BAE SYSTEMS

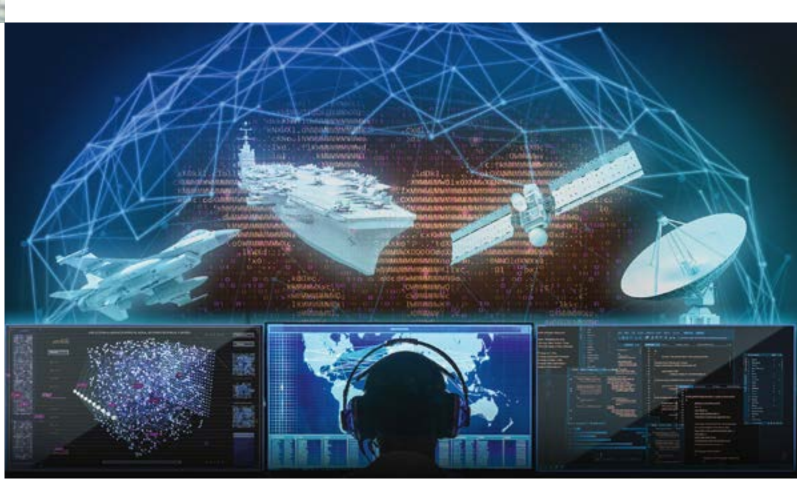
Annual Report 2024
BAE Systems plc

baesystems.com

Delivering today.
Investing in tomorrow.

We partner with governments, industry peers and companies, large and small, to design, build and maintain advanced defence and security solutions. For decades, we have been trusted by government customers to develop the next generation of defence and security capabilities.

In this report



Our business at a glance

We are supporting our customers so that they can stay ahead of evolving threats across land, sea, air, cyber and space.

Turn this page to reveal how our business is structured to achieve this.

Our financial highlights

Financial performance measures as defined by the Group[1]

SALES

£28.3bn

14% growth[2]

2023 £25.3bn / **2022** £23.3bn

UNDERLYING EARNINGS BEFORE INTEREST AND TAX (EBIT)

£3,015m

14% growth[2]

2023 £2,682m / **2022** £2,479m

UNDERLYING EARNINGS PER SHARE (EPS)

68.5p

10% growth[2]

2023 63.2p / **2022** 55.5p

FREE CASH FLOW

£2,505m

£88m lower

2023 £2,593m / **2022** £1,950m

ORDER INTAKE

£33.7bn

£4.0bn decrease

2023 £37.7bn / **2022** £37.1bn

ORDER BACKLOG

£77.8bn

£8.0bn increase

2023 £69.8bn / **2022** £58.9bn

Financial performance measures as derived from IFRS[3]

REVENUE

£26.3bn

14% growth

2023 £23.1bn / **2022** £21.3bn

OPERATING PROFIT

£2,685m

4% growth

2023 £2,573m / **2022** £2,384m

BASIC EPS

64.9p

6% growth

2023 61.3p / **2022** 51.1p

NET CASH FLOW FROM OPERATING ACTIVITIES

£3,925m

£165m higher

2023 £3,760m / **2022** £2,839m

ORDER BOOK

£60.4bn

£2.4bn increase

2023 £58.0bn / **2022** £48.9bn

DIVIDEND PER SHARE

33.0p

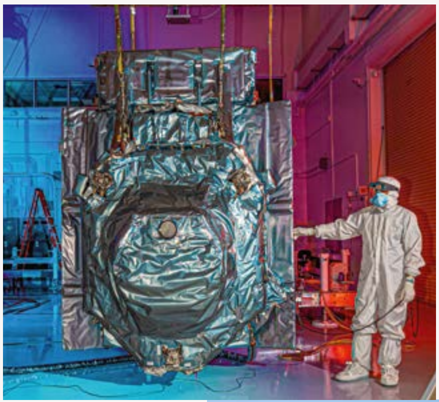
10% growth

2023 30.0p / **2022** 27.0p

1. The definition and purpose of all performance measures defined by the Group is provided in the Alternative performance measures section on page 220.
2. Growth rates for Sales, Underlying EBIT and Underlying EPS are on a constant currency basis (i.e. calculated by translating results from entities in functional currencies, other than pounds sterling, for the year ended 31 December 2023 to pounds sterling at the average exchange rate of such currencies for the year ended 31 December 2024). The comparatives have not been restated. All other growth rates and year-on-year movements are on a reported currency basis.
3. International Financial Reporting Standards.

OUR KEY PROGRAMMES AND FRANCHISES

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



Space

Leading capabilities in the design, build and operation of satellites and satellite systems, space electronics and instrument payloads.

Aircraft

Prime contracting, systems integration, rapid engineering, manufacturing, maintenance, repair and upgrade, and military training for advanced combat and trainer aircraft, including Typhoon and workshare of the F-35 Lightning II programme.

Weapon systems and munitions

Design and manufacture of naval gun systems, munitions, high-quality energetics and propellants, torpedoes, radars, naval command and combat systems, artillery systems, missile launchers and, through our 37.5% interest in MBDA, missiles and missile systems.

Submarines

Design and manufacture of seven Astute Class nuclear-powered attack submarines and four Dreadnought Class nuclear-powered submarines for the Royal Navy. Early design and mobilisation activities on the SSN-AUKUS programme to deliver a replacement for the Astute Class.

Complex warships

Design and manufacture of eight Type 26 frigates for the Royal Navy and the first three (Batch 1) Hunter Class frigates for the Royal Australian Navy. Provider of the warship design for the Canadian Surface Combatant (CSC) programme.

Embedding environmental considerations

Provision of electric drive systems for low- and zero-emission propulsion systems with an extensive installed base on urban transit buses.

Intelligence and cyber security

Delivery of a broad range of intelligence, security and synthetic training services to enable military, intelligence and civilian branches of international governments to recognise, manage and defeat threats.

Naval ship repair and support

Provision of naval ship repair and modernisation services in the US and UK, together with support to the navies of the US, UK and Australia, at home and on deployment.

Uncrewed and future air system capabilities

Development of future air system capabilities, including joint investment with the UK Government and industry in a next-generation combat air system under the Tempest programme.

Our business at a glance continued

We are a workforce of 107,400[1] highly skilled people in more than 40 countries. Working with our customers and local partners, we develop, engineer, manufacture and support products and systems that deliver military capability, protect national security and keep critical information and infrastructure secure.

OUR PURPOSE

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

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

OUR VISION

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

OUR MISSION

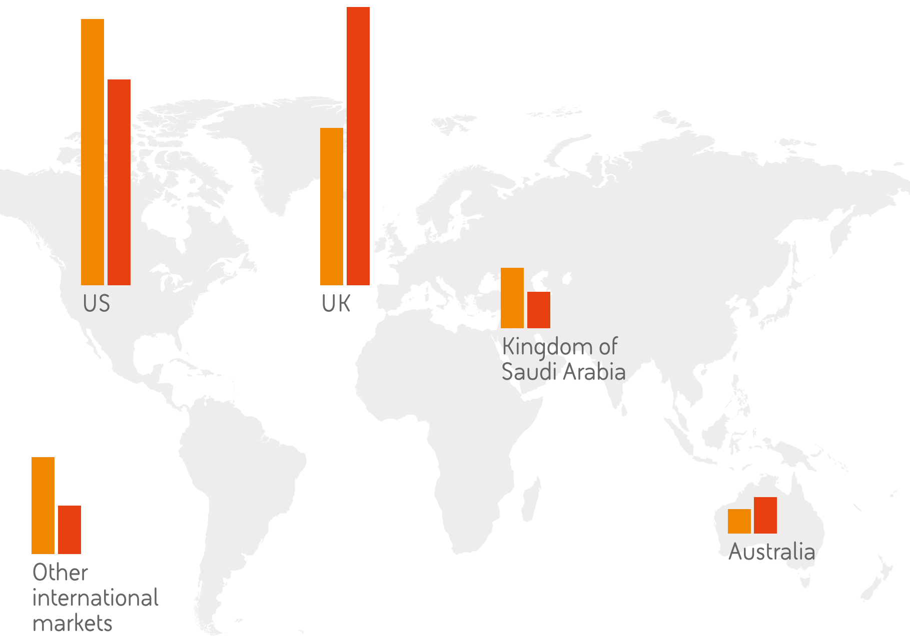
To provide a vital advantage to help our customers to protect what really matters.

OUR VALUES

At BAE Systems everything we do is steered by our three core values: TRUSTED, INNOVATIVE, BOLD.

OUR LOCATIONS

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



Sales[2] by destination

US	**44%**
UK	**26%**
Kingdom of Saudi Arabia	**10%**
Australia	**4%**
Other international markets	**16%**

Employees[1] by location

US	**34%**
UK	**46%**
Kingdom of Saudi Arabia	**6%**
Australia	**6%**
Other	**8%**

2024 SALES[2]

£28,335m

TOTAL EMPLOYEES[1]

107,400

1. As at 31 December 2024 and including share of equity accounted investments. Total figure includes HQ employees of 4,600.
2. Sales is defined in the Alternative performance measures section on page 220. Total figure includes HQ and eliminations, see page 37.
3. The Group has five operating sectors which, together with HQ, make its six operating segments as defined by IFRS 8 Operating Segments.

Commercial avionics equipment

Design, manufacture and support of avionics equipment across multiple commercial aircraft platforms, including engine and flight controls, and cabin and cockpit systems, as well as aftermarket support services.

Combat vehicles

Build and upgrade of tracked combat vehicles, including the Bradley fighting vehicles, M109 self-propelled howitzers, Armored Multi-Purpose Vehicles (AMPVs), CV90, BvS10, Beowulf and M88 recovery vehicles, and manufacture of Amphibious Combat Vehicles (ACVs).

Air support and training

Provision of support to operational capability, including maintenance, upgrade, support and training for Typhoon, Tornado, Hawk and support for the F-35 Lightning II fleet around the globe.

Defence electronics

Design, manufacture and support of electronic systems across a range of military programmes, including a leadership position in the electronic warfare market.

OUR SECTORS

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

Electronic Systems

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

READ MORE PAGE 38 >

SALES
£7,189m

EMPLOYEES
22,400

Platforms & Services

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

READ MORE PAGE 40 >

SALES
£4,390m

EMPLOYEES
11,600

Air

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

READ MORE PAGE 42 >

SALES
£8,519m

EMPLOYEES
27,800

Maritime

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

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SALES
£6,187m

EMPLOYEES
30,100

Cyber & Intelligence

Cyber & Intelligence comprises the US-based Intelligence & Security business and UK-headquartered Digital Intelligence business and includes the Group's cyber security activities for national security, central government and government enterprises.

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SALES
£2,411m

EMPLOYEES
10,900

Chair's letter

Events this year have underscored how the success of our business is underpinned by its continued evolution in the face of change. Your Company now has a unique portfolio of international defence and security businesses.

Dear Shareholders

2024 was another year of strong operational and financial performance for the Group, and also a year in which significant progress was made in key strategic areas.

This has been achieved against a backdrop of global uncertainty, with elections and changes in government in our key markets in the UK and US, and continued conflict in Ukraine and elsewhere. Our management team has shown resilience and leadership this year, focusing on providing our customers with the products and services they need and helping them to adjust to rapidly changing environments.

Our strategy

Events this year have underscored how the success of our business is underpinned by its continued evolution in the face of change. Our current footprint has been created through past mergers and acquisitions in our key markets, and through our own research and product development initiatives. Your Company now has a unique portfolio of international defence and security businesses.

The strategy review process is an integral part of the Board's work through the year, with deep dive sessions and discussions that inform and shape the business plans approved for following years. Our focus is both on ensuring that strong operational performance continues to translate into excellent financial results and also on shaping our technological and strategic focus in a changing environment. This longer-term focus is also key for workforce planning and recruitment to ensure that we have the best talent available to execute on our plans.

> Over the course of this year, I have been fortunate to visit many of our sites across our core markets. I am proud of the world-class products and services we create and the talent, dedication and sense of purpose of our employees is clear wherever I go.

The Board is pleased with the milestones met this year in our ongoing key strategic projects. Towards the close of the year, we celebrated reaching agreement with our industry partners in Italy and Japan to form a new joint venture company, subject to regulatory approvals, to design and develop next-generation fighter jets under the Global Combat Air Programme (GCAP). Earlier in the year, we were formally selected to deliver a fleet of nuclear-powered submarines for Australia, alongside our local partner, as part of the wider AUKUS security pact.

During the year, a key area of focus was the completion and integration of the acquisition of Ball Aerospace in the US, now known as Space & Mission Systems (SMS). The Board very much enjoyed the visit it made to SMS in the autumn. We have also completed acquisitions in the UK to strengthen our electronic warfare and counter-uncrewed air system (UAS) capabilities.

Our people and culture

Over the course of this year, I have been fortunate to visit many of our sites across our core markets. I am proud of the world-class products and services we create, and the talent, dedication and sense of purpose of our employees is clear wherever I go.

Our employee base has grown during the year to 107,400, partly through acquisitions but also through recruitment focused on building key skills for the future. This year, in the UK, we hired around 2,300 graduates and apprentices, who joined our early careers training programmes. I am always impressed by the attitude and determination of our early careers trainees. Working in defence is not universally appreciated as a career choice, but we can offer young people a structured and opportunity-rich environment to start their careers.

Remuneration policy

Since I took over as Chair after the Annual General Meeting (AGM) in 2023, I have been fortunate to meet with many shareholders and other stakeholders. It is very clear to me that our current senior team, led by Charles Woodburn, is universally held in high regard. This year we are proposing changes to our Remuneration policy, in particular to the long-term incentives that are designed to retain and reward our senior leaders over the longer term. We compete for top talent in a restricted international market and our focus on engineering skills and nationality requirements for our leaders makes recruitment especially challenging. It is therefore important that our remuneration remains comparable to UK-based multi-national peers. We will continue to set stretching targets to ensure that bonus payments and LTIP vesting are delivered when performance and shareholder value creation are strong.

The proposed changes to our Remuneration policy are outlined in more detail in the remuneration report on page 101.

Capital allocation

This year has again been one of strong free cash flow, underpinned by our growing order backlog. The Company has continued to distribute significant capital to shareholders through our ongoing share buyback programmes and through dividends. Strong cash generation has allowed the Company to continue to invest in research and development (R&D) and make some strategically important acquisitions. The Board has recommended a final dividend of 20.6p per share, making a total dividend for the full year of 33.0p. This is an increase of 10% on last year and the 21st year of dividend growth for your Company.

Governance

During the year, a focus for the Board and Audit and Risk Committee has been on refreshing our approach to risk to make it more consistent across the business. As you will see from the summary of principal risks on page 56, the Board's assessment of principal risks has remained consistent, although risk identification and mitigation is now more aligned to the business planning process. The Board has also continued its focus on succession planning and talent management. There is more detail on governance in the report on page 83.

