

BAE SYSTEMS

ESG Update & Digital Intelligence Overview

Tuesday, 18th October 2022

Introduction

Martin Cooper

Group IR Director, BAE Systems

Welcome

Well, good afternoon, everyone. Fantastic to see so many of you here in person. This is our first hybrid event. So let us see how it goes. But it is great to see so many people here. And welcome to everyone dialling in online as well. This is the BAE Systems' ESG and Digital Intelligence Overview.

Just a little bit of housekeeping. Obviously, no fire drills planned. And please keep and make sure your phones are on silent, if at all possible. This is a bit of context then following last year's deep dive and laying out on ESG and laying out many of our targets policies and procedures. Then the aim very much for today is to provide an update on the progress in the last 12 months and also to try and bring ESG agenda to life a little bit.

Some case studies, Tom is going to dial in from the US covering electrification and our technology advantages there, which is a real focus. And a few videos. It would not be a BAE Systems event without a few videos. So hopefully they will go smoothly.

Just for everyone, I mean, you have all got printed packs. The packs are on line as well. And there is a lot of detailed information in the backup, and actually, we have increased our disclosure year-on-year.

Just as regards to Q&A, we will obviously take Q&A in the room. And we will also have the ability to do Q&A online through the usual operator format. And we have allowed a little bit of time at the end of each presentation to do so. I would say that today keep your questions to ESG and to digital intelligence only please. Brad will say a few statements at the start at the second part of the presentation about how the business is placed in a few updates. But we will be giving a full trading update on 15th November. We will aim to finish about 15.30. And we will flex the timings as appropriate.

And with that, I am delighted to hand over to our Chairman, Sir Roger Carr.

Opening Remarks

Sir Roger Carr

Chairman, BAE Systems

Welcome

Well, thanks very much, Martin, and warm welcome to everyone in the room and indeed those that are joining us via [inaudible]. I think as Martin said, we really hope this is going to be an interesting and an informative session, which is about really our commitment and engagement to the whole delivery of the ESG agenda and the digital session quite separate but something equally important to follow.

We have assembled, I think, a really good team today. We have got obviously Charles as the CEO here; Tom Arseneault, who is on the line and he will be there for the whole of the event.

Dr Jane Griffiths is joining as Non-Executive Director, and of course, she is Chair of the ESG committee. And Karin Hoeing here who is responsible for actually making the ESG agenda happen. So no pressure.

Case for Defence & Board Overview

For my part, I wanted to cover in about 15 minutes or so what I really do believe is an important case for value of the defence industry in general, and, of course, BAE Systems in particular. And also to give you, I think, some insight into our Board, the way it currently functions, and indeed, will evolve over the next 12 months or so.

Now, there is no doubt that as an investment proposition, support for defence ebbs and flows according to the assessment of national risk, and indeed the moral judgement of society on the industry itself. Clearly, in recent times, the conflict in the Ukraine has thrown the need for defence and security into a much sharper focus and the public perception to a much more supportive position.

Defence and Cyber – helping governments fulfil their primary responsibility

Now, I have been fortunate to be Chairman of this great company for just over the last nine years. And I believe today what I felt when I first accepted the position, it is an industry that is sometimes misunderstood, but fundamentally a force for good. It helps governments deliver their prime responsibility in providing security and safety for their citizens, while simultaneously underpinning the prosperity agenda of nations with high quality, well paid sustainable employment.

Naturally, not everyone shares this perspective. There are some that have a deep and passionate belief that all arms manufacturing is wrong, that defence contractors encourage conflict not prevent it, and that irrespective of the economic benefit, there is a moral dimension that overcomes all favourable arguments. And as I say, frankly, at all AGMs, their views are to be respected, if not always accepted.

In recent times, however, as you know, the case against defence has drifted into a wider group in the investment community, whose agenda is to measure and judge the environmental, the social and the governance qualities of all companies. But on occasion, they have failed to adequately distinguish between the contribution of highly regulated, ethically led and government-backed defence contractors to that of the independent and freewheeling arms dealers.

It is a confusion that is dangerous and damaging to the reputation of some of the finest companies in the United Kingdom and ultimately to their cost of capital, their ability to invest and to attract the fine minds that are required to preserve the cutting-edge capabilities that are vital to the countries in which they operate.

It has taken the war in Ukraine to recalibrate investor views on defence, to show that hoping for peace is not a strategy, that geopolitical complacency is a dangerous mindset, and that ultimately, it is only by having a strong defence capability that deters well-armed aggressors from initiating conflict.

To those that believe the removal of the nuclear arsenal is a step in the right direction, I think the war in Ukraine has shown that the sacrifice of the nuclear deterrent exposes the country

and empowers the nuclear aggressor. And without doubt, it underpins for the case for the UK's Continuous at Sea Deterrent. It is there to keep our foes in check.

It also should not take a war to wake up the West to the risks of complacency, or to turbo-charge the demands that NATO members must invest at least 2% of their GDP in their protection rather than rely on the United States as a low-cost insurance policy. It should not take it, but it did. And it should not take a war for the investment community to revalue BAE shares by around 50%. But clearly it has.

It is vital that we remember peace is best preserved, as President Roosevelt said, by those that speak softly but carry a big stick. And the case for defence and security is not simply to be armed for the rainy day. It is to invest in the industrial umbrella that will build skills, secure employment and provide prosperity while peace prevails. And if I may, just a few facts and figures that demonstrate how significant the contribution that BAE Systems makes to both the prosperity and what used to be called the levelling up agenda in the United Kingdom, and indeed elsewhere in the world.

Bringing our "Purpose" and the "Case for Defence" to life

In 2020, according to Oxford Economics, we contributed over £10 billion to UK GDP, and around £4 billion to exports, as well as supporting a total tax contribution, approaching £3 billion. We support 143,000 full time jobs across the UK through a supply chain of about 5,000 companies, and invest more than £1 billion in technology and R&D. And this includes naturally our own capital as well as that of our customers and partners.

And we are committed to supporting young people, recruiting around 1,100 apprentices in the UK this year alone. It is a record for us and making some significant headway in recruiting more women to make our company much more diverse. We provide considerable in-kind support, working with local enterprise partnerships across the UK to develop the left-behind communities, and mentoring small businesses to help improve those that are far behind in productivity.

So we have a direct impact on the communities in which we operate. Indeed, because traditionally, military equipment sites were located out of cities and major towns, some 40% of our employees are directly employed in the UK in the most deprived regions. We make an important economic and societal contribution wherever we are active, in the US, the Gulf and Australia. Added to this, we are making real progress against our 2030 net-zero carbon targets across our operations and developing some exciting sustainable technologies to support our route to net zero.

Board Level – Corporate Governance Overview

So as a Board, our focus is not simply how much money we make, but indeed how we make money. And the Board has been developed to ensure we do have the right combination of skill set. And I think most importantly, mindset, to discharge our obligations to all our stakeholders.

From a governance perspective, we continue to meet best practice expectations with regard to gender and ethnic diversity. Let me emphasise, all selected on merit, rather than simply box-ticking. We meet in person at least five times a year and electronically at least three

times. Our Board committees for remuneration, audit and nomination are appropriately populated and rigorously managed.

We organise regular site visits, town halls, breakfasts and dinners with high potential executives. And our ESG Committee has been active in overseeing that our connection with our employees is both in deed and word.

I think COVID has taught us to communicate much more regularly and indeed more informally. We have used frequent video links to good effect.

From a business perspective, we have remixed the Board skills that we need in keeping with the shape and the focus of the business. In this respect, we have added to the core experience of members with international industrial and financial backgrounds, but specialising now with capabilities in science, technology and digital intelligence.

We have strengthened our committees through the formation of the Innovation and Technology Committee, led by Dr Ewan Kirk, who is a world authority on AI, and reinforced the strength and depth of our ESG Committee under the very passionate leadership of Dr Jane Griffiths, who you will hear from a little later.

Succession Planning – key points

Look into the future, my own term as Chairman of this remarkable company, I have to say sadly for my part comes to an end after a little over nine years in May 2023. Succession planning under the leadership of Chris Grigg, a Senior Independent Director has secured an excellent replacement, Cressida Hogg, who will join the Board to participate in the strategy meeting in November.

And that will be in parallel with Lord Mark Sedwill, who brings with him a wealth of international and government experience as the ex-head of UK national security, and, of course, the Cabinet Office.

From May next year, we are on track to meet the new FCA Board diversity targets including a female chair, a 40% gender mix with one member from an ethnic minority background. Additionally, in keeping with UK government requirements, we have a British CEO, former Charles, and more than 50% of the Board are British citizens. And that is something we must have. Together with an outstanding executive leadership led by Charles, I am absolutely confident that this Board will continue to be in excellent shape for the future.

Additionally, given the unique and very special agreement we have with the United States, which enables us to own US businesses, which are engaged in the most highly classified projects, we benefit from the advice, guidance and oversight of the Inc. Board, comprising members who have served at the highest levels in the US government and military.

And I would add that over and above all the strict legal rules, the regulations and codes under which we operate, there is a human dimension, whereby directors exercise personal judgement in decision making as to what is morally acceptable and enable each to have secured a sound night's sleep in the knowledge that the right things are being done because they are the right things to do.

Board ESG Summary

In conclusion, I feel that our government structures, our environmental commitments and our societal engagements have been thoughtfully developed. They are strictly observed and rigorously policed.

In the final analysis, I feel that only by government, industry and the community and investors being in single-minded lockstep on the value and values of the defence industry can we hope to maintain the capability, underpin the prosperity and preserve the peace that we all desire.

And with that general outline of our view and our principles in the way we run the business, I will now hand over to Dr Jane Griffiths, who is going to talk about the ESG side. Thank you.

ESG Committee Overview

Jane Griffiths

Chair of ESG Committee, BAE Systems

ESG Committee

Thank you very much, Roger. Good afternoon, everyone. Delighted to be here. And I would like to brief you on the key activities of the ESG Committee and what we have overseen over the last 12 months.

Let me just recap first on who is on the committee. We have a really experienced group of non-execs. We have got Nick Anderson, Crystal Ashby and Nicole Piasecki. Chris Grigg was also a member until recently, but he is now stepping down because he has got other commitments for BAE Board.

So we do, reflecting the diverse picture on the Board itself, also have a wealth of diversity on the ESG committee, both through sector experience, also gender and ethnicity. And it has been really great to have Crystal Ashby joining the ESG Committee. She is an African American, and she brings obviously a unique perspective with her, which is really beneficial in terms of driving our ethnic diversity agenda within the company.

