits in the relevant countries and legal entities cannot be accurately predicted at this time.

The Group has not recognised any deferred tax liability on temporary differences totalling £211m (2022 £189m) relating to potentially taxable unremitted earnings of overseas subsidiaries and equity accounted investments because the Group is in a position to control the timing of the reversal of the temporary differences and none are expected to reverse in the foreseeable future.

Both the recognised and unrecognised UK deferred tax balances at 31 December 2023 have been calculated at 25% (2022 blended rate of 24.2%). This reflects the increase in the UK corporation tax rate from 19% to 25% with effect from 1 April 2023. An adjustment has been made to reflect the fact that UK deferred tax balances are expected to unwind at 25%.

Notes to the Consolidated financial statements continued

17. Inventories

Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value. Inventory cost is valued using the most appropriate method based on the business use of inventory. In the majority of cases this is moving average unit cost, with some businesses using standard cost or first in first out (FIFO) as methods more indicative of their use of inventory.

	2023 £m	2022 £m
Raw materials and consumables	**646**	535
Work-in-progress	**437**	372
Finished goods and goods for resale	**73**	69
	1,156	976

The Group recognised £4m (2022 £26m) as a write down of inventories to net realisable value.

18. Current tax

Current tax for the current and prior years is recognised as a liability to the extent that it has not yet been settled, and as an asset to the extent that the amounts already paid exceed the amount due or the benefit of a tax loss can be carried back to recover current tax of a prior year. Current tax assets and liabilities are measured at the amount expected to be paid to or recovered from tax authorities, using the rates that have been enacted or substantively enacted by the balance sheet date.

	2023 £m	2022 £m
Tax provisions	**(370)**	(145)
Research and development expenditure credits receivable	**156**	131
Other tax receivables	**89**	44
	(125)	30
Represented by:		
Current tax assets	**160**	133
Current tax liabilities	**(285)**	(103)
	(125)	30

Tax provisions of £370m (2022 £145m) are in respect of known tax issues, of which £299m (2022 £87m) relates to the US, £71m (2022 £56m) relates to the UK and £nil (2022 £2m) relates to other territories. The majority of the current tax provisions relate to the timing of tax reliefs. Corresponding deferred tax assets are therefore recognised in relation to the same tax judgements, including in relation to most of the increase in the year.

19. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, call and term deposits, investments in money market funds and other short-term liquid investments with original maturities of three months or less and which are subject to an insignificant risk of change in value. For the purpose of the cash flow statement, cash and cash equivalents also includes bank overdrafts that are repayable on demand and which form an integral part of the Group's cash management.

	2023 £m	2022 £m
Cash	**502**	484
Money market funds	**1,375**	1,149
Short-term deposits	**2,190**	1,474
	4,067	3,107

Cash and cash equivalents includes £59m (2022 £55m) which is subject to regulatory restrictions and is therefore not available for general use by other entities within the Group.

20. Geographical analysis of assets

Analysis of non-current assets by geographical location

Asset location	Note	2023 £m	2022 £m
UK		**4,877**	4,563
Rest of Europe		**2,065**	1,965
US		**10,167**	10,719
Kingdom of Saudi Arabia		**533**	586
Australia		**499**	518
Rest of Asia and Pacific		**8**	5
		18,149	18,356
Other investments	13	**84**	99
Other receivables	14	**418**	416
Post-employment benefit surpluses	24	**804**	1,297
Other financial assets	15	**227**	322
Deferred tax assets	16	**609**	338
Non-current assets		**20,291**	20,828

21. Loans and overdrafts

Loans and overdrafts are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, loans and overdrafts are stated at amortised cost. Any difference between the amount initially recognised and the redemption value is recognised in the income statement over the period of the borrowings.

	2023 £m	2022 £m
Non-current		
US$800m 3.8% bond, repayable 2024	**–**	664
US$750m 3.85% bond, repayable 2025	**587**	621
US$500m 7.5% bond, repayable 2027	**392**	415
US$1,300m 3.4% bond, repayable 2030	**1,013**	1,073
US$1,000m 1.9% bond, repayable 2031	**778**	824
US$400m 5.8% bond, repayable 2041	**311**	330
US$550m 4.75% bond, repayable 2044	**423**	447
US$1,000m 3% bond, repayable 2050	**770**	815
US$200m 5.5%, private placement, repayable 2050	**158**	–
	4,432	5,189
Current		
US$800m 3.8% bond, repayable 2024	**627**	–
Accrued interest	**52**	53
	679	53

The proceeds received under the US$200m private placement are being used in the construction of a modern shiplift at our Jacksonville, Florida ship repair facility.

US$500m of the US$800m 3.8% bond, repayable 2024, has been converted to a floating rate bond by utilising interest rate swaps that mature in October 2024 and had an effective rate during 2023 of 5.7%.

The US$500m 7.5% bond, repayable 2027, was converted at issue to a sterling fixed rate bond by utilising cross-currency swaps and had an effective rate during 2023 of 7.7%.

US$1,237m of the US$1,300m 3.4% bond, repayable 2030, was converted at issue to a sterling fixed rate bond by utilising cross-currency swaps and had an effective rate during 2023 of 3.5%.

The US$400m 5.8% bond, repayable 2041, has been converted to a floating rate bond by utilising interest rate swaps that mature in October 2024 and had an effective rate during 2023 of 8.8%.

Notes to the Consolidated financial statements continued

22. Contract liabilities

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

	2023 £m	2022 £m
Non-current		
Contract liabilities	**1,955**	945
Current		
Contract liabilities	**3,865**	3,882
	5,820	4,827

Revenue recognised in the year includes £3,573m (2022 £2,393m) that was included in the opening contract liabilities balance.

Non-current and current contract liabilities as at 1 January 2022 were £519m and £2,874m, respectively.

The increase in contract liabilities since 2022 is primarily due to customer advances received during the year.

23. Trade and other payables

Trade and other payables are stated at amortised cost.

US deferred compensation plan liabilities represent the present value of expected future payments required to settle the obligation to employees in accordance with IAS 19 Employee Benefits.

	Note	2023 £m	2022 £m
Non-current			
Accruals		**68**	50
Amounts owed to equity accounted investments	30	**10**	8
Deferred income[1]		**1,144**	1,006
US deferred compensation plan liabilities		**361**	357
Other payables		**11**	20
		1,594	1,441
Current			
Trade payables		**866**	839
Amounts owed to equity accounted investments	30	**1,534**	1,061
Other taxes and social security costs		**73**	76
Accruals		**2,600**	2,679
Deferred income[1]		**61**	109
US deferred compensation plan liabilities		**42**	39
Other payables		**260**	187
		5,436	4,990

1. Includes £1,192m (2022 £1,041m) of funding received from the UK Government for property, plant and equipment at Barrow-in-Furness, UK.

24. Post-employment benefits

Pension schemes

Defined contribution

Obligations for contributions are recognised as an expense in the income statement as incurred.

Defined benefit

The cost of providing benefits is determined periodically by independent actuaries and charged to the income statement in the year in which those benefits are earned by the employees. Remeasurements, including actuarial gains and losses, are recognised in the Consolidated statement of comprehensive income in the year in which they occur. Past service costs resulting from a plan amendment or curtailment are recognised immediately in the income statement.

The post-employment benefit surpluses and obligations recognised in the Group's balance sheet represent the fair value of scheme assets, less the present value of the defined benefit obligations calculated using a number of actuarial assumptions as set out on page 195. The bid values of scheme assets are not intended to be realised in the short term and may be subject to significant change before they are realised. The present values of scheme liabilities are derived from cash flow projections over long periods and are, therefore, inherently uncertain.

IAS 19 Employee Benefits limits the measurement of a defined benefit surplus to the lower of the surplus in the defined benefit scheme and the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the scheme or reductions in future contributions to the scheme. IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, issued in 2007, provides an interpretation of the requirements of IAS 19, clarifying that a refund is available if the entity has an unconditional right to a refund in certain circumstances. The Group has applied IFRIC 14 and has determined that there is no limit on the recognition of the surpluses in its defined benefit pension schemes as at 31 December 2023. In the UK the surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Group, which is assumed to be via a refund. These have been recognised after deducting a 35% withholding tax which would be levied prior to the future refunding of any surplus and have been presented on a net basis as this is not deemed to be an income tax.

MBDA participates in the Group's defined benefit schemes and, as these are multi-employer schemes, the Group has allocated a share of the IAS 19 pension surpluses and deficits to MBDA based on the relative payroll contributions of active members or actual obligations where known. Whilst this methodology is intended to reflect a reasonable estimate of the share of the surplus or deficit, it may not accurately reflect the obligations of the participating employers.

In the event that an employer who participates in the Group's pension schemes fails or cannot be compelled to fulfil its obligations as a participating employer, the remaining participating employers are obliged to collectively take on its obligations. The Group considers the likelihood of this event arising as remote.

The Group's share of the IAS 19 pension surplus or deficit allocated to equity accounted investments is included in the balance sheet within equity accounted investments.

Background

Pension schemes

BAE Systems plc operates pension schemes for the Group's qualifying employees in the UK, US and other countries. The UK and US operate a number of funded defined benefit schemes, and the assets are held in separate trustee-administered funds. The largest funded defined benefit scheme is the BAE Systems Pension Scheme – BAE Systems Section (Main Scheme) which represents 93% (2022 93%) of the UK IAS 19 defined benefit obligation at 31 December 2023. The schemes in other countries are primarily defined contribution schemes.

At 31 December 2023, the weighted average durations of the UK and US defined benefit pension obligations were 13 years (2022 13 years) and 11 years (2022 12 years), respectively.

The split of the defined benefit pension liability on a funding basis between active, deferred and pensioner members for the Main Scheme and US schemes in aggregate is set out below:

	Active %	Deferred %	Pensioner %
Main Scheme[1]	28	21	51
US schemes[2]	24	16	60

1. Source: 31 March 2021 actuarial valuation reports.
2. Source: Annual updates of the US schemes as at 1 January 2023.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

Regulatory framework

The funded UK schemes are registered and subject to the statutory scheme-specific funding requirements outlined in UK legislation, including the payment of levies to the Pension Protection Fund as set out in the Pension Act 2004. These schemes were established under trust and the responsibility for their governance lies jointly with the Trustees and the Group.

The funded US schemes are tax-qualified pension schemes regulated by the Pension Protection Act 2006 and insured by the Pension Benefit Guaranty Corporation (PBGC) up to certain limits. These schemes were established under, and are governed by, the US Employee Retirement Income Security Act 1974 and the BAE Systems Administrative Committee is a named fiduciary with the authority to manage their operation. The schemes' assets are held in the BAE Systems Master Pension Investment Trust and the trustee is The Northern Trust Company. The US schemes received a favourable determination letter from the Internal Revenue Service (IRS) dated 6 July 2017, stating that the US schemes and related Master Trust are designed in accordance with applicable sections of the IRS Code and, therefore, are exempt from taxation. Once qualified, the US schemes are required to operate in conformity with the Code to maintain qualification.

Benefits

The UK defined benefit schemes provide benefits to members in the form of a set level of pension payable for life based on members' final salaries. The benefits attract inflation-related increases both in deferment and payment. All UK defined benefit schemes are closed to new entrants, with benefits for new employees being provided through a defined contribution scheme. The Normal Retirement Age for the majority of active members of the Main Scheme is 65. Specific benefits applicable to members differ between schemes. Further details on the benefits provided by each scheme are provided on the BAE Systems Pensions website: baesystems.com/en-pensions/home

The US defined benefit schemes cover eligible employees of BAE Systems, Inc. and certain adopting affiliates providing benefits based on each employee's final salary and service. The US defined benefit schemes ceased to be final salary schemes in January 2013. Since then an annual accrual of $1,000 is credited to participants' accumulated plan benefits. Vested benefits are payable upon retirement, death, disability, and in certain circumstances upon termination of employment. The Normal Retirement Age for the US pension schemes is 65.

Other post-employment benefits

The Group operates a number of non-pension retirement benefit schemes, under which certain employees are eligible to receive benefits after retirement or on leaving the Group, the majority of which relate to the provision of medical benefits to retired employees of the Group's subsidiaries in the US.

Funding

Introduction

Disclosures in respect of pension funding are provided below. Disclosures in respect of pension accounting under IAS 19 are provided on pages 195 to 202.

The majority of the UK and US defined benefit pension schemes are funded by the Group's subsidiaries and equity accounted investments. The individual pension schemes' funding requirements are based on actuarial measurement frameworks set out in their funding policies.

For funding valuation purposes, pension scheme assets are included at market value at the valuation date, whilst the liabilities are measured on an actuarial funding basis using the projected unit credit method and discounted to their present value based on prudent assumptions set by the Trustees following consultation with scheme actuaries.

The funding valuations are performed by professionally qualified independent actuaries and include assumptions which differ from the actuarial assumptions used for IAS 19 accounting purposes shown on page 195. The purpose of the funding valuations is to design funding plans which ensure that the schemes have sufficient funds available to meet future benefit payments.

24. Post-employment benefits continued

Funding continued

UK valuations

Funding valuations of the Group's UK defined benefit pension schemes are performed at least every three years. Following the accelerated payment in 2021 of the remaining sponsor deficit reduction contributions under the previously agreed deficit recovery plan, the Group and Trustees agreed to carry out an early triennial funding valuation for the Main Scheme as at 31 March 2021. This valuation was concluded and signed off on 30 June 2022.

The results of the most recent triennial valuation for the Main Scheme are shown below. This valuation was agreed with the Trustees and certified by the Scheme Actuary after consultation with The Pensions Regulator in the UK.

	Main Scheme as at 31 March 2021 £bn
Market value of assets	22.9
Present value of liabilities	(22.9)
Funding surplus	–
Percentage of accrued benefits covered by the assets at the valuation date	100%

The other UK schemes were all in surplus at their most recent triennial valuations.

The valuations were determined using the following mortality assumptions:

Life expectancy of a male currently aged 65 (years)	86 – 89
Life expectancy of a female currently aged 65 (years)	88 – 90
Life expectancy of a male at age 65, currently aged 45 (years)	88 – 91
Life expectancy of a female at age 65, currently aged 45 (years)	90 – 93

As part of the process of the Main Scheme's 2021 valuation, the Trustees and the Group agreed to update the methodology to use a cash flow matching strategy, such that assets are invested with the aim of the expected income directly matching the expected benefit payments of the Main Scheme. The cash flow matching strategy aims to manage risk through a defined amount of risk buffer assets, which equate to the agreed prudence margin in the valuation. The risk buffer assets are measured over time to ensure the Main Scheme is sufficiently funded. The asset portfolio is currently invested in a selection of bonds designed to match the pension payments for current pensioners, as well as a mix of growth-seeking assets aimed to generate returns for the pension payments for future pensioners. Over time, assets from the return-seeking portfolio will be realised to purchase additional, lower-risk assets to match the increasing current pensioner payments.

The valuations for the other schemes use a different method in that discount rates were directly based on prudent levels of expected returns for the assets held by the schemes, reflecting the planned investment strategies and maturity profiles of each scheme. The discount rates are curves which provide a different rate for each year into the future. Under IAS 19, the discount rate for accounting purposes is based on third-party AA corporate bond yields.

The inflation assumptions for each of the valuations were derived based on the difference between the yields, on index-linked and fixed-interest long-term government bonds. The inflation assumption is a curve which provides a different rate for each year into the future.

There have been no changes to the contributions or benefits, as set out in the rules of the schemes, for pension scheme members as a result of the new funding valuations.

The results of future triennial valuations and associated funding requirements will be impacted by a number of factors, including the future performance of investment markets and anticipated members' longevity.

US valuations

The Group's US pension schemes are valued annually, with the latest valuations performed as at 1 January 2023. The actuarial present value of accumulated plan benefits is determined by an independent actuary and uses actuarial assumptions to adjust the accumulated plan benefits earned by participants to reflect the time value of money and the probability of payment between the valuation date and the expected date of payment.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

Funding continued

Contributions

Under the terms of the trust deeds of the UK schemes, the Group is required to have a funding plan determined at the conclusion of the triennial funding valuations.

Equity accounted investments make regular contributions to the schemes in which they participate in line with the schedule of contributions and are allocated a share of funding contributions.

In 2023, total employer contributions to the Group's pension schemes were £274m (2022 £267m), including amounts funded by equity accounted investments of £30m (2022 £23m), and included approximately £68m (2022 £45m) of payments associated with the share buyback programme in respect of the Main Scheme.

Contributions in 2024 to the Group's pension schemes are expected to be at a similar level to 2023.

Risk management

The defined benefit pension schemes expose the Group to actuarial risks, including market (investment) risk, interest rate risk, inflation risk and longevity risk.

Risk	Mitigation
Market (investment) risk Asset returns may not move in line with the liabilities and may be subject to volatility.	The investment portfolios are highly diversified, investing in a wide range of assets, in order to reduce the exposure of the total portfolio to a materially adverse impact from a single security or type of security. To reduce volatility, certain assets are held in a matching portfolio, which largely consists of index-linked bonds, gilts and swaps, designed to mirror movements in corresponding liabilities. Some 36% (2022 42%) of the Group's pension scheme assets are held in equities and pooled investment vehicles due to the higher expected level of return over the long term. The UK Main Scheme reduced its allocation to equities significantly over the course of 2023, and closed out its equity option strategy to reflect its limited resultant exposure to equity markets. Environmental (including exposure to climate related risks), Social and Governance (ESG) factors are incorporated into the investment analysis and decision-making process carried out by the Trustees of the UK schemes. There is alignment between the UK Main Scheme and Company's climate change objectives with consistent long-term net zero ambitions.
Interest rate risk Liabilities are sensitive to movements in interest rates, with lower interest rates leading to an increase in the valuation of liabilities.	As part of the funding valuation finalised during 2022, the main UK Scheme has adopted a cash flow matching strategy, whereby contractual income from assets is designed to directly match benefits paid to members each year. A portfolio of assets with contractual income has been structured to match benefits already in payment, representing around half of the liabilities. This inherently hedges the associated interest rate risk. As members retire and become pensioners, additional matching assets will be purchased to keep pace. Interest rate risk associated with the remaining purchase of matching assets is mitigated via a hedging strategy involving mainly physical assets and derivatives. The overall level of interest rate hedging on the funding basis has increased compared to 2022.
Inflation risk Liabilities are sensitive to movements in inflation, with higher inflation leading to an increase in the valuation of liabilities.	The main UK Scheme's cash flow matching strategy includes aligning asset income to the inflation-linked members' benefit payments. Inflation risk is mitigated by the presence of caps on most inflation-linked benefits and via a hedging strategy, executed with several banks to reduce counterparty risk. The overall level of inflation hedging on the funding basis has increased compared 2022. The Group's US scheme benefits are not indexed with inflation. In 2014, the Main Scheme implemented a pension increase exchange to allow retired members to elect for a higher current pension in exchange for foregoing certain rights to future pension increases.
Longevity risk Liabilities are sensitive to life expectancy, with increases in life expectancies leading to an increase in the valuation of liabilities.	Longevity adjustment factors are used in the majority of the UK pension schemes in order to adjust the pension benefits payable so as to share the cost of people living longer with employees. In 2013, with the agreement of the Company, the Trustees of the 2000 Plan, Royal Ordnance Pension Scheme and Shipbuilding Industries Pension Scheme (SIPS) entered into arrangements with Legal & General to insure against longevity risk for the current pensioner population, covering a total of £4.4bn of pension scheme liabilities. These arrangements reduce the funding volatility relating to increasing life expectancy. This longevity risk cover with Legal & General remains in place following the 2019 merger of the 2000 Plan and SIPS into the Main Scheme.

