

# ESG Update

25 January 2024

# CAUTIONARY STATEMENT

## Forward-Looking Statements

All statements other than statements of historical fact included in this presentation, including, without limitation, those regarding the financial condition, results, operations and businesses of BAE Systems and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. Such forward-looking statements which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of BAE Systems or the markets and economies in which BAE Systems operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. BAE Systems undertakes no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

## Industry and Market Data

Market and competitive position data in this presentation has generally been obtained from industry publications and surveys or studies conducted by third-party sources. There are limitations with respect to the availability, accuracy, completeness and comparability of such data. BAE Systems has not independently verified such data and can provide no assurance of its accuracy or completeness. Certain statements in this presentation regarding the defence market and competitive position data are based on the internal analyses of BAE Systems, which involves certain assumptions and estimates. These internal analyses have not been verified by any independent sources and there can be no assurance that the assumptions or estimates are accurate.

## Other

Certain financial information and percentages have been rounded, and, as a result, the sum of the numbers or percentages in a column or row of tables or in paragraphs may not conform exactly to the total figure or percentage for that column or row or paragraph.

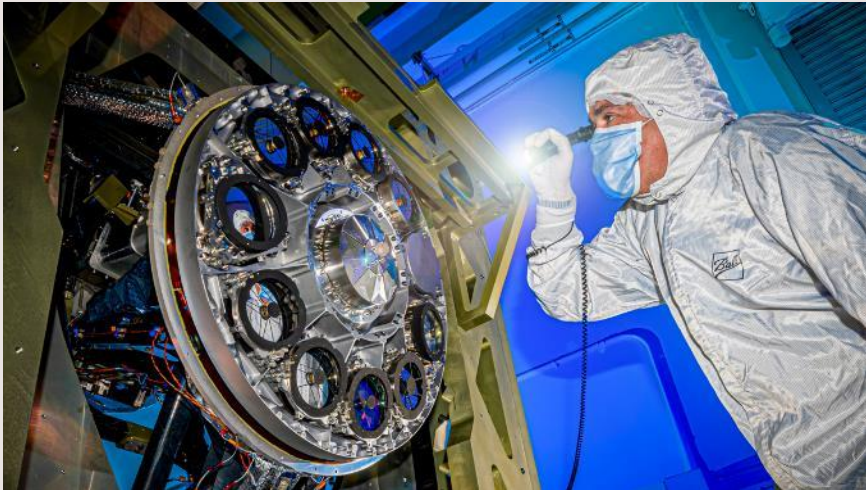
# ESG Update - Agenda

- Welcome & Introduction Cressida Hogg, Chair
- ESG Committee Overview Jane Griffiths, Chair of ESG Committee
- ESG Progress Update Karin Hoeing, Group Director ESG, Culture & Transformation
- Social & Economic Impact Cressida Hogg, Chair  
Nigel Davies, Early Careers & ASK Lead
- Q&A Moderated by Martin Cooper, Director Investor Relations
- Closing Remarks Cressida Hogg, Chair

Cressida Hogg  
Chair of BAE Systems



# 2023 – Chair Overview



2023 a year of strong strategic progress for BAE Systems

# Defence and Cyber – Enabling Governments to Fulfil Their Primary Responsibility

Protect countries & citizens

Maintain free trade

Continue to deliver prosperity

Recognition of multi-decade defence investment required to help grow geopolitical stability

BAE Systems

Develop future technologies

Contribute significant economic value

Develop and maintain critical workforce skills

Valuable contributors to our communities

# Chair Focus Areas

## Environment

- Keep focus on journey to reducing CO2
- Utilise technology expertise
- Sustainable technology development



## Social

- Highlight our social and economic contribution
- UK's largest manufacturer
- Training and developing our people
- A large recruiter of apprentices in UK



## Governance

- Continued strong governance
- Board leadership and structure
- Develop practices to be at forefront of market
- Assured ESG data



Customers and stakeholders expect highest standards – we look to create sustainable and enduring value for them

# Board Level – Corporate Governance Overview

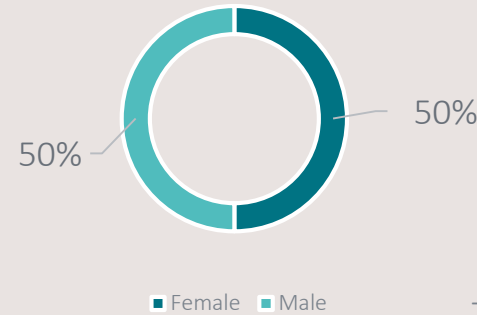


Robust governance – commitment to best practice

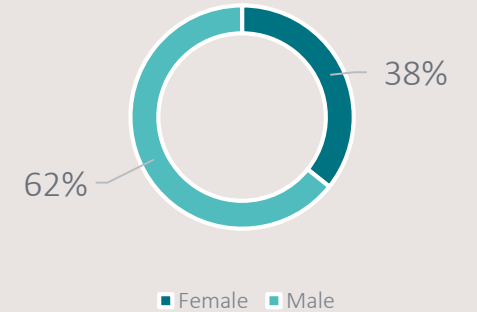
# Board Information – as at 31<sup>st</sup> Dec 2023

