

## **Section 172(1) statement**

This statement contains an overview of how the Directors have performed their duty to promote the success of the Company as set out in Section 172(1) of the UK's Companies Act 2006. That section requires a director of a company to act in the way he considers, in good faith, would most likely promote the success of the company for the benefit of its shareholders. In doing this, the Director must have regard, amongst other matters, to:

- a) the likely consequences of any decision in the long term;
- b) the interests of the Company's employees;
- c) the need to foster the Company's business relationships with suppliers, customers and others;
- d) the impact of the Company's operations on the community and the environment;
- e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
- f) the need to act fairly as between members of the Company.

### **Decision making**

The BAE Systems Group Operational Framework (the "Operational Framework") sets out the principles of good governance to which BAE Systems Group subsidiaries are required to adhere, together with BAE Systems Group's values, policies and processes. Decisions affecting a subsidiary are required to be taken in line with the Operational Framework, including in accordance with applicable delegations of authority.

Pursuant to the Operational Framework, BAE Systems' businesses each produce a strategic plan, a financial forecast for the current year and financial projections for the next five years. The Directors of the Company contribute towards this process for the respective businesses of the Company for which they are responsible and are also responsible for identifying and managing principal and emerging risks in such businesses. In so doing the Directors have regard to a variety of matters including the interests of various stakeholders, the consequences of their decisions in the long term and the long-term reputation of the Company and its businesses.

### **Employees**

The safety, wellbeing, skills, capabilities and commitment of the Company's people are critical to ensuring the long-term sustainability of the Company's business and delivering the innovation needed to solve the Company's customers' complex challenges.

Effective engagement enables our employees to contribute to improving business performance and helps the Company to create an environment in which everyone is safe, valued and can fulfil their potential.

The Company used a range of channels to engage with employees throughout the year, as well as keeping employees informed about the performance, developments and prospects of the business and the BAE Systems Group. This included surveys and insight sessions; in-person and virtual meetings, briefings, conferences, events and listening forums at all levels; regular leadership updates through videos and events throughout the year (including in relation to financial and business performance); and engagement through the BAE Systems Group's Employee App, intranet, email and TV systems.

The Company operates an Employee Incentive Scheme which entitles all employees to a financial benefit against the achievement of a set of business and programme milestones. This ensures that all employees feel connected with, and are invested in, the Company's achievements.

These engagement activities form part of the Company's implementation of the BAE Systems group-wide employee engagement processes and policies which are described on pages 24 and 56 of BAE Systems plc's 2023 Annual Report (available at: [www.baesystems.com/investors](http://www.baesystems.com/investors)).

Pursuant to the BAE Systems Group's People Policy, directors and employees are required to contribute to creating an engaged and inclusive working environment, where individuals are respected and where the value of a diverse workforce is recognised. Also, pursuant to the Policy, employees are to be provided with the means to give their views and feedback.

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Through the implementation by the Company of these processes and policies, the directors have regard to the interests of the Company's employees.

#### **Fostering business relationships with suppliers, customers and others**

The Directors recognise that fostering business relationships with key stakeholders, such as customers and suppliers, is essential to the Company's success. The Company has close relationships with its customers, suppliers and industry partners which help it to create best-in-class, cost-effective equipment, goods, services and solutions.

Our largest customers are government and government bodies. Strong and collaborative relationships with our principal customers help us to identify their requirements and to position the Company as a trusted provider. The Directors and their delegates are in regular contact with the principal customers of the Company.

The Company, through its supply chain function, works with its suppliers to provide goods and services that meet its customers' requirements. The Company's supplier relationships are often long-term and meetings are held with key suppliers to foster deeper relationships with business in the supply chain and develop strategic relationships with key suppliers. The Group's supply chain function continues to actively manage supply lead times against demand requirements.