Virgin Media case

The Company is aware of the ongoing 'Virgin Media v NTL Pension Trustees Ltd and others' case and that there is a potential for the outcome of the case to have an impact on the UK schemes. The case affects defined benefit schemes that provided contracted-out benefits before 6 April 2016 based on meeting the reference scheme test. Where scheme rules were amended, potentially impacting benefits accrued from 6 April 1997 to 6 April 2016, schemes needed the actuary to confirm that the reference scheme test was still being met by providing written confirmation under Section 37 of the Pension Schemes Act 1993. In the Virgin Media case the judge ruled that alterations to the scheme rules were void and ineffective because of the absence of written actuarial confirmation required under Section 37 of the Pension Schemes Act 1993. The case has been taken to The Court of Appeal, with the hearing set for June 2024. The potential impact on the UK schemes is not yet known but continues to be assessed.

24. Post-employment benefits continued

IAS 19 accounting

The disclosures below relate to post-retirement benefit schemes in the UK, US and other countries which are accounted for as defined benefit schemes in accordance with IAS 19.

Principal actuarial assumptions

The assumptions used are estimates chosen from a range of possible actuarial assumptions which, due to the long-term nature of the obligation covered, may not necessarily occur in practice.

	UK			US		
	2023	2022	2021	**2023**	2022	2021
Financial assumptions						
Discount rate – past service (%)	**4.5**	4.8	1.9	**4.8**	5.0	2.8
Discount rate – future service (%)	**4.6**	4.8	1.9	**4.8**	5.0	2.8
Retail Prices Index (RPI) inflation (%)	**2.8**	3.0	3.1	**n/a**	n/a	n/a
Rate of increase in salaries (%)	**2.8**	3.0	3.1	**n/a**	n/a	n/a
Rate of increase in deferred pensions (CPI/RPI) (%)	**2.1/2.8**	2.3/3.0	2.4/3.1	**n/a**	n/a	n/a
Rate of increase in pensions in payment (%)	**1.6 – 3.6**	1.7 – 3.6	1.7 – 3.7	**n/a**	n/a	n/a
Demographic assumptions						
Life expectancy of a male currently aged 65 (years)	**85 – 89**	86 – 89	86 – 89	**88**	87	87
Life expectancy of a female currently aged 65 (years)	**88 – 89**	88 – 90	88 – 90	**89**	89	89
Life expectancy of a male currently aged 45 (years)	**86 – 89**	87 – 90	86 – 90	**87**	87	87
Life expectancy of a female currently aged 45 (years)	**89 – 90**	89 – 91	89 – 91	**89**	89	89

Discount rate

The discount rate assumptions are derived through discounting the projected benefit payments using a third-party AA corporate bond yield curve to produce a single equivalent discount rate for the UK and US territories. This inherently captures the maturity profile of the expected benefit payments. For the UK territory, the discount rate used for future service differs from that used for past service as it only uses the cash flows relating to active members, which have a different duration. Further information on the duration of the schemes is detailed on page 191.

Retail Prices Index (RPI) and Consumer Prices Index (CPI) inflation

In the UK, the inflation assumptions are derived by reference to the difference between the yields on index-linked and fixed-interest long-term government bonds. Index-linked government bond prices contain a premium that investors are willing to pay to mitigate the risk that RPI inflation is higher than expected. To account for this, the RPI assumption includes an inflation risk premium deduction.

The inflation risk premium deduction has been set at 0.55% per annum (2022 0.55%) and the CPI assumption has been set at 0.7% per annum (2022 0.7%) lower than RPI. The resulting RPI assumption is 2.8% per annum and the CPI assumption is 2.1% per annum. The 0.7% per annum RPI-CPI differential is a weighted average of a 1% per annum differential pre-2030 and 0.1% per annum differential post-2030; this reflects the anticipated change to the RPI index from 2030. In the US, inflation assumptions are not relevant as the Group's US pension schemes are not indexed with inflation.

Rate of increase in salaries

The rate of increase in salaries for the UK schemes is assumed to be RPI inflation of 2.8% (2022 RPI inflation of 3.0%), plus a promotional scale. From 1 January 2013, employees in the US schemes no longer accrue salary-related benefits.

Rate of increase in deferred pensions

The rate of increase in deferred pensions for the UK schemes is based on CPI inflation of 2.1% (2022 CPI inflation of 2.3%), with the exception of the legacy 2000 Plan, which is based on RPI inflation of 2.8% (2022 RPI inflation of 3.0%). For all UK schemes, the rate of increase in deferred pensions is subject to inflation caps.

Rate of increase in pensions in payment

The rate of increase in pensions in payment differs between UK schemes. Different tranches of the schemes' benefits increase at rates based on either RPI or CPI inflation, and some are subject to an inflation cap. With the exception of two smaller schemes, the rate of increase in pensions in payment is based on RPI inflation.

Life expectancy

For its UK pension schemes, the Group has used the Self-Administered Pension Schemes S3 mortality tables based on year of birth (as published by the Institute and Faculties of Actuaries) for both pensioner and non-pensioner members, in conjunction with the results of an investigation into the actual mortality experience of scheme members and information on the demographic profile of the scheme's membership.

In addition, to allow for future improvements in longevity, the Continuous Mortality Investigation 2022 tables (published by the Institute of Actuaries) have been used (in 2022, the Continuous Mortality Investigation 2021 tables were used), with an assumed long-term rate of mortality improvements of 1.0% per annum (2022 1.0%), an initial rate adjustment parameter ('A') of 0.2% (2022 0.25%), a smoothing parameter ('Sk') of 7 (2022 7) and the following weighting ('W') parameters: W2022 35% (2022 n/a); W2021 0% (2022 7.5%); and W2020 0% (2022 7.5%).

For the majority of the US schemes, the mortality tables used at 31 December 2023 are a blend of the fully generational PRI-2012 White Collar table and the PRI-2012 Blue Collar table, both projected using Scale MP-2021.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

IAS 19 accounting continued

US healthcare schemes

The latest valuations of the principal schemes, covering retiree medical and life insurance schemes in certain US subsidiaries, were performed by independent actuaries as at 1 January 2023. These valuations were rolled forward to reflect the information at 31 December 2023. The method of accounting for these is similar to that used for defined benefit pension schemes.

Long-term healthcare cost is assumed to increase at 5.0% per annum (2022 4.7%). This is based on an assumed increase in 2023 of 7.75% for pre-retirement and 6.25% for post-retirement, with both rates then reducing to 4.5% by 2033 and remaining at 4.5% per annum each year thereafter.

Summary of movements in post-employment benefit obligations

	UK £m	US and other £m	Total £m
Total net IAS 19 surplus/(deficit) at 1 January 2023 (net of withholding tax)	1,236	(483)	753
Add back: withholding tax on surpluses	722	–	722
Total net IAS 19 surplus/(deficit) at 1 January 2023	1,958	(483)	1,475
Actual return on assets excluding amounts included in net finance costs	(608)	124	(484)
Increase in liabilities due to changes in financial assumptions	(376)	(52)	(428)
Decrease/(increase) in liabilities due to changes in demographic assumptions	38	(1)	37
Experience losses	(111)	(22)	(133)
Contributions in excess of/(less than) service cost	151	(12)	139
Settlements	–	60	60
Net interest income/(expense)	106	(20)	86
Foreign exchange adjustments	–	19	19
Movement in other schemes	–	(33)	(33)
Total net IAS 19 surplus/(deficit) at 31 December 2023	**1,158**	**(420)**	**738**
Withholding tax on surpluses	(441)	–	(441)
Total net IAS 19 surplus/(deficit) at 31 December 2023 (net of withholding tax)	**717**	**(420)**	**297**
Allocated to equity accounted investments	(68)	–	(68)
Group's share of net IAS 19 surplus/(deficit) excluding Group's share of amounts allocated to equity accounted investments at 31 December 2023	**649**	**(420)**	**229**

Settlement gain

In May 2023, $1.2bn (£1.0bn) of the US defined benefit obligation liabilities were settled via a transfer to an insurance company. The premium of $1.1bn (£0.9bn) was approximately 95% of the IAS 19 liability carrying value, creating a one-off accounting gain. Since the half-year 2023 results, the asset valuations for the settlement have been finalised, resulting in an additional gain of £9m. The total gain is now $75m (£60m). This gain has been recognised in the Consolidated income statement, and as an adjusting item.

Surplus recognition

A number of schemes are in an accounting surplus position. The surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Group, which is assumed to be via a refund. On 22 November 2023, the UK government announced that the authorised surplus payments charge would be reduced from 35% to 25% from 6 April 2024. The legislation had not been legally enacted as at the date of issue of these financial statements. The surplus has been recognised net of withholding tax of 35% at 31 December 2023 (2022: 35%) based on the enacted legislation at that date. Should the legislation have been enacted at year-end, this would have resulted in an £0.1bn increase in the pension surplus. This tax would be levied prior to the future refunding of any surplus and therefore the surplus has been presented on a net basis as this is not deemed to be an income tax of the Group.

24. Post-employment benefits continued

IAS 19 accounting continued

Amounts recognised on the balance sheet

The table below shows a reconciliation between the gross assets and liabilities of the Group's UK, US and other post-employment benefit schemes and the amounts recognised on the Group's balance sheet after allocation to equity accounted investments.

	2023				
	UK defined benefit pension schemes £m	**US and other pension schemes £m**	**US healthcare schemes £m**	**Kingdom of Saudi Arabia end of service benefit £m**	**Total £m**
Present value of unfunded obligations	**(105)**	**(98)**	**–**	**(168)**	**(371)**
Present value of funded obligations	**(19,913)**	**(2,838)**	**(125)**	**–**	**(22,876)**
Fair value of scheme assets	**21,176**	**2,629**	**180**	**–**	**23,985**
Total net IAS 19 surplus/(deficit)	**1,158**	**(307)**	**55**	**(168)**	**738**
Withholding tax on surpluses	**(441)**	**–**	**–**	**–**	**(441)**
Allocated to equity accounted investments	**(68)**	**–**	**–**	**–**	**(68)**
Group's share of net IAS 19 surplus/(deficit)	**649**	**(307)**	**55**	**(168)**	**229**
Represented by:					
Post-employment benefit surpluses	**747**	**2**	**55**	**–**	**804**
Post-employment benefit obligations	**(98)**	**(309)**	**–**	**(168)**	**(575)**
	649	**(307)**	**55**	**(168)**	**229**
Group's share of net IAS 19 surplus of equity accounted investments	**22**	**–**	**–**	**–**	**22**

The US unfunded pension obligations have associated assets held in deferred compensation schemes with a fair value of £53m (2022 £57m), which are shown in Other Investments. The funds held in these trusts can be used solely for the satisfaction of the unfunded obligations.

	2022				
	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Present value of unfunded obligations	(104)	(105)	–	(142)	(351)
Present value of funded obligations	(19,462)	(3,927)	(128)	–	(23,517)
Fair value of scheme assets	21,524	3,629	190	–	25,343
Total net IAS 19 surplus/(deficit)	1,958	(403)	62	(142)	1,475
Withholding tax on surpluses	(722)	–	–	–	(722)
Allocated to equity accounted investments	(107)	–	–	–	(107)
Group's share of net IAS 19 surplus/(deficit)	1,129	(403)	62	(142)	646
Represented by:					
Post-employment benefit surpluses	1,224	11	62	–	1,297
Post-employment benefit obligations	(95)	(414)	–	(142)	(651)
	1,129	(403)	62	(142)	646
Group's share of net IAS 19 surplus of equity accounted investments	38	–	–	–	38

Total cumulative actuarial losses recognised in equity since the transition to IFRS are £1.8bn (2022 £1.1bn).

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

IAS 19 accounting continued

Changes in the fair value of scheme assets before allocation to equity accounted investments

	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Value of scheme assets at 1 January 2022	26,947	4,415	218	–	31,580
Interest income	490	132	6	–	628
Actual return on assets excluding amounts included in interest income	(5,094)	(1,199)	(48)	–	(6,341)
Actual return on assets	(4,604)	(1,067)	(42)	–	(5,713)
Contributions by employer	257	10	–	14	281
Contributions by employer in respect of employee salary sacrifice arrangements	72	–	–	–	72
Total contributions by employer	329	10	–	14	353
Members' contributions	5	–	–	–	5
Administrative expenses	(18)	(7)	(1)	–	(26)
Foreign exchange translation	–	521	26	–	547
Benefits paid	(1,135)	(243)	(11)	(14)	(1,403)
Value of scheme assets at 31 December 2022	21,524	3,629	190	–	25,343
Interest income	1,010	170	9	–	1,189
Actual return on assets excluding amounts included in interest income	(608)	124	3	–	(481)
Actual return on assets	402	294	12	–	708
Contributions by employer	265	9	–	13	287
Contributions by employer in respect of employee salary sacrifice arrangements	72	–	–	–	72
Total contributions by employer	337	9	–	13	359
Members' contributions	5	–	–	–	5
Settlements	–	(894)	–	–	(894)
Administrative expenses	(24)	(15)	(1)	–	(40)
Foreign exchange translation	–	(185)	(11)	–	(196)
Benefits paid	(1,068)	(209)	(10)	(13)	(1,300)
Value of scheme assets at 31 December 2023	**21,176**	**2,629**	**180**	**–**	**23,985**

24. Post-employment benefits continued

IAS 19 accounting continued

Assets of defined benefit pension schemes

2023

	UK			US and other			Total		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities:									
UK[1]	1	–	1	–	–	–	1	–	1
Overseas	226	–	226	–	–	–	226	–	226
Pooled investment vehicles[2]	–	7,706	7,706	655	–	655	655	7,706	8,361
Fixed-interest securities:									
UK gilts	2,376	–	2,376	–	–	–	2,376	–	2,376
UK corporates	2,884	1,752	4,636	–	–	–	2,884	1,752	4,636
Overseas government	35	–	35	595	–	595	630	–	630
Overseas corporates	1,721	–	1,721	1,276	–	1,276	2,997	–	2,997
Index-linked securities:									
UK gilts	2,193	–	2,193	–	–	–	2,193	–	2,193
UK corporates	1,084	–	1,084	–	–	–	1,084	–	1,084
Overseas government	–	–	–	–	–	–	–	–	–
Overseas corporates	41	–	41	–	–	–	41	–	41
Property[3]	–	1,441	1,441	–	29	29	–	1,470	1,470
Derivatives[4]	–	(1,285)	(1,285)	–	5	5	–	(1,280)	(1,280)
Cash:									
Sterling	577	174	751	–	–	–	577	174	751
Foreign currency	244	–	244	69	–	69	313	–	313
Other	–	6	6	–	–	–	–	6	6
Total	**11,382**	**9,794**	**21,176**	**2,595**	**34**	**2,629**	**13,977**	**9,828**	**23,805**

2022

	UK			US and other			Total		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities:									
UK[1]	209	–	209	–	–	–	209	–	209
Overseas	624	–	624	–	–	–	624	–	624
Pooled investment vehicles[2]	3	8,892	8,895	793	–	793	796	8,892	9,688
Fixed-interest securities:									
UK gilts	2,397	–	2,397	–	–	–	2,397	–	2,397
UK corporates	1,832	2,416	4,248	–	–	–	1,832	2,416	4,248
Overseas government	29	–	29	599	–	599	628	–	628
Overseas corporates	1,248	56	1,304	2,105	–	2,105	3,353	56	3,409
Index-linked securities:									
UK gilts	2,050	–	2,050	–	–	–	2,050	–	2,050
UK corporates	–	952	952	–	–	–	–	952	952
Overseas corporates	9	–	9	–	–	–	9	–	9
Property[3]	–	1,731	1,731	–	37	37	–	1,768	1,768
Derivatives[4]	–	(1,595)	(1,595)	–	–	–	–	(1,595)	(1,595)
Cash:									
Sterling	566	84	650	–	–	–	566	84	650
Foreign currency	12	(1)	11	95	–	95	107	(1)	106
Other	–	10	10	–	–	–	–	10	10
Total	8,979	12,545	21,524	3,592	37	3,629	12,571	12,582	25,153

1. Includes £nil (2022 £3m) of the Company's own ordinary shares.
2. Primarily invested in private markets and exchange traded funds. The amounts classified as unquoted primarily comprise investments in private markets, with the majority held in infrastructure, alternatives and direct funds, valued in accordance with International Private Equity and Venture Capital Valuation Guidelines.
3. Valued on the basis of open market value at the end of the year determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Note contained therein. Includes £233m (2022 £223m) of property occupied by Group companies.
4. Includes forward foreign exchange contracts, futures, and interest rate, inflation and longevity swaps. In addition, the total derivative figures shown are net of £449m (2022 £520m) of repurchase agreements. The valuations are based on valuation techniques using underlying market data and discounted cash flows.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

IAS 19 accounting continued

Longevity swap

The Group holds longevity insurance contracts for some of its UK defined benefit pension schemes. These provide long-term protection and income to the underlying pension scheme in the event that insured members live longer than expected.

The value of the longevity insurance contracts held by the Group are calculated by an actuary. They are measured by discounting the difference between the projected fixed and floating cash flows payable under the contracts, excluding the value of future projected fees. The significant assumptions used for this valuation are the discount rate and mortality assumptions; fair values for these assumptions are advised by an actuary based on external data and characteristics of the insured member population.

At 31 December 2023, the longevity swap valuation leads to a negative adjustment to the assets which reflects that experience to date on the contracts has been higher than expected deaths.