<b>Diverse and Relevant Skills</b>	<ul style="list-style-type: none"> <li>• Multi-National company leaders</li> <li>• Engineering &amp; Operations</li> <li>• Finance</li> <li>• Artificial Intelligence</li> <li>• Strategy and HR</li> </ul>
<b>13 Board Members</b>	<ul style="list-style-type: none"> <li>• Chair</li> <li>• 9 Independent</li> <li>• 3 Executive</li> </ul>
<b>3 Nationalities</b>	<ul style="list-style-type: none"> <li>• 8 UK</li> <li>• 4 US</li> <li>• 1 Australian</li> </ul>

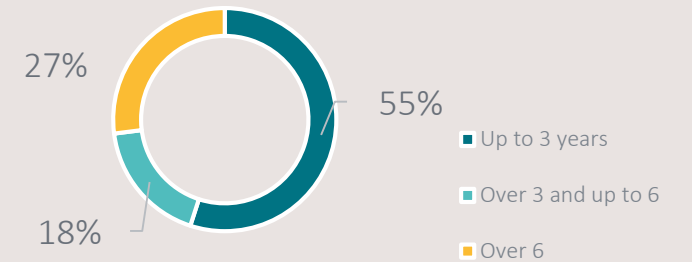
Independent Non-Executive Directors - Board Diversity



All Directors - Board Diversity



Tenure - Non- Executive Directors



High quality diverse Board - meeting UK Corporate Governance Code requirements

Dr Jane Griffiths  
Chair of ESG  
Committee



# ESG Committee

## Membership :

- Jane Griffiths (Chair)
- Nick Anderson
- Crystal Ashby
- Nicole Piasecki
- Lord Mark Sedwill
- Stephen Pearce (from 1<sup>st</sup> Jan 2024)

The focus for the ESG Committee during 2023 has been:

- Assuring the company maintains strong and robust standards of governance
- Oversight of:
  - The Company's programme to ensure climate resilience and progress towards Net Zero
  - The Company's ambition and programme of work to increase diversity and inclusion
  - How the Company discharges its societal and community responsibilities
  - The Company's approach and outcomes of employee engagement
- Ensuring continued focus by the Company on safety & wellbeing



# ESG & Board Employee Engagement – activity in 2023

ESG Committee has reviewed safety & wellbeing, diversity, equity & inclusion, climate (Net Zero & TCFD), culture & engagement

Hear from executives on employee matters such as safety, wellbeing, DE&I and company decisions that could impact employees.

The Board has reviewed culture & engagement, ethics helpline and employee assistance data

Review employee sentiment and wellbeing surveys and other data sources evidencing employee views