#### **The community and the environment**

The Directors recognise the importance of leading a company that not only generates value for shareholders but also contributes to wider society. The Company implements the requirements of the BAE Systems Group's Community Investment Policy, which is mandated through the Operational Framework and looks to ensure that we build and nurture mutually beneficial relationships between our business, our people and local stakeholders. Giving back to the communities in which we operate, and to charities that have meaning to our business, is vitally important to our Company and our employees, allowing us to make a positive difference and have an impact where it counts.

The Company recognises that its operations have an impact on the environment – from the energy and resources it uses, to the products and services it supplies and the waste that it generates. As an organisation, the BAE Systems Group is committed to reducing the environmental impact of our operations and products, minimising our environmental footprint and, in turn, decreasing our operational costs. Through the Operational Framework the Company implements the requirements of the BAE Systems Group's Environmental Policy, which details our commitment to high standards of environmental management. In particular, the Company is supporting the Group's target of achieving net zero greenhouse gas emissions across the Group's operations (scope 1 and 2) by 2030 and its target of working towards a net zero value chain by 2050.

All the above activities form part of the Company's implementation of the BAE Systems Group-wide community and environment processes and policies and the BAE Systems Group's impacts thereon which are described on pages 59 to 60 and pages 48 to 55, respectively, of BAE Systems plc's 2023 Annual Report (available at: [www.baesystems.com/investors](http://www.baesystems.com/investors)).

#### **Maintaining a reputation for high standards of business conduct**

The BAE Systems Group aims to be a recognised leader in business conduct which helps us to earn and maintain stakeholder trust and sustain business success. The directors consider it fundamental to maintain a culture focused on embedding responsible business behaviours. All employees of the Company are expected to act in accordance with the requirements of BAE Systems Group policies, including the Code of Conduct, at all times. As well as being the right thing to do, this reduces the risk of compliance failure and supports the Company in attracting and retaining high-calibre employees.

Detailed information on the BAE Systems Group-wide business conduct processes and policies is described on pages 62 to 65 in BAE Systems plc's 2023 Annual Report (available at: [www.baesystems.com/investors](http://www.baesystems.com/investors)).

### **Corporate governance statement**

BAE Systems plc, the ultimate parent company of the Company, adheres to the UK Corporate Governance Code. The UK Corporate Governance Code's principles are embedded in the BAE Systems Group Operational Framework, which sets out the principles of good governance and encapsulates the BAE Systems Group's values, policies and processes. Each company in the BAE Systems Group is required to adhere to the Operational Framework, which

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enables the Group to deliver operational excellence in a clear, accountable and consistent way.

The policies and processes in the Operational Framework are enacted at a local level by each of the businesses in the BAE Systems Group. The Operational Framework is underpinned by an Operational Assurance Statement which is a six-monthly process used to monitor compliance with the Operational Framework and policies.

Accordingly, the Company has not applied any separate corporate governance code for the financial year as it believes the corporate arrangements described in this statement are appropriate for the Company.

Set out below is a summary of how principles of good corporate governance, as set out in the Operational Framework, apply to the Company:

#### *Purpose, strategy, values and culture*

The BAE Systems Group has a strategic framework that sets out the Group's vision, mission and strategy and sets out three strategic priorities which are embedded throughout each business in the Group. This provides the link between the Group's long-term strategy and the near-term business objectives for all employees in the Company. The Company produces a strategic plan, a financial forecast for the current year and financial projections for the next five years, aligning resources with the delivery of forecast financial performance and the BAE Systems Group's strategic objectives. In so doing the Directors have regard to a variety of matters including the interests of various stakeholders, the consequences of their decisions in the long term and the long-term reputation of the Company and its businesses.

The BAE Systems Group's strategy is supported by the Group's values of trusted, innovative and bold. The Group has a Code of Conduct which lays out the standards that are expected of each employee in the Company, to support the employees in doing the right thing. All employees in the Company receive annual training designed to stimulate conversations about ethical decision making.