Changes in the present value of the defined benefit obligations before allocation to equity accounted investments

	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Defined benefit obligations at 1 January 2022	(28,920)	(4,643)	(150)	(153)	(33,866)
Current service cost	(231)	(12)	(1)	(27)	(271)
Contributions by employer in respect of employee salary sacrifice arrangements	(72)	–	–	–	(72)
Total current service cost	(303)	(12)	(1)	(27)	(343)
Members' contributions	(5)	–	–	–	(5)
Past service cost – plan amendments	14	2	(1)	–	15
Actuarial gain due to changes in financial assumptions	10,745	1,067	32	47	11,891
Actuarial loss due to changes in demographic assumptions	(39)	–	–	–	(39)
Experience (losses)/gains	(1,672)	(6)	3	(4)	(1,679)
Interest expense	(521)	(138)	(4)	(5)	(668)
Foreign exchange translation	–	(545)	(18)	(14)	(577)
Benefits paid	1,135	243	11	14	1,403
Defined benefit obligations at 31 December 2022	(19,566)	(4,032)	(128)	(142)	(23,868)
Current service cost	(90)	(6)	(2)	(20)	(118)
Contributions by employer in respect of employee salary sacrifice arrangements	(72)	–	–	–	(72)
Total current service cost	(162)	(6)	(2)	(20)	(190)
Members' contributions	(5)	–	–	–	(5)
Past service cost – plan amendments	–	–	(2)	–	(2)
Settlements	–	954	–	–	954
Actuarial loss due to changes in financial assumptions	(376)	(52)	(4)	(13)	(445)
Actuarial gain/(loss) due to changes in demographic assumptions	38	(1)	–	–	37
Experience losses	(111)	(22)	(1)	(5)	(139)
Interest expense	(904)	(190)	(6)	(8)	(1,108)
Foreign exchange translation	–	204	8	7	219
Benefits paid	1,068	209	10	13	1,300
Defined benefit obligations at 31 December 2023	**(20,018)**	**(2,936)**	**(125)**	**(168)**	**(23,247)**

24. Post-employment benefits continued

IAS 19 accounting continued

Amounts recognised in the income statement after allocation to equity accounted investments

	2023			
	UK defined benefit pension schemes £m	**US and other pension schemes £m**	**Other schemes £m**	**Total £m**
Included in operating costs:				
Current service cost	**(85)**	**(6)**	**(22)**	**(113)**
Past service cost – plan amendments	**–**	**–**	**(2)**	**(2)**
Administrative expenses	**(22)**	**(15)**	**(1)**	**(38)**
	(107)	**(21)**	**(25)**	**(153)**
Included in other income:				
Pensions settlement gain	**–**	**60**	**–**	**60**
Included in net finance costs:				
Net interest income/(expense) on post-employment benefit obligations	**66**	**(20)**	**(5)**	**41**
Group defined benefit schemes included in share of results of equity accounted investments:				
Group's share of equity accounted investments' operating costs	**(5)**	**–**	**–**	**(5)**
Group's share of equity accounted investments' net finance income	**3**	**–**	**–**	**3**

	2022			
	UK defined benefit pension schemes £m	US and other pension schemes £m	Other schemes £m	Total £m
Included in operating costs:				
Current service cost	(210)	(12)	(28)	(250)
Past service cost – plan amendments	13	2	(1)	14
Administrative expenses	(16)	(7)	(1)	(24)
	(213)	(17)	(30)	(260)
Included in net finance costs:				
Net interest expense on post-employment benefit obligations	(28)	(6)	(3)	(37)
Group defined benefit schemes included in share of results of equity accounted investments:				
Group's share of equity accounted investments' operating costs	(10)	–	–	(10)
Group's share of equity accounted investments' net finance costs	(1)	–	–	(1)

Defined contribution schemes

The Group incurred a charge of £309m (2022 £299m) in relation to defined contribution schemes for employees.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

IAS 19 accounting continued

Sensitivity analysis

The sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 December 2023 and keeping all other assumptions as set out on page 195.

The pension schemes hold a number of unquoted pooled investment vehicles, which are investments in private markets. These are valued based on latest available valuation reports, and as noted on page 158, these valuations are subject to estimation uncertainty as their valuation techniques incorporate a number of assumptions, including those associated with the impact of climate change. Should these funds' actual valuations at 31 December 2023 be on average 2% different to those assumed, this would result in a £0.2bn (2022 £0.2bn) change in the valuation of the assets.

Financial assumptions

The estimated impact of changes in the discount rate and inflation assumptions on the defined benefit pension obligation, together with the estimated impact on scheme assets, is shown in the table below. The estimated impact on scheme assets takes into account the Group's risk management activities in respect of interest rate and inflation risk. The sensitivity analysis on the defined benefit obligation is measured on an IAS 19 accounting basis.

	Decrease/(increase) in pension obligation[1] £bn	(Decrease)/increase in scheme assets[1] £bn
Discount rate:		
0.5 percentage point increase/decrease	1.3/(1.5)	(1.3)/1.5
1.0 percentage point increase/decrease	2.5/(3.1)	(2.5)/3.2
2.0 percentage point increase/decrease	4.6/(6.9)	(4.5)/7.1
3.0 percentage point increase/decrease	6.3/(11.8)	(6.1)/12.0

	(Increase)/decrease in pension obligation[1] £bn	Increase/(decrease) in scheme assets[1] £bn
Inflation:		
0.1 percentage point increase/decrease	(0.1)/0.1	0.2/(0.2)
0.5 percentage point increase/decrease	(0.7)/0.7	0.8/(0.8)
1.0 percentage point increase/decrease	(1.4)/1.3	1.8/(1.5)

Demographic assumptions

Changes in the life expectancy assumption, including the benefit of longevity swap arrangements (see longevity risk on page 194), would have the following effect on the total net IAS 19 surplus:

	(Decrease)/increase in net surplus[1] £bn
Life expectancy:	
One-year increase/decrease	(0.8)/0.8

1. Before allocation to equity accounted investments and deduction of withholding tax.

25. Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax risk-free discount rate.

Warranties and after-sales services

Where warranties and after-sales services are provided in the normal course of business, provisions for associated costs are made based on an assessment of future claims with reference to past experience. A provision for warranties is recognised when the underlying products and services are sold. The provision is based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

Reorganisations

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected. The costs associated with the reorganisation programmes are supported by detailed plans and based on previous experience as well as other known factors. Future operating costs are not provided for.

Legal, contractual and environmental

The Group holds provisions for expected legal, contractual and environmental costs that it expects to incur over an extended period. Management exercises judgement to determine the amount of these provisions. Provision is made for known issues based on past experience of similar items and other known factors. Each provision is considered separately and the amount provided reflects the best estimate of the most likely amount, being the single most likely amount in a range of possible outcomes.

	Warranties and after-sales services £m	Reorganisations £m	Legal, contractual and environmental £m	Other £m	Total £m
Non-current	57	9	244	28	338
Current	52	25	129	43	249
At 1 January 2023	109	34	373	71	587
Created	43	8	106	43	200
Utilised	(27)	(15)	(77)	(10)	(129)
Transfer from other balance sheet categories	2	–	–	–	2
Released	(18)	(8)	(37)	(19)	(82)
Net present value adjustments	–	–	7	1	8
Foreign exchange adjustments	(4)	(1)	(10)	(3)	(18)
At 31 December 2023	**105**	**18**	**362**	**83**	**568**
Represented by:					
Non-current	55	7	236	34	332
Current	50	11	126	49	236
	105	**18**	**362**	**83**	**568**

Warranties and after-sales services

Warranty and after-sales services provisions are generally utilised within three years post-delivery. Whilst actual events could result in potentially significant differences to the value, but not the timing, of the outflows in relation to the provisions, management has reflected current knowledge in assessing the provision levels.

Reorganisations

Reorganisation provisions are generally utilised within one to three years. There is limited volatility around the timing and amount of the ultimate outflows related to these provisions.

Legal, contractual and environmental

Reflecting the inherent uncertainty within many legal proceedings, the amount of the outflows could differ significantly from the amount provided. While the timing of the outflows is also uncertain, the Group expects these provisions to be utilised over a period of approximately 25 years.

Other

There are no individually significant provisions included within other provisions.

Notes to the Consolidated financial statements continued

26. Share capital and other reserves

Share capital

	Equity		Non-equity		Total
	Ordinary shares of 2.5p each		Special Share of £1		
	Number of shares m	Nominal value £m	Number of shares	Nominal value £	Nominal value £m
Issued and fully paid					
At 1 January 2022	3,404	85	1	1	85
Shares cancelled	(107)	(3)	–	–	(3)
At 31 December 2022	3,297	82	1	1	82
Shares cancelled	(58)	(1)	–	–	(1)
At 31 December 2023	**3,239**	**81**	**1**	**1**	**81**

Special Share

One Special Share of £1 in the Company is held on behalf of the Secretary of State for Business and Trade (the Special Shareholder). Certain provisions of the Company's Articles of Association cannot be amended without the consent of the Special Shareholder. These provisions include the requirement that no foreign person, or foreign persons acting in concert, can have more than a 15% voting interest in the Company, the requirement that the majority of the directors are British, and the requirement that the Chief Executive or any executive Chair are British. The effect of these requirements can also be amended by regulations made by the directors and approved by the Special Shareholder.

The Special Shareholder may require the Company at any time to redeem the Special Share at par or to convert the Special Share into one ordinary voting share. The Special Shareholder is entitled to attend a general meeting, but has no right to vote or any other rights at such meeting, other than to speak in relation to any business in respect of the Special Share.

Treasury shares

As at 31 December 2023, 204,041,705 (2022 220,086,959) ordinary shares of 2.5p each with an aggregate nominal value of £5,101,043 (2022 £5,502,174) were held in treasury. During 2023, 16,045,254 (2022 16,720,072) treasury shares were used to satisfy awards and options under the Share Incentive Plan, International Share Incentive Plan, Performance Share Plan, the Performance Shares and Restricted Shares elements of the Long-Term Incentive Plan, the Executive Share Option Plan, the Group Free Shares Plan and the International Profit Sharing Scheme.

BAE Systems Employee Share Option Plan (ESOP) Trust

The Group has an ESOP discretionary trust to administer the share plans and to acquire Company shares, using funds loaned by the Group, to meet commitments to Group employees. Dividend waivers were in operation for shares within the ESOP Trust, other than those owned beneficially by the participants, for the dividends paid in the year.

At 31 December 2023, the ESOP Trust held 8,665,966 (2022 7,268,002) ordinary shares of 2.5p each, with a market value of £96m (2022 £62m). The shares held by the ESOP Trust are recorded at cost and deducted from retained earnings until such time as the shares vest unconditionally to employees.

A dividend waiver was also in operation for the dividends paid in the year over shares within the Company's share incentive plan trusts other than those shares owned beneficially by the participants.

Own shares held

Own shares held, including treasury shares and shares held by BAE Systems ESOP Trust, are recognised as a deduction from retained earnings.

26. Share capital and other reserves continued

Equity dividends

Equity dividends on ordinary share capital are recognised as a liability on the date that the shareholder's right to receive payment is established.

	2023 £m	2022 £m
Final 16.6p dividend per ordinary share paid in the year (2022 15.2p)	**508**	480
Interim 11.5p dividend per ordinary share paid in the year (2022 10.4p)	**349**	322
	857	802

After the balance sheet date, the directors proposed a final dividend of 18.5p per ordinary share. The dividend proposed amounts to approximately £599m, although the final payment is likely to be lower as a result of the impact of share repurchases. The dividend, which is subject to shareholder approval, will be paid on 3 June 2024 to shareholders registered on 19 April 2024. The ex-dividend date is 18 April 2024. The payment of this dividend will not have any tax expense consequences for the Group.

Shareholders who do not at present participate in the Company's Dividend Reinvestment Plan and wish to receive the final dividend in shares rather than cash should complete a mandate form for the Dividend Reinvestment Plan and return it to the registrars no later than 10 May 2024.

Other reserves

	Merger reserve £m	Statutory reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2022	4,589	202	10	5	51	1,030	5,887
Subsidiaries:							
Currency translation on foreign currency net investments	–	–	–	–	–	1,151	1,151
Reclassification of cumulative currency translation reserve on disposal of subsidiary	–	–	–	–	–	(17)	(17)
Net amounts debited to hedging reserve	–	–	–	–	(65)	–	(65)
Equity accounted investments (net of tax)	–	–	–	–	3	(11)	(8)
Purchase of own shares	–	–	–	3	–	–	3
At 31 December 2022	4,589	202	10	8	(11)	2,153	6,951
Subsidiaries:							
Currency translation on foreign currency net investments	–	–	–	–	–	(502)	(502)
Net amounts debited to hedging reserve	–	–	–	–	(58)	–	(58)
Equity accounted investments (net of tax)	–	–	–	–	5	6	11
Purchase of own shares	–	–	–	1	–	–	1
At 31 December 2023	**4,589**	**202**	**10**	**9**	**(64)**	**1,657**	**6,403**

Notes to the Consolidated financial statements continued

26. Share capital and other reserves continued

Other reserves continued

Merger reserve

The merger reserve arose on the acquisition of the Marconi Electronic Systems (MES) business by British Aerospace in 1999 to form BAE Systems, and represents the amount by which the fair value of the shares issued by British Aerospace as consideration exceeded their nominal value.

Statutory reserve

Under Section 4 of the British Aerospace Act 1980, this reserve may only be applied in paying up unissued shares of the Company to be allotted to members of the Company as fully paid bonus shares.

Revaluation reserve

The revaluation reserve relates to the revaluation at fair value of the net assets of the BVT joint venture previously held as an equity accounted investment on the acquisition of the remaining 45% interest in 2009.

Capital redemption reserve

The capital redemption reserve represents the cumulative nominal value of the Company's ordinary shares repurchased and subsequently cancelled.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Capital

The Group funds its operations through a mixture of equity funding and debt financing, including bank and capital market borrowings.

At 31 December 2023, the Group's capital was £10,787m (2022 £11,411m), which comprised total equity of £10,723m (2022 £11,400m), excluding amounts accumulated in equity relating to cash flow hedges of £(64)m (2022 £(11)m). Net debt (excluding lease liabilities) was £1,022m (2022 £2,023m).

The capital structure of the Group reflects the judgement of the directors of an appropriate balance of funding required. The Group's policy is to maintain an investment grade credit rating and ensure operating flexibility, whilst:

- meeting its pension obligations;
- investing in research and technology and pursuing other organic investment opportunities;
- paying dividends in line with the Group's policy of long-term sustainable cover of around two times underlying earnings (see page 228);
- making accelerated returns of capital to shareholders when the balance sheet allows and when the return from doing so is in excess of the Group's Weighted Average Cost of Capital; and
- investing in value-enhancing acquisitions, where market conditions are right and where they deliver on the Group's strategy.

Purchase of own shares

On 29 July 2021, the Company announced the details of a share buyback programme to repurchase up to £500m of its own shares over the following 12 months (the 2021 share buyback programme). The 2021 share buyback programme was completed on 2 February 2022. During 2022, 24,253,065 shares were repurchased under the 2021 share buyback programme for a total price, including transaction costs, of £132m.

In July 2022, the directors approved a new share buyback programme (the 2022 share buyback programme) of up to £1.5bn over the next three years under the same terms as the 2021 buyback programme. During 2022, 82,997,065 shares were repurchased under the 2022 share buyback programme for a total price, including transaction costs, of £664m. In total during 2022, 107,250,130 shares were repurchased under the 2021 and 2022 share buyback programmes for a total price, including transaction costs, of £796m.

During 2023, the total number of shares repurchased under the 2022 share buyback programme was 58,689,756 for a total price, including transaction costs, of £558m.

All ordinary shares acquired have been subsequently cancelled, with the nominal value of ordinary shares cancelled deducted from share capital against the capital redemption reserve.

As part of the 2021 and 2022 buyback programmes, it was agreed that should a better alternative use for the Company's cash reserves be identified, the share buyback programmes would be ceased, and the money instead used for the alternative purpose. Therefore, when the Company issued a mandate to the brokers to purchase shares on their behalf, the mandates were structured such that they could be revoked at any point. As such, no financial liability has been recognised for shares not yet purchased under the 2022 programme.

In August 2023, the directors approved a further share buyback programme (the 2023 share buyback programme) of up to £1.5bn, which is expected to commence after completion of the 2022 share buyback programme and conclude within three years of its commencement.

27. Movement in assets and liabilities arising from financing activities

	As at 1 January 2023 £m	Cash flow[1] £m	Non-cash movements: Foreign exchange movements £m	Non-cash movements: Leases £m	Non-cash movements: Fair value adjustments £m	Non-cash movements: Net finance costs £m	Non-cash movements: Other movements[2] £m	As at 31 December 2023 £m
Assets								
Other financial assets[3]	**170**	**(200)**	**–**	**–**	**166**	**7**	**–**	**143**
	170	**(200)**	**–**	**–**	**166**	**7**	**–**	**143**
Liabilities								
Loans	**(5,242)**	**35**	**299**	**–**	**–**	**(203)**	**–**	**(5,111)**
Lease liabilities	**(1,616)**	**346**	**60**	**(157)**	**–**	**(53)**	**–**	**(1,420)**
Other financial liabilities[3]	**(114)**	**406**	**–**	**–**	**(441)**	**(19)**	**–**	**(168)**
	(6,972)	**787**	**359**	**(157)**	**(441)**	**(275)**	**–**	**(6,699)**
		587						
Other interest paid		**95**						
Purchase of own shares		**561**						
Equity dividends paid		**857**						
Dividends paid to non-controlling interests		**88**						
Net cash flow from financing activities		**2,188**						

	As at 1 January 2022 £m	Cash flow[1] £m	Non-cash movements: Foreign exchange movements £m	Non-cash movements: Leases £m	Non-cash movements: Fair value adjustments £m	Non-cash movements: Net finance costs £m	Non-cash movements: Other movements[2] £m	As at 31 December 2022 £m
Assets								
Other financial assets[3]	122	(550)	–	–	581	17	–	170
	122	(550)	–	–	581	17	–	170
Liabilities								
Loans	(5,061)	615	(584)	–	–	(212)	–	(5,242)
Lease liabilities	(1,295)	284	(95)	(464)	–	(48)	2	(1,616)
Other financial liabilities[3]	(163)	205	–	–	(155)	(1)	–	(114)
	(6,519)	1,104	(679)	(464)	(155)	(261)	2	(6,972)
		554						
Other interest paid		23						
Purchase of own shares		788						
Equity dividends paid		802						
Dividends paid to non-controlling interests		166						
Net cash flow from financing activities		2,333						

1. Cash flow movements represent both payments or receipts of principal and payments of interest, which are presented separately in the Consolidated cash flow statement.
2. Other movements includes movements arising on the acquisition or disposal of businesses.
3. Excluding cash flow hedges, for which the cash flow is reported in line with the underlying transaction. See note 15 for an analysis of other financial assets and liabilities.

Notes to the Consolidated financial statements continued

28. Fair value measurement

Fair value of financial instruments

Certain of the Group's financial instruments are held at fair value.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date.

The fair values of financial instruments held at fair value have been determined based on available market information at the balance sheet date, and the valuation methodologies listed below:

- the fair values of forward foreign exchange contracts are calculated by discounting the contracted forward values and translating at the appropriate balance sheet rates;
- the fair values of both interest rate and cross-currency swaps are calculated by discounting expected future principal and interest cash flows and translating at the appropriate balance sheet rates; and
- the fair values of money market funds are calculated by multiplying the net asset value per share by the investment held at the balance sheet date.