Board changes

During the year, Lord Sedwill stood down from the Board because of his evolving parliamentary and other commitments. We will miss his insight and perspective, especially on security and defence matters, and I would like to thank him for his contribution.

To manage the evolution and skills profile of the Board, the search for new non-executive directors is well advanced. As you will see from the Board profiles on pages 69 to 71, Dame Elizabeth Corley is our most experienced non-executive director, having joined the Board in 2016. To ensure that we can benefit from her deep understanding of the Group during this year's strategic review, Elizabeth has kindly agreed to remain on the Board until the end of 2025. This should also ensure a smooth transition for her committee memberships.

In closing, I would like to thank our colleagues across the world for all they have done to make 2024 another strong year for the Company. The culture and commitment of our workforce is at the heart of the success of your Company.

Cressida Hogg CBE
Chair

Chief Executive's review

As you will see throughout this report, 2024 has been a year of real progress for the Group. We delivered strong operational and financial performance, grew our workforce by a net 7,600 employees and completed the acquisition of Ball Aerospace to enhance our space portfolio.

"By focusing on operational excellence we are consistently delivering critical capabilities and technologies for our customers worldwide.

Charles Woodburn CBE
Chief Executive

Overview

In November 2024, BAE Systems celebrated the 25th anniversary of British Aerospace and Marconi Electronic Systems coming together to create the Company we are today.

Even as the world around us has changed dramatically, BAE Systems' deep commitment to collaboration and building long-term partnerships means that government customers have trusted us for decades to develop the next generation of defence and security capabilities.

Today, nations are facing increasingly varied and complex threats to security. These growing threats have reinforced the essential nature of our work and highlighted the need for continued global investment in defence.

By focusing on operational excellence, contracting discipline and growing our workforce, we are consistently delivering critical capabilities and technologies for our customers worldwide.

I am proud to report that the fundamentals of the business are strong and 2024 was another year of strong operational and financial performance, extending our track record of delivery.

ORDER BACKLOG

£77.8bn

2023 £69.8bn / **2022** £58.9bn

We know that our success relies on our people, their unwavering focus on protecting those who protect us and our tireless commitment to responsible business practices. We continue to invest in our people and our business for the long term, which together with our broad geographic and product diversity, positions us well for more growth in the years ahead.

Delivering for our customers

We made good operational progress in 2024, as our highly skilled employees continued to support our customers, helping them to stay ahead of evolving threats across land, sea, air, cyber and space.

Our focus on operational excellence continues to benefit our customers and shareholders, as we execute on complex, long-term programmes like Dreadnought, Type 26 and Hunter Class frigates, Typhoon and F-35 jets, electronic warfare systems, combat vehicles, and many other programmes across our business.

We also maintained momentum on key strategic international collaborations, which will define the next generation of capabilities and underpin our business for decades to come. Working with our industry partners in Italy and Japan, we reached agreement to form a joint venture, subject to regulatory approvals, to design and develop next-generation fighter jets under GCAP while, under the AUKUS announcements, we have been selected to partner with the Australian submarine builder ASC Pty Ltd to deliver Australia's SSN-AUKUS programme.

Our financial performance

We finished the year by delivering records across our key financial measures of order backlog, sales, underlying EBIT, underlying EPS and dividend per share.

On a constant currency basis, we grew sales and underlying EBIT by 14% and underlying EPS by 10%. We delivered £2.5bn of free cash flow, taking our three-year cumulative free cash flow to over £7.0bn.

Our order intake was £33.7bn which, combined with £3.0bn of order backlog in SMS, pushed our order backlog to a record £77.8bn.

We ended 2024 with a strong balance sheet, featuring a cash position of £3.4bn, after we returned a further £1.5bn to shareholders in the year. Our net debt (excluding lease liabilities) of £4.9bn is an increase of £3.9bn and primarily reflects M&A activity, including the $5.5bn (£4.4bn) Ball Aerospace acquisition which was partially funded by debt raised during the year.

Our strong financial performance gives us the strategic flexibility to invest in the business to support its long-term strength and expected growth, whilst maintaining focused and disciplined capital allocation.

Investing in tomorrow

Investing in our people, technologies and facilities is essential to achieving our ambitions and ensuring our business has the agility to anticipate and respond to the emerging threats our government customers face in a constantly changing world.

We grew our global workforce by 7,600, including employees within our SMS business, to 107,400 employees. Given the long-term nature of many of our programmes, we are particularly focused on early careers to sustain our talent pipeline, recruiting around 2,300 apprentices and graduates in the UK. We increased our self-funded R&D to £357m, in key technology areas including electronic warfare, autonomy, laser-guided weapons, UAS, synthetic training, electrification applications and space solutions.

We also increased capital expenditure, compared to 2023, taking it to over £1.0bn, as we continue to develop and modernise our systems and facilities to deliver an effective working environment and build greater capacity for the future, focused primarily on maritime, munitions, combat vehicles and electronics.

Shaping the portfolio

Alongside our organic investment, we are evolving our portfolio with a focus on the advanced technologies we believe will be highly relevant as our customers address evolving global threats and which will help drive higher growth.

Space & Mission Systems

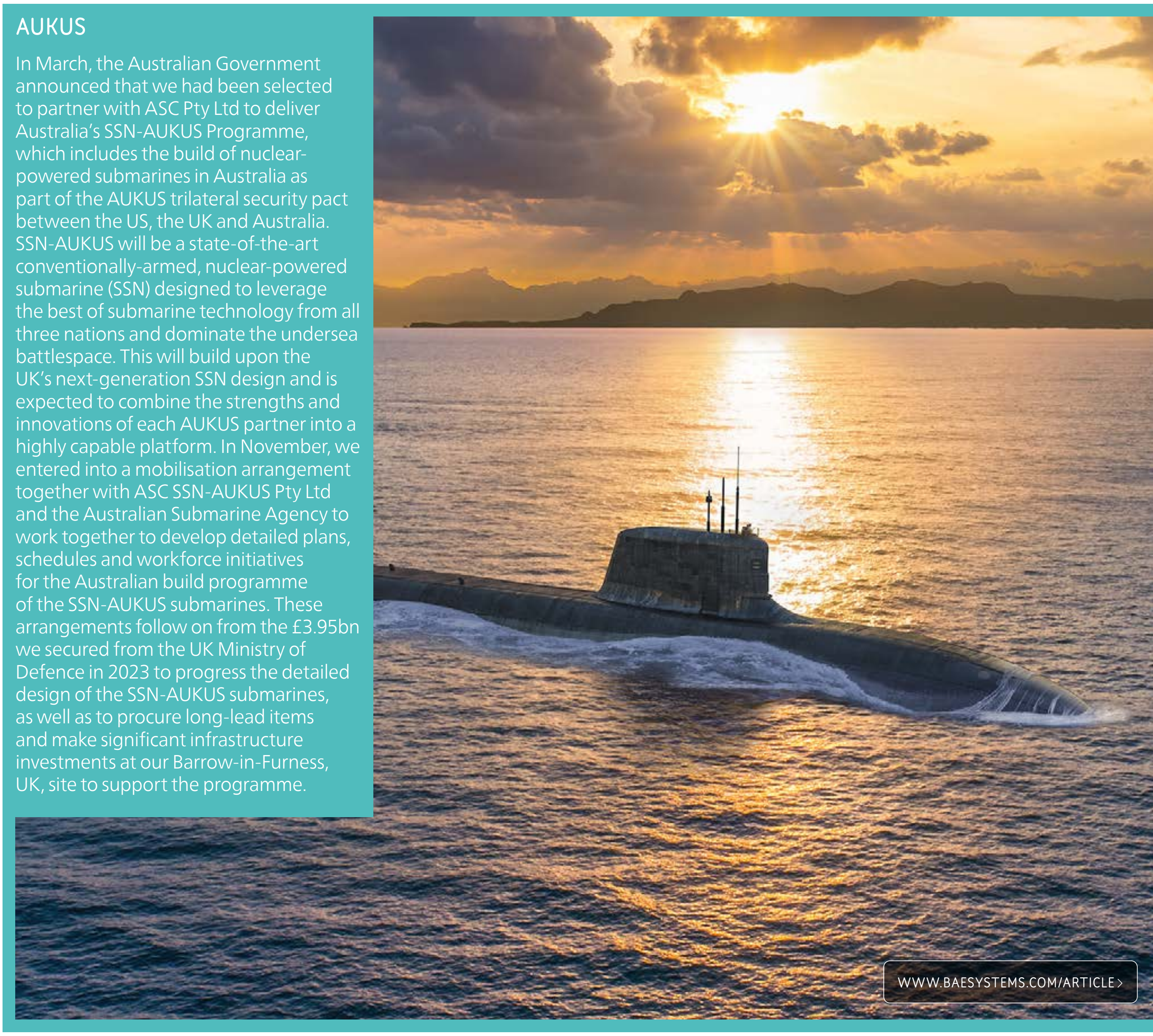
After completing the acquisition of Ball Aerospace in February, we established cross-functional teams to focus on key integration steps to minimise disruptions and support employees, while maintaining our commitments to the SMS team's existing customers and contracts.

As we proceeded through integration, we migrated the SMS employees to our business processes, systems and policies and sought best practices from both sides of the transaction to further streamline and enhance our operational efficiencies and effectiveness. To pursue future growth, we also launched a synergy framework composed of a delivery council, executive symposium and recurring workshops. These ongoing meetings seek to actively discover revenue synergy opportunities in key priority areas of space, electronic warfare, C4ISR systems, support services and more. We have already identified opportunities to leverage Electronic Systems payloads in combination with SMS mission expertise. Going forward, we will continue to focus on building a pipeline of adjacent and transformational prospects to offer new and enhanced solutions to our customers.

Chief Executive's review continued

AUKUS

In March, the Australian Government announced that we had been selected to partner with ASC Pty Ltd to deliver Australia's SSN-AUKUS Programme, which includes the build of nuclear-powered submarines in Australia as part of the AUKUS trilateral security pact between the US, the UK and Australia. SSN-AUKUS will be a state-of-the-art conventionally-armed, nuclear-powered submarine (SSN) designed to leverage the best of submarine technology from all three nations and dominate the undersea battlespace. This will build upon the UK's next-generation SSN design and is expected to combine the strengths and innovations of each AUKUS partner into a highly capable platform. In November, we entered into a mobilisation arrangement together with ASC SSN-AUKUS Pty Ltd and the Australian Submarine Agency to work together to develop detailed plans, schedules and workforce initiatives for the Australian build programme of the SSN-AUKUS submarines. These arrangements follow on from the £3.95bn we secured from the UK Ministry of Defence in 2023 to progress the detailed design of the SSN-AUKUS submarines, as well as to procure long-lead items and make significant infrastructure investments at our Barrow-in-Furness, UK, site to support the programme.



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RETURNS TO SHAREHOLDERS

£1,492m

2023 £1,418m / **2022** £1,590m

THREE-YEAR CUMULATIVE FREE CASH FLOW

>£7.0bn

Notably, we completed the largest acquisition in the Company's history: the acquisition of Ball Aerospace in the US, forming our new SMS business and significantly enhancing our presence in the growing space market. We also made a number of smaller acquisitions in the UK, which further strengthen our UAS and counter UAS capabilities, and divested certain non-core business areas.

Our capital distribution

The strength and outlook for the Group, alongside our disciplined capital allocation, means that after increasing investments in our people, technologies and capital expenditure, we were able to increase returns to shareholders. During the year, the Company repurchased £555m worth of shares and paid £937m in dividends, returning £1,492m to shareholders. The Board has recommended a 20.6p final dividend for approval by shareholders at the 2025 AGM, which will take the total dividend in respect of 2024 to 33.0p – an increase of 10% on last year.

Our market differentiation

Our business has a unique combination of a diverse geographic footprint and multi-domain capabilities. We believe our technologies, expertise and global reach position BAE Systems as a leader in our industry and enable us to support our customers to meet the elevated threat environment of today and tomorrow. This breadth continues to be a real strength and a differentiator.

Looking ahead, our key growth drivers are spread across major markets and include huge multi-national endeavours, including GCAP and AUKUS, which are significant for the Group in the medium and long term, and highlight the global reach, scale and longevity of our business.

Responsible business

The work we do is vital. We support our government customers to fulfil their primary obligation to keep their citizens safe, whilst contributing to the economic and social development of the communities and nations in which we operate, helping to build a stronger and more secure future.

Our people are the heart of everything we do and it is critical that we attract and retain the very best talent so that we can support our customers' requirements and our own long-term growth. We remain fully committed to fostering a workplace culture and environment where everyone feels they belong and can thrive, which includes investing in our people's skills development from early careers through to lifelong learning.

The safety, health and wellbeing of our people is an enduring priority. Despite our focused efforts, our safety performance deteriorated in 2024 and, as a leadership team, we are committed to strengthening our safety management programme to improve our performance in 2025 and beyond.

We continue to focus on resource efficiency, ensuring that our energy and infrastructure strategies reduce our greenhouse gas emissions across our operations, while supporting our business growth.

We do all of this while maintaining a robust governance structure and high standards. This includes continuing to operate under tight regulation and complying fully with applicable trade controls and sanctions.

Summary

As you will see throughout this report, 2024 has been a year of real progress for the Group. We delivered strong operational and financial performance, increased self-funded R&D and capital expenditure, grew our workforce by a net 7,600 employees and completed the acquisition of Ball Aerospace to significantly enhance our space portfolio.

Our order backlog, positions on major programmes and our continued focus on operational excellence and financial discipline, provide a high level of visibility for our shareholders on sales growth, cash generation and capital returns in the years to come.

I want to thank my colleagues – as well as our partners, suppliers and trades unions – for all the hard work and commitment they deliver every day to achieve these results.

Together, we are well positioned for another productive year, ensuring we deliver the capabilities our customers need. As we move forward, we will continue to leverage our technological strengths, build on our strategic partnerships and remain focused on our mission.