#### *Board and directors' accountability*

The directors of the Company consist of the Managing Director and Finance Director of the main business of the Company. The Managing Director is responsible for ensuring local policies, processes and charters are in place in the businesses of the Company to implement the requirements of the Operational Framework and for ensuring those requirements are met.

Those requirements ensure that internal controls are in place and documented that are designed to provide effective and measurable management of operational risk and performance, in line with BAE Systems Group requirements. These controls provide assurance regarding:

- the reliability and integrity of information;
- compliance with policies, processes, laws, regulations and contracts;
- the safeguarding of assets and protection against fraud; and
- the economical and efficient use of resources.

The requirements also regulate how the BAE Systems Group expects the employees of the businesses of the Company to be managed and the obligations placed on all employees concerning avoiding conflicts of interest, anti-bribery, and managing the security of employees, information and other assets.

As part of a robust system of internal controls, the authority of the Managing Director of the business of the Company is subject to financial limits and other restrictions, above which matters must be referred upwards and ultimately to the Board of BAE Systems plc.

#### *Risk*

Responsibility for identifying, analysing, evaluating and managing principal and emerging risks in the businesses lies with the managing directors of the businesses for which they are responsible. As mentioned the Managing Director of the main business of the Company is a director of the Company. The Managing Director is also responsible for the reporting and monitoring of key risks in accordance with established processes under the BAE Systems Group's Operational Framework.

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The BAE Systems plc's risk management process is set out in the Risk Management Policy, a mandated policy under the Operational Framework, and, in respect of projects, in the Lifecycle Management Framework, a core business process under the Operational Framework. The Lifecycle Management Policy sets out how the Company must plan and manage the execution of projects above a certain minimum level, providing decision gate reviews at key stages from initial opportunity to final closure.

Further guidance is provided by a Risk Management Maturity self-assessment tool. Identified risks are documented in risk registers showing: the risks that have been identified; characteristics of the risk; the basis for determining mitigation strategy; and what reviews and monitoring are necessary. Each risk is allocated an owner who has authority and responsibility for assessing and managing it.

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

#### *Remuneration*

The BAE Systems Group's Performance Leadership framework is a core business process designed to support the development of a diverse and inclusive culture that delivers the Group's strategy. The framework provides a principled approach to performance, assessment, development and reward for employees and is required to be implemented within the businesses of the Company.

The BAE Systems plc Remuneration Committee is responsible for reviewing the BAE Systems Group's workforce remuneration and related policies and the alignment of incentives and rewards with culture, and take these into account when setting the policy for executive remuneration.

#### *Stakeholders*

As regards employees, the Operational Framework includes a People Policy, pursuant to which the directors and employees are required to contribute to creating an engaged and inclusive work environment, where individuals are respected and where the value of a diverse workforce is recognised. The policy also requires employees to be provided with the means to give their views and feedback, and for the feedback to be responded to appropriately.

As regards customers, the Operational Framework makes it a priority of each business to understand their customers' evolving needs and expectations, and deliver on their commitments throughout the life of the business's products and services. The Operational Framework requires businesses to measure the delivery of such customer focus through reviews with customers and measurement of schedule adherence.

As regards suppliers, the BAE Systems Group's policy is to identify and select suppliers which meet the Group's standards and to support them by managing risks throughout the lifecycle of any commercial arrangement. The businesses manage risk with their suppliers in accordance with the BAE Systems Group's Procurement Policy, Lifecycle Management Framework and Supplier Principles. The Directors of the businesses of the Company are required to oversee compliance with these policies and principles for the businesses for which they are responsible.

The BAE Systems Group's Environmental Policy outlines the Group's commitment to improving standards of environmental management, and compliance with the Policy is directed by environmental teams across the Group.

Pursuant to the BAE Systems Group's Community Investment Policy, the Global Community Investment Strategy aims to build and nurture mutually beneficial relationships between the Group's businesses and local stakeholders, including employee involvement in charitable activities and donations to local, national and international charities.