The derivative fair values are based on reputable third party forecast data, and then adjusted for credit risk, including the Group's own credit risk, and market risk.

Due to the variability of the valuation factors, the fair values presented at 31 December may not be indicative of the amounts the Group will realise in the future.

Fair value hierarchy

The fair value measurement hierarchy is as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Carrying amounts and fair values of certain financial instruments

		2023		2022	
	Note	**Carrying amount £m**	**Fair value £m**	Carrying amount £m	Fair value £m
Financial instruments measured at fair value:					
Non-current					
Other investments at fair value through other comprehensive income	13	**84**	**84**	99	99
Other financial assets	15	**227**	**227**	322	322
Other financial liabilities	15	**(227)**	**(227)**	(272)	(272)
Current					
Other financial assets	15	**205**	**205**	252	252
Money market funds	19	**1,375**	**1,375**	1,149	1,149
Other financial liabilities	15	**(295)**	**(295)**	(328)	(328)
Financial instruments not measured at fair value:					
Non-current					
Loans	21	**(4,432)**	**(4,045)**	(5,189)	(4,588)
Current					
Loans	21	**(679)**	**(672)**	(53)	(53)

All of the financial assets and liabilities measured at fair value are classified as level 2 using the fair value hierarchy, except for money market funds, which are classified as level 1, and other investments, which are at a combination of level 1 and level 3. The total value of investments classified as level 3 is immaterial. There were no transfers between levels during the year. Alternative valuation techniques would not materially change the valuations presented.

Financial assets and liabilities in the Group's Consolidated balance sheet are either held at fair value or at amortised cost. With the exception of loans, the carrying value of financial instruments measured at amortised cost approximates their fair value. For the bonds included within loans the fair value of loans presented in the table above is derived from market prices as of 31 December, classified as level 1 using the fair value hierarchy. The fair value of the private placement included within loans has been valued based on the interest yield on an equivalent observable bond, applied to the private placement cash flows, and has been classified as level 3 using the fair value hierarchy.

29. Share-based payments

The Group has granted equity-settled share options and Long-Term Incentive Plan arrangements which are measured at fair value at the date of grant using an option pricing model. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will actually vest.

Details of the terms and conditions of each share-based payment plan are given in the Annual remuneration report on pages 107 to 134.

Expense in year

	2023 £m	2022 £m
Executive Share Option Plan	**8**	10
Performance Share Plan	**43**	35
Restricted Share Plan	**12**	10
	63	55

The Group also incurred a charge of £47m (2022 £46m) in respect of the equity-settled all-employee Free Shares and Matching Partnership Shares elements of the Share Incentive Plan.

Executive Share Option Plan

	2023		2022	
	Number of shares '000	**Weighted average exercise price £**	Number of shares '000	Weighted average exercise price £
Outstanding at 1 January	**34,814**	**5.58**	47,280	5.16
Granted during the year	**–**	**–**	8,141	7.39
Exercised during the year	**(9,380)**	**5.01**	(18,020)	5.30
Expired during the year	**(1,012)**	**6.10**	(2,587)	5.50
Outstanding at 31 December	**24,422**	**5.78**	34,814	5.58
Exercisable at 31 December	**8,284**	**5.21**	8,271	5.38

	2023	2022
Range of exercise price of outstanding options (£)	**4.12 – 7.83**	3.89 – 7.83
Weighted average remaining contracted life (years)	**7**	7
Weighted average fair value of options granted (£)	**–**	1.87

Performance Share Plan and Restricted Share Plan

	Performance Share Plan		Restricted Share Plan	
	2023 Number of shares '000	2022 Number of shares '000	**2023 Number of shares '000**	2022 Number of shares '000
Outstanding at 1 January	**27,343**	27,915	**5,805**	5,413
Granted during the year	**10,897**	6,799	**1,705**	2,205
Exercised during the year	**(4,293)**	(3,719)	**(1,688)**	(1,383)
Expired during the year	**(942)**	(3,652)	**(241)**	(430)
Outstanding at 31 December	**33,005**	27,343	**5,581**	5,805
Exercisable at 31 December	**1,508**	387	**108**	38

	2023	2022	**2023**	2022
Weighted average remaining contracted life (years)	**5**	5	**5**	5
Weighted average fair value of awards granted (£)	**9.73**	7.32	**9.78**	7.49

The exercise price for the Performance Share Plan and Restricted Share Plan is £nil (2022 £nil).

Notes to the Consolidated financial statements continued

29. Share-based payments continued

Details of options/awards granted in the year

The fair value of equity-settled options/awards granted in the year has been measured using the weighted average inputs below and the following valuation models:

Executive Share Option Plan – Binomial
Performance Share Plan – Monte Carlo
Restricted Share Plan – Dividend valuation

	2023	2022
Range of share price at date of grant (£)	**9.75 – 10.14**	7.35 – 7.83
Expected option/award life (years)	**3 – 7**	3 – 10
Volatility (%)	**31**	29
Risk-free interest rate (%)	**3 – 4**	1 – 3

Volatility was calculated with reference to the Group's weekly share price volatility, after allowing for dividends, for the greater of 30 weeks or for the period until vest date.

The average share price in the year was £9.77 (2022 £7.53).

30. Related party transactions

The Group has a related party relationship with its directors and key management personnel (see below), equity accounted investments (note 12) and pension schemes (note 24).

Transactions with related parties occur in the normal course of business, are priced on an arm's-length basis and settled on normal trade terms. The more significant transactions are disclosed below:

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties[1]		Management recharges[1]	
Related party	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Eurofighter Jagdflugzeug GmbH	**1,377**	1,219	**303**	442	**32**	67	**116**	91	**–**	–
FADEC International LLC	**118**	73	**–**	–	**26**	–	**–**	–	**–**	–
MBDA SAS	**15**	19	**258**	76	**2**	6	**1,390**	949	**8**	8
Panavia Aircraft GmbH	**33**	22	**38**	49	**1**	1	**1**	2	**–**	–
BAE Systems Pension Schemes	**–**	–	**24**	20	**–**	–	**202**	193	**–**	–
Other	**143**	11	**35**	28	**18**	3	**37**	27	**–**	–
	1,686	1,344	**658**	615	**79**	77	**1,746**	1,262	**8**	8

1. Also relates to disclosures under IAS 24 Related Party Disclosures, for the parent company, BAE Systems plc. At 31 December 2023, £1,509m (2022 £1,021m) was owed by BAE Systems plc and £237m (2022 £241m) by other Group subsidiaries.

The Group also manages certain treasury functions on behalf of some of their equity accounted investments. This includes entering into foreign exchange derivatives on their behalf. As at 31 December 2023, we entered into forward contracts to purchase €297m, purchase $47m and purchase £12m worth of other currencies (2022 purchase €313m, sell $21m and purchase £14m worth of other currencies) on their behalf. No service fee is charged for these arrangements.

The Group considers key management personnel, as defined under IAS 24 Related Party Disclosures, to be the members of the Group's Executive Committee and the Company's non-executive directors. Fuller disclosures on directors' remuneration are set out in the Annual remuneration report on pages 115 to 134. Total emoluments for directors and key management personnel charged to the Consolidated income statement were:

	2023 £'000	2022 £'000
Short-term employee benefits	**22,146**	22,238
Post-employment benefits	**1,534**	677
Share-based payments	**15,655**	12,023
	39,335	34,938

31. Contingent liabilities

Contingent liabilities are potential future cash outflows which are either not probable or cannot be measured reliably.

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business. Various Group undertakings are parties to legal actions and claims which arise in the normal course of business. Provision is made for any amounts that the directors consider may become payable (see note 25).

The Group believes that any significant liability in respect of its guarantees and performance bond arrangements, and legal actions and claims not already provided for, is remote.

32. Acquisition of businesses

Businesses acquired during 2023

Eurostep acquisition

On 31 October, the Group acquired 100% of the share capital of Eurostep, a secure data sharing company headquartered in Sweden, for consideration of £9m. The company will form part of the Cyber & Intelligence segment, within the Digital Intelligence business.

The results and financial position of the acquired businesses have been consolidated from the date of acquisition.

Businesses acquired during 2022

On 11 November 2021, the Group announced its intention to acquire 100% of the share capital of BIS Invest S.a.r.l. and its subsidiaries, together the Bohemia Interactive Simulations Group (BISim Group) for a consideration of $200m (£151m). On 4 March 2022, this deal passed all required pre-closing activities, and the acquisition was completed. Using the latest game-based technology, the experienced BISim team of engineers develops high-fidelity, cost-effective training and simulation software products and components to meet the growing demand for defence applications. BISim forms part of the Cyber & Intelligence segment.

The results and financial position of the acquired business have been consolidated from the date of acquisition. The purchase price allocation exercise was finalised in the year, with no changes, and is summarised below.

Acquisition consideration and fair value of net assets acquired

	£m
Intangible assets	71
Property, plant and equipment	1
Right-of-use assets	1
Receivables	10
Deferred tax assets	1
Lease liabilities	(1)
Payables	(8)
Deferred tax liabilities	(14)
Provisions	(6)
Cash and cash equivalents	5
Net identifiable assets acquired	60
Goodwill	91
Net assets acquired	**151**
Satisfied by:	
Cash consideration	151
Total consideration	**151**

Notes to the Consolidated financial statements continued

32. Acquisition of businesses continued

The net outflow of cash in respect of the acquisition is as follows:

	£m
Cash consideration	151
Cash and cash equivalents acquired	(5)
Net cash outflow in respect of the acquisition of the business	**146**

The goodwill recognised is primarily attributable to expected synergies. No goodwill is expected to be deductible for tax purposes. Goodwill has been allocated to the Intelligence & Security business. No impairment losses have been recognised in respect of goodwill in the year ended 31 December 2022.

The acquisition contributed £38m to the Group's revenue and £8m to the Group's underlying EBIT[1] between the date of acquisition and 31 December 2022. If it had been completed on 1 January 2022, the Group's revenue from the acquisition would have been £42m, and the Group's underlying EBIT[1] would have been £8m for the year ended 31 December 2022.

Contractual cash flows on trade, other and contract receivables are recognised net of expected credit losses. No contingent liabilities have been recognised or require disclosure in respect of this acquisition.

1. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 227. It is presented here as our internal measure of segmental performance, to provide additional information on performance to the user.

33. Business disposals

Business disposals during 2023

There were no business disposals in 2023. The Group incurred cash outflows of £8m in the current year relating to the 2022 disposal of the financial crime detection business from Digital Intelligence, which had been fully provided for in 2022.

Business disposals during 2022

On 9 July 2022, the Group entered into an agreement for the sale of BAE Systems' financial crime detection business from the Digital Intelligence business in our Cyber & Intelligence segment. The sale to SymphonyAI completed on 28 October 2022. Disposal costs of £25m were incurred in relation to the sale, relating to costs incurred in the sale and operational separation of the business.

The gain recognised on disposal was as follows:

	£m
Cash received or receivable:	
Cash	131
Total disposal consideration	**131**
Carrying amount of net assets sold (see below)	(29)
Disposal costs	(25)
Cumulative currency translation gain	17
Gain on sale before tax	**94**
Net cash inflow arising on disposal:	
Cash consideration received	131
Less: cash and cash equivalents disposed	(17)
Less: disposal costs	(13)
	101

Assets and liabilities presented as at the date of disposal were as follows:

	£m
Intangible assets including goodwill	23
Right-of-use assets	3
Trade, other and contract receivables	26
Cash and cash equivalents	17
Total assets	**69**
Lease liabilities	(3)
Contract liabilities	(9)
Trade and other payables	(27)
Provisions	(1)
Total liabilities	**(40)**
Net assets disposed	**29**

34. Events after the reporting period

Ball Aerospace acquisition

On 17 August 2023, the Group announced its intention to acquire 100% of the share capital of the Ball Aerospace division for consideration of $5.5bn (£4.4bn), of which $0.75bn is expected to be recoverable under a tax benefit associated with the acquisition. The acquisition completed on 16 February 2024. Upon completion, the Group drew down $4.0bn (£3.2bn) under a bridge finance facility, and paid $1.5bn (£1.2bn) in cash from the Group's existing cash resources, in initial settlement of the transaction.

Ball Aerospace is a leading provider of spacecraft, mission payloads, optical systems, and antenna systems. Headquartered in Colorado, with more than 5,200 employees, it has existing customer relationships among the Intelligence Community, US Department of Defense, and civilian space agencies. It is well positioned across several markets; military and civil space, C4ISR, and missile and munitions. The space market exposure extends across positions in defence, intelligence, and scientific missions. The Tactical Solutions business is well positioned to capture expected increases in demand for missiles and munitions.

Given the limited time since the acquisition date and the size and complexity of the transaction, the Group is working through the accounting under IFRS 3 Business Combinations and is unable to reasonably estimate and determine the fair value of net assets acquired and resulting goodwill at the date of this report. The Group will work through the fair value exercise under IFRS 3 and provisional disclosures will be reported in the Group's 2024 half-year results.

Air Astana IPO

On 12 January 2024, Air Astana announced its intention to proceed with a joint initial public offering (IPO) on the London Stock Exchange, the Astana International Exchange in Kazakhstan, and the Kazakhstan Stock Exchange. On 9 February 2024, the IPO was launched. As a result of the IPO, it is expected that the total shareholding held by BAE Systems in Air Astana will be between 15% and 17%, with proceeds from the sale of shares of between $227m (£180m) and $207m (£164m). The Group will continue to equity account for the remaining investment.

At 31 December 2023, the Group held a 49% shareholding in Air Astana, with a carrying value of £84m. At that time, management did not consider that the IPO was highly probable as the listing was not being actively marketed, the Air Astana Board of Directors had not approved the IPO, and it was not reasonably certain that the intended offering value would be achieved. Consequently, the investment was not held for sale as at 31 December 2023 and the subsequent completion of the IPO is considered to be a non-adjusting post balance sheet event.

Malloy Aeronautics acquisition

On 31 January 2024 the Group acquired 100% of the share capital of Malloy Aeronautics for £60m cash consideration, plus adjustments for working capital and contingent consideration, for which the fair value is still being assessed. Malloy Aeronautics designs and supplies all-electric uncrewed aerial systems to both civil and military customers. Their range of uncrewed, heavy lift quadcopters are capable of lifting payloads from 68kg to 300kg over short-range missions. Malloy Aeronautics will form part of FalconWorks®, the research and development business within the Air segment.

Notes to the Consolidated financial statements continued

35. Information about related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries, joint ventures, associated undertakings, and significant holdings in undertakings other than subsidiary undertakings of the Group at 31 December 2023 is disclosed below. All subsidiary undertakings are subsidiary undertakings of their immediate parent undertaking(s) pursuant to section 1162 (2) (a) of the Companies Act 2006 unless otherwise indicated. Unless otherwise stated, the aggregate percentage of capital held by the Group is 100%, the Group's shareholding represents ordinary shares of equal value and voting rights held indirectly by BAE Systems plc, the year end is 31 December, the country of incorporation is the United Kingdom and the address of the registered office is Victory Point, Lyon Way, Frimley, Camberley, Surrey GU16 7EX, England. For companies incorporated outside of the United Kingdom, the country of incorporation is shown in the address. No subsidiary undertakings have been excluded from the consolidation.

Subsidiary undertakings – wholly-owned

4219 Lafayette, LLC[1]
4219 Lafayette Center Drive, Chantilly VA 20151, United States

Aircraft Research Association Limited[2]
Manton Lane, Bedford MK41 7PF, United Kingdom

Alvis Limited

Alvis Pension Scheme Trustees Limited[3]

Alvis Vickers Limited

Armstrong Whitworth Aircraft Limited[3]

ASC Shipbuilding Pty Limited
Bldg 01, Level 2, 640 Mersey Road North, Osborne SA 5017, Australia

Australian Marine Engineering Corporation (Finance) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Avro International Aerospace Limited[3]

BAE Systems (Al Diriyah C4i) Limited[3]

BAE Systems (Canada) Inc.
220 Laurier Avenue West, Suite 1200, Ottawa ON K1P 5Z9, Canada

BAE Systems (Combat and Radar Systems) Limited
Charter Place, 23/27 Seaton Place, St. Helier, Jersey JE1 1JY

BAE Systems (Corporate Air Travel) Limited

BAE Systems (Defence Systems) Limited

BAE Systems (Dynamics) Limited

BAE Systems (Farnborough 3) Limited

BAE Systems (Finance) Limited

BAE Systems (Funding Four) Unlimited Company
Riverside One, Sir John Rogerson's Quay, Dublin D02 X576, Ireland

BAE Systems (Funding Three) Limited

BAE Systems (Funding Two) Limited

BAE Systems (Gripen Overseas) Limited

BAE Systems (Holdings) Limited[3]

BAE Systems (International) Limited

BAE Systems (Kazakhstan) Limited

BAE Systems (Kuwait) Limited

BAE Systems (Land and Sea Systems) Limited[4]

BAE Systems (Malaysia) Sdn Bhd
Level 25 Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia

BAE Systems (MEH) Limited

BAE Systems (Military Air) Overseas Limited

BAE Systems (Nominees) Limited[3]

BAE Systems (Oman) Limited

BAE Systems (Operations) Limited[5]

BAE Systems (Operations) Singapore Pte Limited
One Marina Boulevard #28-00, Singapore 018989, Singapore

BAE Systems (Overseas Holdings) Limited

BAE Systems (Poland) Sp. z o.o.
ul. Abp. A. Baraniaka 88, 61-131 Poznan, Poland

BAE Systems (Projects) Limited

BAE Systems (Property Investments) Limited

BAE Systems 2000 Pension Plan Trustees Limited[3]

BAE Systems AB[6]
Box 5676, SE-114 86 Stockholm, Sweden

BAE Systems Air Japan KK[7]
1-1 Katamachi, Shinjuku-ku, Tokyo, Japan

BAE Systems Applied Intelligence (Asia Pacific) Pte Limited
United Square, 101 Thomson Road, #25-03/04, 307591, Singapore

BAE Systems Applied Intelligence (Connect) A/S
c/o Kromann Reumert, Sundkrogsgade 5, Copenhagen East, 2100, Denmark

BAE Systems Applied Intelligence (GCS) Limited[8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

BAE Systems Applied Intelligence (Integration) Limited[8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

BAE Systems Applied Intelligence (International) Limited
Priestley Road, Surrey Research Park, Guildford, Surrey GU2 7RQ, United Kingdom

BAE Systems Applied Intelligence (Japan) KK
12/F Ark Mori Building, 1-12-32 Akasaka, Minato-ku, Tokyo, 107-6024, Japan