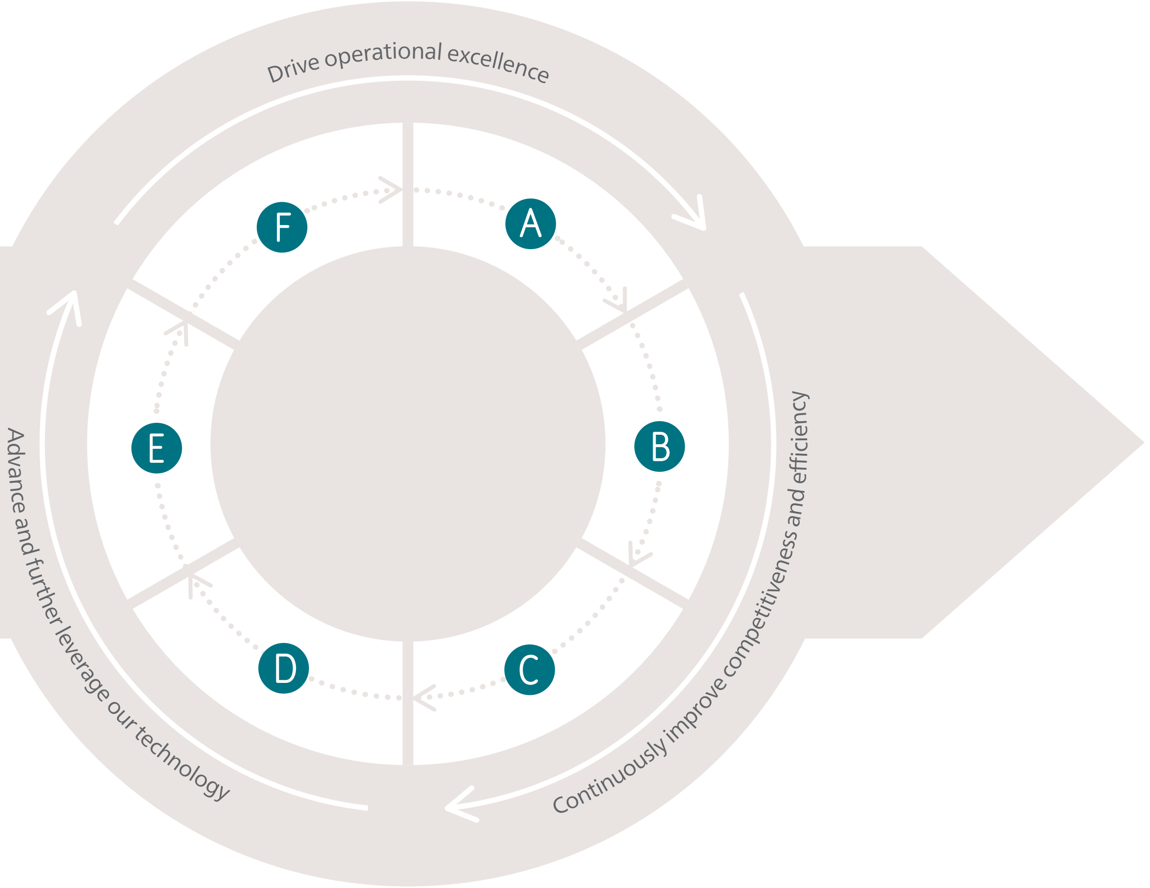
Thank you to our shareholders for your support of the Group and our strategy for value creation. We look forward to another productive and rewarding year in 2025.

Charles Woodburn CBE
Chief Executive

GCAP

In December, we reached an agreement with our international partners, Leonardo SpA and Japan Aircraft Industrial Enhancement Co Ltd (JAIEC), to form a new joint venture company for GCAP, subject to regulatory approvals. Each partner will hold a one-third shareholding in the new joint venture, which will be accountable for the design, development and delivery of the next-generation combat aircraft and will remain the design authority for GCAP for the life of the product, expected to go out beyond 2070. The agreement builds on the strong trilateral government, defence and industrial cooperation between the UK, Japan and Italy on GCAP since it was established in December 2022.

Our business model



Our strategy runs through our core activities and provides areas of focus to deliver value to our stakeholders.

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The core activities we undertake to create value for stakeholders:

A Identifying customer needs

- We have established positions on long-term programmes.
- We build strong and collaborative relationships with our customers.
- Our position as a trusted supplier allows us to pro-actively identify emerging trends and opportunities for growth ahead of published customer requirements.

B Research & development

- Technology and innovation underpin our strategic direction, the evolution of current franchises and the development of new products and services.
- We partner with academic and industry leaders to develop new technologies that differentiate these products and services.
- We have a clear focus for our R&D spend, and customer-funded research that aligns to current and future operational needs.

C Bidding and contracting

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

D Design and developing

- We provide engineering expertise in developing cutting-edge products and services.
- Working with our customers to consider the operational resilience of our products.
- Our products are designed and developed in a way that provides for future flexibility with the ability to upgrade in an agile manner.

E Advanced manufacturing, commissioning and integration

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

F Services, sustainment and upgrade

- We provide competitive services that add value for our customers.
- We leverage technical expertise, which is acquired through product design and development, to differentiate our service offerings.
- We use flexibility and responsiveness to maximise the lifecycle availability of our customers' equipment.

Our strengths and resources provide the foundations to our business model:

Our people

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Our technology

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Our partners and key suppliers

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Our governance framework

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CREATING VALUE

Disciplined capital allocation

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

We maintain flexibility in how and when we apply our capital allocation policy to ensure operational flexibility and retain balance sheet strength.

Investment in our business is critical to our success

As a responsible business, we continually invest in our technology, people, partners and facilities which creates value for all our stakeholders, including the communities and environment in which we operate.

Research, design and development activities

Creating the next generation of defence and security capabilities that are needed to keep our customers safe.

R&D SPEND[1]

£1.9bn

2023 £2.3bn

1. Customer and Company-funded.

Capital investment

Enabling us to deliver new facilities to provide world-class work environments that support innovation, production and teamwork to deliver cutting-edge technology to our customers.

CAPITAL EXPENDITURE (CAPEX)

£1.0bn

2023 £0.8bn

Investment in our people

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

APPRENTICES AND GRADUATES IN THE UK

6,500

2023 5,500

Leading to consistent and solid cash conversion

FREE CASH FLOW

£2,505m

2023 £2,593m

Share buybacks

We have commenced the up to £1.5bn share buyback programme, which was announced in August 2023, and have completed c.£2.3bn of share repurchases since 2021.

VALUE OF SHARES REPURCHASED

£0.6bn

2023 £0.6bn

Dividends

We have a strong track record of delivering financial returns for investors. We plan to pay dividends in line with our policy of long-term sustainable cover of around two times underlying earnings.

TOTAL DIVIDEND PER SHARE

33.0p

2023 30.0p

Mergers and acquisitions

We completed the largest acquisition in the Group's history: the $5.5bn (£4.4bn) acquisition of Ball Aerospace in the US. We also made a number of smaller acquisitions, in the UK, which further strengthen our UAS and counter-UAS capabilities.

M&A INVESTMENT

£4.8bn

including acquisition of Ball Aerospace

Our strategic framework

OUR VISION

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

OUR MISSION

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

OUR VALUES

Trusted, **innovative** and **bold**.

OUR STRATEGY

Centred on maintaining and growing our core franchises and securing growth opportunities through advancing our three strategic priorities whilst demonstrating our Company Behaviours in all that we do.

Our strategy is comprised of **six long-term areas of focus** that help us deliver our vision and mission.

1 Sustain and grow our defence business.
- Deliver on our commitments effectively and efficiently.
- Develop our offerings to meet the future defence and security needs.

2 Continue to grow our business in adjacent markets.
- Take our capabilities into adjacent attractive markets.
- Develop dual-use opportunities delivering civil solutions to leverage back to meet challenges for our defence customers.

3 Develop and expand our international business.
- Mature our international activities, broadening our offerings to our established customers.
- Develop relations with additional customers.

4 Inspire and develop a diverse workforce to drive success.
- Ensure we diversify our thinking and harness the full potential of our people.
- Create an environment in which our people will thrive.

5 Enhance financial performance and deliver enduring growth in shareholder value.
- Seek opportunities to drive efficiency, standardisation and synergies.
- Identify opportunities for higher-margin offerings.

6 Advance and integrate our sustainability agenda.
- Emphasise the vital role we play in protecting countries and civilians and supporting our communities.
- Progress the delivery of our decarbonisation strategy.

SUPPORTED BY OUR STRATEGIC PRIORITIES

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

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

OUR STRATEGY IN ACTION

Executing smart growth to meet the demand surge for CV90s

Growing our Hägglunds business smartly and rapidly is a top priority and critical to profitably delivering its extensive order book, including the CV90 contracts from Sweden and Denmark worth $2.5bn (£2.0bn). Our Hägglunds team is investing more than $200m (£160m) to add capacity and scale operations, while also teaming to expand production capacity in customer countries. This approach benefits our partners' local economies and communities and also diversifies the CV90 industrial base.

The new CV9035MkIIICs for Sweden and Denmark will be built to the same standard as the CV90 mid-life upgrades for the Netherlands, embedding years of combat-proven experience, continuous improvements and data from the ten nations operating CV90 fleets. Beyond new facilities and infrastructure, our Hägglunds team is investing in talented people, partners and suppliers to successfully deliver the leading combat capabilities of the CV90 in a mission-driven, customer-focused culture.

LINKS TO STRATEGY

1 2 3

Glasgow Shipbuild Hall

We continue to invest in our people and facilities in Glasgow to transform the way we design and build warships and help to secure the long-term future for complex shipbuilding on the River Clyde.

Our new state-of-the-art Applied Shipbuilding Academy opened in 2024, greatly enhancing our ability to develop and train our Naval Ships workforce, from new starters to senior leaders, and ensuring Scottish shipbuilding has a thriving workforce for generations to come.

We also significantly advanced the construction of our new ship build hall in Govan, UK, in 2024, which is expected to be completed in 2025. Large enough for two Type 26 frigates to be constructed side-by-side and designed to accommodate up to 500 workers per shift, this new facility will boost the site's efficiency and safety and help to ensure that adverse weather conditions do not impact our shipbuilding operations.

These investments are key elements of our ongoing £300m modernisation and digitalisation of our shipbuilding facilities in Glasgow, UK.

LINKS TO STRATEGY

1 4 5 6

Our key performance indicators

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

LINKS TO EXECUTIVE REMUNERATION

Executive directors' annual and long-term incentives are assessed using a combination of the Group's KPIs and other objectives designed to meet the Group's strategy. Metrics, which are both financial and non-financial, are determined and weighted according to business priorities and may be structured as targets to be achieved, or underpins targets which, if not achieved, would reduce payouts. 75% of annual incentive targets relate to financial metrics aligned with long-term earnings and cash targets.

The non-financial element is based on a combination of personal performance objectives that provide a clear line of sight to our strategic objectives including those in relation to environmental initiatives, safety and workforce demographics measures.

REMUNERATION REPORT PAGE 109 >

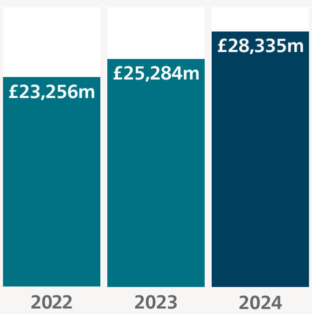
FINANCIAL[1]

Sales

1 3 5

PURPOSE

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



PROGRESS IN 2024

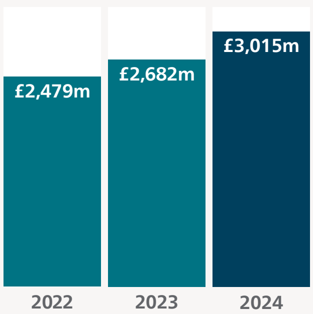
Sales increased 14%, on a constant currency basis, with all our operating segments seeing an increase in sales in the year. Our sales growth further benefitted from M&A activities, including the acquisition of Ball Aerospace (now SMS). Excluding the impact of all M&A in the year, our sales growth was 9% on a constant currency basis.

Underlying EBIT

3 5

PURPOSE

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



PROGRESS IN 2024

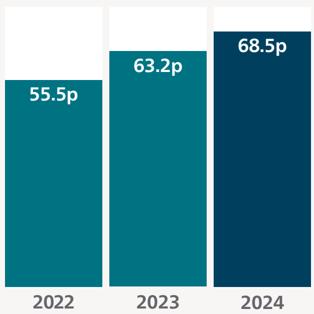
Underlying EBIT increased 14%, on a constant currency basis. We saw increases across all operating segments, with the exception of Cyber & Intelligence which has remained steady on the prior year.

Underlying EPS

3 5

PURPOSE

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



PROGRESS IN 2024

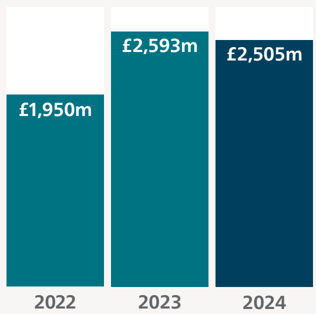
Underlying EPS increased 10%, on a constant currency basis. The main driver behind the increase was improved underlying EBIT which was offset by additional finance costs incurred as a result of debt raised during the year, primarily to fund the Ball Aerospace acquisition. For more detail on the movement in underlying EPS in the year see page 33.

Free cash flow

1 5

PURPOSE

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



PROGRESS IN 2024

Free cash flow of £2,505m reflected a high level of advanced customer payments received towards the end of the financial year and strong operational cash conversion. This was offset by increased capex spend and higher finance costs.

OUR FINANCIAL REVIEW PAGE 30 >

1. The definition and purpose of all performance measures defined by the Group are provided in the Alternative performance measures section on page 220.

LINKS TO STRATEGY

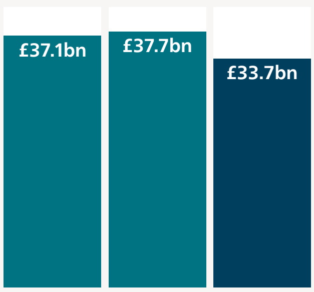
1. Sustain and grow our defence business.
2. Continue to grow our business in adjacent markets.
3. Develop and expand our international business.
4. Inspire and develop a diverse workforce to drive success.
5. Enhance financial performance and deliver enduring growth in shareholder value.
6. Advance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

Order intake

1 2 3

PURPOSE

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



PROGRESS IN 2024

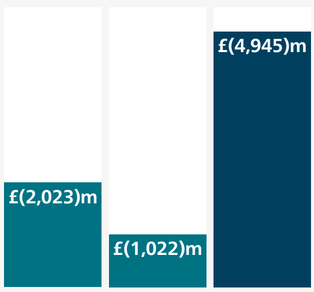
Order intake remained high in 2024, with the previous few years representing a significantly high level including a record of £37.7bn in 2023. For details of significant orders in the year see page 33.

Net debt (excluding lease liabilities)

1 3 5

PURPOSE

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



PROGRESS IN 2024

During the year, net debt (excluding lease liabilities) has increased by £3,923m to £4,945m. The key driver behind the increase was the $5.5bn (£4.4bn) acquisition of Ball Aerospace which was funded through debt raised during the year as well as existing cash resources. For further details of the movement in net debt (excluding lease liabilities) see page 34.

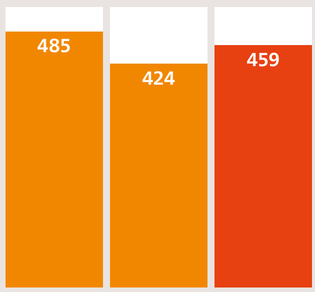
NON-FINANCIAL

Recordable accident rate (per 100,000 employees)

4 6

PURPOSE

We are focused on strengthening our safety management programme. Our accident rate is used to assess workplace safety improvements and ensure our safety efforts are aligned to the working environment.