When we have our meetings, obviously, the ESG members attend but also Sir Roger attends, Charles also attends, Brad is also there and a number of other senior executives. And I think that really reflects the interest and commitment to ESG that this company has.

So if I move on to the role of the committee, obviously, the primary role of the committee is to provide oversight challenge and assurance of the company's ESG agenda, and also the progress that we are making. At our meetings, we hear from senior management, obviously, content experts, and also external speakers come to educate both the ESG Committee and also the Board at times.

And as Sir Roger said, we also use site visits and virtual meetings to engage directly with employees to hear their views not only on topics around ESG, but topics that really impact their engagement within the company.

Importantly, we approve the ESG related objectives and targets which form part of the executives' incentives. For example, in 2022, both safety and diversity was set up as

underpins or qualifiers to the overall award of the non-financial elements of the executive bonus. That is good performance in both of these areas as expected rather than rewarded. I think over the last year, what we have also done is establish a nice cadence of the company is proposing what goals it is wanting to achieve or driving to achieve. We discuss it at the ESG Committee. It then goes to the Audit Committee to make sure that what we are deciding upon can be measured and is auditable before it goes to the RemCo. So that is good cadence that has been established.

The other elements obviously for the remuneration plan are covering the company's net zero plan, driving an inclusive culture and maintaining and improving our reputation and rating with key stakeholders such as yourselves in the audience and online.

ESG & Board Employee Engagement – activity to date 2022

The key areas of focus of the Committee during 2022 are shown on the slide and also our committee agenda is provided in the annex to this pack so you can see what we are getting up to throughout the year.

So a recap of the key activity this year, if I take the ESG titles one by one. For the environment, obviously, the main focus has been on the Net Zero programme and its overview. And I think it is now very nicely established within the strategy of the company, but also embedded within financial planning, overseen by Brad here. And also relating to TCFD and Climate Risk Reporting.

We have also had external briefings on for the full Board from PwC on climate and I think that will be an ongoing picture within this committee that we continually have external people coming to speak and educating the committee on various aspects of ESG.

If I move on to social, it is a very broad area. And the company is focusing on certain aspects that it considers to be important within the company. And those areas are diversity and inclusion, safety and wellbeing, employee engagement and community impact. So if I take each one of those.

Safety is definitely improving. It is something we continually need to keep a focus on. And we were particularly pleased as a committee to see that there is a focus on wellbeing and mental health as well in the company. And I think Karin may touch on that in her presentation.

I think that is particularly important given the environment at the moment and the stresses on employees, not just in the workplace, but also in the private lives, particularly with the economies where it is.

Also, I have had direct engagement with the safety teams in Australia and Saudi Arabia. And it is always very interesting to do that. They were very positive, very engaged. And it gives them an opportunity provide us with information and hence of how they would like things to improve, so very beneficial.

Diversity, a topic close to my heart is hugely important to the company. And we recognise that challenges of an engineering company can sometimes make it difficult to achieve the particular gender diversity figures that we would like to, but progress continues to be made. And I know that Charles will talk about that. And what we want to see is more focus maybe

next year on ethnic diversity as well. And as I said before, having Crystal on the ESG committee will really help us with that.

In terms of governance, robust standards of governance are truly upheld by this company. It is essential in any industry, and particularly so in defence. We regularly oversee the anti-bribery and corruption programme. We see presentations from the company on that. And the full Board recently received an overview of the ethics programme and helpline.

And what we heard confirmed the fact that employees are really being made aware of the company's standards but are also highlighting any issues and feel free to do so, which is good to see.

We are also keen to increase the input of external stakeholders' views to the committee. And we monitor ratings. And we receive teachings, as I said, but it is important to us that we are recognised by the external community for what we do.

External assurance is also important for the ESG data. And this year, Deloitte will provide external assurance over our carbon numbers. I think it is important obviously, if we are disclosing these numbers that they are assured externally.

So in summary, for that part, BAE maintains robust standards of governance and is making good progress across the environmental and social aspects of ESG. Employee engagement is a delegated role on behalf of the Board. And it is our job to oversee employee engagement in line with the corporate governance code.

I think one of the most interesting and enjoyable things that we do is having the opportunity to meet employees out at the site. And I have to say that Charles is really great that opening up any door that any of the ESG or anyone else wants to go to on the board to meet with employees and listen to what they have to say. And the most recent one was great. We were at a Board in the US meeting, Inc., and we visited Electronic Solutions in Nashua in New Hampshire, and met with a lot of the staff there from the shop floor right up to the senior execs. It was great to meet with them.

And I think one of the things that I see when I go out to these sites visits, the staff in BAE are truly engaged in what they do. And I really feel that in all the sites that you go to.

I also, as I said before, I have had direct engagement on safety and diversity. Diversity is an important topic. We are working on that. And safety is, as ever, a really huge focus from the company.

So it is important for any company to address each of those aspects of E, S and G, not only for the company's point of view, but for the environment in general. And I have personally championed this not only, obviously on the Board in BAE, but also in my career with Johnson & Johnson.

And what I see in BAE is that it is really on the right path. And what the committee has a role to do is check that it is doing what it said it is set out to do to have some good challenge, but also to have some good debate as we move forward on each of the topics of ESG. And actually, I feel really privileged to chair this committee. It is incredibly interesting. It is an important topic that we oversee. And it is a wonderful company to work with. That is not to say that we do not continue to put Charles under a lot of pressure in the committee and hold him to account and the company in the aspects that they are working on and areas that they

need to improve. So you will continue to hear me banging on about diversity and net zero, Charles. So I am grateful to be on this committee.

And I am going to pass over to Charles now, who will give you a lot more detail. And so will Karin on about what we are doing in BAE on ESG.

ESG Progress Made in Last 12 Months

Charles Woodburn

CEO, BAE Systems

Introduction

Thanks very much, Jane. Good afternoon. Good morning, everyone. So this second part of the presentation gives me and a number of the executive team the opportunity to build on some of the topics covered by the Chairman and Jane, but with an executive lens on the delivery of the strategy and the value our operations bring from an ESG perspective.

I first wanted to play you a short video, which we played at my recent leadership event to reflect how we see ESG and how we explain it and what is important to us and how we can embed that to deliver a better long-term business.

[Video]

ESG integrated into all we do

Hopefully, that drew out how sustainability is integrated throughout our business from the operating frameworks to our integrated business planning process and business review cycles and incorporated within our objectives.

Well understood and clear communication from the boardroom to the shop floor is critical as we progress on our targets and look to retain and recruit the very best talent to drive strong operational performance and value for our customers and shareholders. It is also important that it is led from the top team, hence my appointment of Karin here as Group ESG Director on our Executive Committee.

We all recognise the ESG agenda is broad with many criteria and changing priorities. What is important for us is that through engagement with our stakeholders, we focus on the areas which are most material to our sector, our communities, and our business. We then apply a collective focus in addressing and managing the material risks with our customers and supply chains.

From this framework, we look across each of the elements of ESG. And last year, we laid out our key targets and commitments as detailed here. I will now provide a brief update on our progress in each area.

A re-cap – Our Commitments

We set our net zero ambition for our Scope 1 and 2 operations by 2030 and those of our products and supply chains by 2050. And we have already made progress towards our 2030 target, primarily through greening of our energy sources and improved monitoring and measurement.

As Jane referenced, we recently undertook a detailed evaluation of our carbon reduction plans as part of the IBP process, or Integrated Business Plan. Our sector biz will be pursuing a range of measurements including power purchase agreements, reductions in energy consumption and more efficient energy use.

We will also look to collaborate with our customers, peers and suppliers to advance technology solutions. We recognise and welcome the level of interest that our employees have in this area. Our early careers sustainability group organised our Annual Sustainability Week in June, which had over 3,000 attendees. And we use last year's COP 26 event to launch a number of initiatives to further employee engagement on climate and environment, as well as promoting hybrid drive technology by offering a bus as a green transport option around Glasgow.

Social – Safety & Wellbeing

The safety and wellbeing of our employees is a huge priority. We operate a range of industrial sites which come with an inherent risk. A strong safety culture has many different facets, but the dominant one is commitment of leadership and the tone from the top.

Early last year, we saw that the safety performance had deteriorated at some of our sites. But I am pleased to say that through significant effort and investment, we have reversed that trend and we will redouble our efforts to ensure we continue to improve.

Mental health and wellbeing received necessary focus during the pandemic. And again, I am pleased to say that we continue to strengthen our efforts in supporting employees on these issues. We provide employee assistance programmes and promote discussion and awareness on some tough topics including family loss, stress and depression.

Social – Diversity, Equity & Inclusion

Diversity, Equity and Inclusion are key enablers to both recruiting the best talent, driving innovation and creating a workplace environment, where employees are valued for all that they bring. We are making steady progress on gender diversity. And I am pleased that we now have three women on the executive committee strengthening my leadership team and have also increased ethnic minority representation at this level.

Social – Communication, Skills & Education

We recognise the challenges of the engineering sector but through our schools and early careers programme, we are proactively increasing diversity in our pipeline and seeking opportunities to bring in talent from a wider segment of society. Resourcing talent development and succession planning remain key for us across all markets.

Governance, Transparency & Disclosure

As you all know, we are a large employer and a significant presence in many of our local communities. We also recognise our responsibilities in respect of national and governance initiatives. We contributed more than £11 million in 2021 across a range of causes, but it is less about the amount than the value we create. While we contributed almost £4 million to skills education, that does not include our investment in apprenticeships and graduates, where we continue to increase our intakes to build capability for the future. I am particularly proud of the effort and willingness of our employees to support local causes. And we are

looking at how we can facilitate a greater range of opportunities, recognising the strong employee engagement this fosters.

Strong governance is at our cornerstone. We remain strong. We maintain strong and robust policies and processes with rigorous assurance provided by both the internal audit function and external assurers. Our key policies are in the backup material along with all our product trading principles.

Our code of conduct provides employees and contractors working on our sites with clarity on the standards we expect, but also how to seek advice or guidance or raise an issue if they have concerns. Contacts to our ethics helpline have returned to pre-pandemic levels. And I am pleased to note that more than 50% are people seeking advice or guidance rather than actually having an issue to raise.

We rolled out our annual all-employee training in June. This is a series of scenarios depicting typical nuanced situations in the workplace. These scenarios form the basis of a team discussion, where they consider similar issues they might have encountered, and what the appropriate course of action should be. The scenarios always prompt much animated discussion and debate.

As you know, we confirmed last year that we are intending to exit the production of the smokescreen shell containing white phosphorus. And we have formally notified the UK MoD of our position. And we will continue to work with the customer to help them find an alternative effective smokescreen.