BAE Systems Applied Intelligence (Spain) S.A.
Paseo de la Castellana, 141, Cuzco IV, 28046 Madrid, Spain

BAE Systems Applied Intelligence (UK) Limited

BAE Systems Applied Intelligence A/S
c/o Kromann Reumert, Sundkrogsgade 5, Copenhagen East, 2100, Denmark

BAE Systems Applied Intelligence GCS Inc.[7]
800 Towers Crescent Drive, 13th Floor #1382, Vienna VA 22182, United States

BAE Systems Applied Intelligence Integrated Computer Solutions (Kuwait) (S.P.C.)
Al Hamra Tower, Office Number 3503, 35th Floor, East Maqwa, Kuwait City, Kuwait

BAE Systems Applied Intelligence Limited
Surrey Research Park, Guildford, Surrey GU2 7RQ, United Kingdom

BAE Systems Applied Intelligence LLC[1]
8000 Towers Crescent Blvd, 13th Floor, Vienna VA 22182, United States

BAE Systems Applied Intelligence Malaysia Sdn Bhd
Level 25, Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia

BAE Systems Australia (Electronic Systems) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia (NSW) Holdings Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia (NSW) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Datagate Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Defence Holdings Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Defence Pty Limited[9]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Holdings Limited[3]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Logistics Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Sea Sentinel Project Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Avionics Singapore Pte Limited
One Marina Boulevard, #28-00, Singapore 018989, Singapore

BAE Systems Bofors AB
SE-691 80 Karlskoga, Sweden

BAE Systems Bofors Holdings Sdn Bhd
Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia

BAE Systems C-ITS AB
Repslagaregatan 25, Linkoping SE-58222, Sweden

BAE Systems Communications Solutions LLC[1]
Knowledge Oasis, Building 4, Second Floor, 0402-Z427, Knowledge Oasis Muscat, PO Box 16, Postal Code 135, Muscat, Oman

BAE Systems Controls Inc.[10]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Creole Inc.[11]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Datagate Holdings Limited[8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

BAE Systems Deployed Systems Limited[12]

BAE Systems Digital Intelligence Pty Limited
Level 26, 459 Collins Street, Melbourne VIC 3000, Australia

BAE Systems do Brasil Ltda
SCN Quadra 5 Bloco A, Ed. Brasilia Shopping, Torre Norte, Sala 426, Brasilia, DF CEP:70715-900, Brazil

BAE Systems Electronic Systems (Overseas) Limited

BAE Systems Electronics Limited

BAE Systems Enterprises Limited

BAE Systems Executive Pension Scheme Trustees Limited[3]

BAE Systems Finance Inc.[7]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Flight Training (Australia) Pty Limited[13]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Funds Management[3,14]

BAE Systems GCS International Limited

BAE Systems Global Combat Systems Munitions Limited

BAE Systems Global LLC[1]
2941 Fairview Park Drive, Suite 100, Falls Church VA 22042, United States

BAE Systems Hägglunds AB
Bjornavagen 2, Ornskoldsvik SE-89182, Sweden

BAE Systems Hawaii Shipyards Inc.[7]
3049 Ualena Street, Suite 915, Honolulu, HI, 96819, United States

35. Information about related undertakings continued

Subsidiary undertakings – wholly-owned continued

BAE Systems Holding GmbH
Hauptstrasse 48, 82433 Bad Kohlgrub, Germany

BAE Systems Holdings (South Africa) (Pty) Limited
Central Office Park No. 5, 257 Jean Avenue, Centurion, Gauteng, 0157, South Africa

BAE Systems Holdings B.V.
c/o IQ-EQ, Hoogoorddreef 15, 1101 BA Amsterdam, Netherlands

BAE Systems Holdings Inc.[10]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Holdings International LLC[1]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Imaging Solutions Inc.[10]
1841 Zanker Road, Suite 50, San Jose, CA, 95112, United States

BAE Systems India (Homeland Security) Private Limited[15]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems India (Services) Private Limited[15]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems India (Technology) Private Limited[15]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems India (Ventures) Private Limited[15]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems Information and Electronic Systems Integration Inc.[7]
65 Spit Brook Road, Nashua, NH, 03061, United States

BAE Systems Insurance (Isle of Man) Limited
Tower House, Loch Promenade, Douglas, IM1 2LZ, Isle of Man

BAE Systems Integrated System Technologies (KSA) Limited

BAE Systems Integrated System Technologies (Overseas) Limited

BAE Systems Integrated System Technologies Limited

BAE Systems International Inc.[7]
65 Spit Brook Road, Nashua, NH, 03061, United States

BAE Systems Jacksonville Ship Repair LLC[1]
8500 Hecksher Drive, Jacksonville FL 32226, United States

BAE Systems Japan GK
Ark Mori Building, 1-12-32 Akasaka, Minato-Ku, Tokyo, Japan

BAE Systems Land & Armaments Holdings LLC[1]
2941 Fairview Park Drive, Suite 100, Falls Church VA 22042, United States

BAE Systems Land & Armaments Inc.[7]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Land & Armaments L.P.[1]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Land Systems (Finance) Limited

BAE Systems Land Systems (Investments) Limited

BAE Systems Land Systems ATF Limited

BAE Systems Land Systems FMTV International Inc.[11]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems Land Systems Pinzgauer (Holdings) Limited

BAE Systems Land Systems Pinzgauer Limited

BAE Systems MAI Turkey Hava Sistemleri A.Ş.
Üniversiteler Mahallesi, Beytepe Lodumlu Köy Yolu Cad. No: 5/348 Çankaya, Ankara, Turkey

BAE Systems Marine (Holdings) Limited

BAE Systems Marine (YSL) Limited

BAE Systems Marine Limited

BAE Systems Netherlands B.V.
c/o IQ-EQ, Hoogoorddreef 15, 1101 BA Amsterdam, Netherlands

BAE Systems Norfolk Ship Repair Inc.[7]
750 West Berkley Avenue, VA 23523, Norfolk, United States

BAE Systems Oman LLC[1]
PO Box 74, Postal Code 111, Seeb, Oman

BAE Systems Ordnance Systems Inc.[7]
4509 West Stone Drive, Kingsport, TN 37660-9982, United States

BAE Systems Overseas Inc.[7]
65 Spit Brook Road, Nashua, NH, 03061, United States

BAE Systems Pension Funds CIF Trustees Limited[3]

BAE Systems Pension Funds Investment Management Limited[3,16]

BAE Systems Pension Funds Trustees Limited[3]

BAE Systems Project Services Limited

BAE Systems Projects (Canada) Limited

BAE Systems Properties Limited

BAE Systems Quest Limited[3,8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

BAE Systems Regional Aircraft Colombia SAS[17]
c/o Brigard & Urrutia, Calle 70 A No. 4-41, Bogotá, Colombia

BAE Systems Resolution Inc.[7]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems S&S Operations Inc.[7]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BAE Systems San Diego Ship Repair Inc.[7]
2205 East Belt Street, Foot of Sampson Street, CA 92113, San Diego, United States

BAE Systems Saudi America Limited
Riyadh Kingdom Centre 28th Floor (REGUS), PO Box 23088, Riyadh 11321, Central Province, Riyadh, Kingdom of Saudi Arabia

BAE Systems Saudi Arabia (Maintenance and Equipment Services) Limited
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

BAE Systems Saudi Arabia (Vehicles and Equipment Holdings) Limited[3]

BAE Systems Saudi Arabia (Vehicles and Equipment Nominees) Limited[3]

BAE Systems Saudi Limited
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

BAE Systems Serviços de Aviônicos Ltda.
Rua Ambrósio Molina, No. 1090. Bloco F, Eugênio de Melo, São José dos Campos, São Paulo 12.247-000, Brazil

BAE Systems Share Plans Trustee Limited[3,8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

BAE Systems Services Limited

BAE Systems Shared Services Inc.[7]
11215 Rushmore Drive, Charlotte, NC, 28277, United States

BAE Systems Ship Repair Inc.[7]
750 West Berkley Ave., Norfolk, VA, 23523, United States

BAE Systems Southeast Shipyards AMHC Inc.[7]
8500 Heckscher Drive, Jacksonville, FL, 32226, United States

BAE Systems Surface Ships (Holdings) Limited

BAE Systems Surface Ships (Overseas) Limited

BAE Systems Surface Ships (Projects) Limited

BAE Systems Surface Ships Integrated Support Limited

BAE Systems Surface Ships Intermediate Holdings Limited[8]

BAE Systems Surface Ships International Limited

BAE Systems Surface Ships Limited

BAE Systems Surface Ships Maritime Limited

BAE Systems Surface Ships Portsmouth Limited[8]

BAE Systems Surface Ships Projects (Malaysia) Sdn Bhd
Level 29 Menara Binjai, No 2 Jalan Binjai, Off Jalan Ampang, 50450 Kuala Lumpur, Malaysia

BAE Systems Surface Ships Property Services Limited[8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

BAE Systems Surface Ships Support Limited[5]

BAE Systems SWS Defence AB
SE-691 80 Karlskoga, Sweden

BAE Systems Tactical Vehicle Systems LP[1]
2941 Fairview Park Drive, Suite 100, Falls Church VA 22042, United States

BAE Systems Technology LLC
Office No. 458, Building No. 47, 90th North Street, Section 1, New Cairo, 5th Settlement, Cairo, Egypt

BAE Systems Technology Solutions & Services Inc.[7]
520 Gaither Road, Rockville, MD, 20850, United States

BAE Systems Training Services Limited[8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

BAE Systems TVS Holdings LLC[1]
2941 Fairview Park Drive, Suite 100, Falls Church VA 22042, United States

BAE Systems Ukraine LLC
23-A Building, Yaroslaviv Val Street, Kyiv City, 01054, Ukraine

BAE Systems Zephyr Corporation[10]
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States

BAE Systems Zephyr Fifth Corporation[10]
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States

BAE Systems Zephyr Fourth Corporation[10]
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States

BAE Systems Zephyr Second Corporation[10]
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States

BAE Systems Zephyr Third Corporation[10]
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE, 19810, United States

BAE Systems, Inc.[7]
2941 Fairview Park Drive, Suite 100, Falls Church, VA, 22042, United States

BIS Invest S.à.r.l.
2, Place de Strasbourg, L-2562, Luxembourg, Grand Duchy of Luxembourg

Bohemia Interactive Australia Pty Ltd[18]
Unit 2, Building A, 2 Technology Place, Williamtown NSW 2318, Australia

Bohemia Interactive Simulations GK
Karolinská, 654/2, Karin, 186 00 Prague 8, Czech Republic (incorporated in Japan)

Notes to the Consolidated financial statements continued

35. Information about related undertakings continued

Subsidiary undertakings – wholly-owned continued

Bohemia Interactive Simulations GmbH
Vistra Corporate Services, Westendstraße 28, 60325, Frankfurt am Main, Germany

Bohemia Interactive Simulations, Inc.[7]
3050 Technology Pkwy, Suite 110, Orlando, FL, 32746, United States

Bohemia Interactive Simulations K.S.[1]
Karolinská, 654/2, Karin, 186 00 Prague 8, Czech Republic

Bohemia Interactive Simulations Korea Ltd
Karolinská, 654/2, Karin, 186 00 Prague 8, Czech Republic (incorporated in the Republic of Korea)

Bohemia Interactive Simulations sp z.o.o.
Ul. Ostrobramska 101, 04-041, Warsaw, Poland

Bohemia Interactive Simulations (UK) Limited
31 Hercules Way, Farnborough Aerospace Centre, Farnborough, Hampshire GU14 6UU, United Kingdom

Bohemia Invest One Ltd

Bohemia Invest Two Ltd

Brabazon Limited[8]
c/o Interpath Limited, 10 Fleet Place, London EC4M 7RB, United Kingdom

British Aerospace (Far East) Limited[19]
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

British Aerospace (Malaysia) Sdn Bhd[19]
Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia

British Aircraft Corporation (Pension Fund Trustees) Limited[3]

British Aircraft Corporation Limited[3]

CPS International, Inc.[11]
Benedetti & Benedetti, Comosa Building, 21st Floor, PO Box 850120, Panama 5, Panama

Creole (Nigeria) Limited[5]
9th Floor, St. Nicholas House, 26 Catholic Mission Street, Lagos, Nigeria

Detica Group Limited

Detica Mexico S. de R.L. de C.V.
Torre Esmeralda II, Blvd Manuel Avila Camacho No. 36 Piso 18, Lomas de Chapultepec, 11000 D.F., Mexico

Detica Services, Inc.[7]
5th Floor, Suite 1920, 256 Franklin Street, Boston, MA 02110, United States

Dividend Training Limited

ETI Engineering, Inc.[7]
1676 International Drive, 10th Floor, Suite 1000, McLean VA 22102, United States

Eurostep AB
Gustavslundsvägen 137, SE-167 51 Bromma, Sweden

Eurostep Limited
Unit 16 Ffordd Richard Davies, St. Asaph Business Park, St. Asaph, Denbighshire LL17 0LJ, Wales

Eurostep Oy
Metsänneidonkuja 12 02130 Espoo Finland

Eurostep S.à.r.l.
8 rue Germain Soufflot 78180 Montigny-le-Bretonneux, France

EVU Czech, S.R.O.
Pernerova 691/42, Karlin, 186 00 Prague 8, Czech Republic

Gloster Aircraft Limited[3]

H-B Utveckling, H-B Development AB
Nybrogatan 7, SE-114 34 Stockholm, Sweden

Hadrian Holdings, Inc.
521 Fifth Avenue, New York NY 101075, United States

Hadrian Trustees Limited[2]

Hägglunds Vehicle GmbH
Ernst-Grote Strasse 13, 30916 Isernhagen, Germany

Hawker Siddeley Aviation Limited[3]

Hawker Siddeley Dynamics Limited[3]

HSA/HSD Pension Fund Trustees Limited[3]

Hunter Aerospace Corporation Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

In-Space Missions Limited
8 Oriel Court, Omega Park, Alton GU34 2YT, England

International Military Sales Limited

Jetstream Aircraft Limited[3]
Prestwick International Airport, Prestwick, Ayrshire KA9 2RW, United Kingdom

MES Holdco Limited
Charter Place, 23/27 Seaton Place, St. Helier, Jersey JE1 1JY

MES Interco[14]

Meslink Limited

Newcombe Properties Limited

Pitch Technologies AB
Repslagaregatan 25, SE-582 22 Linköping, Sweden

Pitch Technologies Limited
Sweden House, 5 Upper Montagu Street, London W1H 2AG, United Kingdom

Prismatic Limited[5]
2 Omega Park, Alton GU34 2QE, England

PT. BAE Systems Services[7]
Wisma 46, Kota BNI, 34th Floor, Suite 34.01.A, Jl. Jenderal Sudirman Kavling 71, Jakarta 10220, Indonesia

Pulse Power and Measurement Inc.
1717 Pennsylvania Avenue, NW Suite, 1025 Washington DC 20006, United States

Pulse Power and Measurement Limited[20]
65 Shrivenham Hundred Business Park, Watchfield, Swindon, Wiltshire SN6 8TY, United Kingdom

Representaciones SSTS, CA[11]
Ave Francisco de Miranda, Centro Lido El Rosal Oficina 71B, Caracas, Venezuela

Riptide Autonomous Solutions Canada Company
600-1741 Lower Water Street, Halifax, N/A, NS, B3J 3P6, Canada

Royal Ordnance (Crown Service) Pension Scheme Trustees Limited

Royal Ordnance Senior Staff Pension Scheme Trustees Limited

Scottish Aviation Limited[3]
Prestwick International Airport, Prestwick, Ayrshire KA9 2RW, United Kingdom

Sepia, LLC[1]
4219 Lafayette Center Drive, Chantilly VA 20151, United States

Shipbuilding (MSF) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Shipbuilding (VIC) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Simulation Technologies S.A.S.
8 rue de La Michodière, Paris, 75002, France

Stewart & Stevenson Operations (Nigeria) Limited[11]
9th Floor, St. Nicholas House, 26 Catholic Mission Street, Lagos, Nigeria

Stewart & Stevenson TVS UK Limited

Stratsec.net Sdn Bhd
Unit F-3-1, Blok F, Third Floor, CBD Perdana 3, Jalan Perdana, Cyber 12, 63000 Cyberjaya, Selangor Darul Ehsan, Malaysia

Support Solutions General Services and Contracting Company/Limited Liability company[1,17]
House No. 145, Street No. 1, Qtr. 611, Al Andulous Area, Al Mansour, Baghdad, Iraq

TDS International Holdings Pty Limited[21]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

TDS International Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Techmodal Limited

Techmodal Ventures Limited

TerraSim, Inc.[7]
600 Grant Street, Suite 1080, Pittsburgh PA, 15219, United States

The Blackburn Aeroplane & Motor Co Limited[3]

The Bristol Aviation Company Limited[3]

The British & Colonial Aeroplane Co. Limited[3]

The Supermarine Aviation Works Limited[3,4]

Thomas Sopwith Aviation Company Limited[3]

TMB International Logistics Limited

VSEL Birkenhead Limited

Westover Controls Incorporated[7]
1098 Clark Street, Endicott NY 13760, United States

35. Information about related undertakings continued

Subsidiary undertakings – not wholly-owned

Advanced National Company for Aircraft Maintenance Limited (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

BAE Systems Saudi Development and Training Company Limited (50.98%)[22]
PO Box 67775, Riyadh 11517, Kingdom of Saudi Arabia

BAE Systems SDT (UK) Limited (51%)

Flight Control System Management GmbH (66.6%)[23]
PO Box 801109, 81663 Munich, Germany

Granada Enterprises Limited (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

Hadrian Properties, Inc. (95%)[10]
521 Fifth Avenue, New York NY 101075, United States

International Systems Engineering Company Limited (46.2%)[24]
PO Box 54002, Riyadh 11514, Kingdom of Saudi Arabia

Overhaul and Maintenance Company Holding (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

Saudi Maintenance & Supply Chain Management Company Limited (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

Saudi Technology & Logistics Services Limited (65%)[3]
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

SMSCMC (UK) Limited (51%)

Equity accounted investments

Abercromby Property International (20.42%)
521 Fifth Avenue, New York NY 101075, United States

Air Astana (49%)[10]
4A Zakarpatskaya Street, Turksib District, Almaty, 050039, Republic of Kazakhstan

AMSH B.V. (50%)[25]
Coolsingel 61, 7th Floor – right, 3012 AB Rotterdam, Netherlands

BAE Systems Strategic Aerospace Services WLL (49%)
Building 58, Street 850, Area 23, Qatari Bin Al Fajaa, Doha, Qatar

BAeHAL Software Limited (40%)[3,15]
Airport Lane, HAL Estate, Bangalore 560010, India

BHIC Bofors Defense Asia Sdn Bhd (49%)
Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia

Canadian Naval Support Limited (50%)[26]
3099 Barrington Street, Halifax NS B3K 5M7, Canada