## 2023 ESG Chair engagement

**Jan** – Attendance at Internal Audit conference

**May** – (along with CEO) attended Trade Union Forum

**May** – Briefing with Australia safety team to review progress since 2022

**June** – Discussion with central Diversity, Equity & Inclusion groups

**June** – Meeting with employees of Shared Services and participants from Movement to Work Initiative

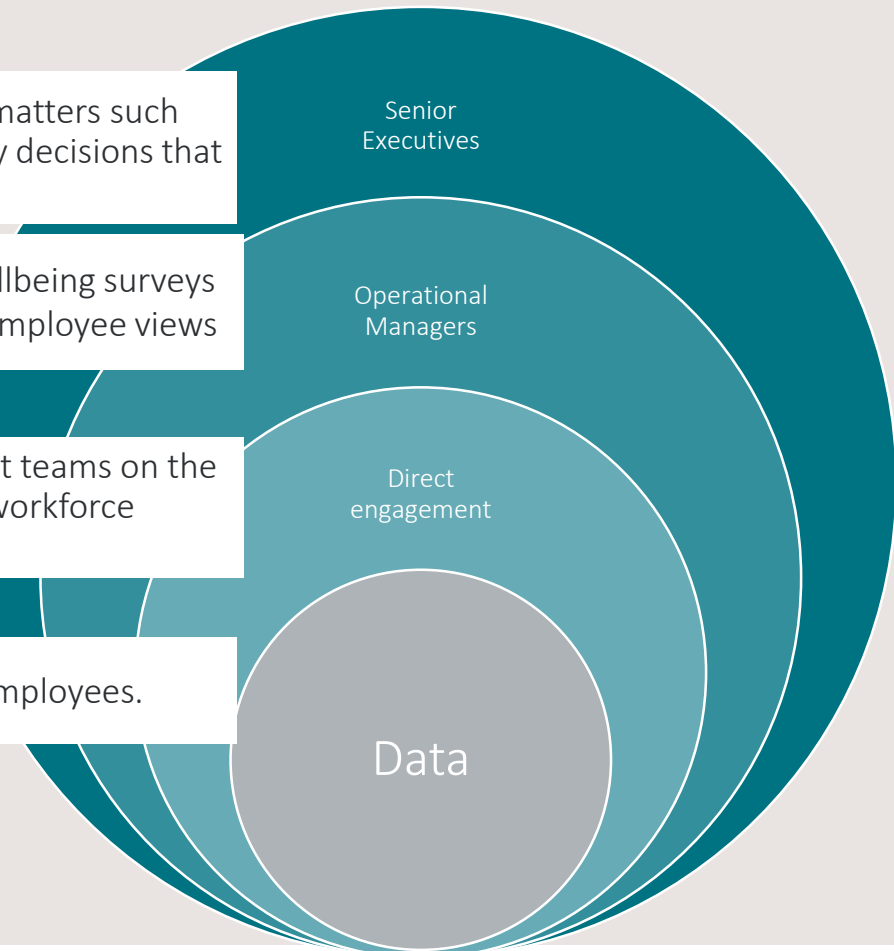
**June** – Meeting with Inc Senior Leadership team

**July** – Site visit to Rochester and discussions on early careers, diversity and community

**September** – Site visit to Warton and meetings with employees

Learn from operational management teams on the practical application and impact of workforce policies.

Direct engagement with groups of employees.



# 2023 Summary & 2024 Outlook

## 2023 Summary

- Strong year with ESG objectives met or exceeded
- Continued, demonstrable commitment to ESG by the senior management team
- Direct engagement with employee groups and representatives recognised and valued
- Continued alignment of ESG agenda to company's strategic priorities
- Maintained robust standards of governance, advanced Net Zero and environmental programmes and established priorities for social agenda

## 2024 Key Focus Areas

- Climate – managing risk and developing transition plan
- Social agenda – workplace environment, skills and education, community engagement

# Contributing to UK prosperity and our communities

We help keep our country safe and it's something we're extremely proud of. And we play a key role in society by helping to grow the UK's national and regional economy, boost prosperity, skills and technological know-how.

A report we commissioned from Oxford Economics showed that across our operations in 2022 we:

Contributed **£11.1bn** contribution to UK's GDP



Spent **£4.1bn** with **6,000** UK suppliers



Exported **£3.7bn** of goods and services



Invested more than **£1.4bn** in R&D



Supported a total tax contribution of **£2.7bn**



Supported **132,000** full time jobs in the UK including **39,600** BAE Systems employees



Were highly productive – each employee contributing **£78,570** to the economy



Invested **£180m** in education, skills and training



Supported the UK's most deprived areas; spending **£730m** with suppliers and employing **15,000** directly



Link to Oxford Economics report: <https://www.baesystems.com/en-uk/our-contribution-to-the-uk-and-its-regions>



# ESG aligned to business priorities

- Sustainability integrated through Group Strategic framework and core company processes
- EC Objectives: >50% of in year non-financials ESG related. Net Zero delivery milestones incorporated in LTIP
- ESG elements aligned to strategic business priorities:
  - Significant focus in 2023 on recruitment, skills and education delivering future talent pipeline
  - Net Zero programme and renewable energy strategy aligned with site growth & investment plans
  - Extended breadth of diversity, equity and inclusion initiatives to veterans and disability
  - Maintained emphasis on employee wellbeing and engagement

**Our vision** is to be the premier international defence, aerospace and security company

**Our mission** is to provide a vital advantage to help our customers protect what really matters

## Our Strategy

- Sustain and grow our defence and security businesses
- Continue to grow our business in adjacent markets
- Develop and expand our international business
- Inspire and develop a diverse workforce to drive success
- Enhance financial performance and deliver sustainable growth in shareholder value
- **Advance and integrate our sustainability agenda**

## Strategic priorities

Drive operational excellence

Continuously improve competitiveness and efficiency

Advance and further leverage our technology

**Our values** are Trusted, Innovative and Bold

# ESG Agenda evolving and progressing

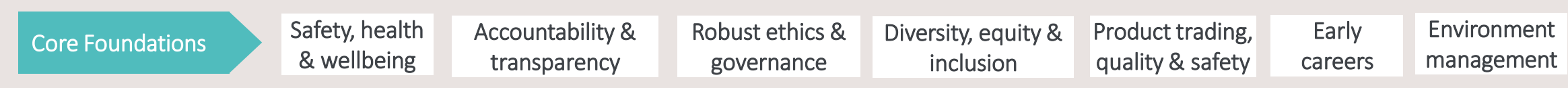
‘We serve, supply and protect those who serve and protect us, in a corporate culture that is performance driven and values led’