Wages and compensation are obviously a key issue for us all. We signed up for the Real Living Wage foundation last year and continue to progress this with our key contractors. We have been making good progress against our commitments and remain focused on doing what is right for our business and stakeholders. These stakeholders have many challenges that we recognise. We continue to look to give increased clarity and disclosure to help you in what we recognise remains an investing universe with increased legislation and requirements coupled with often inconsistent and confusing data sources.

And whilst we do not go specifically chasing rating agency improvements, we do use their scores and feedback to reflect on our own internal programmes and use as a means to identify improvements. We retained our AA rating with MSCI. And those of you who use Sustainalytics will be aware they place a high-risk weighting on certain aspects of defence, hence, our lowest score there. This is an area that Karin is driving hard.

And I will now hand over to her to expand on our ESG agenda. Over to you, Karin.

ESG Looking Forward

Karin Hoeing

Group Director, ESG, Culture & Business Transformation, BAE Systems

ESG Agenda evolving and progressing

Thank you, Charles. Good morning, good afternoon. We have heard from Charles that we have made great progress on our E, S and G agenda. And we have done this across all the

markets and all different areas. We also now have a much clearer agenda. And if I can get the next slide, please. Thank you.

So, this does not mean we are done. We can do a lot more. And a lot more means how can we do this? We can do it considering views of all the different stakeholders. And last but not least, leverage the enthusiasm our employees have, which is great.

So this chart here shows you a little bit on how we build on our core foundations, which you see all across the bottom of this chart. And how we then picked out four key themes who would like to amplify, build on and get better at much more. So this is to deliver sustainability and growth in BAE Systems.

So if I focus just one second on the core foundations, most of them Charles has just explained to everybody around safety, where we got better at over the last nine months alone. Health and wellbeing. Mental health was a big topic during COVID time. Not only that they look at mental health for our own employees, but also included families, children and the broader surrounding of our employees, which was a very, very big topic and a huge uptake and all kinds of training learning apps, etc., what we have rolled out globally.

Diversity and inclusion, Charles talked about it. We have set ambitions globally enterprise wide, and we are going after it. We are getting better, focusing secondary now on ethnic minorities, people of colour in the US. And again, it is milestones we have set, enterprise mindset, a lot of collaboration, a lot of lessons learned from all different places and sites around the globe. And so last year, I think we talked a lot around product trading, quality and safety, so I would not repeat it again. Accountability, transparency, early careers, I will briefly talk about in a minute.

But if I look now at the four key themes we point out on the right side of the slides, the reason being these are areas where we can show our strengths and capabilities even more on. We have on the top, addressing climate risks. Charles mentioned around progress we have made on Scope 1 and 2, meaning what are things we can impact ourselves and our own operations on emissions. We are now also assessing our supply chain and the footprint of our own product.

So these things are ongoing and we are making great progress and we will be in a much better position in Q1 to have a great baseline and have a roadmap and understand what is it that we need to do for scope 3, which is a massive undertaking for our end, giving the footprint and giving the supply chain we are having.

Secondly, we are also looking at TCFD. So what are climate influences and climate risks that actually impact our own operations and how do we go about it? Certainly, an area of interest to us, and certainly an area where we have a lot of focus on as we speak.

The second bullet, innovation, technology and ideas, really a core strength of BAE Systems and something we are very proud of. If you are looking at how can we actually support our customers better, looking at green technologies, having deeper dives on technologies we are doing, taking a green lens and all the technologies we are having, what can be improved, what can we do differently, and how can we leverage the massive talents we have in this organisation, bright mindsets, and see what is it that we can do in this space here.

One example would be the Bohemia acquisition we have recently done in our US business. Instead of live training, we now can actually use simulation. So this is a great improvement, especially given the technology and greener technology we can use with this.

Tom will talk about later on about electrification. And Charles is going to give you an example about Tempest, again, great ideas around innovation and technology and what we have done in BAE Systems and will continue doing going forward.

Creating opportunities for people and communities. Charles talked about a couple of examples on what we have done so far. But there is still so much more than we can do. In the current time, we had the big resignation. We now have recessions. We have all kinds of challenges. All our employees, all our stakeholders are actually coming to terms with, so how can we help them? How do we make sure we still have skills for the future? How do we make sure we remain attractive for skill sets of the future and attractive for people to retain and remain in our organisation?

It means we need to create inclusive workplaces, for multigenerational people that work in our organisation all across the globe in different places. And also in places where they are maybe not as privileged as in other places. This means we are investing in career long learning and other parts I will come back to in just a minute.

Last but not least partnering. Historically, the relationship we had with some of our partners was quite different. We are looking much more at how do we leverage customers, suppliers, trade unions, universities and learn from each other. Because only together we have a much stronger voice and can see how we can advance in this important topic of sustainability. So a lot of examples we show later on will be around different models and how we engage and how we do things differently, which is very important. So if we move to the next slide, please.

Engaging our stakeholders

So where do we go from here? What we have developed now is a strong global narrative. This is exactly the same as you have seen on the previous slide now in a beautiful globe shape with all the different themes at the bottom.

What does it do to us? It helps us to engage with a much broader group of people. It helps us to support our purpose and strategy, excites and involve our people. Just two weeks ago, we had our CEO leadership event with the top 100 leaders of our company together. And we did present ESG sustainability there. And it was quite exciting to see all the questions figure out the enlightenment because it means so much to so many different people and seeing the excitement and asking questions on how they can get involved, what do they need to do, where do we go from here was very, very good to see. So there is certainly a buzz around in our company around ESG, which really is something we would like to leverage and move forward with our agenda.

We also have planned a virtual event for about 2,000 middle level managers starting in the first week of November. It is a two-day event, which is pretty much global. Of course, of time zones, it is quite difficult to juggle. But again, one of the big items on our agenda will be ESG. And I already know now by the questions asked upfront that this is a very exciting topic people would like to get involved in it.

On top of it, we will have WebExs and road shows planned from Q1 onwards to as many sites globally as we somehow can get to, to explain to people what does it mean, what does it mean for BAE Systems and how they can get involved regardless of what level you work in this organisation, which I think is quite exciting and quite a great opportunity for BAE to get a whole organisation behind one and the same goal.

But not only does this narrative help us to engage internally, it also helps us a lot more externally with our other stakeholders, customers, suppliers, universities, trade unions. As I mentioned earlier, there are a lot of engagements we would like to leverage and we would like to learn altogether, and also hopefully a much stronger and more visible picture towards the case for defence, as Sir Roger mentioned at the beginning. Now if we move to the next slide, please.

Looking Forward

So looking forward, Charles presented the progress we have made up to now. You have seen a little bit of a clearer picture on where we are going. And what are we trying to achieve here is to show you what our near-term objectives, where do we go near term.

On the environment front, as Charles mentioned, we are working on net-zero Scope 1 and 2 specifically. We have now just finished this summer, the IBP, our financial five-year plan, which now underpins how we achieve our Scope 1 and 2, also is what kind of commitments we are going to make when and where.

I mentioned a minute ago, we are looking at Scope 3, establishing the baseline is the big priority. And also looking at our products, how do we get there, what is the baseline we need to take, and how do we get the road maps in place the Q1 to then drive it forward, because 2050 seems around the corner, even though it is far away. It seems just around the corner when we look at our supply chain and our own products and what it needs and what it takes to get there.

We also started the deep dive and feasibility assessment of green technology. And there is a lot more I could talk about on the environmental side. But if I really have to put it on the three main bullets, these would be the ones I would use at this point in time.

On the social side, Charles mentioned a couple of things already of what has happened. Many, many examples we can talk about. However, one of the things we probably need to get better at to give it a much more global picture for all of you, we probably give you 150 examples every single time and we can probably give a lot more. But what is it really if I put it into a couple of bullets, that make the biggest impact for the society to work in, for the communities we work in, where we invest in, so how do we create this much more social impact framework to better understand from outside what is really that BAE is driving and why and what the impact we're seeing. So that's one of the big agenda items we are working on.

Jane talked about gender diversity. She talked about ethnic minorities. And we understand the challenge and we are going with the challenge and moving forward with it, very well received. And we have, again, lots of roadmaps. We have our ambitions out and we are driving the agenda forward.

In times of recession, in times of talent wars, etc., ever so often it is, more than ever, it is important now to define our employee value proposition. Employee value proposition does not mean just salaries and incentives. It means a lot and lot more than that. It means the benefits, the environment we create, the ways of working we allow people to have, the branding we have, the workplace climates we have, inclusion, you name it. It is a huge, huge amount of different things that different people would like to see. So how do we make sure that we are driving the agenda forward to be open to anybody that would like to work for us and attract all the skills and capabilities we need to drive our business agenda forward.

And then last but not least, we are looking at the governance pieces, which are the programmes we work to drive disclosure requirements. We talked about modern slavery, TCFD, etc. So we continue to drive these agenda items forward. We mature our ESG risks and mitigations. In other words, we are not just repeating the same training five years in a row, but every year refresh the training, make it up to date, make it fit for purpose for the right audience at the right time to make sure people really understand why it is important and what we try to achieve with it.

And then obviously, the ESG policy changes and involving our policies and embedded in everything we do everywhere we go, make it part of the culture is quite important, with a very solid assurance framework around it and data analytics and reporting improvement.

So this has been a lot of work, a lot of models, a lot of ideas. So to bring this to life a little bit more, we thought we give you some case studies. So I am handing over to Debbie now to start with our first case study. So Debbie leads our climate and environment work and will talk a little bit about what we have done in the Portsmouth Naval Base.

ESG Case Studies

Debbie Allen

Managing Director, Operational Governance, BAE Systems

ESG Case Studies – Bringing our ESG agenda to life

Thanks, Karin. So there has been a number of references to our net-zero ambition and what we are trying to achieve with our carbon reduction plans. And at its core, there is three basic elements, which is: green, the energy we bring in; use less energy; and the energy we do use, use more efficiently.

Addressing Climate Risks

But I want to try and bring it to life across the scale of our operations, the full breadth of it, and we are going to start off with a particularly large example, as you can see from the slide behind me. And just to outline it before we introduce it.

Portsmouth Naval Base reducing energy usage and partnering with our customer

So going back over ten years, there were the two carriers were being built up at [inaudible]. Now, when they were going to be based at Portsmouth Naval Base ten years later, there was not going to be enough energy around the Portsmouth area to both provide for the ships which have the energy requirements of a small town, as well as the Portsmouth City area. So

something needed to be done in order to bring the carriers home. So I would like to play a short video to bring this to life to you.

[Video begins]

With the arrival of the Queen Elizabeth carriers at Portsmouth Naval Base, the biggest ships ever built for the Royal Navy, energy consumption was set to more than double the site's peak electrical demand.