Corsair Pty Ltd (51%)[27]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

CTA International SAS (50%)
13 Route De La Miniere, 78034 Versailles Cedex, France

Data Link Solutions L.L.C. (50%)[1,19]
350 Collins Road, Northeast Cedar Rapids IA 52498, United States

Eurofighter Jagdflugzeug GmbH (33%)[3]
Am Soldnermoos 17, 85399 Hallbergmoos, Germany

FADEC International LLC (50%)[1]
1098 Clark Street, Endicott NY 13760, United States

FAST Holdings Limited (50%)[15,21]

FAST Training Services Limited (50%)[15]

FNSS Savunma Sistemleri A.S (49%)[21]
Oğulbey Mahallesi, Oğulbey Kumeevleri, No. 441/A, 441/B, Gölbaşı, Ankara, Turkey

Innovaero Holdings Pty Ltd (51%)[27]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Innovaero Operations Pty Ltd (51%)[27]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Innovaero Pty Ltd (51%)[27]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

KBS Maritime Limited (50%)[28]
Victory Building (Pp 72), Rm. 233, The Parade, HM Naval Base, Portsmouth PO1 3LS, England

MBDA B.V. (37.5%)
Coolsingel 61, 7th Floor – right, 3012 AB Rotterdam, Netherlands

MBDA Holdings S.A.S. (25%)
1 avenue Réaumur, 92350 Le Plessis-Robinson, France

MBDA S.A.S. (37.5%)
1 avenue Réaumur, 92350 Le Plessis-Robinson, France

Nobeli Business Support AB (34%)
SE-691 80 Karlskoga, Sweden

Panavia Aircraft GmbH (42.5%)[3]
Am Soldnermoos 17, 85399 Hallbergmoos, Germany

Promoveo Solutions JV LLC (49%)
260 Peachtree Street NW, #2200, Atlanta GA 30303, United States

Reaction Engines Limited (15.5%)
Building F5, Culham Campus, Abingdon OX14 3DB, England

Rheinmetall BAE Systems Land Limited (45%)
Hadley Castle Works, PO Box 106, Telford TF1 6QW, England

Saab Bofors Test Center AB (30%)
Box 418, SE-691 27 Karlskoga, Sweden

Sealand Support Services Limited (33.3%)[8,29]
45 Gresham Street, London, EC2V 7BG, United Kingdom

Winner Developments Limited (33.3%)

Notes

1. Unincorporated entity for which the address given is the principal place of business.
2. Company limited by guarantee.
3. Directly owned by BAE Systems plc.
4. Ownership held in class of A shares, B shares and preference shares.
5. Ownership held in class of A shares and B shares.
6. Ownership held in ordinary shares and preference shares.
7. Ownership held in common shares.
8. In members' voluntary liquidation (MVL).
9. Ownership held in ordinary shares and redeemable preference shares.
10. Ownership held in common stock.
11. Ownership held in authorized shares.
12. 40% directly owned by BAE Systems plc.
13. Ownership held in ordinary shares, ordinary A and ordinary B shares.
14. Unlimited company.
15. Year end 31 March.
16. Year end 5 April.
17. In liquidation.
18. Ownership held in ordinary A shares.
19. Year end 30 September.
20. Ownership held in class of A, B, C, D, E, F and G ordinary shares.
21. Ownership held in class of A shares.
22. 1% directly owned by BAE Systems plc.
23. 33.3% directly owned by BAE Systems plc.
24. Subsidiary due to unilateral controlling rights.
25. Ownership held in class of B shares.
26. Ownership held in common shares (50%) and B Preferred shares (100%).
27. Not deemed a subsidiary due to rights of other shareholder.
28. Ownership held in ordinary shares (50%) and preference shares (75%).
29. Ownership held in ordinary shares (33.3%) and A Cumulative Preference Shares (75%).

Company statement of changes in equity for the year ended 31 December

	Note	Issued share capital £m	Share premium £m	Other reserves £m	Retained earnings[1] £m	Total equity £m
At 1 January 2022		85	1,252	206	2,798	4,341
Profit for the year		–	–	–	1,648	1,648
Total other comprehensive income for the year		–	–	9	207	216
Total comprehensive income for the year		–	–	9	1,855	1,864
Share-based payments	10	–	–	–	102	102
Purchase of own shares	9	(3)	–	3	(793)	(793)
Ordinary share dividends[2]		–	–	–	(802)	(802)
At 31 December 2022		82	1,252	218	3,160	4,712
Profit for the year		–	–	–	1,264	1,264
Total other comprehensive expense for the year		–	–	(5)	(89)	(94)
Total comprehensive (expense)/income for the year		–	–	(5)	1,175	1,170
Share-based payments	10	–	–	–	110	110
Purchase of own shares	9	(1)	–	1	(558)	(558)
Ordinary share dividends[2]		–	–	–	(857)	(857)
Unclaimed asset programme proceeds		–	1	–	–	1
At 31 December 2023		**81**	**1,253**	**214**	**3,030**	**4,578**

1. The non-distributable portion of retained earnings is £1,037m (2022 £955m).
2. Details of ordinary share dividends are provided in note 26 to the Consolidated financial statements.

Company balance sheet as at 31 December

	Note	2023 £m	2022 £m
Non-current assets			
Intangible assets		**10**	44
Property, plant and equipment		**1**	2
Right-of-use assets		**16**	18
Investments in subsidiary undertakings and participating interests	2	**9,272**	9,191
Amounts owed by subsidiary undertakings	3	**4,781**	4,501
Other receivables	3	**9**	5
Post-employment benefit surpluses	8	**105**	167
Other financial assets	4	**377**	522
		14,571	14,450
Current assets			
Trade and other receivables	3	**126**	80
Current tax		**13**	13
Other financial assets	4	**356**	448
Cash and cash equivalents		**3,303**	2,533
		3,798	3,074
Total assets		**18,369**	17,524
Non-current liabilities			
Loans	5	**(2,872)**	(3,042)
Lease liabilities		**(16)**	(19)
Other payables	6	**(2)**	(3)
Post-employment benefit obligations	8	**(79)**	(75)
Other financial liabilities	4	**(332)**	(403)
Provisions	7	**(127)**	(126)
		(3,428)	(3,668)
Current liabilities			
Loans	5	**(24)**	(25)
Lease liabilities		**(4)**	(2)
Trade and other payables	6	**(9,908)**	(8,596)
Other financial liabilities	4	**(423)**	(504)
Provisions	7	**(4)**	(17)
		(10,363)	(9,144)
Total liabilities		**(13,791)**	(12,812)
Net assets		**4,578**	4,712
Capital and reserves			
Issued share capital	9	**81**	82
Share premium		**1,253**	1,252
Other reserves	9	**214**	218
Retained earnings[1]		**3,030**	3,160
Total equity		**4,578**	4,712

1. The Company's profit for the year was £1,264m (2022 £1,648m).

Approved by the Board of BAE Systems plc on 20 February 2024 and signed on its behalf by:

C N Woodburn
Chief Executive

B M Greve
Chief Financial Officer

Registered number: 01470151

Notes to the Company financial statements

1. Preparation of the Company financial statements

Basis of preparation

The directors have a reasonable expectation that the Company has adequate resources to continue its operational existence for at least 12 months from the signing of the accounts, notwithstanding the net current liabilities of £6,565m. Therefore, the financial statements of BAE Systems plc have been prepared on a going concern basis, as disclosed in the Strategic report on page 79, and in accordance with Financial Reporting Standard (FRS) 101, Reduced Disclosure Framework.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted International Financial Reporting Standards (IFRS), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions have been taken:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the requirements of paragraph 33(c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements, to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1; paragraph 73(e) of IAS 16 Property, Plant and Equipment; paragraph 118(e) of IAS 38 Intangible Assets; and paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures, to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly-owned by such a member;
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets; and
- the requirements of paragraphs 88C and 88D of IAS 12 Income Taxes.

The Company intends to continue to prepare its financial statements in accordance with FRS 101.

In accordance with Section 408(3) of the Companies Act 2006, the Company is exempt from the requirement to present its own income statement. The amount of profit for the year of the Company is disclosed in the Company balance sheet.

The Company financial statements are presented in pounds sterling and, unless stated otherwise, rounded to the nearest million. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments).

1. Preparation of the Company financial statements continued

Material accounting policies

The material accounting policies applied in the preparation of these individual financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Investments in subsidiary undertakings and participating interests

Fixed asset investments in shares in subsidiary undertakings and participating interests are stated at cost less provision for impairment.

The Company recognises an increase in its investments in subsidiary undertakings in respect of the cost of share-based payment awards issued by the Company to employees of the Company's operating subsidiaries, with a corresponding entry to equity.

Amounts owed by subsidiary undertakings

Amounts owed by subsidiary undertakings are stated at amortised cost including a provision for expected credit losses. For the purposes of impairment assessment, amounts to subsidiary undertakings are considered low credit risk and, therefore, the Company measures the provision at an amount equal to 12-month expected credit losses.

Other significant accounting policies

Other significant accounting policies are consistent with the Consolidated financial statements.

Judgements and sources of estimation uncertainty

In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the Company financial statements.

Key sources of estimation uncertainty

Post-employment benefits

A number of actuarial assumptions are made in assessing the value of post-employment benefit obligations, including discount rate, inflation rate and mortality assumptions. For each of the actuarial assumptions used there is a wide range of possible values and management estimates a point within that range that most appropriately reflects the Group's circumstances.

If estimates relating to these actuarial assumptions are no longer valid or change due to changing economic and social conditions, then the potential obligations due under these schemes could change significantly.

Discount and inflation rates could change significantly as a result of a prolonged economic downturn, monetary policy decisions and interventions or other macroeconomic issues. The impact of estimates made with regard to mortality projections may also change.

Similarly, the values of many assets are subject to estimates and assumptions, in particular those which are held in unquoted pooled investment vehicles. The associated fair value of these unquoted pooled investments is estimated with consideration of the most recently available valuations provided by the investment or fund managers. These valuations inherently incorporate a number of assumptions including the impact of climate change on the underlying investments. The overall level of estimation uncertainty in valuing these assets could therefore give rise to a material change in valuation within the next 12 months.

Furthermore, estimates are required around the Group's ability to access its defined benefit surpluses, and on what basis, which then determines the associated rate of tax to apply. Depending on the outcome, judgement is then required to determine the presentation of any tax payable in recovering a surplus.

Note 24 of the Consolidated financial statements provides information on the key assumptions and analysis of their sensitivities.

Changes in accounting policies

Several standards, interpretations and amendments to existing standards became effective on 1 January 2023, as detailed on page 159 of the Consolidated financial statements, none of which had a material impact on the Company.

The Company has reviewed its parent company guarantee contracts following the issue of IFRS 17 Insurance Contracts, which came into effect on 1 January 2023. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. Management have determined that a number of the Company's parent company guarantees fall within the definition of IFRS 17 Insurance Contracts, and consider any insurance contract liability arising to be negligible. In determining this position, management have taken into consideration a number of factors including the fact that no claims have historically been made against the Company under these contracts, as well as factoring in scenarios which could result in a guarantee being called upon in the future, including under circumstances of insolvency within the Group. The probability weighted cash flows based on these scenarios were negligible and, as a result, no liability has been recognised in respect of these contracts.

Notes to the Company financial statements continued

2. Investments in subsidiary undertakings and participating interests

	£m
Cost	
At 1 January 2023	9,197
Additions	82
Disposal	(1)
At 31 December 2023	**9,278**
Impairment provisions	
At 1 January 2023 and 31 December 2023	**6**
Net carrying value	
At 31 December 2023	**9,272**
At 31 December 2022	9,191

3. Trade and other receivables

	2023 £m	2022 £m
Non-current		
Amounts owed by subsidiary undertakings[1]	**4,781**	4,501
Other receivables	**9**	5
	4,790	4,506
Current		
Prepayments	**13**	16
Accrued income	**34**	36
Other receivables	**79**	28
	126	80

1. Amounts owed by subsidiary undertakings are repayable on demand. Whilst the majority of these receivables are interest free, certain balances bear interest priced on an arm's-length basis. Provision for expected credit losses is immaterial.

4. Other financial assets and liabilities

	2023		2022	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Non-current				
Cash flow hedges – foreign exchange contracts	**2**	**–**	7	–
Other foreign exchange/interest rate contracts	**275**	**(275)**	368	(368)
Debt-related derivative financial instruments	**100**	**(57)**	147	(35)
	377	**(332)**	522	(403)
Current				
Cash flow hedges – foreign exchange contracts	**1**	**–**	2	(1)
Other foreign exchange/interest rate contracts	**355**	**(402)**	446	(503)
Debt-related derivative financial instruments	**–**	**(21)**	–	–
	356	**(423)**	448	(504)

Included within other foreign exchange contracts are derivatives entered into on behalf of subsidiaries. These derivatives were passed down to the hedging subsidiary using an internal derivative with equal but opposite terms to the external derivatives, and valued using the same methodology as the external derivatives. The majority of such derivatives were designated in cash flow hedges in the Consolidated financial statements. Disclosures in respect of the maturity profile and fair value of other financial assets and liabilities are provided in notes 15 and 28 to the Consolidated financial statements.

5. Loans and overdrafts

	2023 £m	2022 £m
Non-current		
US$1,300m 3.4% bond, repayable 2030	**1,013**	1,073
US$1,000m 1.9% bond, repayable 2031	**778**	824
US$400m 5.8% bond, repayable 2041	**311**	330
US$1,000m 3.0% bond, repayable 2050	**770**	815
	2,872	3,042
Current		
Accrued interest	**24**	25
	24	25

6. Trade and other payables

	2023 £m	2022 £m
Non-current		
Other payables	**2**	3
Current		
Amounts owed to subsidiary undertakings[1]	**8,263**	7,379
Amounts owed to equity accounted investments	**1,509**	1,021
Accruals	**98**	105
Deferred income	**10**	42
Other payables	**28**	49
	9,908	8,596

1. Amounts owed to subsidiary undertakings are repayable on demand. Whilst the majority of these payables are interest free, certain balances bear interest priced on an arm's-length basis.

7. Provisions

	Contractual and other £m
Non-current	126
Current	17
At 1 January 2023	143
Created	1
Utilised	(12)
Released	(6)
Net present value adjustments	5
At 31 December 2023	**131**
Represented by:	
Non-current	127
Current	4
	131

The Company holds provisions for contractual costs that it expects to incur over an extended period. These costs are based on past experience of similar items and represent management's best estimate of the likely outcome, but the timing and amount of the outflows could differ significantly from management's estimates. The Company expects these provisions to be utilised over a period of approximately 25 years.

Notes to the Company financial statements continued

8. Post-employment benefits

The Company participates in all of the Group's UK pension schemes. Regular contributions to the schemes are made in line with the schedule of contributions and a share of deficit funding is allocated to participating employers. The deficit allocation methodology is based on the historical allocation percentages applied for all retired and deferred scheme members, adjusted by the relative payroll contributions of active members. Full disclosures relating to these schemes are given in note 24 to the Consolidated financial statements.

Amounts recognised on the balance sheet

The table below shows the Company's share of the Group's UK pension schemes after allocation to other participating employers.

	2023 £m	2022 £m
Present value of unfunded obligations	**(79)**	(75)
Present value of funded obligations	**(1,748)**	(1,676)
Fair value of scheme assets	**1,910**	1,933
Total net IAS 19 surplus	**83**	182
Withholding tax on surpluses	**(57)**	(90)
Company's share of net IAS 19 surplus	**26**	92
Represented by:		
Post-employment benefit surpluses	**105**	167
Post-employment benefit obligations	**(79)**	(75)
	26	92

Surplus recognition

A number of schemes are in an accounting surplus position. The surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Company, which is assumed to be via a refund. On 22 November 2023, the UK government announced that the authorised surplus payments charge would be reduced from 35% to 25% from 6 April 2024. The legislation had not been legally enacted as at the date of issue of these financial statements. The surplus has been recognised net of withholding tax of 35% at 31 December 2023 (2022: 35%) based on the enacted legislation at that date. Should the legislation have been enacted at year-end, this would have resulted in an £16m increase in the pension surplus. This tax would be levied prior to the future refunding of any surplus and therefore the surplus has been presented on a net basis as this is not deemed to be an income tax.

9. Share capital and other reserves

Share capital and equity dividends

Disclosures in respect of the Company's share capital and on equity dividends are provided in note 26 to the Consolidated financial statements.

Other reserves

	Statutory reserve £m	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 January 2022	202	5	(1)	206
Amounts credited to hedging reserve	–	–	9	9
Shares cancelled	–	3	–	3
At 31 December 2022	202	8	8	218
Amounts debited to hedging reserve	–	–	(5)	(5)
Shares cancelled	–	1	–	1
At 31 December 2023	**202**	**9**	**3**	**214**

Statutory reserve

Under Section 4 of the British Aerospace Act 1980, this reserve may only be applied in paying up unissued shares of the Company to be allotted to members of the Company as fully paid bonus shares.

Capital redemption reserve

The capital redemption reserve represents the cumulative nominal value of the Company's ordinary shares repurchased and subsequently cancelled.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

9. Share capital and other reserves continued

Purchase of own shares

On 29 July 2021, the Company announced the details of a share buyback programme to repurchase up to £500m of its own shares over the following 12 months (the 2021 share buyback programme). The 2021 share buyback programme was completed on 2 February 2022. During 2022, 24,253,065 shares were repurchased under the 2021 share buyback programme for a total price, including transaction costs, of £132m.

In July 2022, the directors approved a new share buyback programme (the 2022 share buyback programme) of up to £1.5bn over the next three years under the same terms as the 2021 buyback programme. During 2022, 82,997,065 shares were repurchased under the 2022 share buyback programme for a total price, including transaction costs, of £664m. In total during 2022, 107,250,130 shares were repurchased under the 2021 and 2022 share buyback programmes for a total price, including transaction costs, of £796m.

During 2023, the total number of shares repurchased under the 2022 share buyback programme was 58,689,756 for a total price, including transaction costs, of £558m.

All ordinary shares acquired have been subsequently cancelled, with the nominal value of ordinary shares cancelled deducted from share capital against the capital redemption reserve.

As part of the buyback programmes, it was agreed that should a better alternative use for the Company's cash reserves be identified, the share buyback programme would be ceased, and the money instead used for the alternative purpose. Therefore, when the Company issued a mandate to the brokers to purchase shares on their behalf, the mandates were structured such that they could be revoked at any point. As such, no financial liability was recognised for shares not yet purchased under the programmes.

On 2 August 2023, the directors approved a further share buyback programme (the 2023 share buyback programme) of up to £1.5bn, which is expected to commence after completion of the 2022 share buyback programme and conclude within three years of its commencement.