PROGRESS IN 2024

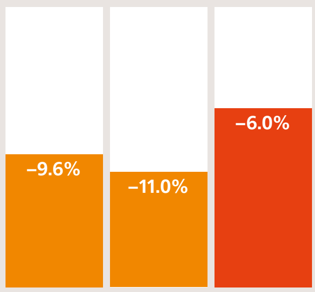
The overall safety performance of our operations decreased with our recordable accident rate increasing by 8%. The majority of this deterioration relates to an increase in recordable injuries within our US, Submarines and Australian businesses. The number of major injuries, our measure of severity, increased by 18%, from 40 to 47, during 2024. This was most marked within our Air sector and Group functions teams.

Percentage change in Scope 1 and 2 greenhouse gas (GHG) emissions

1 6

PURPOSE

Our roadmap to support our near-term GHG reduction target across our operations (Scope 1 and 2) by 2030 is underpinned by an annual target to reduce operational GHG emissions by 4.2%.



PROGRESS IN 2024

In 2024, we achieved a 6.0% GHG emissions reduction excluding our SMS business. Post the integration of SMS into our environmental data systems during late 2024, in line with our GHG basis of reporting and methodology statement, during 2025 we will be recalculating our 2020 GHG emissions baseline, to include GHG emissions of this business.

SAFETY, HEALTH AND WELLBEING PAGE 26 ›

CLIMATE AND THE ENVIRONMENT PAGE 49 ›

Our investment proposition

OUR DIVERSE GEOGRAPHIC FOOTPRINT

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

UK

SALES

26%

Employees **46%**

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

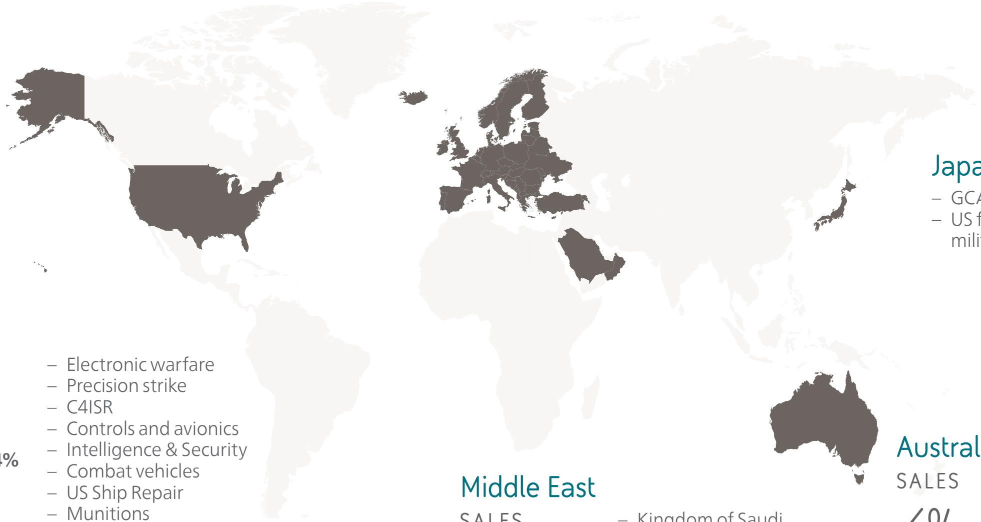
Europe and other international

SALES

14%

Employees **8%**

- Eurofighter
- MBDA
- Hägglunds/ Bofors (CV90, BvS10, ARCHER)
- US foreign military sales



Japan

- GCAP
- US foreign military sales

US

SALES

44%

Employees **34%**

- Electronic warfare
- Precision strike
- C4ISR
- Controls and avionics
- Intelligence & Security
- Combat vehicles
- US Ship Repair
- Munitions
- Space

Middle East

SALES

12%

Employees **6%**

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

Australia

SALES

4%

Employees **6%**

- Hunter Class frigates
- SSN-AUKUS
- Naval support
- Air support (Hawk, F-35)
- C4ISR

OUR SEVEN KEY ADVANTAGES

1. We provide customers with world-class defence products and capabilities across multiple markets.

READ MORE PAGE 18 >

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

READ MORE PAGE 17 >

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

READ MORE PAGE 17 >

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

READ MORE PAGE 20 >

5. We have an intense focus on **operational excellence**, with strong, consistent programme performance. We are focused on **creating value** for our investors and customers.

READ MORE PAGE 30 >

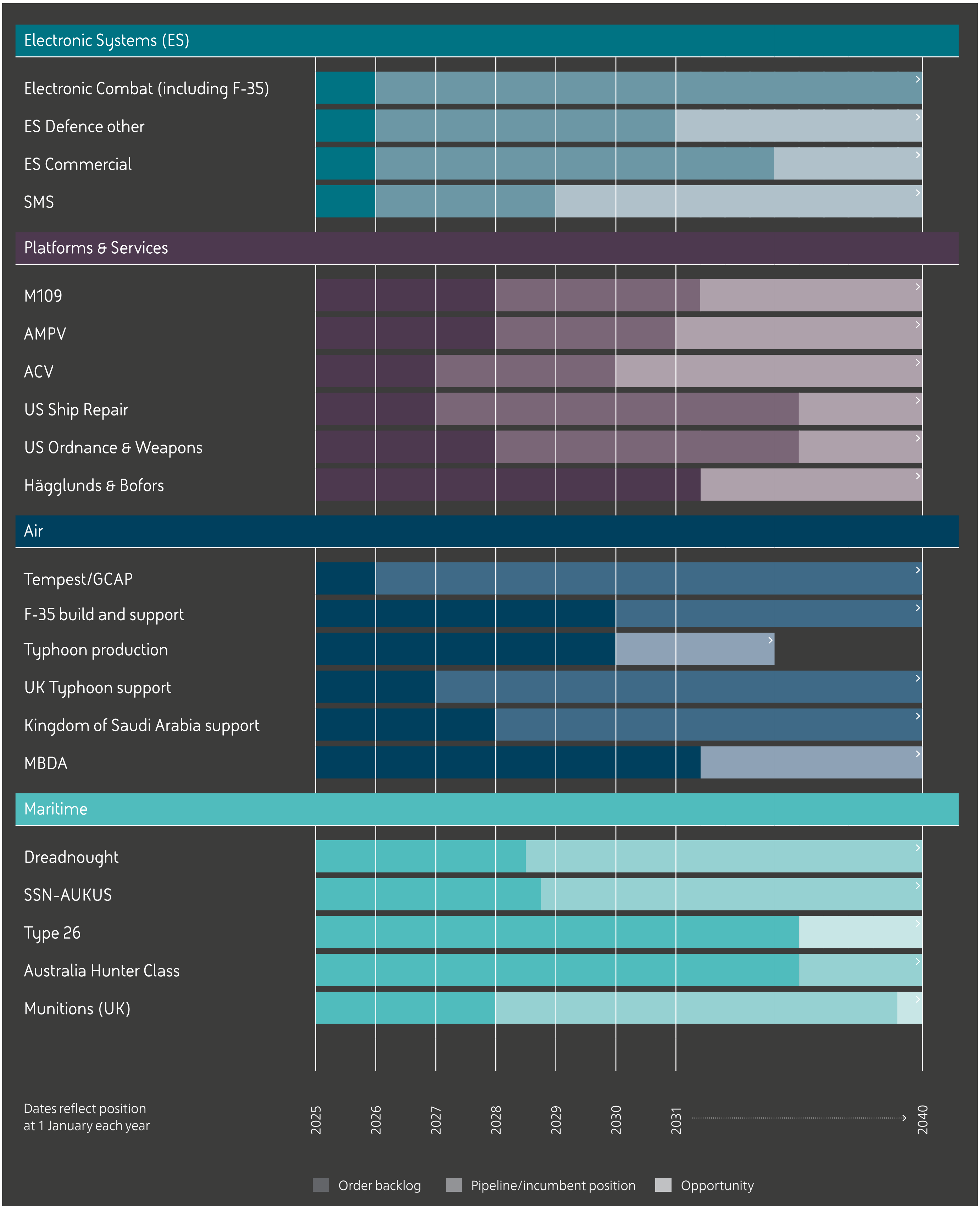
6. **Sustainability** is embedded in our business – it forms part of our strategic framework and underpins our purpose.

READ MORE PAGE 12 >

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

READ MORE PAGE 11 >

OUR MULTI-DECADE PROGRAMMES AND GROWING GLOBAL OPPORTUNITY PIPELINE[1,2]

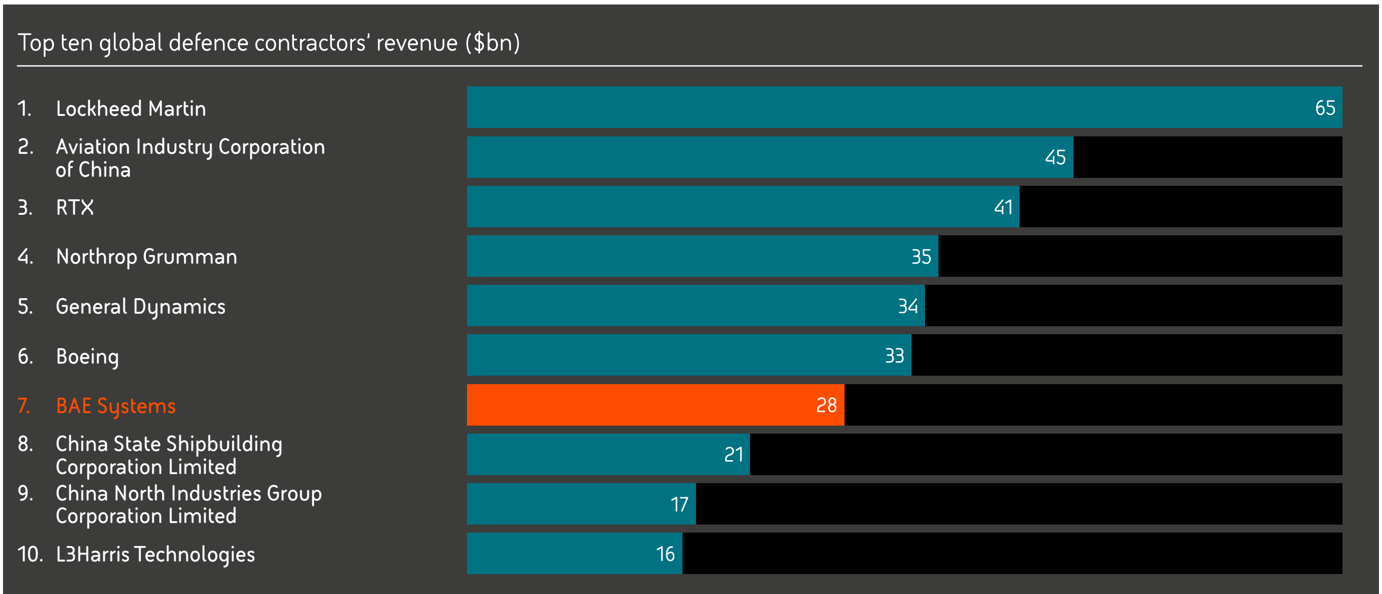


1. Backlog for Cyber & Intelligence is generally for one year with an incumbency position following.
2. Projections are based on internal management estimates and reflect management's current assumptions, including assumed receipt of future orders over the medium term.

Our markets

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

BAE SYSTEMS' GLOBAL DEFENCE MARKET POSITION



Source: Defense News Top 100 for 2024 (based on 2023 numbers). Exchange rate applied to BAE Systems is $1.24/£1.

Supporting our customers' evolving needs

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

Our unique combination of a diverse geographic footprint and multi-domain capabilities

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

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

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

Programme diversity and longevity

The Group's wide diversity of capabilities, products and programmes means we are not heavily reliant on a small number of key programmes or franchises. Additionally, our order backlog of £77.8bn includes major programmes that are well positioned to extend beyond their current funded backlog for many years and, in some cases, multiple decades. (Read more on page 17.)

Response to increasing threat environment

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

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

Maintaining operational readiness

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

Factors likely to impact future performance

Business risks facing the Group are reported in the principal risks section of this report (pages 58 to 65). In relation to our market positions and future performance, the major risks are in relation to government customer defence budgets, market stability (political and geopolitical) and competition. At the operational level, performance of products and services and adherence to delivery schedules could impact our market positions with customers. Competitor pricing or new entrants could also have an impact.

VALUE OF THE TOP GLOBAL DEFENCE MARKETS ACCESSIBLE FOR BUSINESS BY THE GROUP

Market	Overview	Existing programmes	Future opportunities
US and Canada $847bn defence market	The US continues to be the single largest defence market in the world. We are a top ten defence prime contractor in the US. In Canada we have a long history of supporting the Canadian Armed Forces.	– Electronic warfare – Precision strike – C4ISR – Intelligence & security – Combat vehicles – US ship repair – Munitions – Space – CSC	– Precision munitions – Combat vehicles – Munitions restocking – Electrification – ground and air – Space, autonomy and cyber – US foreign military sales – Maritime support
UK $74bn defence market	As the largest defence company in the UK, we have strong and enduring relationships with the UK Ministry of Defence and our domestic supply chains.	– Astute and Dreadnought submarine build – SSN-AUKUS submarine design and future build – Naval ship build and support – Typhoon capability upgrade and support and UK sponsored Typhoon exports – F-35 (aft fuselage) and support – GCAP/Tempest – Digital Intelligence – Munitions – MBDA	– Domestic and export partnerships – Space, autonomy and cyber – Munitions restocking – Embedding environmental considerations within platforms and capabilities – Further UK sponsored Typhoon exports – UAS – fixed and rotary wing
Europe[1] $396bn defence market	In Europe, we are meeting the increased demand for advanced military equipment across all domains, as countries are transitioning away from older-generation systems and recapitalising with modern, more advanced air-, land- and sea-based systems.	– Eurofighter – MBDA – Combat vehicles/artillery – CV90, BvS10, ARCHER – US foreign military sales – Precision munitions – Eurofighter domestic build – GCAP	– Combat vehicles/artillery – CV90, BvS10, ARCHER – US foreign military sales – electronic systems – US foreign military sales – combat vehicles/artillery/precision weapons – MBDA domestic and exports – Eurofighter domestic and exports – Precision munitions
Middle East[2] $160bn defence market	The Kingdom of Saudi Arabia continues to be a leading military power in the Middle East and one of the largest defence markets globally. We also continue to support other customers in Oman, Kuwait and Qatar.	– Kingdom of Saudi Arabia support – Qatar Typhoon and Hawk – Kuwait and Oman	– Typhoon – Support and training – Upgrades and defence infrastructure programmes – Cyber intelligence – UAS – fixed and rotary wing
Asia Pacific[3] $273bn defence market	As the largest defence company in Australia, we have a strong presence across all domains and are growing as the country's defence budget increases. In the wider Asia-Pacific region, we are a supplier to a number of armed forces, both directly and through joint ventures.	– Hunter Class frigate – GCAP – US foreign military sales – Fast jet support – Ship support – C4ISR – Combat vehicles	– SSN-AUKUS – pillar 1 and 2 – GCAP – US foreign military sales – Electronic Systems – US foreign military sales – combat vehicles/artillery/precision weapons – MBDA exports – Cyber intelligence – Australian defence exports

Source: Jane's Defence Budgets (based on 2024 total defence budgets).
1. Includes NATO countries and Ukraine, but excludes UK, US and Canada as shown separately.
2. Includes Egypt, Kuwait, Oman, Qatar, Kingdom of Saudi Arabia and UAE.
3. Includes Australia, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.