There was huge concerns that with the amount of power that the carriers take because a huge strain on the capacity within Portsmouth city itself as well as the dockyard, something the Navy really wanted to keep away from was shore side, diesel generators. So that is when the energy programme really focused on looking at new and innovative ways to provide sustainable energy to the Naval Base.

We retrofitted the electric light and power station originally built in 1906 from diesel to natural gas. The 13.5-megawatt combined heat and power plant and three-megawatt large scale battery for backup have been successfully integrated into the aged 60-year-old electrical and steam network at the base. Switching to self-generation and reducing overall demand has meant the strain on the local grid has been reduced completely. The updating of combined efforts amount to a cost savings of £10 million, with £4 million coming directly from the combined heat and power facility, meaning over the past 15 years, we have helped reduce energy-related carbon emissions.

So we have implemented a number of initiatives here on the base to both reduce energy, but also to move to more sustainable forms of energy like upgrading lighting systems to use LEDs. We replaced a number of roofs with solar PV arrays, very simple things like window replacements on buildings. And we have transferred our operational fleet to electric vehicles like the vans that you can see behind me. This is only the start of the journey for BAE Systems on the Royal Navy.

[Video ends]

Hopefully, that gave you a good picture of some of the things we have been doing. There is no one lever we pull. We have to look across the whole gamut of the operations we are doing.

This slide is more for reference. It has got some of the key facts that are outlined in the video. So I will just highlight a couple rather than go through each and turn. I guess one of the fun facts in there is the over 27,000 LED light bulbs on Queen Elizabeth alone. That not only provides a lower source of lighting, but also because of the reduced heat element, it also reduces the air conditioning pool across the ship.

All of these things have a multiple benefit. And I think the overall point to take from that video is we managed to 40% reduction in carbon emissions while doubling the energy demand across the site. So really great news as to what can be done.

Environmental/Climate management

Moving to the next slide. Just want to give you some other examples for, just a very brief overview. And there is plenty more including more videos on our website.

But to demonstrate the breadth of what we are doing, I will just work around the slide. So up on the top right, Samlesbury, UK. That solar farm you can see is the size of eight football pitches. So we have put in 2015 to cope with the refurbishment and upgrade of the Samlesbury site. So we are seizing any opportunity we have. It is on an old airfield, disused lands, a great opportunity.

It now provides energy for the typhoon programme and the F-35 programme that are out there, helps with a surge in demand we have had because of those programmes, and means that we are not increasing energy demand. We save over 500 tonnes of carbon emissions every year because of that, through the generation of over 2,000 megawatts of energy just from that solar farm alone.

Moving down, the four pictures at the bottom, the four buildings, that is where we have taken the opportunity in our electronic solutions business, when we are looking at new facilities to build them state-of-the-art standards, built into the greatest levels of energy efficiency, assume we have got the metering and monitoring in there, so we can use the buildings effectively. And those other things like the LED light bulbs come out again there as well. So using every opportunity we have, it also makes them really attractive modern facilities that bring the skills and capability into that part of the business.

Moving up to the top left, San Diego, California, what you see there is a drydock called the Pride of California. It is a huge one, 55,000 tonnes if that means anything. But when that was being put in, in order to bring it across to get it secure in the San Diego Bay, we have to look across the whole environmental piece, not just the design of the drydock and energy efficiency within that, but how it recycles the water. Obviously, a huge amount goes through that and we will have to go back into San Diego Bay and as clean away that came in, but also marine life.

And I think that gets to the broader point of climate is not just about carbon, but it is about those broader impacts. And one of the things we will be looking at going forward is a more coherent approach to biodiversity. But many turtles were benefited from all the different measures that were put in place in implementing that drydock, and things like marine the safe paint on the whole of the underneath of the hull, which has no mean measure given the size of it.

So I wanted to just give you that sense as to what we are doing across things. As you can see from the bullet points, there is a range of levers we are pulling to deliver on our climate risk addressing the net-zero programme. While I have covered those that are more within our domain, Scope 1 and 2 operations, there is now going to be some more case studies which will look particularly, say, at technology.

So with that, I will hand over to Tom on the line to talk about electrification.

ESG Case Studies

Tom Arseneault

President and CEO, BAE Systems, Inc.,

Ideas Innovation and Technology

Thank you, Debbie, and hello, everyone. On our path to a cleaner energy future, both as a company and for our customers, one of the technologies we are bringing to global markets is electrification, to reduce or eventually even eliminate the use of combustion engines.

Advancing sustainability through electrification across domains

We are fundamentally changing the way people move, not only making travel more efficient, but also lowering harmful emissions by applying our electric power and propulsion solutions across multiple domains.

Our flagship electrification product from our electronic systems business is our electric power and propulsion system, which is installed on more than 15,000 transit buses around the globe. By switching from traditional combustion engines to low and zero emission technologies, we are helping to significantly lower CO2 emissions, reduce operator maintenance and improve air quality. And with decades of experience and our leadership position in the urban bus transit market, we are applying that expertise to broader market opportunities across growing land, maritime and air domains.

On land, in addition to the more than 15,000 buses equipped with our systems, in May of this year, we introduced our next-generation power and propulsion technology that uses a revolutionary design, intended to offer heavy-duty industrial vehicles, a faster and lower installed cost solution for their electric vehicles, such as school buses, mining vehicles, sanitation and yard trucks.

Moving to the maritime domain, for a number of years, we have been expanding our clean energy footprint to the waterways with electric hybrid, battery electric and hydrogen fuel cell electric propulsion systems. In San Francisco, the first US hydrogen fuel cell electric propulsion system will sail on a vessel named Sea Change in the San Francisco Bay Area, transporting hundreds of daily commuters using its all-electric system, which has no harmful emissions. Water is its only exhaust.

And in the air domain, we are uniquely positioned in the air mobility market to leverage our expertise in flight controls, power management and energy storage systems. I will cover a bit more about this market in a few minutes, where we are partnering to innovate and advance hybrid and all electric systems for a safe, affordable and reliable air transport.

Commercial pathway to zero – no matter where transit operators are today

As I mentioned on the prior slide, we have 25 years of experience as a global leader in urban transit bus systems. Transit agencies and government customers are addressing their climate agendas by fielding our hybrid near zero offerings, shown on the left here, and our full electric zero emission propulsion systems shown on the right of this slide.

No matter where transit operators are on their journey to zero, we have the breath of low or zero emission solutions to help them make progress. For example, our low and zero emission systems are operating across Europe. London and Glasgow and the UK have been operating

zero emission capability hybrids and full battery electric technology is also operating on buses in Denmark, France, Germany, the Netherlands and Norway with at least 150 vehicles in Paris alone.

Electrifying the future of aviation

If you visited us during the Farnborough International Air Show this past summer, you may have seen that we showcase some of the extraordinary possibilities we see for electric aircraft. This is an exciting time in this arena, and we are exploring opportunities with several partners.

Taking hybrid electric propulsion

In the air domain we have a unique position, where we are integrating our expertise in flight controls, power conversion and energy storage to capitalise on this rapidly evolving market. We are already developing operational prototypes that demonstrate reliable performance using systems that are lighter and more compact for smaller scale aircraft, and then leveraging these standardised building blocks to scale the systems across multiple platforms.

Aviation electrification is a growing market, driven by the increasing need for greener alternatives and reduce operating costs. One example of our engagement in the US is our partnership with General Electric and Boeing on the NASA Electrified Powertrain Flight Demonstration project. BAE Systems is providing the energy management components including the energy storage system, cabling and controls to access Hello read and introduce electrified aircraft propulsion technologies into the US aviation fleets. Again, we are able to leverage more than four decades of flight controls experience, and 25 years of expertise with developing hybrid electric propulsion systems, and collaborations such as this one, are accelerating our progress toward these next generation solutions.

As we think about electrifying air transport, we have a short video to share about our journey and the outlook for the coming decades.

[Video]

Aircraft electrification

There is even more we are doing in the UK. I am pleased to share with you some of the work my colleagues from the air sector are doing to explore, develop and invest in electric product capabilities, which could provide solutions for both military and civilian customers. Recognising that our customers will need an evolving range of products and services to meet rapidly changing requirements, the teams are working with innovative partners to accelerate sustainable technology.

Some of the areas being explored are the increased use of synthetics, electrification, and other non-polluting energy sources. I will mention just a few examples.

We are working with Malloy Aeronautics to develop an all-electric heavy lift uncrewed air system as a potential new solution to deliver cost effective, sustainable, rapid response capability to military security and civilian customers.

At the Farnborough Air Show this summer, we signed a memorandum of understanding with Embraer. This confirmed an intent to create a joint venture to develop a defence variant of Eve's electrical vertical take-off and landing vehicle. Teams from both companies will work

together to explore how the aircrafts designed for the urban mobility market can provide cost effective, sustainable and adaptable capability as a defence barrier.

Our aim is to bring vital operational capability to our customers quickly and at a lower cost, whilst also supporting environmental and sustainability goals.

We also plan to collaborate with Pipistrel Aircraft on the development of solutions for the defence and security market, including the application of electric aircraft. While operational capability will always be the priority in defence, we know that solutions that are sympathetic to the environment are becoming increasingly important. This presents a fantastic opportunity to leverage our joint expertise, and we have recently commenced flying our own Velis Electro to learn more about the potential of electric flight.

In all of these collaborations, we are bringing our extensive expertise in the design, engineering and systems integration of military aircraft together with industry leaders in electric aircraft to accelerate the pace of innovation, to meet our customers' ambitions, as well as our own.

Enabling the combat vehicle force of the future: Integrating Hybrid Electric Drive (HED) technology

Building on the military aspect of these aircraft programmes, we are leveraging our US commercial electrification know-how to support our defence sector customers. One example in the US is our integration of a Hybrid Electric Drive system on a Bradley Fighting Vehicle.

Turning to electrification for defence, US government and Pentagon leaders are increasingly discussing their net-zero objectives, and we have a role to play in supporting their progress. BAE Systems has been awarded a \$32 million prototype agreement by the US Army's Rapid Capabilities and critical Technologies Office to integrate a hybrid electric drive or HED system onto a Bradley.

This development programme is part of the army's modernization effort for combat vehicles to demonstrate that hybrid electric systems are essential and viable for a modernised combat vehicle fleet that can respond to evolving threats and are capable of conducting multi-domain operations. It is important to note that next generation combat vehicles must integrate emerging lethality, survivability and mobility features to maintain tactical and operational overmatch on the battlefield, and hybrid electric drive technology can be instrumental in supporting these mission objectives.