10. Share-based payments

Options over shares of the Company have been granted to employees of the Company under various plans. Details of the terms and conditions of each share-based payment plan are given in the Annual remuneration report on pages 115 to 134.

	2023		2022	
	Range of exercise price of outstanding options £	**Weighted average remaining contracted life Years**	Range of exercise price of outstanding options £	Weighted average remaining contracted life Years
Executive Share Option Plan (ExSOP)	**7.83 – 4.85**	**7**	4.12 – 7.83	8
Performance Share Plan (PSP)	**–**	**5**	–	5
Restricted Share Plan (RSP)	**–**	**5**	–	5

The average share price in the year was £9.77 (2022 £7.53).

11. Employees

The average and year-end numbers of employees of the Company at 31 December 2023 were 1,349 (2022 1,938) and 1,480 (2022 2,119) respectively. All of the Company's employees work within head office functions.

Total staff costs, excluding charges for share-based payments, were as follows:

	2023 £m	2022 £m
Wages and salaries	**106**	133
Social security costs	**17**	18
Pension costs – defined contribution plans	**8**	7
Pension costs – defined benefit plans	**15**	23
	146	181

On 1 January 2023, 1,109 employees were transferred from BAE Systems plc to BAE Systems Services Limited, a wholly-owned subsidiary, as part of the Group's reorganisation of its internal shared services activities.

Notes to the Company financial statements continued

12. Other information

Company audit fee

Fees payable to the Company's auditor for the audit of the Company's annual accounts totalled £3,043,000 (2022 £2,963,000). Fees payable to Deloitte LLP and its associates for non-audit services to the Company are not required to be disclosed because the Consolidated financial statements disclose such fees on a consolidated basis (see note 3 to the Consolidated financial statements).

Related party transactions

Disclosures in respect of related party transactions are provided in note 30 to the Consolidated financial statements.

Directors' emoluments

Under Schedule 5 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 5), total directors' emoluments, excluding Company pension contributions, were £11,064,996 (2022 £10,064,679); these amounts are calculated on a different basis to emoluments in the Annual remuneration report which are calculated under Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 8). These emoluments were paid for their services on behalf of the BAE Systems Group. No emoluments related specifically to their work for the Company. Under Schedule 5, the aggregate gains made by the directors from the exercise of share options in 2023 as at the date of exercise was £1,732,675 (2022 £1,676,502) and the net aggregate value of assets received by directors in 2023 from Long-Term Incentive Plans as calculated at the date of vesting was £6,364,979 (2022 £5,073,406); these amounts are calculated on a different basis from the valuation of share plan benefits under Schedule 8 in the Annual remuneration report. Retirement benefits are accruing to one director in respect of defined benefit schemes and to three directors in respect of defined contribution schemes.

Subsidiary guarantees

Borrowings by subsidiary undertakings totalling £2,215m (2022 £2,147m), which are included in the Group's borrowings, have been guaranteed by the Company, with the guarantees measured initially at their fair values, and subsequently measured at the higher of the expected credit loss determined under IFRS 9 Financial Instruments and the amount initially recognised less cumulative amortisation.

Information about related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of the Company's subsidiaries and significant holdings is included in note 35 to the Consolidated financial statements.

13. Events after the reporting period

There were no events after the reporting period which would materially impact the balances reported in the Company financial statements.

Alternative performance measures

We monitor the underlying financial performance of the Group using alternative performance measures (APMs). These measures are not defined in IFRS and, therefore, are considered to be non-GAAP measures. Accordingly, the relevant IFRS measures are also presented where appropriate.

The Group uses these APMs as a mechanism to support year-on-year business performance and cash generation comparisons, and to enhance management's planning and decision-making on the allocation of resources. The APMs are also used to provide information in line with the expectations of investors, and when setting guidance on expected future business performance. The Group presents these measures to the users to enhance their understanding of how the business has performed within the year, and does not consider them to be more important than, or superior to, their equivalent IFRS measures. As each APM is defined by the Group, they may not be directly comparable with equivalently-named measures in other companies.

Purpose, definitions, breakdowns and reconciliations to the relevant statutory measure, where appropriate, are included below.

Sales

Purpose

Enables management to monitor the revenue of both the Group's own subsidiaries as well as recognising the strategic importance in its industry of its equity accounted investments, to ensure programme performance is understood and in line with expectations.

Definition

Revenue plus the Group's share of revenue of equity accounted investments, excluding subsidiaries' revenue from equity accounted investments.

Reconciliation of sales to revenue

	2023 £m	2022 £m
Sales KPI	**25,284**	23,256
Deduct: Group's share of revenue of equity accounted investments	**(3,892)**	(3,342)
Add: Subsidiaries' revenue from equity accounted investments	**1,686**	1,344
Revenue	**23,078**	21,258

Underlying EBIT

Purpose

Provides a measure of operating profitability, excluding one-off events or adjusting items that are not considered to be part of the ongoing operational transactions of the business, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group.

Definition

Operating profit excluding amortisation of programme, customer-related and other intangible assets (see note 9 to the Consolidated financial statements), impairment of intangible assets, net finance costs and tax expense of equity accounted investments (EBIT) and adjusting items. The exclusion of amortisation of acquisition-related intangible assets is to allow consistent comparability internally and externally between our businesses, regardless of whether they have been grown organically or via acquisition.

Reconciliation of underlying EBIT to operating profit

	2023 £m	2022 £m
Underlying EBIT KPI	**2,682**	2,479
Adjusting items	**40**	91
Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles	**(116)**	(111)
Net finance income/(costs) of equity accounted investments	**14**	(25)
Tax expense of equity accounted investments	**(47)**	(50)
Operating profit	**2,573**	2,384

Return on sales

Purpose

Provides a measure of operating profitability, excluding one-off events, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group.

Definition

Underlying EBIT as a percentage of sales. Also referred to as margin.

	2023 £m	2022 £m
Sales KPI	**25,284**	23,256
Underlying EBIT KPI	**2,682**	2,479
Return on sales	**10.6%**	10.7%

Alternative performance measures continued

Underlying earnings per share (EPS)

Purpose

Provides a measure of the Group's underlying performance, which enables management to compare the profitability of the Group's recurring operations over time.

Definition

Profit for the year attributable to shareholders, excluding post-tax impact of amortisation of programme, customer-related and other intangible assets, impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, and adjusting items attributable to shareholders, being underlying earnings, divided by number of shares as defined for Basic EPS in accordance with IAS 33 Earnings per Share.

Reconciliation of underlying earnings to profit attributable to equity shareholders

	2023 £m	2022 £m
Underlying earnings	**1,916**	1,728
Adjustments:		
Adjusting items	**40**	91
Amortisation of programme, customer-related and other intangible assets, and impairment of intangibles	**(116)**	(111)
Net interest income/(expense) on post-employment benefit obligations	**44**	(38)
Fair value and foreign exchange adjustments on financial instruments and investments	**(66)**	(136)
Tax impact of adjustments	**39**	57
Profit for the year attributable to equity shareholders	**1,857**	1,591

Reconciliation of underlying EBIT to underlying earnings

	2023 £m	2022 £m
Underlying EBIT KPI	**2,682**	2,479
Group and equity accounted investments underlying net finance costs (see reconciliation page 229)	**(211)**	(246)
Underlying tax expense (see reconciliation page 229)	**(472)**	(422)
Underlying profit for the year	**1,999**	1,811
Deduct: Non-controlling interest	**(83)**	(83)
Underlying earnings	**1,916**	1,728
Weighted average number of ordinary shares used in calculating basic earnings per share (note 8 to the Consolidated financial statements)	**3,031**	3,112
Underlying earnings per share – basic KPI	**63.2p**	55.5p
Weighted average number of ordinary shares used in calculating diluted earnings per share (note 8 to the Consolidated financial statements)	**3,072**	3,153
Underlying earnings per share – diluted	**62.4p**	54.8p

Adjusting items

Purpose

To adjust items of financial performance from the reported underlying results which have been determined by management as being material by their size or incidence and not relevant to an understanding of the Group's underlying business performance.

Definition

Adjusting items include profit or loss on business transactions, the impact of substantively enacted tax rate changes, and costs incurred which are one-off in nature, for example non-routine costs or income relating to post-retirement benefit schemes, and other items which management has determined as not being relevant to an understanding of the Group's underlying business performance.

	2023 £m	2022 £m
Profit on business disposals	**–**	94
Gain related to settlements and past service costs on the pension schemes	**60**	13
Acquisition-related costs	**(20)**	(16)
Adjusting items	**40**	91

Underlying net finance costs

Purpose

Provides a measure of net finance costs associated with the operational borrowings of the Group that is comparable over time.

Definition

Net finance costs for the Group and its share of equity accounted investments, excluding net interest income/expense on post-employment benefit obligations and fair value and foreign exchange adjustments on financial instruments.

	2023 £m	2022 £m
Net finance costs – Group	**(247)**	(395)
(Deduct)/add back:		
Net interest (income)/expense on post-employment benefit obligations	**(41)**	37
Fair value and foreign exchange adjustments on financial instruments	**57**	128
Underlying net finance costs – Group	**(231)**	(230)
Net finance income/(costs) – equity accounted investments	**14**	(25)
(Deduct)/add back:		
Net interest (income)/expense on post-employment benefit obligations	**(3)**	1
Fair value and foreign exchange adjustments on financial instruments	**9**	8
Underlying net finance income/(costs) – equity accounted investments	**20**	(16)
Total of Group and equity accounted investments' underlying net finance costs	**(211)**	(246)

Underlying effective tax rate

Purpose

Provides a measure of tax expense for the Group, excluding one-off items, that is comparable over time. During the year, the calculation of the underlying effective tax rate has been re-presented to better align to the underlying profit of the Group. This has not impacted the prior year effective tax rate.

Definition

Tax expense for the Group and its share of equity accounted investments, excluding any one-off tax benefit/expense related to adjusting items and other items excluded from underlying EBIT, as a percentage of underlying profit before tax.

Calculation of the underlying effective tax rate

	2023 £m	2022 £m
Underlying EBIT KPI (see reconciliation on page 228)	**2,682**	2,479
Group and equity accounted investments' underlying net finance costs (see reconciliation on page 229)	**(211)**	(246)
Underlying profit before tax	**2,471**	2,233
Group tax expense	**(386)**	(315)
Tax expense of equity accounted investments	**(47)**	(50)
Exclude:		
Tax expense in respect of taxable adjusting items	**11**	–
Tax expense in respect of other items excluded from underlying profit	**(49)**	(54)
Tax rate adjustment	**(1)**	(3)
Underlying tax expense	**(472)**	(422)
Underlying effective tax rate	**19%**	19%

Alternative performance measures continued

Free cash flow

Purpose

Provides a measure of cash generated by the Group's operations after servicing debt and tax obligations, available for use in line with the Group's capital allocation policy.

Definition

Net cash flow from operating activities, including dividends received from equity accounted investments, interest paid, net of interest received, net capital expenditure and financial investments, and principal elements of lease payments and receipts.

Reconciliation from free cash flow to net cash flow from operating activities

	2023 £m	2022 £m
Free cash flow KPI	**2,593**	1,950
Add back:		
Interest paid, net of interest received	**230**	237
Net capital expenditure and financial investment	**789**	519
Principal element of lease payments and receipts	**282**	227
Deduct: Dividends received from equity accounted investments	**(134)**	(94)
Net cash flow from operating activities	**3,760**	2,839

Operating business cash flow

Purpose

Provides a measure of cash generated by the Group's operations, which is comparable across the Group, to service debt and meet tax obligations, and in turn available for use in line with the Group's capital allocation policy.

Definition

Net cash flow from operating activities excluding tax paid net of research and development expenditure credits received and including net capital expenditure (net of proceeds from funding of assets) and lease principal amounts, financial investment and dividends from equity accounted investments.

Reconciliation from operating business cash flow to net cash flow from operating activities

	2023 £m	2022 £m
Operating business cash flow	**3,218**	2,552
Add back:		
Net capital expenditure and financial investment	**789**	519
Principal element of lease payments and receipts	**282**	227
Deduct:		
Dividends received from equity accounted investments	**(134)**	(94)
Tax paid net of research and development expenditure credits received	**(395)**	(365)
Net cash flow from operating activities	**3,760**	2,839

Reconciliation of operating business cash flow to net cash flow from operating activities by reporting segment

	Operating business cash flow		Deduct: Dividends received from equity accounted investments		Add back: Net capital expenditure, lease principal amounts and financial investment		Net cash flow from operating activities	
	2023 £m	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Electronic Systems	**811**	650	**(8)**	(6)	**158**	216	**961**	860
Platforms & Services	**426**	525	**–**	–	**198**	108	**624**	633
Air	**1,669**	1,140	**(112)**	(84)	**251**	146	**1,808**	1,202
Maritime	**291**	235	**(7)**	(4)	**345**	187	**629**	418
Cyber & Intelligence	**204**	154	**–**	–	**57**	37	**261**	191
HQ	**(183)**	(152)	**(7)**	–	**62**	52	**(128)**	(100)
	3,218	2,552	**(134)**	(94)	**1,071**	746	**4,155**	3,204
Tax paid net of research and development expenditure credits received							**(395)**	(365)
Net cash flow from operating activities							**3,760**	2,839

Net debt (excluding lease liabilities)

Purpose

Allows management to monitor indebtedness of the Group, to ensure the Group's capital structure is appropriate and capital allocation policy decisions are suitably informed.

Definition

Cash and cash equivalents, less loans and overdrafts (including debt-related derivative financial instruments). Net debt does not include lease liabilities.

Components of net debt (excluding lease liabilities)

	2023 £m	2022 £m
Cash and cash equivalents	**4,067**	3,107
Debt-related derivative financial instruments (net)	**22**	112
Loans – non-current	**(4,432)**	(5,189)
Loans and overdrafts – current	**(679)**	(53)
Net debt (excluding lease liabilities) KPI	**(1,022)**	(2,023)

Order intake

Purpose

Allows management to monitor the order intake of the Group together with its equity accounted investments, providing insight into future years' sales performance.

Definition

Funded orders received from customers including the Group's share of order intake of equity accounted investments.

	2023 £bn	2022 £bn
Order intake KPI	**37.7**	37.1

Order backlog

Purpose

Supports future years' sales performance of the Group together with its equity accounted investments.

Definition

Funded and unfunded unexecuted customer orders including the Group's share of order backlog of equity accounted investments. Unfunded orders include the elements of US multi-year contracts for which funding has not been authorised by the customer.

Reconciliation of order backlog, as defined by the Group, to order book[1]

	2023 £bn	2022 £bn
Order backlog, as defined by the Group	**69.8**	58.9
Deduct:		
Unfunded order backlog	**(2.3)**	(2.3)
Share of order backlog of equity accounted investments	**(13.5)**	(12.0)
Add back: Order backlog in respect of orders from equity accounted investments	**4.0**	4.3
Order book[1]	**58.0**	48.9

1. Order book represents the transaction price allocated to unsatisfied and partially satisfied performance obligations as defined by IFRS 15 Revenue from Contracts with Customers.

Other sustainability information

Climate scenario planning

We use climate scenarios to assess the resilience of our business, decarbonisation strategy and our approach to managing climate-related risk and opportunities including the impact on our financial results.

Climate scenarios demonstrate different possible futures, based on expert peer reviewed projections, but they are not forecasts. They are designed for companies to test their business resilience against a range of different future states to inform strategic decision-making. Scenario analysis is a necessary exercise to understand what parts of the business are exposed to and impacted by climate change.

Climate change and nature-related risks and opportunities extend beyond normal business strategic planning cycles and have the potential to impact BAE Systems over short- (less than two years), medium- (three to ten years) and long-term (beyond ten years) time horizons.

During 2022, we built upon our qualitative scenario planning work that we commenced during 2021, by progressing material physical risk and transition risks quantification and continuing qualitative analysis on transition opportunities.

Materiality of risk and opportunities was based on the likelihood of occurrence and potential impact on the Group. For each area, we identified sub-risks and opportunities for quantification. Analysis of these risk and opportunity areas has helped BAE Systems to understand the scale of the unmitigated impact, through the development of a methodology and calculation of the possible financial impact.

We anticipate revisiting our scenario planning as part of our next business review in 2025.

Scenario planning – material climate-related risk and opportunity

Physical risk

Materiality of risk or opportunity/ timeframe[1]
Short, medium and long term

Description	Unmitigated potential impact	Business readiness
We have assessed the future physical risk of extreme weather on 140 priority sites globally. We have operations in more than 40 countries, with a focus in the UK, US, the Kingdom of Saudi Arabia and Australia; therefore our operational exposure to physical risks is diverse and varies by region. Risks have been quantified for seven hazards in future periods to 2100 under three scenarios. Unmitigated damage and disruption losses have been financially quantified for 140 priority sites.	The impact of the physical risks of climate change, such as increasing frequency and severity of extreme weather events, will affect BAE Systems' operations and vary depending on the particular hazard and geography. Overall, extreme weather events are likely to result in repair costs, adaptation investments and reductions in productivity. **Financial impact** Low	We currently assess the physical locations of our global sites against physical risk of extreme weather events. This includes risk engineering reviews at site level and a quantification of current potential financial impacts. Any mitigation actions arising from these assessments are included within sector IBP. Our mitigation work is also supported by work underway and planned by central and local government departments within the countries and counties/states that we have facilities in.

Transition risk – regulation

Materiality of risk or opportunity/ timeframe[1]
Medium term

Description	Unmitigated potential impact	Business readiness
We have assessed the transition risk of tightening environmental laws and regulations in relation to carbon pricing globally. Carbon pricing is an approach used to reduce carbon emissions through market mechanisms. It passes the societal cost of climate change from the emissions of GHGs back to the organisations responsible for emitting them. As a result, it has the purpose of discouraging the use of GHG-emitting activities in order to protect the environment, address the causes of climate change, and meet national and international climate agreements. Carbon pricing instruments can take many forms, with the most common being carbon taxes, taxes on fuels, and trading schemes/levies. The cost of carbon to 2050 was calculated using Scope 1 and 2 measured emissions. This was performed using prices modelled in three IEA transition scenarios: STEPS, APS and NZE (see page 233). The cost of carbon assumes a 100% passthrough from energy suppliers, and has been analysed under two pathways: (a) static emissions; and (b) decarbonisation to net zero by 2050.	Carbon pricing has the potential to increase operational costs via carbon taxes and levies to the business for energy and fuel use; and indirect taxes which are passed to the Group through purchased energy. **Financial impact** Low	Our decarbonisation strategy and operational low carbon pathway will lower our exposure to carbon taxes. We will continue to monitor environmental laws and regulations in relation to carbon pricing, including any potential financial impacts on the Group.

1. Short- (less than two years), medium- (three to ten years) and long-term (beyond ten years) time horizons. Time horizons are linked to the IBP process.