  
We are driving our ambition through four key themes, underpinned by our core foundations

4 key themes



- Environmental stewardship
- Net Zero delivery
- Biodiversity & nature
- Innovation investment
- Green technology
- Net Zero Scope 3<sup>1</sup>
- Skills, education & development
- Inclusive workplaces
- Social value
- Case for Defence
- Partnerships with suppliers, customers, universities, TUs
- Supply chain resilience



MSCI AA leader class rating

# A re-cap – Our Targets



## Environment/Net Zero

### Net Zero

- Reduction targets, aligned to 1.5 degree science based pathway, embedded in annual incentives and LTIP

### Technology development

- Progress areas of sustainable technology: electrification; sustainable fuels etc

### Strategic partnerships

- Progressing strategic partnerships; Cranfield University Sustainability Apprenticeships, Industrial partnerships



## Social

### Diversity & Inclusion

- Female representation on EC - 50% women by 2030 (UK)
- 25% by 2025 female representation on EC (currently 29%)
- Increase representation of ethnic minorities

### Safety & wellbeing

- Continuously improve workplace safety
- Employee wellbeing and mental health programmes

### Community, STEM & early careers

- Expand UK apprentice hiring programme and continued investment in STEM and early careers
- Maintain community investment



## Governance

### Commitments

- Exiting white phosphorus
- Progressing Real Living Wage agenda

### Board diversity

- Focused on meeting targets set by Hampton Alexander and Parker reports on gender and ethnic diversity

### Robust ethics, compliance & disclosure

- Maintain robust standards of ethics
- Meet TCFD and other disclosure requirements
- Maintain/improve external ratings

# 2023 Progress: Environment/Net Zero



## Reducing Scope 1 & 2 emissions in line with 2030 Net Zero target <sup>1</sup>

- Increased consumption of renewable energy across our UK and US sites (incl. manufacturing); secured contract of CPPA for approx. 40% of UK requirement from 2026

## Innovation Enabling Sustainability

- Hybrid Electric Drive system demonstrated on Bradley fighting vehicles delivering increased capability in terms of acceleration and power and also improving stealth
- Hyper realism in simulator training improving safety and reducing emissions

## Progressing Scope 3

- Developed Supply Chain decarbonisation roadmap <sup>3</sup>

## Environment/Resource management

- Reducing electricity and water consumption and waste production year on year across global operations
- Improved CDP score

1. Included in EC Objectives 2023 and LTIP.

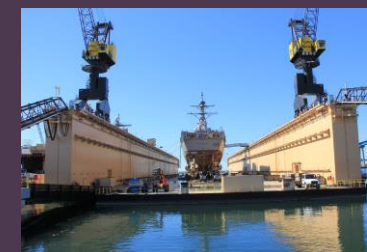
2. Excluding BAE Systems Inc. businesses.

3. UK focus initially.

Stated ambition: Net Zero Scope 1&2 by 2030, Scope 3 by 2050 <sup>2</sup>



2019 2020 2021 2022



## San Diego (US) Shipyard Electrification

- Multiple key decarbonisation projects to support electrification of US ship repair operations
- Over \$100m investment supported by State of California's Low Standard Fuel Credits
- Total reductions estimated at c80 TCO<sub>2e</sub>
- Further projects planned to add a further 36 TCO<sub>2e</sub>

# 2023 Progress: Social Workplace Environment



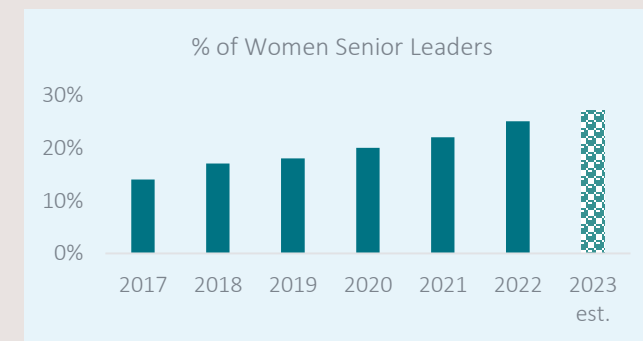
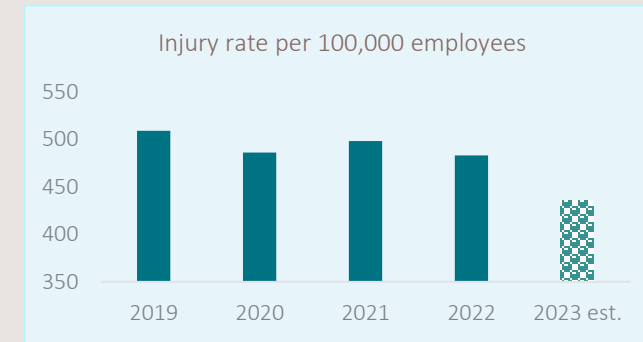
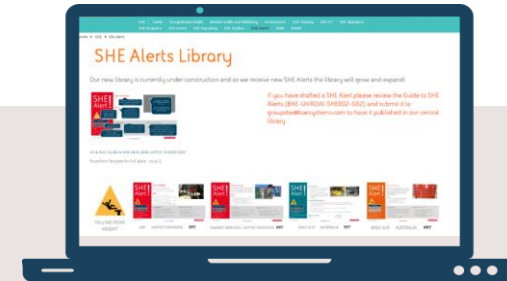
## Safety & wellbeing <sup>1</sup>