Working with kinetic, our designs have completed digital engineering and extensive lab tests in the Bradley project featured on this slide is demonstrating that hybrid electric technology has matured to a point where we can modify an existing platform family to increase capabilities and acceleration, range and onboard power, while also providing new capabilities like silent watch, all without impacting crew volumes.

You see quotes here on this slide from Lieutenant General Neil Thurgood, noting his comments about recent demonstrations that were amazingly quiet, and emphasising how powerful it is to have the ability to watch silently for hours at a time or move quietly into position to achieve a mission. HED architecture offers these and numerous other military capability and operational benefits. And the best part is, it is technology we have available

today, thanks to our decades of investment in industry collaboration to advance hybrid electric drive technology in commercial markets.

Electrification is contributing to meeting sustainability goals

As we come to the last slide, I believe this case study demonstrates how electrification is contributing to meeting our sustainability goals, our own, those of our customers, and those of our global communities. We are leveraging our know-how and collaborating with others to make significant advances across the land, maritime and air domains.

Our solutions are platform-agnostic and our supporting our customers' ambitions in both the defence and commercial markets. This is more than a small adjacent opportunity for us. Electrification is a core competency that we can offer to our customers to deliver a more sustainable future for all of us.

Thank you for your time today. Now I will hand things over to Karin for the next case study.

ESG Case Studies

Karin Hoeing

Group ESG, Culture & Business Transformation, BAE Systems, Inc.,

Creating opportunities for people

Thank you, Tom. So we have a long and proud heritage of supporting skills and education in the UK. And we have a whole variety of education programmes that help inspiring young people from primary school age to around the age of 18 to consider a career in STEM.

Supporting skills and education

We are working with schools, institutions and partners all across the UK. But we also help to educate not only the pupils, but also teachers and their parents who quite often help to make decisions.

So on the second picture here you see the school road show. Since 2005, we are actually running school road shows together with the RAF and the Royal Navy. This is the UK's longest STEM road show existing. We have about 420 schools to visit per year. And we are highly interactive. It is actually very, very interesting to see how we are engaging with almost every single child in the audience and ask them to come on stage being part of an experience to really make it hands on and very, very interactive.

It helps to excite our pupils in the STEM subject. Last week was actually a great milestone because we had around one million pupil at the Blackburn Central High School that we educated on it, which is fantastic achievement.

Coding success. This one came around and about when the pandemic hit us. Because we could not do the road shows anymore, we had to find a very quickly an alternative and how do we still engage with pupils in schools around the country. So we developed and launched a virtual programme together again with the RAF and the Royal Navy, which basically is like a little robot kit, if you know these little boxes of kits that we can send out and we did that to schools, all around the UK, to schools where we partner with and schools where there are

underprivileged neighbourhoods, and also schools, specifically, where a majority of schools that are purely girls school to also educate much more understand subject.

So these kids were helping to learn about coding itself. We sent them to more than 600 schools and around 40,000 children by now. And we actually continued this year, despite the fact we have the road show spec up and running and going. So a huge, huge intake on different ages of children that we now have engaged and excited with them. And every time we ask for feedback, surveys, etc., to ask how does it land and how is the excitement. So we do see an uptick of more and more children now, again, thankfully excited by the stem subject and willing to take a STEM career going forward. So it does resonate very well to the schools we go for.

STEM ambassadors. Today, we have around 400 ambassadors. So these are young people in our organisation who are role models that go out to the different schools we partner with and are role models and ambassadors to, again, excite pupils to make sure we recruit great people and laying the foundations and saying BAE Systems or generally the STEM arena is a great place to work and has actually a future career that is long lasting and exciting.

Work experiences. Today, we have around 600 placements each year we are providing for young people. In previous year, it was purely in place. 2020, we obviously changed it to a virtual environment. To-date, this is a hybrid experience. So we are having the opportunity due to that that we can get people from all over the UK excited by it, and not only those that live very close to our workplaces. It is something we would like to continue.

And slightly different topic is we are helping unemployed young people with something called movement to work. So this is a collaboration between The Prince's Trust and UK employers. We are offering quality work experience to those not in education, not in employment or in training. So it is called NEET.

Earlier this year, we actually received an award for Movement to Work Employer of the Year in social mobility, which we gratefully achieved. End of 2022, we will have had 800 work experiences as part of movement to work, which is phenomenal results given that we only started a few years ago.

So going to the next slide. So most of you will have heard about our apprenticeship programmes. This is something we are proud of. It is an award-winning highly rated apprenticeship schemes that we run in the UK. It is run for a long time.

Today, we have around 3,000 apprentices in training as we speak in the UK, with record recruitment of 1,100 this year that just started. And most likely in 2023 onwards, it will even increase from there. So these are really record numbers of intakes. We have achieved an Ofsted outstanding rating. And for those of you that have ever been involved in achieving this, it is a lot of work with a lot of people to make sure we have the highest standard and education and skills that we can offer to get there.

95% of our apprentices complete their course. 30% of them are actually above national average, which I think speaks for itself. We also received The Princess Royal Training and National Apprenticeship awards last year, which again, something we are very proud of.

We have more than 50 apprenticeships programme with over 60% of these in engineering and manufacturing. And while selfishly thinking last year, we also launched a sustainability

apprenticeship programme for the first time. And it is one of a kind so far in the UK with Cranfield University. And we are proud to say that we are going to continue it now as well in the second year, which new intake to come in March next year.

Supporting skills and education in Australia and Saudi Arabia

Not only do we have education and skills programmes in the UK, we also leverage our UK work and skills and education for other countries. An example would be Australia, which is on the next slide, please.

What we have done especially when we stepped up with delivery and built up our Hunter-class frigates, we created a digital diploma for our naval shipbuilding workforce on new digital skills. It only launched in 2019. But we already won an award in 2021.

Currently, we are having an initiative launched to increase it with one woman participation in the course. And also again more focused on digital skills in the naval force.

System engineering apprenticeship model has been approved at federal and several states level in Australia. This is the model we took from the UK. And it took a lot of persuasion and discussion with Australia to make sure that the same model would actually work now in Australia as well. So we had a discussion with a couple of universities as we speak. So we are very hopeful that in the next few years, we will have system engineering apprenticeships as offering as well in Australia with universities.

We started to work as well on a new software engineering degree apprenticeship with the University of Australia. Again, this will go live very soon, and we are in the last discussions now to get going with it. These are examples from Australia.

Saudi Arabia. Again, we shared our approach towards aircraft maintenance apprentices. And we do the training in the Kingdom as well as in the UK. We have built a very successful skills partnership with SDT, our Saudi Development Training, which actually has a state-of-the-art facility, just outside Riyadh. And it is really nice, when on a visit, I had the pleasure of recently to do that to see the excitement of the young people there and see the state-of-the-art facility and how they can learn about all these skills.

We also created a project management curriculum together in partnership with the Alfaisal University in Saudi Arabia that is still running. It is very much in line with our project management, a tentative curriculum that would be running in the UK.

In 2021, we took on 58 graduates in Kingdom and they are part of the broader graduate programme we have in place.

With that, I hand over to Charles to talk us through the Tempest example.

ESG Case Studies

Charles Woodburn

CEO, BAE Systems

Future programmes – Integrating ESG

Thank you, Karin. So pulling this together. A good example of how sustainability runs through our business is the next generation future combat air system, or Tempest as more commonly known.

ESG running through the business – Tempest

This programme is continually looking to develop innovative technologies in collaboration with the supply chains, SMEs and academia to value develop the people, deliver highly skilled jobs around many parts of the country, make a positive social and economic contribution to the community and deliver critical sovereign defence capabilities for our customers, and whilst doing all of that, reduce its environmental impact.

And we have a final video to highlight some of those key messages.

[Video]

As we announced at Farnborough, we will be flying our first prototype within five years. So that programme is moving at pace.

Closing thoughts

So in wrapping up, the acute threat environment has clearly shown defence and security is required for a free and prosperous society. And there is a growing global democratic mandate to increase defence spending. The strength and importance of NATO and the nuclear deterrent is, in our view, both evidence and critical, and defence and security underpins broader ESG objectives. And for us, our ESG agenda is focused on what we can do and positively influence.

So thank you for listening. And we now have some time for questions.

Q&A

Charlotte Keyworth (Barclays): I have got three questions, trying to keep them all to ESG. I will be right through the pack and perfectly possible, I missed it. But I have not seen anything on the cost plan for achieving net zero in 2030. Think if you could comment on that, please?

The second one, I also saw in the pack you talked about ESG targets for costs for LTIPs for 2023. Could you comment on the weighting of those and specifically which targets?

And then finally, a topic near to my heart as well is diversity. Perhaps you could just comment on recruiting at the junior end is arguably easier to get the bands equal. But I wondered how your attrition rate was tracking at the mid to senior levels for women and what you are doing to mitigate that one, improve it possibly?

Charles Woodburn: While just on the cost side of it, a lot of work being done. But Brad, do you want to just bring it up to date on that?

Brad Greve: Yes. We have done a bottoms-up approach to the evaluation opportunities to go to net-zero across the pitch. And of course, as Charles has outlined, the first instance is really about connecting to a renewable energy supply. So the greening of our energy is, I think, fairly passive approach but it is a big part of how we get to net-zero.

There are some CapEx projects that we are looking at, retrofit of facilities across the board. If you look good in the grand scheme of things, our strategy is not to rely on offsets. But if we work today to rely on offsets, it would be 20 million circa investment. So it is not a massive undertaking. But we do see the portfolios of projects that help us get to net zero. We have evaluated those and prioritising those.

So the first census is really about connecting to that renewable grid, and green energy and becoming more efficient at what we do.

Charles Woodburn: In terms of the LTIP weighting, well, I probably have a view, but we have to discuss, and there is consultation with our shareholders at this point. I think we are probably more aiming for somewhere in that 10-15% of the LTIP. But there is still a fair bit of conversation.

Speaker: Is a work in progress, you understand that. But I mean, it is very much a work in progress, because we want something that is measurable, and something that is meaningful, that actually encourages the behaviour that you have seen outlined. But all committees have got their hands in this, and, as Charles said, waiting for the outcome.

Charles Woodburn: Yeah.

Speaker: And I mean, given your last prior role as Head of HR care, and I mean, on the attrition of women, I think probably your best place to comment on that.

Jane Griffiths: Yeah, I am happy to. So it is something we constantly measure and observe roughly, as you can imagine. So right now, I am not sure if it is good or bad news, but the gap between male attrition and female attrition is still there. So we have more men leaving, and this is external retirements. So even if I take retirement out, we have women actually retaining much higher in our organisation as men, which is, if you like, a positive in that sense.