Our investment in technology

With the global threat environment changing so quickly, our customers need new technology in their hands as rapidly as possible. Alongside speed, they also require resilience to enemy countermeasures that can rapidly cause equipment to become obsolete in the battlespace.

FOCUS AREAS

While we deliver technology to protect customers on the front line today, we continue to invest in pioneering R&D to prepare for tomorrow as threats evolve and become more complex. We focus this investment on three core areas:

Technology today

Innovating for the future

Efficiency through innovation

Technology today: rapidly turning concepts into reality

With the pace of technological developments and rapidly evolving threat landscape, a key area of our focus is innovating quickly to make a difference in the immediate and near term. In 2024, we launched a number of products that have gone from a concept to a physical demonstrator in record time, many in less than a year. Our approach to building products, using a common architecture, means we can re-use resilient software and components to accelerate our design, development and trials. This includes our Herne submersible, which re-uses autonomy modules from previous autonomous vessels, as well as our Atlas armoured fighting vehicle, which uses the open systems architecture we designed for use across multiple platforms.

Autonomy on and under the sea

Small uncrewed boats present a significant threat, as they are difficult to stop with conventional defences.

We have integrated our platform agnostic Nautomate autonomous system onto our Pacific 24 surface vessel. We have trialled and will be demonstrating Nautomate on a third-party uncrewed fast interceptor craft, P38, which can be configured to carry out a wide range of tasks, including neutralising incoming small boats using a vessel arrest system similar to a police 'stinger' device for stopping cars. This can disable the target by tangling their propulsion systems in rope fibres.

We have also trialled and demonstrated Nautomate in our extra-large autonomous underwater vehicle (XLAUV), Herne, which went from concept to in-the-water testing in less than 11 months and is the UK's first autonomous extra large submarine for military use. We integrated Nautomate to operate and control Herne, whilst Canadian company Cellula Robotics designed and built the physical structure of the submarine.

During sea trials in Canada and the UK, our Herne submersible showed that it could follow complex navigation instructions completely autonomously. It was able to follow waypoints without human contact, giving confidence that this 12-metre, eight-tonne vessel could soon be a powerful asset for our customers.

Given its potential to patrol underwater for extended periods of time, Herne is intended to be an ideal solution for monitoring and protecting critical national infrastructure, such as undersea communications lines.

Connecting and defending the digital battlespace

Digital connectivity is more important than ever. Reaction times in the modern battlespace have gone from hours to minutes and are moving towards seconds, as targets are identified, analysed and addressed. This drives the need for greater connectivity between equipment, not only to share intelligence, but to allow military planners to decide on and execute a response.

We are currently building the British Army's next-generation deployable tactical battlefield network, Trinity, due for delivery from 2026. This will use our NetVIPR product to largely automate adding new equipment to share data, similar to automatically adding a phone to a trusted Wi-Fi network. The software can be installed on almost any device with a standard processor and radio module, allowing products from multiple suppliers to be added to a network.

To increase digital resilience, we are supporting the US Space Force Space Systems Command to build better, jam-resistant GPS receivers. We have already built a demonstration product, proving the technology, which we are now miniaturising and reducing the power requirement for use in smaller devices. Alongside our other investments into non-GPS navigation technologies, this will help provide more resilient positioning, navigation and timing services for military equipment, which is essential for precision navigation on the battlefield.

Innovating to address evolving threats

Drone warfare has changed the way we think about air defence. Whilst there remains a clear need for high-end defences against large air platforms and conventional threats, these systems are less suited to countering multiple smaller UASs, which quickly deplete their effectiveness. Our newly launched TRIDON Mk2 moves from expensive missile systems to a low-cost, rapid anti-aircraft system to meet the growing need for air-denial weapons, crucial for keeping the skies clear.

TRIDON Mk2, which we tested extensively in 2024 less than six months after development began, combines our proven 40mm Bofors gun with an aerial targeting system, carried on a high-mobility wheeled platform. By using conventional 40mm ammunition, it has the potential to reduce the cost of countering small UASs, which are proving a significant threat in today's battlespace. TRIDON has a maximum range of up to 12km and a programmable munition, Bofors 3P, that can be set to detonate as an airburst round close to its target, providing a powerful area effect.

The modular TRIDON Mk2 system is fully adapted for the modern battlefield, providing high precision and efficiency by pairing existing capabilities in an agile, innovative way.

Our investment in technology continued

Innovating for the future

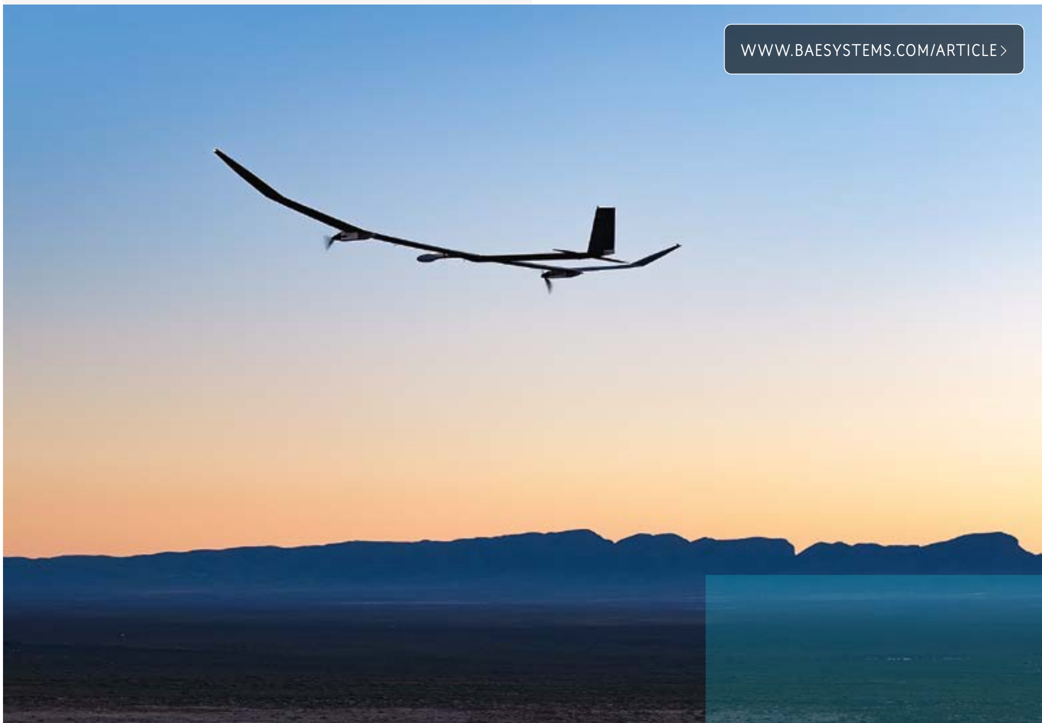
Some technologies require significant investment and human ingenuity before they are ready for use in the real world. Recognising the potential of such technologies to create game-changing military capability, together with our partners we are investing in the R&D needed now to lead to that future.

PHASA-35® with software-defined radio

Our solar-powered High Altitude Pseudo Satellite, PHASA-35, completed another successful series of flight trials in 2024, firmly establishing the Group as one of the leaders in the nascent market for stratospheric aircraft that has the potential to deliver monitoring, surveillance, communications and security applications. Flying to more than 66,000 feet and cruising in the stratosphere before successfully landing, it was ready to fly again just three days later, completing another flight as part of the trials. This demonstration of PHASA-35's ability to be launched, flown, landed, potentially reconfigured and then relaunched again so quickly proved to be a key discriminator of the novel proposition it presents.

The aircraft also carried an operational payload for the first time, demonstrating its potential to be used for a wide range of functions, including ultra-long endurance intelligence, surveillance and reconnaissance.

A new version of the aircraft, with double the solar power generation and storage capacity, is due to fly in 2025, allowing for much longer and more complex missions.



Stabilising a quantum state of matter

In 2024, we supported a small and medium sized enterprise, Infleqtion, to carry out what we believe was a world first – stabilising a quantum state of matter called a Bose-Einstein Condensate (BEC) onboard an aircraft in flight. The ambition is to develop this into an unjammable form of navigation, allowing the user to fix a position without relying on external GPS or other signals.

Previously, BECs have only been demonstrated in laboratories, so keeping them stable in flight is a major leap forward. We expect to see further trials of BECs on maritime platforms over the next few years, possibly leading to an operational solution by 2030.

To help explore other novel technologies, we support a number of PhD students in order to apply their PhD work to operational scenarios. Also in the quantum field, we are working with the University of Birmingham, UK, to explore uses for quantum clocks, such as sensing, which could give us significantly greater detection range and accuracy. Whilst quantum clocks are not yet robust enough for sensors deployed on aircraft or ships, this research will help us incorporate them quickly when they reach that stage.

Efficiency through innovation

We are committed to delivering innovative defence technology, cost-effectively and at pace, as defence equipment becomes increasingly complex, the threat environment more dynamic and military budgets need to work harder. So, we are investing in developing solutions that save time and costs, whilst enabling greater agility for ourselves and our customers, including digital transformation and advanced manufacturing techniques.

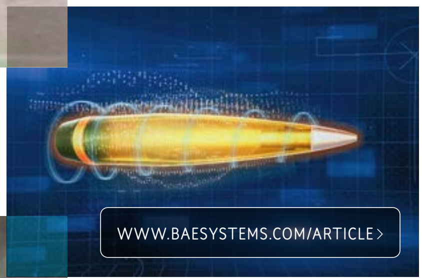
Artificial Intelligence (AI) is starting to help us work more efficiently, as we experiment with Large Language Models (LLM) to support our maintenance crews. We have trained the LLM on thousands of pages of maintenance manuals, meaning it can refer to every procedure in response to a natural language question, showing exactly where it retrieved the information to give assurance of a correct answer. We are taking a similar approach to help our customers get the most from our insights into cyber threats, to contribute to enhanced national security.

Border Force support – avoiding downtime at electronic passport control gates

The UK relies on electronic passport control gates to process more than one billion passenger journeys every year, so it is essential that the system is robust. We worked with the UK's Digital Services at the Border team to help improve the efficiency of testing and deploying software updates, so they no longer need to take the system offline as this work is carried out.

Previously, software updates could take months to agree and plan, given the potential impact of downtime on travellers entering the country. Following our work, updates can now be fully tested in advance and carried out almost instantaneously, with no loss of service or impact on those using the systems. To do this, we created a digital copy of the highly complex Border Force system in which to test updates, spot any errors and then help automate deployment.

Electronic gates are just one component of Digital Services at the UK Border, so our team is working collaboratively with our customers to address other challenges. This builds on our extensive experience in developing critical digital applications that contribute to national security, while also improving efficiency.



More efficient munitions manufacturing

The global demand for artillery ammunition has rapidly increased in the last two years. NATO has a clear focus on strengthening stockpiles, meaning that munitions manufacturers need to grow production and ensure we have a robust supply chain.

In addition to investing in our UK infrastructure to substantially increase manufacturing capacity, we are developing our new Next Generation Adaptable Ammunition (NGAA), which is designed to accelerate production and improve standardisation through the use of new manufacturing technology for both metal and explosive components.

NGAA is designed to be a modular artillery product, allowing our customers to 'mix and match' the various components depending on their tactical requirement, such as high explosive, smoke or illumination. This would allow our customers to deliver greater operational agility from a smaller inventory of munitions, reducing cost and increasing operational effectiveness.

Deploying and advancing AI for our customers

We have now demonstrated a Typhoon AI assistant that can give clear answers to complex maintenance queries. The LLM it uses is generated from training manuals based on thousands of hours of real-world experience with the aircraft, which means it can give easily understood, step-by-step instructions along with references to exactly where it found the information. This could lead to significantly faster responses to support enquiries and increased uptime for Typhoon, as the assistant is able to make rapid connections between different systems in a way that a search engine alone could not achieve. The AI assistant is also able to give answers in a number of languages, so would be useful for international teams working together.

We have also operationalised an AI system to help our customers fight cyber threats. This again uses a LLM trained on nearly a decade of our expert analysis in cyber threats, which is continually being added to as our researchers investigate new activity. The system is able to generate actionable insight for users and recommendations on how to proceed on a range of topics, from vulnerabilities in space systems through to mitigating specific tools used by criminal groups and hostile intelligence services.

AI is a powerful enabler of autonomy. We have continued working with a team of government and academic leads in Australia to enable multiple Uncrewed Ground Vehicles to operate simultaneously on a future battlefield, fusing satellite and on-board sensor data to improve navigation. This builds on previous work to retrofit the M113 vehicles owned by the Australian Army, working with them to demonstrate its effectiveness in real-world training during 2024.

Our investment in our people and communities

At BAE Systems, we are committed to investing in our people and having a positive impact on the communities where we operate.

Investing in our people

Our employees are a critical part of everything we do, from developing the next generation of defence and security capabilities to having a positive impact on the communities where we operate. That is why we are committed to investing in the skills of our current and future workforce and are working hard to build inclusive workplaces to attract, develop and retain the very best talent. We aim to deliver this through:

- a competitive employee value proposition that allows everyone to succeed based on merit;
- targeted recruitment;
- focused talent management;
- a positive workplace culture, supported by learning and development programmes; and
- robust succession planning.

We also encourage our colleagues in participating countries to benefit from the Company's performance by enrolling in one of our all-employee share incentive plans. These employees receive a welcome information pack when they become eligible to purchase shares or to receive the annual free shares award. On an annual basis, reminders are sent to non-participating eligible employees that have not yet taken up the offer to purchase partnership shares and benefit from the free matching shares.

An annual grant of free shares is awarded to all eligible employees in participating countries on an auto-enrolment basis. Information regarding the plans can be found on our dedicated intranet sites or via the benefits hub, which contains information booklets, FAQs, Plan Rules, tax savings calculators and user guides.

Strategic workforce planning

Our focus in 2024 included work around talent acquisition, management and retention and ensuring we have the ability to adapt to shifting demographics and future skills needs.

We invested £230m in education, training and skills in the UK and further strengthened our recruiting efforts to meet the growth we experienced in our business.

We prioritised recruiting people with the skills required to support our key programmes including engineering, project management and operations. We also focused on developing digital and entrepreneurial skills, which are becoming increasingly important.

During 2025, we will continue to support business growth by enabling greater agility, mobility and productivity across our workforce.