- Continued reduction (improvement) in recordable injury rates
- Increased leadership visibility on safety with senior safety reviews
- Mental health awareness training deployed to all employees

## Diversity, Equity & Inclusion

- Increased female representation<sup>1</sup> across all levels; overall 23.3%
- Over 27% YOY increase in Employee Resource Group membership, 5 new ERGs ( KSA and Australia )
- Women in Defence awards - 4 finalists and 1 winner
- LGBTQ+ Defence awards won 4 categories

1. Included in EC Objectives 2023.



# 2023 Progress: Social

## Community Investment, Skills & Education and Support to Armed Forces Community



- £11.5m to charities and not-for-profit organisations in 2022
- Invested £180m in skills, education & training in 2022
- c. 5,500 apprentices and graduates in the UK <sup>1</sup>
- Record 2,400 apprentices (record 31% female) & graduates hired in the UK in 2023
- Flagship apprentice programmes in UK, KSA & Australia
- 100 work placements through Movement to Work
- Launching Global Digital Skills Academy in 2023
- Contributed £2.9m to Armed Forces Charities
- 25% (US) and 6% (UK) experienced hires were veterans
- Launched UK/Australia/KSA Armed Forces Programme

1. As at October 2023.

£2.9m

supporting  
Armed Forces  
charities



£4.8m

invested in education initiatives  
focused on science, technology,  
engineering and maths



£448k

maintaining the heritage  
of the Company and  
the Armed Forces



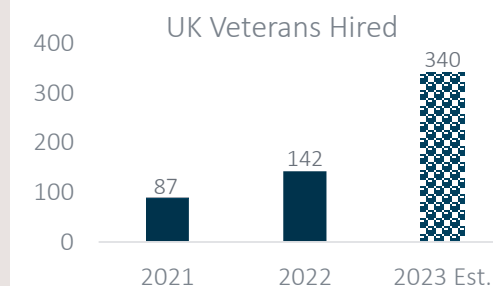
15,656 hours

volunteered by our  
employees - that's over  
2,000  
working days



£1.3m

to local  
community  
projects



# 2023 Progress: Governance, Transparency & Disclosure



- Maintained MSCI Leader AA rating<sup>1</sup>
- Improved Sustainalytics rating: high to medium risk<sup>1</sup>
- Robust ethics programme, with revised Human Rights Statements; Code of conduct refreshed in 2024
- Greater than 95% of employees completed business integrity training
- Continued accreditation with Real Living Wage

1. Included in EC Objectives 2023.



# Looking Forward



1. Excluding BAE Systems Inc. businesses.



Creating opportunities for our  
people and communities

# Barrow video



# Education, Skills & Early Careers

Digital Intelligence | Electronic Systems | Submarines | Shared Services | Land | Naval Ships | Maritime | Air



Platforms | Systems | Products

People Skills & Capabilities | Collaborative Mindset | Cultural Insights | Best Practice

To build and sustain our future UK workforce through the development and delivery of outstanding Early Careers & Skills programmes

Education Outreach & Services

Apprenticeships & Skills

Graduates & Undergraduates

Academies for Skills & Knowledge

Knowledge Transfer & Expertise

# Supporting skills and education



Early Careers Attraction



Education Outreach



Roadshows



STEM Ambassadors

# Skills and Training Academies

**Submarine Academy for Skills & Knowledge  
Barrow**



- 8300 sqm
- 10 workshops
- 30 classrooms
- Replica submarine unit for experiential learning

**Aircraft Maintenance Academy  
North Lincolnshire**



- 5482 sqm
- 5 workshops, plus aircraft hangar
- 13 classrooms

**Academy for Skills and Knowledge  
Samlesbury**



- 7400 sqm
- 42 learning spaces: 5 ICT rooms, 2 electronics labs, 24 training rooms, 10 practical workshops, 1 VR cave
- Equipment and platforms replicating aerospace production and sustainment environments