And we have seen attrition going down since 2018. So we lost a lot more women percentage-wise in 2018 than we do today, which is another good thing I would say, especially given recently, the pandemic where a lot of women, as we know, have been under a lot of stress and pressure. If a stereotype, you are not a little bit.

But we are trying to offer much, much more flexibility than we have probably done previously. And this might be the result of that as well. Yeah. Well, one of the reasons I would say it is probably the flexibility.

Charles Armitage (Citi): Just sort of two ethical questions, which are always difficult by definition, I suppose. First of all, with defence, the rights for a country to protect itself, I think is one of the main points of having a country or being a country. And I think that most sort of liberal democracies, most people do not see any problems about exporting to them. But what about exporting to non-liberal democracies? How do you think about that?

And I guess the follow on is, is the democratic – the defence industry is the most regulated export there are, and that is determined by liberal democracies, because we happen to live in supposedly one. Is that enough or should other considerations higher bars than that?

Charles Woodburn: Well, Charles let me pick that up at the high level, really. I mean, the first protocol, obviously, is as far as we are concerned, we only work with countries that are actually allies of the British government or the American government. And therefore, there is sort of package of these are the areas that contain our area of operation, number one.

So there is a degree of reliance on what and which governments believe or which allies when we look across the world. So that is the first protocol.

I think the second protocol is when you work with countries which do not have precisely the democratic principles that we all aspire to, and indeed, some of us enjoy, the belief that you have to have is that, first, default and fundamentally, it is the right thing to do. Secondly, you can continue to influence positive behaviour in those countries in the way you operate within them.

And in our own case, we do see the effect of that in parts of the world, Saudi Arabia being the obvious one, where the whole country is moving to a much more liberal environment than one would believe possibly even five years ago. I went, I do not know, three or four months ago, for the first time since COVID, change in that society is staggering for the good.

So we are part of that in the way we operate. We encourage very much diversity in the society. We demonstrated. We work with government in showing how functionally sound that principle is. I think, as a result of that, it is positive influence.

So, government, one; our own judgement, two; and the way we operate, three, to help society develop in the way that we all believe, is ultimately the good destination. So that was point one. Point two?

Charles Armitage: Mostly answered it. The question was some countries you operate in such as Saudi, really how do you balance their cultural sensitivities, such as views on women, with your –

Charles Woodburn: I just want to make sure I pick that up. So I hope that it is a broad answer, but it is the one we live by, and as a board, are comfortable with. I mean, as I made clear in my own commentary, there is a judgement call here that Board members have to make and we all need to sleep at night being comfortable that we are doing the right thing because it is the right thing to do. And that is the other part of actually good governance.

Chloe Lemarie (Jefferies): I just wanted to come back on the electrification of aviation topic. Could you explain to us exactly which technology you want to master in-house and where you would be more comfortable partnering with other companies on this specific topic?

Charles Woodburn: Yeah, I mean, Tom can come in, but I am happy to go as well. And maybe, Tom, you come in after. But I mean, our view is that we have some unique capabilities, as we tried to highlight on the slide there of things like flight management, engine controls and power systems and power management. And our view right now is rather than try and pick the winners, many of these, and we are talking about EV top market, there is a lot of spec and VC money going into it that our unique capabilities are offering a range of subsystems that – and we also know how to get these things, flight certified given

that we produce the flight controls for almost every Boeing platform, for example. So provide a range of capabilities that others tend to pick and choose a modular capability from. And we think that that is a better proven strategy that plays to our strengths, longer term.

Now, that is not to say that with companies like Embraer and Eve that we may not pick a couple that we are going to choose to work with for defence capabilities, but we think we are very well positioned. I mean, with all of you in the audience, this is not a market that is going to immediately appear in the next five years. But the five years after that, and certainly into the 2030s, we think there is going to be a significant market, and we are well placed to benefit from it.

Tom, is there anything that I have missed there, if you can comment on the line?

Tom Arseneault: So very thoroughly, Charles.

Charles Woodburn: Sorry, Tom, I think you just dropped out there. Is there anything you want to add?

Tom Arseneault: Okay, I was just going to say just two things. One, that a battery technology that comes from our hybrid bus business is quite a bit of intellectual property there was developed over the years. As you can imagine, flying with battery at high altitude. There are certain dangers to that with respect to thermal runaway. Some of you may remember the days of lithium-ion batteries and causing some incidents in the year. We just want to create lengths to develop technology in and around that kind of phenomena. That is very important.

And then secondly on the technical side, this comes from our civil aircraft business, this as well as technology that dates back many years decades, in fact. We just announced yesterday we were selected by Hyundai's Supernal aircraft. This is an electric vertical take-off and landing vehicle. And we will be doing the flight computers for them as recent announcements. Good headway there against solid underlying technology.

Charles Woodburn: Yeah, it is also worth just adding our expertise and autonomy that we have been obviously working on for 30, 40 years is going to be an important enabler to that. I think the bigger question in the short term is how comfortable we all will feel jumping into a pilot-less air taxi that lifts off from a skyscraper and takes us to the airport. But it will eventually happen. And the experts in autonomy make the point that that's a much easier problem to solve than a driverless car with footballs rolling out, kids in the streets and everything else, is a much more controllable environment.

So, again, as science fiction as it sounds, it will almost certainly happen and at some point, in our lifetimes, we probably will be very comfortable doing it and be using that.

Speaker: But Charles would not be the first.

Charles Woodburn: Probably not. It will be well tested and very reliable.

Martin Cooper: Great. I think we should take a break now. To everyone on the line, we will aim to restart at 14.45 UK time. Thank you very much.

Welcome Back

Martin Cooper

Director Investor Relations, BAE Systems

Welcome back everyone. Thanks for being so prompt to keep us on time. In the second section Brad is going to give us a brief overview on some of the key investor issues that we have been answering since the half-year. As I said, we are giving our trading update on 15th November so we will not be taking any trading questions after the presentations. Then Brad will hand over to Dave Armstrong, who is sat here now at the front, to cover the digital intelligence business. With that, over to you Brad.

Key Themes Update

Brad Greve

CFO, BAE Systems

Update on Key Themes

Defence market environment

Just a couple of minutes to take you through some of the hot topics of the day. We will start with the defence market environment. You will recall at the half-year we reported orders of £18 billion which was a record and it took backlog up to £53 billion. I am pleased to say that through the third quarter this momentum has only continued. We see a lot of strong tailwinds across the market and the government budgets around defence have also been on the state of revaluation you might have seen the French government's intent to increase by 7% announced recently. We feel that there is a strong market tailwind that is supporting growth for the medium and longer term.

Supply chain & inflation

However, of course in the short-term we are sailing through some pretty difficult headwinds around things like supply chain and inflation. In the first half of the year again you saw that despite these things we were managing to drive top line growth and margin expansion. I think that is a testament to two main things. One is just the professionalism of our supply chain organisation but secondly the strength of our commercial model. We think that these trends will continue despite supply chain inflation. We still see that we can drive top line growth and margin expansion through the second half of the year and beyond.

One of the things that has been helpful recently is the softening of the labour market in the US and one of the challenges we have been facing is just the inability to recruit fast enough across our US business in particular. We are seeing an improving labour market in that respect which is helping us particularly in electronic systems.

Energy

Then maybe energy is a hot topic as well. I look at energy in terms of two main aspects. One is pricing and one is availability. On the pricing front we are very well hedged in terms of electricity and gas well into next year. From a pricing perspective I think it is a pretty benign situation for us. On availability for our direct supply we are in places geographically which are

relatively independent. Generally, we have a pretty benign profile when it comes to any pending energy crisis both on price and availability.

Capital allocation

Then finally on capital allocation maybe we could talk a little bit about pension. Obviously after the mini budget market turmoil there has been a lot of discussion around pensions. You will recall at the half year we had a historic surplus after running pension deficits for as far as anyone can remember. What I am pleased to say is our very balanced asset approach and conservative asset allocation has held up very well. That surplus that we reported at the half-year has been intact. Then importantly the increasing yield environment means that the funding situation has improved. I think the pension situation for us is really a non-story and we have very good liquidity across our funds. That is really all I wanted to say on pensions.

I think the other part of capital allocation is the share buyback. You recall at the half-year we announced a £1.5-billion three-year programme and through today we are over £450 million into that first tranche so really progress ahead of schedule on this. We are pleased to see that. Overall, for the business we continue to drive top line growth, margin expansion and cash conversion. As Martin said, on 15th November we will be able to talk more about those financial details. One thing also to comment on is by the time we give that trading update we will have a better sense of the FX outturn for the full year. We will see a pretty marked tailwind coming from the stronger dollar as a result of that so we will talk more about that 15th November.

Digital Intelligence Context

Cyber & Intelligence sector

Turning to digital intelligence, as a reminder, our Cyber & Intelligence sector includes two businesses, the I&S business that is run out of the US and the Digital Intelligence business that we are going to talk about today. I am really pleased to see the capabilities that we brought together in Digital Intelligence and also the journey this has been through. There were a lot of portfolio decisions to create Digital Intelligence, including some acquisitions and including some divestments. We have a business now that is very well positioned for above market top line growth and strong margin performance. Dave is going to share with you how we are going to do this and how we are going to win.

Digital Intelligence Overview

Dave Armstrong

Managing Director Digital Intelligence, BAE Systems

Good afternoon everybody and wherever you are in the world good morning. For those of you that are here in the room I hope you got the opportunity when you were outside to have a look at our digital thread demonstrator or if you were careful enough you would have seen a very reduced size of satellite, which was just sneakily put in the corner. We can talk a bit about that later if you did not see it. However, what that illustrates is the breadth of scope that Digital Intelligence is covering, from cyber security right through to things in space. What I am going to do is give you a better insight into Digital Intelligence. I will give you a background as to why we thought it was the right time to create it, what it is we have

brought together to create this new business, what we offer to our customers explicitly and how we are going to take those offerings to the market, the investments that we are making to ensure that we will be successful as we take on this new venture, and the view of the market size, our business today and where we think we are going to end up.

Digital Intelligence – Who and Why?

Context for Digital Intelligence

The world of technology is changing rapidly. We all see it but we are seeing our customers use it more and more as they go forward. I just want to say some phrases to you, things like big data, data science, cloud-enabled, artificial intelligence and cyber frankly has just become a generic word. These are all capabilities which are inherent in what BAE Systems does today in delivering its platform enterprises. It is not always recognised though by people outside of BAE. Our customers do but it is not always seen by other people that we have these core capabilities in this modern era of the digital world. We also see policy and strategy papers being published across sectors in the UK and across many nations. They are determining that data-driven systems are going to be essential for the future but they must be cyber robust. As a result, what we are seeing is our customer is now shifting their priorities into where they want to spend money.