Early careers

Investment in our early careers training across the Group is essential as we continue to strengthen our talent pipeline and address skills shortages to ensure we can deliver on our long-term programmes.

In the UK, we recruited around 2,300 new apprentices and graduates in 2024. A further 162 people completed our Women in Engineering programme, 107 of whom were offered an apprenticeship.

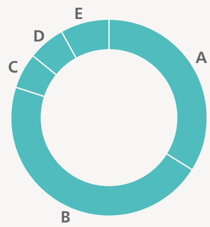
In the US, our Learn, Engage, Apply and Progress (LEAP) intern programme provided placement opportunities for nearly 500 interns from 175 different colleges and universities where they were pursuing 83 different areas of study. Many of the students taking part in the LEAP programme choose to start their careers at BAE Systems upon graduation.

TOTAL EMPLOYEES[1]

107,400

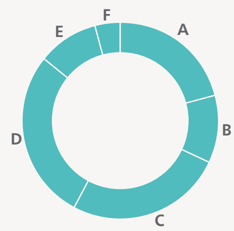
In 2024, we increased our workforce by 8% to 107,400 people globally, including welcoming 5,200 employees through the acquisition of Ball Aerospace to form our new SMS business.

Employees[1] by location



A	US	36,200	34%
B	UK	49,600	46%
C	Kingdom of Saudi Arabia	6,800	6%
D	Australia	6,300	6%
E	Other	8,500	8%

Employees[1] by sector



A	Electronic Systems	22,400	21%
B	Platforms & Services	11,600	11%
C	Air	27,800	26%
D	Maritime	30,100	28%
E	Cyber & Intelligence	10,900	10%
F	HQ/Other	4,600	4%

1. As at 31 December 2024 and including share of equity accounted investments.

Our Catalyst leadership development programme continued to offer competitively selected early career employees in the US with an opportunity to build business acumen, assess and develop critical skills and expand professional networks necessary to meet the challenges of future leadership roles.

In Australia, our first degree-level apprenticeship in partnership with the University of South Australia began in February, focused on software engineering. A second cohort is to commence in February 2025. We launched our second degree-level apprenticeship, supported by the South Australian Government, in September.

Lifelong learning

In collaboration with our customers, we are planning for our future skills needs and providing our employees with opportunities for lifelong learning. As part of our plans to upskill our existing workforce, we opened our Digital Skills Academy to all employees in 2024 to develop employee digital skills at all levels from leaders to the shop floor.

We opened a new £12m state-of-the-art Applied Shipbuilding Academy in Glasgow, UK, designed to support the training of apprentices and graduates in our Naval Ships business as well as provide learning and skills development activities for our wider workforce. This enhances our existing skills and training academies and facilities across the UK, some examples of which can be found on page 26.

Our first cohort of employees studying for our postgraduate-level sustainability apprenticeship with Cranfield University in the UK completed their apprenticeships. The second cohort continued their studies. Over the last three years, 89 current and future leaders also attended an entrepreneurial development programme with the University of Oxford's Saïd Business School, designed to help participants understand how they can deliver greater efficiency and growth.

In Australia, we launched a new internal scholarship programme to support paraprofessional and trade colleagues who have completed the Diploma of Digital Technologies with Flinders University and want to complete a full engineering degree.

In the US, we more than doubled participation in our Case Based Learning programme to more than 1,400 employees. The programme aims to foster a culture of lifelong learning across our workforce. By using objective analysis of real-world cases and simulations, the programme enhances our ability to win bids and execute projects successfully, while identifying critical lessons learned from past challenges to inform and shape future behaviours.

READ MORE PAGE 26 >

Building digital capability

We are preparing for the future by investing in the development of our workforce's digital skills, with 2024 being the first full year of operations of our new Global Digital Academy.

The Academy was created to enhance the digital capability of our workforce, supporting growth and innovation while equipping our people to thrive in a connected, competitive, data-rich digital world.

The Academy delivers specialist programmes in areas such as cyber, data and software and builds on key partnerships with best-in-class providers and our customers, closely aligned to major business projects and programmes. Working in conjunction with experts, we have developed digital skills curricula for generalists, specialists and leaders.

During its first year, the Academy delivered a range of digital skills to over 3,000 learners with an estimated benefit of £1.2m to the business.

As part of wider learning initiatives, we will continue to expand the delivery of our Digital Skills Academy both in the UK and internationally, supporting digital skills development at a generalist, specialist and leadership level in key areas such as cyber, data and AI.

WWW.BAESYSTEMS.COM/ARTICLE >

Our investment in our people and communities continued

SKILLS AND TRAINING ACADEMIES

In addition to the launch of our Global Digital Academy, we have a number of Academies across the UK which provide education and training opportunities to our workforce.

Academy for Skills and Knowledge, Samlesbury

- 7,400 square metres
- 42 learning spaces: 5 ICT rooms, 2 electronics labs, 24 training rooms, 10 practical workshops, 1 VR /AR cave
- 1 hybrid learning studio
- Equipment and platforms replicating aerospace production and sustainment environments

Aircraft Maintenance Academy, North Lincolnshire

- 5,500 square metres
- 5 workshops, plus aircraft hangar
- 11 classrooms

Submarine Academy for Skills & Knowledge, Barrow-in-Furness

- 8,300 square metres
- 10 workshops
- 30 classrooms
- Replica submarine unit for experiential learning

Applied Shipbuilding Academy, Scotstoun

- 5,500 square metres (integrated learning hub and trade hall)
- 39 classrooms
- Trade and technical training spaces throughout trade hall

Safety, health and wellbeing

Our people's safety, health and wellbeing is an enduring priority. During 2024, we continued to emphasise safety training to ensure our people are safe at work and we increased awareness around health and wellbeing. This included expanding our mandatory safety training offering, developing the BAE Systems Life Saving Rules and continuing to visibly lead on health, safety and wellbeing from the Executive Committee level.

Safety

In 2024, the recordable accident rate increased by 8% from 2023. The primary root causes for recordable injuries sustained during 2024 were related to handling, lifting and carrying (27%) and slips, trips and falls (22%).

Major injuries increased by 18%. Most of these injuries were associated with slips, trips or falls (45%). In the US, although safety performance deteriorated with an increase in recordable accidents and major injuries, the serious injury and fatality measure was reduced when compared to 2023.

During the year, we experienced an explosion at our munitions site in South Monmouthshire, UK, and a fire at our submarines facility in Barrow-in-Furness, UK. While no serious injuries resulted from these events, both are subject to thorough investigation in order to learn relevant lessons and take appropriate actions to prevent recurrence.

We focused on the following key areas to further reinforce the visibility of significant safety hazards and enhance our safety culture by:

- continued emphasis on preventative safety management with the aim of identifying, mitigating and learning from hazards and/or actual and potential incidents that can result in a serious injury or fatality;
- development of our 'Life Saving Rules' or equivalent Life Saving Commitments for deployment across the Group, ensuring an intentional focus on high-risk activities;
- visible leadership engagement led by our Executive Committee team; and
- continued deployment of safety training for all employees.

During 2025, in light of the increase in our recordable and major injury rates, we will seek to strengthen our safety management programmes by continuing visible leadership of our programme, engaging employees on our Group-wide 'Life Saving Rules', developing new employee training modules and improving safety management reporting and data-informed decision-making.

Recordable injury rate (per 100,000 employees)[1]

BONUS KPI

2024	459
2023	424

Major injury rate (per 100,000 employees)[1]

BONUS

2024	47
2023	40

BONUS

The award of the executive directors' bonuses is dependent upon achievement of improvements in both safety and diversity (see page 113).

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

Health and wellbeing

In 2024, we continued to strengthen our focus on the health and wellbeing of our people. We proactively engaged employees in mental health awareness across our business, including training, encouraging healthy individual and team practices, refreshing our peer-to-peer mental health advocacy programme, expanding our capability to deliver mental health support to employees and leveraging the work of our employee resource groups.

An inclusive workplace

We are making steady progress towards our aim to foster a workplace culture where employees feel valued and can see themselves advancing in their careers within our organisation by providing opportunities, amplifying voices and delivering programmes that inform, elevate and inspire our workforce. As part of this, we continue to grow our membership of employee resource groups, which provide supportive environments for members to learn, grow and feel they belong.

We continue to focus on retaining and developing our talent across all grades, offering mentoring programmes and promoting recruitment campaigns and events, for example early careers and experienced professionals. We continue to drive progress across these areas to help build and advance skills throughout our workforce. We also actively support industry commitments and initiatives where we operate.

During 2024, we remained committed to harnessing the talent of our employees with disabilities and those who develop disabilities during employment by providing an accessible physical and digital workplace, training and reasonable adjustments programme as needed; and to giving open, full and fair consideration to applications for employment from people with disabilities, health conditions or impairments who meet the requirements for roles. We have strengthened awareness of managing and supporting neurodiverse and disabled employees through training for line managers and employees.

We were recognised for that work in 2024: we received Great Place to Work certification in the Kingdom of Saudi Arabia; in the UK, we were recognised as Private Sector Menopause Friendly Employer of the year and achieved a gold award in Employers Network for Equality & Inclusion's Talent Inclusion and Diversity Evaluation initiative; and, in the US, a number of our scientists and engineers were recognised for their achievements at national conferences and other external organisation events.

In 2024, we met the UK FCA Board diversity targets, including a female Chair and Senior Independent Director, and a 40% gender mix with one board member from an ethnic minority background.

Gender diversity

	Male	Female
Board: 12	7 (58%)	5 (42%)
Senior managers: 358[2]	256 (72%)	102 (28%)
Total employees: 100,000[3]	76,000 (76%)	24,000 (24%)

2. Senior managers has the meaning given to that term by section 414C(9) of the Companies Act 2006. Senior managers are defined as employees (excluding executive directors) who have responsibility for planning, directing or controlling the activities of the Group or a strategically significant part of the Group and/or who are directors of subsidiary companies. This includes the Executive Committee (excluding executive directors) and their direct reports.
3. As at 31 December 2024, excluding share of equity accounted investments and rounded to the nearest thousand employees. BAE Systems Internal Audit has reviewed the systems, processes and controls in place to collate, validate and report this data. Based on the procedures and the evidence obtained, nothing has come to its attention that indicates the disclosures have not been properly prepared in accordance with such systems, processes and controls.

FOR OUR UK GENDER AND ETHNICITY PAY GAP REPORT VISIT OUR WEBSITE WWW.BAESYSTEMS.COM/SUSTAINABILITY >

Our investment in our people and communities continued

Supporting our communities

We are committed to making a difference in our local communities and focus our efforts on areas that are aligned to our business and values, including support for our armed forces and the development of Science, Technology, Engineering and Mathematics (STEM) skills through our education outreach programmes.

Our community investment activities aim to make a difference, through donations, fundraising and volunteering, working together with charitable partners to understand how our support can help to deliver the most value and generate a lasting impact.

Partnerships are at the heart of our community investment programmes. We continue to strengthen our long-term relationships with the charities we work with, supporting them to help mitigate the rising cost of delivering charitable services.

Highlights included partnering with The Royal British Legion Industries on its Great Tommy Sleep Out, which raised more than £1.2m to help veterans who are experiencing homelessness, and our partnerships with First Nations charities, Stars Foundation and Clontarf Foundation in Australia, which helped to keep 745 students in education and connected to their communities.

£12.7m[1]

(2023 £11.3m)

Contributed to local, national and international organisations throughout the year

We significantly strengthened our relationships with our community in the Kingdom of Saudi Arabia through new partnerships, including supporting the Saudi Federation for Visual Impairments and Riyadh Municipality.

We also enhanced our volunteer programme in the US by expanding opportunities and participation options, enabling employees to more easily engage in meaningful volunteer work aligned to their personal interests.

We plan to build on our volunteering programme in 2025, increasing the range of opportunities to support local communities and launch a new volunteering tool to make it easier for more of our employees across the Group to get involved.

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

40,959 hours

(2023 23,705 hours)

Volunteered by our highly skilled and passionate employees working with charities and not-for-profit organisations

Education outreach

In addition to our skills development activities, we continued our global STEM educational outreach programmes, which aim to inspire young people to choose a career in STEM in support of our future talent pipeline.

We operate our Beacon STEM outreach programme in partnership with immersive technology company, Lumination, in Australia. Together, we provided more than 1,800 students, aged 7 to 12, from low socio-economic areas access to emerging technology via a ten-week in-school or four-day school holiday programme. We secured funding from the Australian Government to significantly expand the programme over the next three years and we also trialled it in the UK. Alongside this initiative, more than 350 high school students participated in engineering or trades taster work experience programmes at our sites across Australia.

BAE Systems, Inc. STEM Center

During the year, the newly renovated wing at Nashua Community College was named the BAE Systems, Inc. STEM Center in recognition of our collaboration with the college across programmes like Electronic Engineering Technology, Computer Networking, Computer Science, Physics classes, and the BAE Systems, Inc. workforce training programmes such as the Microelectronics Boot Camp.

The centre includes 14 labs, classrooms and conference rooms, and features a student collaboration space and study lounges.

In the UK, during 2024, 725 of our STEM Ambassadors actively supported our education outreach activity through the year. We launched the 19th annual season of our schools roadshow, jointly with the Royal Navy and Royal Air Force, which delivered an interactive 'electricity themed' experience for students aged 9 to 12 years which, during 2024, reached more than 135,000 students across 535 schools.

In 2024, we delivered more than 1,000 face-to-face or virtual work experience placements. Around 25 T-Level students started their industry placement with us in October 2024, which concluded in February 2025.

We remain a founding member of Movement to Work, a charitable organisation that aims to tackle youth unemployment and drive social change. Through the charity, we offered six cohorts of young people an opportunity to undertake work placements in our business with around 80 participants completing the programme, almost half of whom went on to find work in our Company. Since we started working with Movement to Work in 2014, around 950 people have completed our work experience programme.

We have also entered into a strategic partnership with the University of Cumbria to support the establishment of its new campus in Barrow-in-Furness, UK. Expected to be complete in 2025, the campus should be a catalyst for growing higher education participation in the local area. We have developed a teaching and learning agreement with the university, giving students on mechanical engineering and computer science courses an opportunity to apply for a BAE Systems-sponsored scholarship, providing a bursary, paid work placement and an interview.

In the US, we continued our decades of support for *FIRST*® (For Inspiration and Recognition of Science and Technology), both locally and nationally as the presenting sponsor of the 2024 *FIRST* Robotics National Championship. Over 50,000 students, coaches and supporters from 58 countries took part. Our employees mentored students and provided technical guidance to help students gain technical STEM-related skills as well as confidence, curiosity, courage and compassion that are needed to succeed in the workforce. More than 240 *FIRST* teams received funding from BAE Systems during the season and 37 of them advanced to the championship.

We intend to continue our education outreach programmes in our key markets in 2025, strengthening and expanding existing partnerships, whilst also identifying new collaborative opportunities to inspire young people to consider and pursue a career in STEM.