**Applied Shipbuilding Academy  
Scotstoun**



- 5500 sqm (integrated learning hub and trade hall)
- 39 classrooms
- Trade and technical training spaces throughout Trade Hall
- Currently in development

# Early Careers & Skills Air



- The ASK Opened December 2016 £20m investment; To date: Footfall 300,000 people and 1.8m Learning & Development Hours. Focus on **Skills, Knowledge & Behaviours** aligned to business strategy such as FCAS & GCAP
- **Air Early Careers 1500 people** - 1100 apprentices 400 Graduates/Undergraduates; recruitment increasing year-on-year
- Air offers **20 different apprenticeship and graduate schemes** – PM, PC, Supply Chain, Business, Engineering Aero, Engineering Software, Manufacturing, HR, Digital Technologies
- **From January 2022** to present we have carried out over **150 activities**, including Careers Fairs, Mock Interviews, STEM Workshops & Assemblies. Since 2017 we have engaged **over 7,000** young people
- We support **over 125 (primary & secondary) schools across the region**, with a postcode focus with schools with high free school meals, SEN support, and English is not their first language – therefore engaging ethnic minority and deprived communities
- **Youth Unemployment.** The company is a member of the **Lancashire LEP Skills Advisory Panel**, have signed the LEP’s Lancashire Skills Pledge and we take an active role in skills across the County

## Social Mobility & Impact



We have provided over **7000** young adults the opportunity to engage with BAE Systems through STEM activities.



We support **125** schools within a 35 mile radius of the Academy for Skills and Knowledge. We aim to increase this to 30 miles.



We have **strong relationships** with colleges and universities.



We continue to **develop partnerships** across the UK to provide STEM activities to those based around our smaller sites and RAF bases.



We plan to refurbish the Education Station to align to **Destination 2035**. Underpins regional skills caps and career paths.

# Board ESG Summary

Our ESG agenda is focused on what we can positively influence – making good progress and on track to meet ambitions

- ▶ Positive evolution across the business – critical to recruitment & retention
- ▶ Management committed to putting BAE Systems at the forefront - incentivised to do so
- ▶ Sustainability integral to strategy - driving business performance and creating opportunity
- ▶ Operate ethically, openly with clear policies and procedures in place
- ▶ Importance of our role in our communities & maintaining and developing critical skills
- ▶ BAE Systems helps governments fulfil their primary responsibility - protecting its country and citizens

Working with governments and industry for a safer and prosperous society



## Q&A - ESG

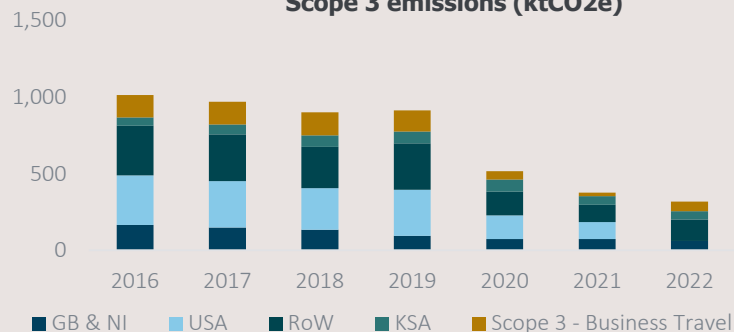
# Supplementary Information



# Key ESG data

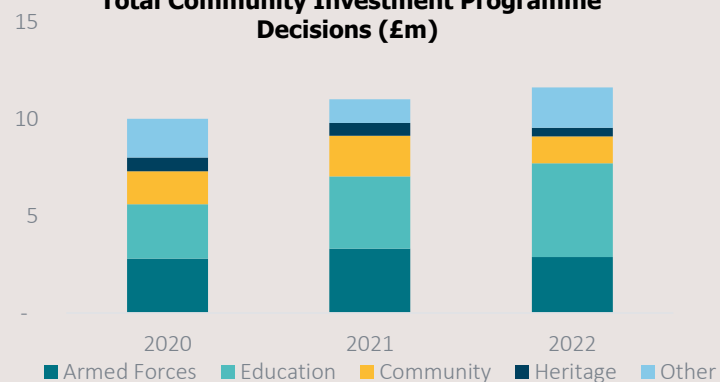
## Environment

Scope 2 (location based) and business flights from Scope 3 emissions (ktCO2e)