A recent survey of customers has shown that 84% of organisations operating in the defence, space and government believe digital advantage is crucial to their organisation. However, in the same survey, only 21% of those organisations in high trust sectors say they are completely digitally mature and need to transform to improve. Achieving digital advantage is different for organisations operating in high trust sectors. The stakes are higher because the data they are handling is more sensitive, the IT environments are more complex and the digital skillsets needed are hard to find and retain.

Space is increasingly becoming the new area of defence and security. The cost of satellite launch has fallen, the capabilities of low Earth orbit satellites has increased. This is an area of opportunity for BAE. The conclusion of all of those environmental factors was we needed to create Digital Intelligence, create a brand, a technology business that can deliver data-driven systems across defence, security and space.

Digital Intelligence, BAE Systems

To create Digital Intelligence, we have taken proven areas within BAE Systems and enhanced them with acquisitions. From our existing capabilities, we have Applied Intelligence, our leader in the national security domain, a business specialising in cyber, artificial intelligence and secure cloud systems; Defence Information, our business which provides the backbone of secure communication to the British Army today; to smaller areas, CORDA and Digital Services which use data analytics to solve major ship logistics and provide war gaming scenarios to our customer. We have then strengthened our capabilities through the acquisitions of Techmodal, a data science business, PPM, a developer of high-end electronics and lastly In-Space Missions, a spacecraft designer and manufacturer. This merger of seven businesses all of which had their own unique digital heritage offers a very strong proposition. A proposition working across five different continents with 4,000 people, leading experts in digital transformation, cyber security, complex data analysis, secure communication and information for space.

A flavour of what we do

Much of what we do is very sensitive and we cannot talk publicly about it. The next slide illustrates some of the areas of a flavour of what we do. In the past you have got further in. There are some more areas. What I can say is whatever we do is something we deliver to our customers and our people talk about mission-focused work. We talked about retaining people earlier on and the question about employment. People that come to work for us do it because what they do they see they make a difference. I am new to this area. I have been in defence all my life but this particular area and I can see it and feel it with the people that I talk to.

For over a decade BAE Systems has been delivering digital capability across a whole range of government, enterprise and departments. I will give you three examples which I will draw out of this list. Child protection systems. I will go a little bit into how they used to do it. You would walk into a room. You would have someone from a health department, you might have someone from a school, you might have a policeman, you might have a local doctor and someone from social services. They say the name of somebody who they were concerned about. Everyone would go through their data manually looking and searching to see if they can see a connection. Sometimes they found a connection, quite often they missed it. You see the stories on the news. By putting everything into a database, turning it into information and applying artificial intelligence algorithms you can join the connectivity. Our police forces now use this to fast track and intercept children who are vulnerable.

Cerberus

Cerberus. When we left the European Union, the Home Office launched a new border control security system, which was known as Cerberus. We are an integral part of that in terms of providing all the information and the data sets to make it work. We also put together the national Automatic Number Plate Recognition. I did find this one amusing. Every police camera that is around the UK was originally set up by the local police authorities. We put it all together. You can now track the movement of any car throughout the United Kingdom. This has been used to help with drug trafficking, often known as county lines, and other activities for people who are clearly misbehaving. What does it mean in terms of scale? 50 million images a day – more than Instagram processes – are being collected and gathered and analysed at the request of a specific intervention. This I think confirms our pedigree as a digital and data-driven business.

New portfolio overview

I shall now describe our new portfolio, how we are going to take it to market and what the top-level vision is which sits within that.

We take those seven businesses and we distil it down into four core competencies and two specific areas – so, six things.

Digital Partner

The first one is Digital Partner. This is where we act as a consultant. We go client side. We have a small team and we help the customer understand what it is they are trying to achieve when they talk about having a digital system, they want to bring their enterprise together, they want to bring their data solutions and they want intelligence activities. Having solved that definition for them, we then work into the transformation phase, where we do the

implementation and we deploy and we build the products that they want across cloud-based systems.

Cyber Security

Cyber Security. As a business we are fully certified by the National Cyber Security Centre, which gives us the safe environment in a digital world to use our tools securely. STARA is a unique threat assessment that we use as a process and methodology. It is used across the national security and various government agencies and it measures and it reports threats. It is a systematic approach to how we solve a problem. What is key about this – I will use an old expression – it is really our bread and butter. This is our core strength, to be able to provide cyber assurance, so whenever we deploy a product, whenever we give someone an intelligent system, it is cyber robust.

Intelligent Systems

Intelligent Systems. I illustrated a few that I talked about earlier, with Cerberus and the child prevention, but it is an interesting thing to talk about, because to make decisions you have to look for information and you have to make conclusions. In the past, human beings did this. To solve critical challenges now and to make intelligent systems, we cannot look at data in isolation from one source. We need to break down the silos from different avenues. We need to make the connections across complex ecosystems. The effect is like weaving threads and it is crucial to build on that digital advantage. We call this a digital thread, and Vibi[?], who is here has a demonstration outside which can help articulate and explain how we bring that connectivity together. The artificial intelligence and machine learning that we have expertise in lets you bring and create that intelligent system in an easier way at a pace which humans cannot achieve. What we specialise in though is we offer customers specific solutions to suit their needs and we tailor our solutions rather than just offering a pure bespoke solution off the shelf.

C5ISR Systems

C5ISR Systems. The core purpose of C5 is command and control. It is the raison d'être of the military, to understand a picture, to be able to act on it and command and control. The other three Cs are communications, computing and cyber. I have explained through other examples why we fully understand those and also with the acquisition of PPM how it helps us produce a more secure system. This blend of the experience of defence, coupled with what we were doing in national security, our cyber protection and the other attributions mean that we are aiming and we are confident we will be a partner for defence across C5.

Satellite Systems

Satellite Systems. BAE Systems has always retained a presence in space. For many, many years we have deliberately not gone into the large-scale satellites – the things I call the size of double decker buses. We leave that to Airbus and Lockheed. However, the world is changing. It is also changing in that the digital tool solutions for space will soon prove fundamental to the prosperity of our society.

What do I mean by that? I will illustrate it through Google Maps. We just use it every day. We look at the images, to get from A to B. However, we do more than that. If you are going to rent a place on holiday, you quite often zoom into the place and have a look around it.

That imagery, that space information, is more and more becoming prevalent in our day-to-day lives. And as we go forward, it will continue to do so.

Space

Space in simple terms is sensors and communication systems. No one can challenge BAE about its ability to put sensors on warships, on fighter jet aircraft and other land-based platforms, integrate them and turn them into a solution.

Going forward, Low Earth Orbit satellites become more affordable. So, what we need to do is how can BAE Systems access the Low Earth Orbit market and provide all that knowledge of systems integration and sensors? The bit that was missing, the ingredient that was missing, was actually to build satellites. There are a few tricks they have which BAE Systems may not have had expertise in. Hence why we bought In-Space Missions.

Vision for the new portfolio

With those six capabilities, we have a vision. The vision breaks into five threads. Firstly, to be an established provider of data-driven systems that can operate securely within the cloud, a strategic partner in the UK for cyber, delivering multi-domain C5ISR systems to defence customers, and a leading supplier of LEO satellites worldwide, and ultimately delivering digital advantage to our UK customer and across international markets.

Taking the new portfolio to market

How do we take that to market? It is a very complex set of activities. Firstly, we will focus and concentrate on the core strength of built credibility of cyber and intelligence, which is national security and central government. This is a pillar where we are a trusted partner and we will continue to prosecute and grow this market, but we will build this capability and use it to access defence. In the UK alone, £2 billion has been put aside to put digital infrastructure, enterprise solutions and intelligent systems into defence. I do not understand it on a personal level, our national security handles sensitive data, but they are more advanced about how they want to put in place digital solutions. Defence is catching up and we are ready to capitalise on that because of our background and pedigree. That is the reason we have created this specific division on there called Digital Defence Services. It is an area already present with the Navy and Strategic Command, helping them shape and determine what their digital backbone needs to consist of.

C5ISR. Our customers in the UK and globally are looking to transform the individual four structures to a single integrated battle space picture. What I described earlier about our capabilities positions us well in order to take advantage of where that customer is now moving. This market size is estimated to be in the order of £5 billion.

As Space moves forward and the next layer of defence and security emerges, it aligns with the BAE Systems model. The combination of BAE Systems and In-Space Missions, as I said earlier, positions us perfectly for the expanding low-earth orbit market. Then all of these domains and capabilities lend themselves to the international market, to our allies. Firstly, we will build and consolidate within the UK. We will start to move into the home markets that we know already in BAE Systems and then move and extend further into other international markets.

Areas for investment

To ensure that we are successful, there are some areas that I have convinced Charles that he is going to support me on for investing. I will cover these in a little bit and it says here in my notes I am now going to hand over to Doug Liddle, who is the CEO for In-Space Missions. The door is not going to open and Doug is not miraculously going to walk through, because Doug has been presenting to Dstl today a bid which we are bidding for a satellite. We are in competition there with two other companies. It was our pitch. He texted me to say, 'It is going really well. In fact, it is going so well they are asking more questions than we planned. I am not going to make it.' So, fingers crossed that we are successful in achieving it where he is. What we are going to show you though to kick it off is a video of a BAE Systems self-funded satellite cluster, known as Azalea, which we intend to put into space in 2024.

[Video]

The UK has committed £1.8 billion to invest in sovereign space capability. Azalea, which you saw in the video, is a satellite cluster delivering coherent ISR sensor for civil and security use. The Azalea building block is a cluster of four spacecraft, which will work together rapidly to secure and deliver vital intelligence customers; electro-optical sensor, infrared sensor and a synthetic aperture radar. The fourth satellite does what we call on-edge processing, so it takes that information and it processes it in space. This is unique because it then enables us to deliver it to the user, the soldier on the ground, a warship in the ocean or back to strategic command, rather than having to send the data back to the ground to be processed and recirculated back via another satellite to someone else. It is only the first cluster. We expect Space Command to buy a constellation, which would be several orders more than the first four that we are putting up. By doing the first four, we are demonstrating we understand to do the in-space connectivity and the in-space processing. Where Doug is today is to secure the order hopefully for another satellite, which is part of the MoD and the Space Command's own investment in the same thing.