Support for the armed forces

Given the nature of the Group's activities, supporting the armed forces community is part of who we are. Our activities focus on two areas: working with charitable organisations to support veterans, serving personnel, their families and heritage institutions through our community investment activities; and being a preferred employer for service leavers and reservists. We recognise the strength and breadth of the talent in our armed forces and we want to be at the top of their list if the time comes for them to look for employment in the private sector.

As part of our long-standing commitment to the UK's Armed Forces Covenant, we worked with our community partners and heritage institutions in 2024 to support important armed forces anniversaries, such as the 80th anniversary of the D-Day landings. We also developed a global veterans' charter to help share best practice throughout our organisation about supporting colleagues who are armed forces veterans. We piloted a Corporate Fellowship programme for transitioning service members and a veteran-to-veteran internal mentoring programme. Our partnership with Legacy Australia also enabled the charity to provide 126 grants to veteran families through its education grant programme.

Looking ahead, we aim to increase our engagement with our armed forces communities and leverage new and existing partnerships to provide even greater impact. We intend to continue to build on the support we offer to veterans as we aim to be the preferred employer for these talented individuals looking for opportunities in the private sector when making the transition from the military back to civilian life.

Remembering D-Day 80 years on

On 6 June 1944, Britain and her allies launched D-Day, or Operation Overlord, a full-scale naval operation to recapture France from Nazi oppression. Operation Overlord landed 150,000 troops on five beaches in Normandy, France, and signified the beginning of the end of World War Two.

At BAE Systems, the 80th anniversary of D-Day in 2024 provided a moment for us to reflect on these pivotal events and demonstrate our continued support of past and present armed forces members.

We are proud to be principal sponsor of The Winston Churchill Centre for Education and Learning located at the British Normandy Memorial in France. The centre offers a space to commemorate the D-Day landings and the Battle of Normandy, helping future generations to learn about the events of 1944 and the men and women who gave so much to protect our freedoms. Our sponsorship contributed £600,000 to the construction of the centre.

Other activities to mark D-Day 80 included inviting D-Day veterans to our facilities to see some of the military equipment we are delivering to today's armed forces, providing transport for them to the events in Normandy, our employees volunteering on the installation of the visually impactful Standing with Giants project and our apprentices designing and building Portsmouth's D-Day beacon.

We also shared stories from our archives, revisiting our heritage and the role our legacy companies played in D-Day, including AV Roe (Avro) who developed the Lancaster bomber and Vickers-Armstrongs Limited who built the engine for HMS Orion, the ship that is thought to have fired the first shell on D-Day.

Our financial review

> We have once again delivered a strong financial performance, with top-line growth and high cash conversion. Our order backlog has expanded to a record £77.8bn, positioning us well for the future.

Brad Greve
Chief Financial Officer

Full-year performance summary

Order intake for the year was £33.7bn. Our order backlog expanded by 11% to a record £77.8bn, which included order backlog of £3.0bn related to SMS.

On a constant currency basis, we delivered sales growth of 14%, in line with our guidance, with all sectors delivering growth on the prior year. Our growth in sales benefited from M&A activities in the year, predominantly in relation to the acquisition of Ball Aerospace in February. Excluding M&A activities, organic growth was 9% on a constant currency basis.

Our profitability, in the form of underlying EBIT, rose by more than 14% on a constant currency basis, to just over £3.0bn. Our return on sales was 10.6%, up by 5bps on a constant currency basis, driven by strong operational performance and the benefit of recent acquisitions which have more than offset the mix effect from continued high growth in the Maritime sector.

Underlying EPS grew by 10% as the increase in underlying EBIT was partially offset by additional finance costs incurred in the year, primarily in relation to the additional debt raised to finance the Ball Aerospace acquisition.

We delivered £2,505m of free cash flow as a result of significant customer advances received towards the end of the year together with strong operational cash conversion. Capex spend in the year was greater than £1.0bn as we continued to invest in our systems and facilities and build greater capacity for the future.

We returned £1.5bn to shareholders through dividends and the share buyback programmes. The Board has recommended a final dividend of 20.6p, taking the total dividend for 2024 to 33.0p – an increase of 10% on last year, marking our 21st year in a row of increased dividends.

2025 Group guidance[1]

Sales for the Group are expected to increase between 7% to 9%.

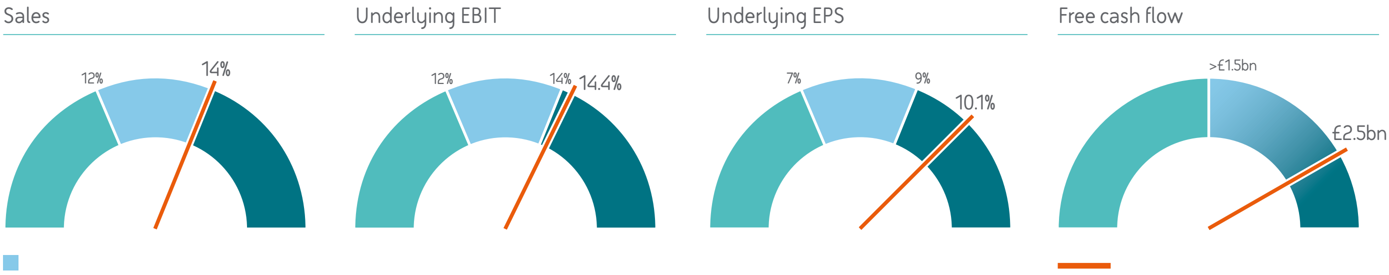
Underlying EBIT is expected to improve by 8% to 10%.

We expect underlying EPS to increase by 8% to 10%.

Free cash flow in 2025 is expected to be greater than £1.1bn as cash advances received will start to unwind.

Group guidance can be found on page 36.

2024 full-year performance against guidance



2024 guidance range based on guidance provided at the Half-yearly results in August 2024, at an exchange rate of $1.24:£1.

Actual 2024 financial results

1. While the Group is subject to geopolitical and other uncertainties, the following guidance is provided on current expected operational performance. Our guidance uses the same exchange rate we averaged in 2024 of $1.28:£1.

FINANCIAL HIGHLIGHTS

Financial performance measures as defined by the Group[1]

Sales
BONUS KPI: KPI

£28,335m

14% growth[2]

2022	2023	2024
23,256	25,284	**28,335**

Underlying EBIT
KPI

£3,015m

14% growth[2]

2022	2023	2024
2,479	2,682	**3,015**

Underlying EPS
BONUS KPI

68.5p

10% growth[2]

2022	2023	2024
55.5	63.2	**68.5**

Free cash flow
KPI

£2,505m

£88m lower

2022	2023	2024
1,950	2,593	**2,505**

Order intake
BONUS KPI

£33.7bn

£4.0bn decrease

2022	2023	2024
37.1	37.7	**33.7**

Order backlog

£77.8bn

£8.0bn increase

2022	2023	2024
58.9	69.8	**77.8**

Financial performance measures as derived from IFRS

Revenue

£26,312m

14% growth

2022	2023	2024
21,258	23,078	**26,312**

Operating profit

£2,685m

4% growth

2022	2023	2024
2,384	2,573	**2,685**

Basic EPS

64.9p

6% growth

2022	2023	2024
51.1	61.3	**64.9**

Net cash flow from operating activities

£3,925m

£165m higher

2022	2023	2024
2,839	3,760	**3,925**

Order book

£60.4bn

£2.4bn increase

2022	2023	2024
48.9	58.0	**60.4**

Dividend per share

33.0p

10% growth

2022	2023	2024
27.0	30.0	**33.0**

BONUS 75% of the UK executive directors' annual bonuses are based on the achievement of financial KPIs (see page 14).

KPI References to KPIs throughout the Annual Report.

1. The definition and purpose of all performance measures defined by the Group are provided in the Alternative performance measures section on page 220.
2. Growth rates for Sales, Underlying EBIT and Underlying EPS are on a constant currency basis (i.e. current year compared with prior year translated at current year exchange rates). The comparatives have not been restated. All other growth rates and year-on-year movements are on a reported currency basis.

Our financial review continued

Group income statement

	Underlying – as defined by the Group		Statutory – as derived from IFRS	
	2024 £m	2023 £m	**2024 £m**	2023 £m
Sales/Revenue KPI	**28,335**	25,284	**26,312**	23,078
Underlying EBIT/Operating profit KPI	**3,015**	2,682	**2,685**	2,573
Finance income	**117**	131	**135**	172
Finance costs	**(513)**	(342)	**(488)**	(419)
Net finance costs	**(396)**	(211)	**(353)**	(247)
Profit before tax	**2,619**	2,471	**2,332**	2,326
Tax expense	**(469)**	(472)	**(291)**	(386)
Profit for the year[1]	**2,150**	1,999	**2,041**	1,940
Return on Sales/Revenue	**10.6%**	10.6%	**10.2%**	11.1%

Reconciliation of underlying EBIT to operating profit

	2024 £m	2023 £m
Underlying EBIT KPI	**3,015**	2,682
Adjusting items	**23**	40
Amortisation of programme, customer-related and other intangible assets, and impairment of equity accounted investments and intangible assets	**(344)**	(116)
Net finance income and tax of equity accounted investments	**(9)**	(33)
Operating profit	**2,685**	2,573

As defined by the Group

Sales for the year were £28.3bn (2023 £25.3bn) representing growth, on a constant currency basis[2], of 14% (2023 9%). All sectors delivered growth in the year as detailed below.

Electronic Systems recorded sales of £7.2bn (2023 £5.5bn), equating to growth of 35% (2023 9%) on a constant currency basis and including the benefit of SMS. Excluding SMS, our Electronic Systems sector delivered organic growth of 9% driven by the precision strike & sensing and commercial aviation businesses.

Our Platforms & Services sector posted sales of £4.4bn (2023 £3.9bn), with growth of 15% (2023 8%) on a constant currency basis. The US combat vehicles business grew following demand for AMPV and Bradley vehicles, while Hägglunds and Bofors both grew with European demand for CV90 and Archer.

The Air sector recorded sales of £8.5bn (2023 £8.1bn), representing growth of 7% (2023 4%) on a constant currency basis. Activities in MBDA increased combined with our acquisitions in FalconWorks®, which have expanded our capabilities in UAS.

Maritime recorded sales of £6.2bn (2023 £5.5bn), with growth of 12% (2023 22%) on a constant currency basis. The ramp-up of the Hunter Class frigate programme in Australia contributed significantly to the growth, with our submarines business in the UK also making a material contribution from design work on SSN-AUKUS in the year. Demand for munitions also increased on 2023.

Sales in the Cyber & Intelligence sector grew to £2.4bn (2023 £2.3bn), an increase of 6% (2023 6%) on a constant currency basis.

Underlying EBIT was up 14% (2023 9%), on a constant currency basis, to £3,015m (2023 £2,682m).

Our Electronic Systems sector grew underlying EBIT to £1,071m (2023 £878m), an increase of 25% (2023 5%), on a constant currency basis, and including the benefit of SMS. Excluding SMS, our Electronic Systems sector had organic growth of 6% following the increase in sales. Return on sales was 14.9% (2023 16.1%) due to absorption of lower pension recoveries and incorporation of SMS.

Platforms & Services reported underlying EBIT of £448m (2023 £354m), an increase of 29% (2023 10%) on a constant currency basis, with return on sales increasing to 10.2% (2023 9.0%). This was driven by full-rate production volumes on AMPV, combined with growth in our Hägglunds and Bofors businesses.

Our Air sector reported underlying EBIT of £1,007m (2023 £949m), an increase of 7% (2023 12%) on a constant currency basis, maintaining a strong return on sales of 11.8% (2023 11.8%). This was driven by higher sales volumes.

Maritime reported underlying EBIT of £474m (2023 £425m), growth of 12% (2023 20%) on a constant currency basis in line with sales, delivering a return on sales of 7.7% (2023 7.7%).

Finally, Cyber & Intelligence reported underlying EBIT of £199m (2023 £199m), with a return on sales of 8.3% (2023 8.6%).

Adjusting items totalled a net gain of £23m (2023 £40m). During the year, the Group realised a net profit of £94m on the disposal of a number of businesses, the most significant being the partial disposal of our partial shareholding in Air Astana which generated a profit of £75m. In addition, we recognised a settlement gain of £13m on a US pension buyout. This was largely offset by £72m of acquisition and integration-related costs, primarily in relation to Ball Aerospace, and £12m of other costs related to historic business transactions.

Underlying net finance costs were £396m (2023 £211m), an increase of £185m. Of this, net costs of £455m (2023 £231m) related to the Group and net income of £59m (2023 £20m) related to the Group's share of equity accounted investments.

As derived from IFRS

Revenue was £26.3bn (2023 £23.1bn) with growth during the year of 14% (2023 9%), on a reported currency basis, reflective of the same drivers behind the increase in sales for the year excluding the impact of MBDA in the Air sector and other equity accounted investments.

Operating profit increased 4% (2023 8%), to £2,685m (2023 £2,573m), on a reported currency basis. On an operating sector basis this reflected the same drivers as underlying EBIT, however, operating profit also reflected significant additional costs from the amortisation of acquired intangibles and impairment of equity accounted investments and intangibles, which increased by £228m to £344m in 2024. Of the £344m incurred in the year, £213m related to the assets acquired with Ball Aerospace.

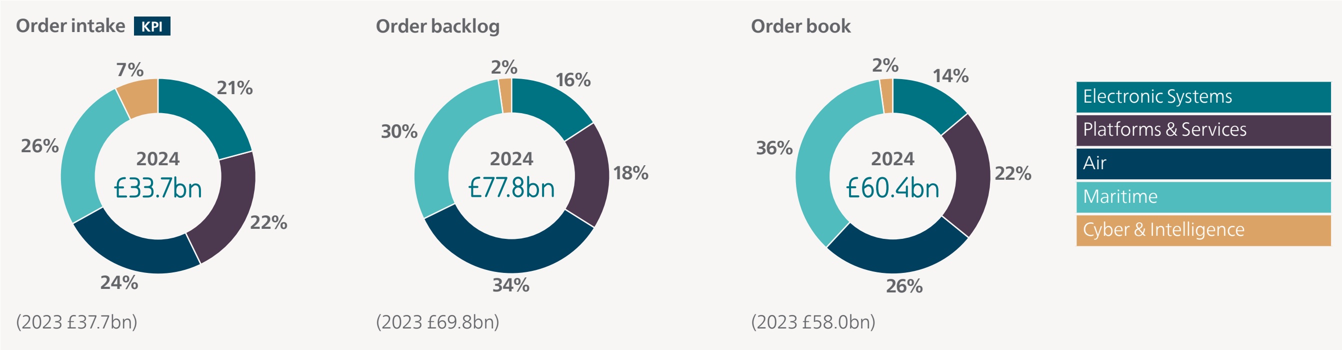
Net finance costs were £353m (2023 £247m), an increase of £106m reflective of the additional cost of debt raised during the year. Interest on loans and financial instruments totalled £482m compared to £286m in 2023.