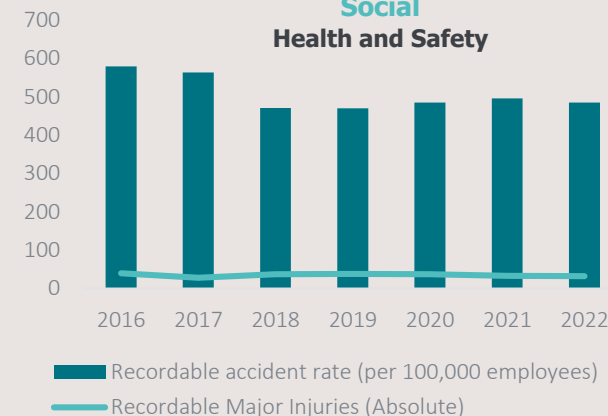


## Social

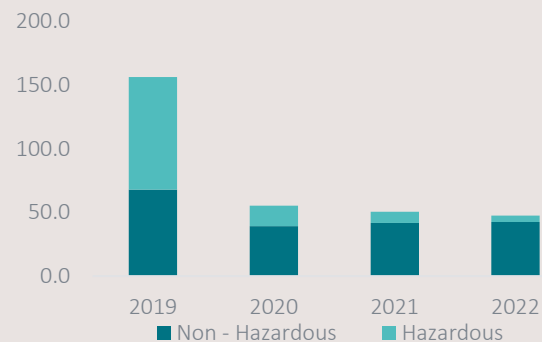
Total Community Investment Programme Decisions (£m)



## Social Health and Safety

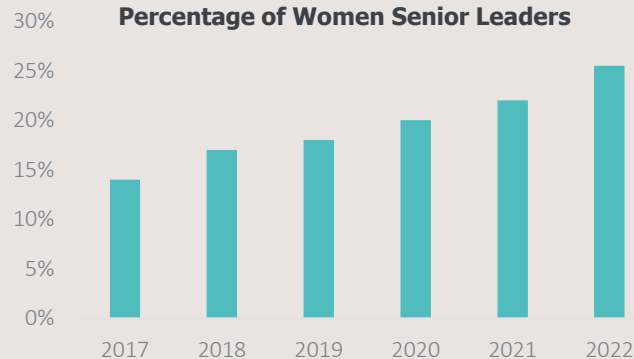


## Environment Total Waste (kt)



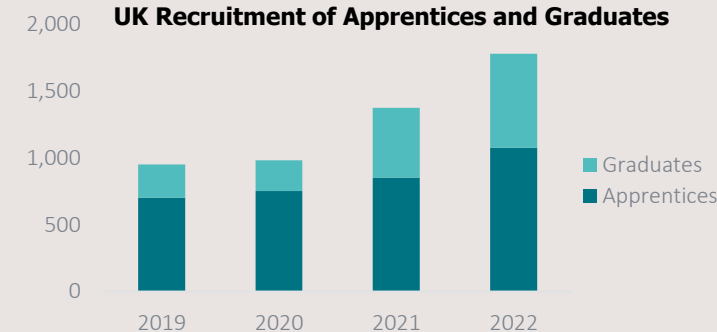
## Social

Percentage of Women Senior Leaders



## Social

UK Recruitment of Apprentices and Graduates



# Key ESG data

## People

Description	2017	2018	2019	2020	2021	2022
Number of employees <sup>1</sup>	76,000	78,000	79,000	81,000	82,000	84,000
Percentage of women employees <sup>1</sup>	21	21	22	22	22	23
Percentage of women on the Board	36	36	33	27	36	36
Percentage of women senior managers <sup>1</sup>	14	17	18	20	22	25

1. Excluding share of equity accounted investments

# Key ESG data

## Community

Description	2017	2018	2019	2020	2021	2022
Total community investment programme donations	11	11	11	10	11	11.5

## Health and Safety

Description	2017	2018	2019	2020	2021	2022
Recordable accident rate (per 100,000 employees)	564	471	470	485	496	485
Major injuries recorded	28	37	38	37	33	32
Fatalities	0	1	0	0	0	0
Lost-time injury frequency rate (n/million hours worked) <sup>2</sup>	0.93	0.86	0.95	0.78	0.95	

2. This data includes BAE Systems staff and personnel employed by a third party who are under the direct control of BAE Systems from a management perspective and this data is therefore a consolidated figure and is recorded.