In-Space Missions

A little bit of background about In-Space. I will do my best. I am sure Doug could have put more colour on it, but I have his notes. In-Space was formed by what he describes as space-industry veterans back in 2016. What he does not say in his notes is there were several people very frustrated about the lack of pace and agility that was going on and they had lots of innovation and ideas and they decided to take their courage to create their own company and set themselves off to do something different and tried to break the standard mould on space. They were successful. They have a satellite already in space. They have a unique satellite, which is called the Faraday ride-share. It is only about the size of a very large box, about this size, but you can buy a slot if you have enough money. You can put something in it. You could just be a university, you could be a meteorologist, so every time it passes and it collects data it just pings it back down to earth. You can buy this. It is called a ride-share system. So, they have been innovative in that. We are also proud that they will be part of Virgin Orbit's first launch come October, whenever the UK makes its first launch from Cornwall later in the year.

The space market for LEOs is growing. We all know that Elon Musk and others are doing things in this area, trying to get into it for communications, but there is an estimated £10 billion worth over the next decade with a CAGR running at about 17%. He is currently

building another three satellites for the MoD and Dstl, but one of the unique features on it is that we are having what we call software-defined radio technologies and RF payloads, which enable us to reprogramme a satellite in space. The analogy would be in the same way you download a new app to your phone, so rather than a satellite going up he is stuck on a mission for five, 10 or 15 years. They will be upgradable and adaptable to cope with the changes that the customer would want to have.

So, that is why we bought In-Space one year and two months ago. They were a great little company. They are growing with innovation and they allow us to do what we could not do, which is understand how to build satellites. I could bore you a little bit if it comes to models, about how they stay positioned in space, how they move around, how they get to the area where they need to be in orbit. It is all quite tricky. They understand that. We know how to do intelligence. We know how to do sensors. We know how to merge things and we know defence, so it is a great partnership.

It says here 'Thank you Doug.'

To conclude, I will summarise our investments that we have not discussed. I had already talked about Space, so multi domain. I mentioned the importance of C5 or what customers are aspiring to do. The one thing they would really like to do easily is have a method of moving across what we call multi domain, so moving from one layer to the next layer, to the soldier on the ground, to the battleship, and connecting smoothly and easily. What we have done is we have invested in a system called NetVIPR, which allows you to do that. It will operate at all levels – soldier, vehicle, GCHQ – and it will allow the same connectivity and the same information to be layered and tailored through the same system.

Asset Management

Asset Management. BAE Systems is a fantastic company for managing assets. It does everything it does today across Typhoon. We have done it for many, many years, but we can get better, so we will invest in apps and tools to help support that capability and how we go forward.

Cloud Mission Services

Then Cloud Mission Services. We will invest in specific apps which allow us to tailor things which are happening off the shelf in the cloud environment, to allow us to get more utility out of it. One investment is a product called Alpha Lab that will simply expediate the process of the prototype and then get us to a cloud-ready solution in advance.

The market is very significant. When we talk to analysts and we talk to people, they are always very large numbers. We have tried to distil that down. I was quoted at one stage, 'Oh, it could be £750 billion by the end of the decade.' I said, 'Okay, but what could we realistically go after? What is addressable? I do not expect we will win all of this but these are the areas which are addressable and in theory we could reach for.' So, we see across the UK, across our domains roughly £18 billion, and then internationally a similar £20 billion, and central government obviously is a UK-specific activity for what we do.

What is important here is it is balanced across each of the domains that we put together, that we are not dependent on one single domain to grow, and we have a good balance. Our

philosophy though, as I said earlier, will be to address the UK first and then move more internationally as we build that credibility.

In terms of finances, I hope you have not been holding your breath for a very detailed slide. Today, we are a £700 million business and we will deliver that this year. We are positioned for good growth over the next five years, for all the reasons I have outlined, and I expect to have growth in each of the divisions at various levels across each of those domains that we talked about. The overall figure that we expect to have is throughout that process we will have a double-digit return on the sales that take place.

Conclusion

To summarise, we studied it just over 18 months ago at Charles's request, to look at this area. I think we have responded to how we saw the market change and created digital intelligence. The BAE Systems organic capability has been bolstered with three strategically significant acquisitions, in the In-Space Missions, PPM and Techmodal. There is a significant addressable market in the UK and internationally. We have excellent pedigree across all the domains, which hopefully I have brought out for you. We have a clear understanding of how to deliver that digital advantage to customers who want to move into or need to move into a more intelligence-led system. We have a clear route to grow through the individual focused portfolio and we are investing to make sure that we maintain our position with the right capabilities. So, by applying our digital heritage and our defence knowledge, coupled with the business acquisitions, I believe we have created the right offering to our customers in a growing market. Thank you.

Q&A

Christoph Menard (Deutsche Bank): Yes, Christoph Menard, Deutsche Bank. I have three questions if I may. The first one is, the difference between intelligence and security and digital intelligence, is it just the US? I mean, is it a geographic difference? Can you elaborate a little bit? I will follow up with the two additional questions.

Dave Armstrong: Yes. If you are referring to the slide that Brad put up, INS is our Inc equivalent of the business that I described. I think it is fair that they have been at this on a more focused, wider market than what we had as former applied intelligence for a number of years, but it is also a bigger home market in the States. Hence the disproportion. My objective is to catch AI[?] up.

Christoph Menard: Are there any ways to actually put the resources in common, or is it separate siloes?

Speaker: Yes. So, I think it is always a difficult area when you get into security domains, but we have started discussions and it is clear there are areas that our US colleagues can help us with here in the UK and we are exploring exactly how to do that, capturing it and making it detailed so that they can do the necessary things they have on their side to make sure their equivalent security people are happy. There are also other areas, with the acquisition of Bohemia, which took place last year with INS. It is a clear opportunity where we can help them this side of the Atlantic. They have people based in Farnborough and we are talking about how we can help Bohemia get a better presence both here in the UK and in Europe, as

two examples. So, I think it is possible and it is a question of just working through different examples.

Speaker: It is also worth saying that the so-called AUKUS pillar two activities – things like cyber, quantum computing – those are areas that are obviously common, that we are hoping to use and we will I think in time use that construct as a means to potentially share more, but that is still very early days yet.

Christoph Menard: Thank you. I have a question on the margin. You say double-digit. If my memory is right, it used to be below double-digit in the past. What is driving the improvement? Productivity efforts, as you mentioned in H1, or is it...

Speaker: I will give the credit to my predecessor. I think he has driven down our cost base really well over the last couple of years. We have also consciously divested in areas I would say we are not so specialised at, so we have moved out of what I would call the commercial and banking sector and concentrated on what we are good at, which is defence and security.

Christoph Menard: My last question is, in space, is it enough for satellite building or manufacturing, or do you need more build-up, more acquisitions?

Speaker: I hope we will need more. Whether we could do that all through In-Space or not, I do not know, but my intention is to build it so that that company has to be larger than it is today.

Christoph Menard: Thank you.

Speaker: Hi. I have a couple of questions. First of all, if I listen to Thales, they all say a similar sort of thing as regards their – I cannot remember what they call it – Gemalto I still call it? What is the difference between the two of you? Why are you going to do better?

The second question, I guess, is we pretend we can forecast the number of airliner deliveries or the number of Typhoons or Tempests that are going to get delivered. Forecasting the growth of this business is just far more ethereal, I guess. Would it be fair to say that – what is it - £18 billion in the UK over ten years, if we start at £1 billion and end up at £2.6 billion, it probably gives you 10% a year growth – is that the sort of order of magnitude that you would expect to grow in the UK business?

Speaker: I will let my Finance colleagues answer that. They are all deferring to Brad. I will answer it as a simple statement. That is the ambition – to grow at that sort of order and to keep growing, and we have deliberately put the business together in order to do that. Brad can come back with any absolute numbers.

Speaker: You have done it now. The cat is out of the bag, I mean...

Speaker: Yes, but I think we are aiming to [inaudible].

Speaker: I think, no, Dave, your point is right. I think these businesses are positioned for CAGRs that are far higher than the market average, so that is why we built the business such that it is, so that we can participate in this market expansion that we are seeing. So, I think the business, as Dave has described, is well positioned for that. So, we should be driving above market CAGRs going forward. 10%, we will see.

Speaker: I think the real tipping point is this move into multi-domain. Going from asymmetric warfare to near-peer or peer-to-peer type threat really drives up customers now

to look at buying decisions on multi-domain. We have had these capabilities within the business but the decision as to why now was that we are starting to see our customers now look to increase their capabilities and ultimately buy like this, and we obviously want to be well positioned for that, and I think we have some unique capabilities and brigading them together gives us a very unique offering, I would suggest, even in the context of others, as you mentioned.

Speaker: Yes. Mine is an ambition, Charles. Brad [inaudible] temper me with realism. I am an optimistic person by nature. In terms of your question about Thales...

Speaker: We want to establish your 10-year target.

Speaker: That is a personal target. Regarding Thales, I think what differentiates us is not so much the space capability or building a basic spacecraft, etc. It is what we are doing to differentiate between how we are going to integrate the platforms as a solution in space, and I think, because this is going out generically everywhere, there are a few little nuggets in there which I do not really want to say on an open line, but I think we have good experience and connectivity, encryption, the way to do on-edge processing and various other aspects, which can move us into a differentiator.

Speaker: Finally – sorry, intentionally provocative – if we go back a while to GEC, the bit you did not buy, they assembled a bunch of businesses through acquisitions to create a telecoms network that then spectacularly failed. From the outside, it all sounded great. Why is this different?

Speaker: We are not building a telecoms network, to start with. I think there are two fundamentals. One fundamental is the same for national security and the central government and it is the same fundamental for where we are today in C23I[?]. We have very sound business building blocks. We have already got credibility in those domains and we are recognised by our customer. When you start to blend the two together, we start to present a more unique offering, because we are able to offer those intelligent systems which were not so prevalent in defence today and we are able to blend both those areas in order to make it more substantial. So, we are building on something which was already robust and merging it to make something which is a better offering to the customer.

Speaker: I will just say a closing remark. First of all, thank you all very much for giving up a lot of time this afternoon. No numbers, which I know is always an underlying disappointment to everybody, but the purpose of today was really to give you something of the substance beneath the numbers and the way the business is developing and the culture, and the things that really Charles and Tom and Brad are driving through the company with the aid of some very able people who you have seen today to make sure the business not only is cutting edge in technology and in defence capability but in the way it does things, and its adherence to the real principles of ESG, which are now deeply embedded in this company and driven by Charles as a thought leader, not as a box-ticking activity but as something the company really accepts and believes in. So, we hope you will take that thought away and, in a few weeks, Brad will give you the numbers that you are all really lusting after and hopefully that will be as positive as today's experience has been as well. Thank you all very much for coming. We really appreciate it, thank you.

[END OF TRANSCRIPT]