Transition risk – technology	**Materiality of risk or opportunity/ timeframe**[1] Medium to long term	
Description	**Unmitigated potential impact**	**Business readiness**
In the UK, nearly half of BAE Systems' emissions come from heating buildings. To support the decarbonisation of our heating systems over the long term, we could consider switching to lower-emissions heating technology. The decarbonisation of energy for heating poses a challenge, as most cost-effective solutions are currently expensive and subscale. This could result in increased costs arising from the need to replace existing plant and equipment to incorporate lower-emissions technologies, such as heat pumps. We have reviewed the roll-out of heat pumps as a potential option to replace current gas-fired heating systems and this was assessed under three IEA pricing scenarios to 2050.	Introducing alternative energy sources such as renewable energy-powered heat pumps will lower our emissions, but at this point would require significant capital expenditure to retrofit our sites and install the devices. Due to the difficulties of switching fuels and maintaining legacy systems, installing heat pumps is considered one of the best transition solutions over the long term. This is because heat pumps are more efficient than other heating systems in producing more heat energy than the amount of electricity consumed. Heat pump technology is currently expensive, as the technology and market is still developing. **Financial impact** Low	In the UK, we have considered the feasibility of introducing renewable energy-powered heat pumps over the long term, as part of the decarbonisation strategy. We will continue to monitor the development of lower-emissions heating technology, over the long term, as a way to support the delivery of our net zero ambitions.

Transition opportunity – products	**Materiality of risk or opportunity/ timeframe**[1] Medium	
Description	**Unmitigated potential impact**	**Business readiness**
The transition to a low carbon economy presents opportunities for BAE Systems and continued innovation will be required to provide solutions to existing and new customer bases.	Our ability to increase revenues will be dependent on applying advanced engineering capabilities to develop new products that support lower-emissions requirements, creating new business lines and enhancing competitive positions in order to retain and grow market share. Continued investment, both Group and customer, in research and development will be required.	To decarbonise by 2050, we must ensure that our products and services support a decarbonisation pathway. This will be achieved by advancing the efficiency of our products and services, in the short term, and transitioning to lower or zero emissions products and technology longer term. This will require continued investment in our R&D activities. We have been engaging with our customers to understand their decarbonisation pathways including the challenges they face regarding operational effectiveness and availability. Many customers are setting targets and looking for lower carbon, sustainable products. We are working to understand and influence their future requirements to help inform and shape product innovation and development. Sustainable fuels will help facilitate our product and service decarbonisation pathway over the long term. BAE Systems can use the market presence and brand recognition for its electric and hybrid propulsion systems portfolio developed through the well-established urban transit bus products, by leveraging and transitioning this expertise to other, emerging and nascent markets such as aviation, maritime and heavy industrial transport vehicle markets.

For transition risks and opportunities, IEA scenario data has been used, due to its relevance to the Group's decarbonisation strategy, global and regional coverage, timeframes considered and information on drivers and frequency of scenario updates.

1.5°C Net Zero Emissions scenario (NZE)
Source: IEA Net Zero Economy by 2050

Announced Pledges Scenario (APS)
Source: IEA Announced Pledges Scenario

Stated Policies Scenario (STEPS)
Source: IEA Stated Policies Scenario

We have used the following key assumptions within our scenarios:

Assumption	Rationale
No action is taken by BAE Systems to mitigate or limit the impacts of each risk being assessed.	Uncovers what the implications are if climate risks are left unmitigated to help facilitate a response plan. These results can be used by the business to test whether current mitigation is sufficient.
Mutual exclusivity is applied to the scenarios and underlying climate attributes (i.e. impacts are not aggregated or offset).	Ensures that no impacts are cancelled out. We do not assess scenarios where both transitions risks and physical risks take place at the same time (although this is inevitable).
Business activities are static over the future period (revenue streams, operating model, emissions, etc).	Isolates the climate element of the risks to show implications on strategy in a world where business as usual remains.

Other sustainability information continued

Climate scenarios and data used

For physical risk, TCFD scenario analysis guidance recommends analysing at least three different climate scenarios to ensure a broad range of outcomes are considered. Each scenario causes different levels of future physical risk, and resulting losses. This enables the user to draw comparisons between the scenarios and the level of risk and subsequent damage and disruption for future periods. We have focused on the worst-case scenario (SSP 5 – RCP 8.5)[1] in the analysis below, as this presents the most risk to our operations.

Physical risk scenario	Intergovernmental Panel on Climate Change trajectory alignment	Scenario policy action
>4°C	SSP 5 – RCP 8.5[1] Temperature rise by 2100: 4.4°C	No additional policy action
2–3°C	SSP 2 – RCP 4.5[1] Temperature rise by 2100: 2.7°C	Late policy action
<2°C	SSP 1 – RCP 2.6[1] Temperature rise by 2100: 1.8°C	Early policy action

1. Shared Socioeconomic Pathway (SSP). Representative Concentration Pathway (RCP).

Greenhouse gas (GHG) emissions data

Absolute energy consumption

	2023[1] Global[2] kWh	2023[1] UK kWh	2022 Global kWh	2022 UK kWh
Energy consumption Scope 1 and 2	**1,315,552,368**	**534,961,834**	1,469,387,190	594,930,180

GHG emissions data

Scope definition	2023[1] Global[2] tonnes CO_2e	2023[1] UK tonnes CO_2e	2022 Global tonnes CO_2e	2022 UK tonnes CO_2e
1 Emissions from activities which BAE Systems owns or controls (Scope 1)	**107,360**	**54,204**	113,089	55,686
2 Emissions from the electricity and steam purchased for BAE Systems' use (Scope 2 – location-based)	**243,457**	**54,456**	281,182	60,374
Total gross Scope 1 and 2 emissions	**350,817**	**108,660**	394,271	116,060
3 Emissions from employee business travel (Scope 3)	**114,030**	**44,261**	62,519	20,999

GHG emissions per employee

	2023[1] Global tonnes CO_2e	2023[1] UK tonnes CO_2e	2022 Global tonnes CO_2e	2022 UK tonnes CO_2e
Per each full-time equivalent employee (Scope 1 and 2)	**4**	**3**	4	3

1. Relevant reporting period 1 November 2022 to 31 October 2023.
2. Deloitte has provided independent limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) and Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the International Auditing and Assurance Standards Board (IAASB) over the selected metrics identified with a [2]. Deloitte's full unqualified assurance opinion, which includes details of the selected metrics assured, can be found at baesystems.com/annual-report

To see our Basis of Reporting 2023 visit baesystems.com/annual-report

2023 key environment data[1]

Water consumption[2]

	2023 cubic metres	2022 cubic metres
Mains	**2,135,695**	2,409,896
Abstracted	**2,925,651**	5,968,417
Total	**5,061,346**	8,378,313
Recycled	**884,906**	728,911

Waste production[2]

	2023 tonnes	2022 tonnes
Non-hazardous	**58,482**	42,413
Hazardous	**9,308**	5,072
Total	**67,790**	47,485
Recycled[3]	**32,870**	33,167

Electricity consumption

	2023 kWh	2022 kWh
Grid	**755,301,151**	877,726,240
Renewable	**2,083,735**	5,951,873
Total[4]	**757,384,886[5]**	883,678,113

1. Relevant reporting period 1 November 2022 to 31 October 2023.
2. BAE Systems Internal Audit has reviewed the systems, processes and controls in place to collate, validate and report this data. Based on the procedures and the evidence obtained, nothing has come to its attention that indicates the disclosures have not been properly prepared in accordance with such systems, processes and controls.
3. For 2022, includes non-hazardous and hazardous waste recycling.
4. For 2022, estimates now reported in line with SECR requirements.
5. Deloitte has provided independent limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) and Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the International Auditing and Assurance Standards Board (IAASB) over the selected metrics identified with a [5]. Deloitte's full unqualified assurance opinion, which includes details of the selected metrics assured, can be found at baesystems.com/annual-report.

Methodology

Greenhouse gas emissions data is reported in line with an operational control method, we use the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard as guidance to support our approach to reporting. Our reporting boundary for Streamlined Energy and Carbon Reporting (SECR) is the same as our reporting boundary for the purposes of our financial statements. Unless otherwise stated data covers a 12-month period between the 1 November 2022 to 31 October 2023.

The GHG protocol allows participants to arrange their organisational boundaries using two different methodologies. One using the equity share or two the control approach. The business has chosen to use the control approach. Furthermore the control approach selected allows for two further methodologies to be applied to define control either a financial approach or operational approach. The business uses the latter.

As a business we utilise a tool called the Global Property Database (GPD) to record and monitor locations which we either own or lease. Prior to this reporting period all locations listed in GPD we had deemed were within our organisational boundary and we had operational control. In 2023 we reviewed our definition of operational control in order to ensure we are not accounting for emissions which are outside of our business control and where we don't have the ability to influence. A review was undertaken to determine the combined effect of the changes we've introduced on the 2020 baseline. The changes to operational control along with improvements such as the introduction of internal area being used as a multiplier for kWh consumption resulted in a 1% reduction to the baseline. Therefore we have not considered this change material requiring baseline recalculation.

Emission factors for fuels and UK electricity are published at www.gov.uk/government/collections/government-conversion-factors-for-company-reporting. Emission factors for US electricity are published at Download Data | US EPA, natural gas and other fuels are published at Simplified GHG Emissions Calculator | US EPA. Emissions factors for Australia (AUS) electricity and natural gas are published at National Greenhouse Accounts Factors: 2023 – DCCEEW. Emission factors for Sweden's (SWE) natural gas are published at https://unfccc.int/documents/224123 and electricity European Residual Mix | AIB (aib-net.org). Electricity emission factors for Saudi Arabia (KSA), and Rest of World (ROW) are published at Emissions Factors 2023 – Data product – IEA.

For this reporting cycle, the 2023 UK Government emissions factors published by the Department for Business, Energy and Industrial Strategy (BEIS) have been used for majority of scope 1 and 3 calculations, this covers businesses located in the UK, Australia, Kingdom of Saudi Arabia and rest of world. In order to improve the accuracy of reporting the Inc. business in the US and Sweden are now using US EPA emissions factors.

Scope 2 emissions factors are from a variety of sources including country specific emissions factors such as, BEIS, Australian National Greenhouse Gas Accounts 2023 , US Environmental Protection Agency (EPA) and International Energy Agency (IEA). The most up-to-date Emissions and Generation Resource Integrated Database (eGRID) factors published by US EPA are used for US electricity. For the 2023 reporting cycle, the most recent electricity US factors are from the year 2021.

Emissions factors published by the UK Government department for Energy, Security and Net Zero – Business Energy and Industrial Strategy, are presented as CO_2e, they cover all six greenhouses gases listed under the Kyoto Protocol. For further information on the inclusion of HFC's in the reported inventory please refer to the section on fugitive emissions.

The principal record of the Group's worldwide facilities is its legal department's Global Property Database. The database holds records of all locations which are either wholly owned, leased or licensed sites.

Greenhouse gas emissions are primarily calculated from energy consumption records e.g. invoiced data or meter reads. For the UK & ROW these are reported via the Group's global environmental database (CR Desktop). Data related to the Inc. business is provided for internal use quarterly along with full annual data submission. Where consumption records are not available estimates may be used and these will be highlighted in the database.

Where actual usage data is not available for facilities and residences within the Global Property Database, an estimated consumption is used based on the type and size of the building, if no information is available on the size of the building a default benchmark factor is used.

Greenhouse gas emissions related to business travel include air travel data for the majority of the global business, rail data for business units operating in the UK and US, and vehicle (including hire car, company car and personal car) data for business units operating in the UK, US and Australia. These data sets are taken from suppliers' procurement records.

The property database details are taken in quarter 3 of the financial reporting year (Jan–Dec), this means any properties acquired between quarter 4 of the previous year and quarter 3 of the reporting year are included within the reporting boundary. If a business is acquired within quarter 4 of the financial reporting year it will included in the reporting boundary in the next full reporting year after the change.

If a business or facility has closed between quarter 4 of the previous year and quarter 3 of the current year, it will not be included within the reporting boundary. Any locations which close in quarter 4 of the reporting year will be removed from reporting boundary in the next full reporting year after the change.

Emissions from non-wholly owned subsidiaries are included in the dataset if BAE Systems have operational control at the location. They are accurate as of 31 December 2023 and reflect locations in operation at that time. For the majority of these locations the joint venture either operates from one of our CR Desktop reporting locations or are included in benchmarked estimates. Some companies listed were previously described as dormant in 2022 and remain dormant in 2023. For the purposes of calculating emissions, we have excluded dormant companies as it has been assumed that they do not consume energy.

Equity accounted investments and other investments detailed in the Annual Report are not included, these investments represent BAE Systems scope 3 emissions.

Emissions from pension scheme properties not occupied by the group are not included.

Trading of emissions are not taken into account for the purposes of reporting, for example where the business has a requirement to maintain compliance with trading schemes e.g. UK ETS, the total energy consumed is reported regardless of emissions trading.

The Scope 2 Greenhouse Gas Emissions associated with the GHG Protocol 'Market-Based' method have been calculated as 209,612[1] tCO_2e. In line with the GHG Protocol Guidance, this figure has been calculated using residual-mix emission factors where available for our UK and US operations. In our other significant operating regions, residual mix emission factors are either unavailable or the resulting absolute emissions at group level are within the margin of error and therefore country-specific emissions factors have been used in line with the GHG Protocol Guidance. If sites consume grid electricity backed by Renewable Energy Guarantee of Origin (REGOs), this has been taken into consideration within the calculations.

1. Deloitte has provided independent limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) and Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the International Auditing and Assurance Standards Board (IAASB) over the selected metrics identified with a [1]. Deloitte's full unqualified assurance opinion, which includes details of the selected metrics assured, can be found at baesystems.com/annual-report.

Shareholder information

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If you have any queries regarding your shareholding or need to notify any changes to your personal details, please contact Equiniti.

Equiniti's website (**help.shareview.co.uk**) includes a comprehensive set of answers to many frequently asked questions relating to managing a shareholding. If you cannot find the answer to your question, there is an online email form, which will help to ensure your question is directed to the most appropriate team for a response. Alternatively, you can call the BAE Systems Helpline on 0371 384 2044 or, from outside the UK, +44 121 415 7058. Lines are open from 8.30am to 5.30pm Monday to Friday, excluding UK bank holidays.

In addition, the following services are offered to shareholders:

- **Shareview** – online access to your shareholding, including balance movements, indicative share prices and information on recent payments.
- **Dividend mandates** – have your dividends paid directly into either your UK bank/building society account or an overseas bank account.
- **Dividend reinvestment plan (DRIP)** – A DRIP is provided by Equiniti Financial Services Limited. The DRIP enables the Company's shareholders to elect to have their cash dividend payments used to purchase the Company's shares. More information can be found at shareview.co.uk/info/drip.

More information on all these services can be found on Equiniti's website (**shareview.co.uk**).

American Depositary Receipts

BAE Systems plc American Depositary Receipts (ADRs) are traded on the over-the-counter market under the symbol BAESY. One ADR represents four BAE Systems plc ordinary shares.

JP Morgan Chase Bank N.A. is the depositary. If you should have any queries please contact:

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PO Box 64504
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MN 55164-0504, USA

Email: **jpmorgan.adr@eq-us.com**

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ShareGift

ShareGift, the share donation charity (registered charity number 1052686), accepts donations of small parcels of shares which may be uneconomic to sell. Details of the scheme are available from ShareGift at **sharegift.org**, by telephone on 020 7930 3737 or by email: **help@sharegift.org**

Share price information

The middle market price of the Company's ordinary shares on 31 December 2023 was 1,111p and the range during the year was 820p to 1,129p.

For more information

Visit the Shareholder information section of our website: **investors.baesystems.com**

Financial calendar

Financial year end	31 December
Annual General Meeting	9 May 2024
2023 final ordinary dividend payable	3 June 2024
2024 half-yearly results announcement	1 August 2024
2024 interim ordinary dividend payable	2 December 2024
2024 full-year results:	
– preliminary announcement	February 2025
– Annual Report	March 2025
2024 final ordinary dividend payable	June 2025

Beware of share fraud

Investment scams are often sophisticated and difficult to spot.

Spot the warning signs

Fraudsters will often:

- contact you out of the blue;
- apply pressure to invest quickly;
- downplay the risks to your money;
- promise tempting returns that sound too good to be true; and
- say that they're only making the offer available to you or even ask you to not tell anyone else about it.

If you're suspicious, report it

You can report the firm or scam to the FCA by contacting their **Consumer Helpline** on **0800 111 6768** or using the reporting form using the link shown below.

If you've lost money in a scam, contact Action Fraud on **0300 123 2040** or **www.actionfraud.police.uk**

How to avoid investment scams

Reject unexpected offers
Scammers usually cold call, but contact can also come by email, post, word of mouth or at a seminar. If you've been offered an investment out of the blue, chances are it's a high-risk investment or a scam.

Check the FCA Warning List
Use the FCA Warning List to check the risks of a potential investment – you can also search to see if the firm is known to be operating without its authorisation.

Get impartial advice
Get impartial advice before investing – don't use an adviser from the firm that contacted you.

Be ScamSmart and visit
www.fca.org.uk/scamsmart

Cautionary statement

All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and businesses of BAE Systems plc and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. Such forward-looking statements, which reflect management's assumptions made on the basis of information available to it at this time, appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of BAE Systems plc concerning, amongst other things, its results in relation to operations, financial condition, liquidity, prospects, growth, commitments and targets (including environmental, social and governance commitments and targets), strategies and the industry in which it operates. Forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "intends", "will", "will continue", "should", "would be", "seeks", "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

Forward-looking statements are not guarantees of future performance and the actual results of operations, financial condition and liquidity of BAE Systems plc, the development of the industry in which it operates and the ability of BAE Systems plc to meet its commitments and targets may differ materially from those made in or suggested by the forward-looking statements contained in this document. In addition, even if results of operations, financial condition and liquidity of BAE Systems plc, the development of the industry in which it operates and/or performance against commitments and targets are consistent with the forward-looking statements contained in this document, those results, developments or performance may not be indicative of results, developments or performance in subsequent periods.

These forward-looking statements speak only as of the date of this document. Subject to the requirements of the Disclosure Guidance and Transparency Rules, the Market Abuse Regulation or applicable law, BAE Systems plc explicitly disclaims any intention or obligation or undertaking publicly to release the result of any revisions to any forward-looking statements in this document that may occur due to any change in its expectations or to reflect events or circumstances after the date of it. All subsequent written and oral forward-looking statements attributable to either BAE Systems plc or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to herein and contained elsewhere in this document.

BAE Systems plc and its directors accept no liability to third parties in respect of this document save as would arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Schedule 10A of the Financial Services and Markets Act 2000. It should be noted that Schedule 10A and Section 463 of the Companies Act 2006 contain limits on the liability of the directors of BAE Systems plc so that their liability is solely to BAE Systems plc.

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