# Key ESG data

## Environment (tonnes CO2e)

Description	2017	2018	2019	2020	2021	2022
Scope 1 CO2e emissions	525,032	492,673	480,932	151,190	142,241	113,089
Scope 2 CO2e emissions (market-based)	592,745	533,031	517,035	413,434	232,856	264,374
Scope 2 CO2e emissions (location-based)	582,411	514,187	484,504	336,207	268,735	281,182
Total Scope 1 and 2 CO2e emissions	1,053,443	1,020,435	965,436	487,397	410,976	394,271
Scope 1 and 2 greenhouse gas emissions per employee <sup>3</sup>	16	14	14	5	5	4
Emissions from employee business travel – Scope 3 CO2e emissions	147,125	151,280	138,020	54,769	24,094	62,519
Mains water consumption (cubic metres)			2,264,302	2,039,777	2,270,390	2,409,896
Total waste generated (metric tonnes)	151,933	97,178	162,250	74,716	50,427	47,485
Non-hazardous waste production (tonnes)			67,719	39,211	41,747	42,413
Hazardous waste production (tonnes)			88,549	15,922	8,690	5,072
Grid electricity consumption (kWh)			880,610,015	752,188,305	754,143,257	877,726,240
Renewable electricity consumption (kWh)			13,093,192	2,304,663	2,486,109	5,951,873

3. Excluding share of equity accounted investments.

# Controversial Weapons

Weapon/capability	Current BAE Systems position
Cluster munitions	We <u>do not</u> manufacture or sell cluster munitions banned under the terms of the Convention on Cluster Munitions (Oslo Convention)
Anti-personnel mines	We <u>do not</u> manufacture or sell Anti-personnel mines banned under the terms of Anti-personnel mine ban convention (Ottawa Treaty)
Chemical & Biological weapons	We <u>do not</u> manufacture or sell chemical or biological weapons
Depleted Uranium	We <u>do not</u> manufacture or sell depleted uranium (DU)
White phosphorus	<p>We <u>do not</u> manufacture white phosphorous. However, we do supply certain mortars for obscuration only to the UK Ministry of Defence (MOD) that contain white phosphorous.</p> <p>We are actively working to withdraw by the end of 2024 and continue to work with the MOD on alternative solutions.</p>

# Controversial Weapons

## Nuclear capability

### Current BAE Systems nuclear involvement

#### **We do not provide or manufacture nuclear weapons:**

- We are building the Royal Navy's new Dreadnought submarines which will provide the UK's continuous at sea deterrent for decades to come. We are not involved in manufacturing the Trident missile system nor nuclear warheads.
- In the US, we provide support to the Nuclear triad. We do not manufacture nuclear missiles.
- The French branch of MBDA is in charge of the development and production of the ASMPA air launched missiles (excluding the warhead) of the French nuclear deterrent. All ASMPA missiles currently held by the French forces were delivered between 2009-2011 – no further production of these missiles is expected. MBDA is supporting this weapon system (excluding the warhead). A mid-life update is currently being performed and preparatory studies are on-going for the successor programme (ASN4G).

### Why nuclear is important to BAE Systems and our customers

- The activity detailed above accounts for £1bn of revenues per annum.
- The US, UK and French Nuclear deterrents are critical to their and the NATO defence and security shield.
- We are proud to support this most critical of capabilities for our customers in support of their democratically elected mandates.
- It provides technology, skills and economic benefits in the three countries.

# Controversial Weapons Autonomy

## Current BAE Systems position

- There are clear benefits to uncrewed systems, as they can take on a range of dangerous jobs that would otherwise need to be done by a human.
- We are developing a range of autonomous systems to enable naval, land and air forces to safely carry out roles including surveillance, attack and electronic warfare.
- There are opportunities for autonomous systems in both the military domain and for adjacent civil applications.
- We are actively supporting ongoing work by our customers to establish appropriate principles and policies for the use of autonomous systems in defence, to ensure meaningful and context-appropriate human involvement and compliance with applicable national and international law.

# Key Compliance Policies within the Operational Framework

- Advisers Policy
- Community Investment Policy
- Conflicts of Interest Policy
- Export Control Policy
- Facilitation Payments Policy
- Fraud Prevention Policy
- Gifts and Hospitality Policy
- Lobbying and Political Donations Policy
- Offset Policy
- Procurement Policy
- Product Trading Policy
- Pursuit of Export Opportunities Policy
- Risk Management Policy

Link to Policy Summaries: <https://www.baesystems.com/en/sustainability/governance/oversight/policy-summaries>

Our policies are reviewed annually with changes approved at Board level.

Our policies include processes for risk-based due diligence, internal and external approvals and on going monitoring.

# BAE Systems IR Contacts

**Martin Cooper – Group IR Director**

[Martin.s.cooper@baesystems.com](mailto:Martin.s.cooper@baesystems.com)

+44 (0) 1252 383455

**Barron Beneski - VP Investor Relations (North America)**

[Barron.beneski2@baesystems.com](mailto:Barron.beneski2@baesystems.com)

571-479-9492 (US)

**Jennifer Bowden – Group Investor Relations Manager**

[Jennifer.bowden5@baesystems.com](mailto:Jennifer.bowden5@baesystems.com)

+44 (0) 7721 797 795