1. On a Group basis, £85m (2023 £83m) of profit for the year is attributable to non-controlling interests, with £2,065m (2023 £1,916m) attributable to equity shareholders. On an IFRS basis, £85m (2023 £83m) of profit for the year is attributable to non-controlling interests, with £1,956m (2023 £1,857m) attributable to equity shareholders.
2. Current year compared with prior year translated at current year exchange rates. The comparatives have not been restated.

Orders

AS DEFINED BY THE GROUP

AS DERIVED FROM IFRS



As defined by the Group

Order intake was £33.7bn which, combined with £3.0bn of order backlog in SMS, pushed order backlog to a record of £77.8bn.

Order intake remained high across all sectors. Details of awards in the year are covered in the segmental reviews on pages 38 to 47 with significant orders in the year including:

- In Maritime, a contract worth £4.6bn for delivery of the first three Hunter Class frigates (Batch 1) in Australia, following which, we entered the construction phase and officially cut steel on the first ship at a ceremony at the Osborne Naval Shipyard in Adelaide, South Australia.
- Our Hägglunds business, within the Platforms & Services sector, received orders worth a total of approximately $2.5bn (£2.0bn) for CV9035 MkIIIC vehicles for Sweden and Denmark.
- Our Air sector confirmed orders totalling £1.1bn for our work share on additional Typhoon aircraft, including 25 for the Spanish Air Force and up to 24 for the Italian Air Force.

Earnings per share (EPS)

As defined by the Group		2024	2023
Underlying earnings for the year attributable to equity shareholders		**£2,065m**	£1,916m
Underlying EPS	KPI	**68.5p**	63.2p
As derived from IFRS			
Profit for the year attributable to equity shareholders		**£1,956m**	£1,857m
Basic EPS		**64.9p**	61.3p

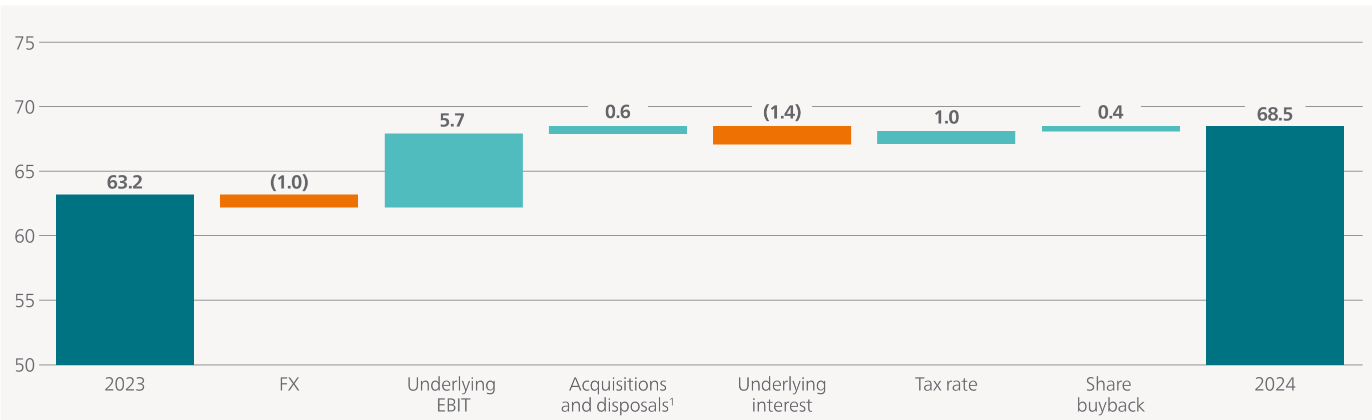
As defined by the Group

Underlying EPS increased to 68.5p (2023 63.2p), 10% on a constant currency basis. This is largely driven by the improved underlying profit for the year, with detailed movements set out in the table below.

As derived from IFRS

Basic EPS increased 6% to 64.9p (2023 61.3p) with the gain in underlying profit being offset by amortisation on the intangibles acquired within the year, predominantly within our SMS business.

MOVEMENT IN UNDERLYING EPS (PENCE)



1. Acquisitions and disposals figure reflects the underlying EBIT for acquired businesses since date of acquisition offset by lower Air Astana earnings to reflect the partial disposal and interest costs on the debt raised in the year to finance the SMS acquisition.

Our financial review continued

Net debt (excluding lease liabilities)

Components of net debt		2024 £m	2023 £m
Cash and cash equivalents		**3,378**	4,067
Debt-related derivative financial instruments (net)		**89**	22
Loans – non-current		**(7,713)**	(4,432)
Loans – current		**(699)**	(679)
Net debt (excluding lease liabilities)	KPI	**(4,945)**	(1,022)

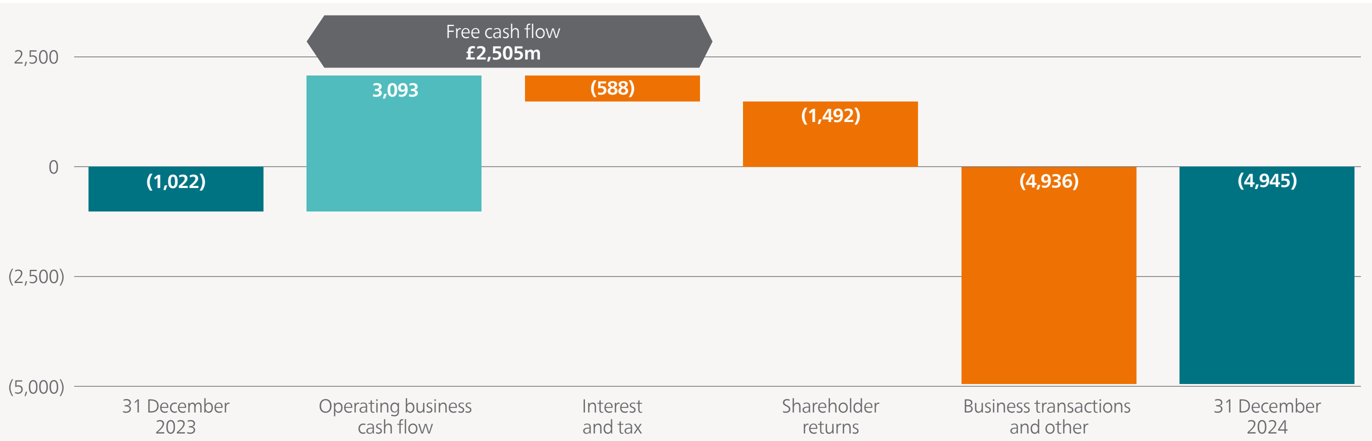
Cash and cash equivalents of £3,378m (2023 £4,067m) are held primarily for management of working capital as well as the repayment of debt securities, pension funding when required and committed shareholder returns. During the year, the Group cash-settled $1.5bn (£1.2bn) of the $5.5bn (£4.4bn) consideration for Ball Aerospace, with the balance funded from debt raised during the year.

The Group's net debt (excluding lease liabilities) at 31 December 2024 was £4,945m (2023 £1,022m), a net increase of £3,923m (2023 decrease of £1,001m) from the position at the start of the year. This was primarily as a result of M&A activities in the year, including the $5.5bn (£4.4bn) acquisition of Ball Aerospace which was partially funded by debt finance raised during the year.

For details of maturity of the Group borrowings see note 21 on page 181.

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

MOVEMENT IN NET DEBT (EXCLUDING LEASE LIABILITIES) (£m)



Balance sheet

		2024 £m	2023 £m
Goodwill		**13,297**	11,386
Other intangible assets		**2,965**	713
Property, plant and equipment, right-of-use assets and investment property		**6,636**	5,003
Equity accounted investments and other investments		**906**	916
Working capital		**(6,386)**	(5,468)
Lease liabilities net of finance lease receivables		**(1,817)**	(1,396)
Group's share of IAS 19 post-employment benefits surplus		**768**	229
Net tax assets and liabilities		**422**	474
Net other financial assets and liabilities		**(69)**	(112)
Net debt (excluding lease liabilities)	KPI	**(4,945)**	(1,022)
Net assets		**11,777**	10,723

Goodwill of £13.3bn (2023 £11.4bn) was an increase of £1.9bn on the prior year, driven by M&A activities including the acquisition of Ball Aerospace.

Other intangible assets of £3.0bn (2023 £0.7bn) was an increase of £2.3bn on the prior year, also driven by the acquisition of Ball Aerospace and other M&A activities.

Property, plant and equipment, right-of-use assets and investment property was £6.6bn (2023 £5.0bn), an increase of £1.6bn. Property, plant and equipment increased by a net £1.2bn, reflecting M&A activities and capex spend across the business, offset by depreciation.

Equity accounted investments and other investments was £906m (2023 £916m). The partial disposal of the Group's partial shareholding in Air Astana and disposal of its 49% interest in FNSS were offset by a net increase in the Group's share of profits of its remaining equity accounted investments.

Working capital saw a £0.9bn decrease, in aggregate, mainly reflecting the movement on customer advances and the impact of M&A activities.

Lease liabilities, net of finance lease receivables, was £1.8bn (2023 £1.4bn), with the increase being driven by lease renewals in the year, mainly in the Air sector.

The Group's share of the net IAS 19 post-employment benefits surplus was £0.8bn (2023 £0.2bn), net of a 25% (2023 35%) withholding tax of £0.4bn (2023 £0.4bn). The increase in the net surplus of £0.5bn largely reflects changes in the underlying assumptions. Details of the Group's post-employment benefit schemes are provided in note 24 to the Consolidated financial statements on page 183.

Cash flow

As defined by the Group		2024 £m	2023 £m
Free cash flow	KPI	**2,505**	2,593
Operating business cash flow		**3,093**	3,218
As derived from IFRS			
Net cash flow from operating activities		**3,925**	3,760
Net cash flow from investing activities		**(5,269)**	(541)
Net cash flow from financing activities		**695**	(2,188)
Net (decrease)/increase in cash and cash equivalents		**(649)**	1,031
Cash and cash equivalents at 1 January		**4,067**	3,107
Effect of foreign exchange rate changes on cash and cash equivalents		**(40)**	(71)
Cash and cash equivalents at 31 December		**3,378**	4,067

As defined by the Group

Free cash flow of £2,505m (2023 £2,593m) was above guidance, with higher than anticipated customer advances towards the end of the year together with good operational cash conversion.

Operating business cash flow of £3,093m (2023 £3,218m) was a decrease of £125m (2023 increase of £666m) driven by the increase in capex spend in the year, with over £1.0bn (2023 £0.8bn) being invested across our systems and facilities.

As derived from IFRS

Net cash flow from operating activities was £3,925m (2023 £3,760m), an increase of £165m (2023 £921m) primarily resulting from increased profitability of the Group in the year.

Net cash flow from investing activities was an outflow of £5,269m (2023 £541m). M&A investment in the year was significant with a number of acquisitions, including Ball Aerospace, accounting for a net cash outflow of £4.8bn. This was offset by cash proceeds of £194m from non-core business disposals in the year, including the partial disposal of the Group's partial shareholding in Air Astana, combined with interest and dividends from our equity accounted investments. There was no significant M&A activity in the comparative year. Capex also remained high, with over £1.0bn of cash invested in the year.

Net cash flow from financing activities was an inflow of £695m (2023 outflow of £2,188m), an increase of £2,883m (2023 decrease of £145m). Cash returns to shareholders, through dividend and share repurchases, increased £74m to £1,492m. Although dividends increased, the value of share repurchases was lower. Dividends paid represent the 2023 final dividend and the 2024 interim dividend. During 2024, we repurchased 43m shares under the 2022 and 2023 share buyback programmes (2023 59m shares under the 2022 share buyback programme). This year also saw a net cash inflow from debt financing in the year of £3,139m primarily to fund the Ball Aerospace acquisition (2023 £162m from a private placement).

Exchange rates

Average	2024	2023
£/$	**1.278**	1.244
£/€	**1.181**	1.150
£/A$	**1.938**	1.874
Year end		
£/$	**1.253**	1.275
£/€	**1.210**	1.154
£/A$	**2.023**	1.868

Guidance for 2025[1]

After a strong financial year for 2024, we look forward to continued top-line growth with increased return on sales and good free cash delivery against our rolling targets. Guidance is provided on the basis of an exchange rate of $1.28:£1, which is in line with the actual 2024 exchange rate.

Sales
expected to increase in the range of **7% to 9%**
2024 £28.3bn

Underlying EBIT
expected to increase in the range of **8% to 10%**
2024 £3,015m

Underlying EPS
expected to increase in the range of **8% to 10%**
2024 68.5p

Free cash flow target for 2025 **>£1.1bn**
2024 £2,505m

Underlying net finance costs
c.£400m

Effective tax rate
c.20%

Non-controlling interests
c.£90m

Sensitivity to foreign exchange rates: the Group operates in a number of currencies, the most significant of which is the US dollar. As a guide, a 5 cent movement in the £/$ exchange rate will impact sales by c.£525m, Underlying EBIT by c.£75m and Underlying EPS by c.1.4p.

Segmental guidance

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

Year ended 31 December 2025	Expected sales	Expected return on sales[2]
Electronic Systems	Up 8% to 10%	c.15%
Platforms & Services	Up 7% to 9%	c.11%
Air	Up 6% to 8%	11% to 12%
Maritime	Up 7% to 9%	c.8%
Cyber & Intelligence	Up 8% to 10%	8% to 9%

In 2025, the HQ reporting segment is expected to be an expense of c.£190m (2024 £184m).

Three-year cumulative free cash flow guidance

	Actual		Forecast		
	2023	2024	2025	2026	2027
2023–2025 in excess of £6.0bn (previously in excess of £5.0bn)	£2.6bn	£2.5bn	>£1.1bn		
2024–2026 in excess of £5.5bn (previously in excess of £5.0bn)		£2.5bn	>£1.1bn		
2025–2027 in excess of £5.5bn			>£1.1bn		

1. While the Group is subject to geopolitical and other uncertainties, the following guidance is provided on current expected operational performance. The guidance is based on the measures used to monitor the underlying financial performance of the Group. See the Alternative performance measures section on page 220.
2. Underlying EBIT as percentage of sales.

Segmental review

Year ended 31 December 2024	Financial performance measures as defined by the Group[1]						Financial performance measures as derived from IFRS				
	Sales £m (KPI)	Underlying EBIT £m (KPI)	Return on sales %	Operating business cash flow £m	Order intake £bn (KPI)	Order backlog £bn	Revenue £m	Operating profit £m	Return on revenue %	Net cash flow from operating activities £m	Order book £bn
Electronic Systems READ MORE PAGE 38 >	7,189	1,071	14.9	801	7.3	12.7	7,186	708	9.9	1,044	8.6
Platforms & Services READ MORE PAGE 40 >	4,390	448	10.2	732	7.4	14.3	4,344	456	10.5	976	13.6
Air READ MORE PAGE 42 >	8,519	1,007	11.8	1,243	8.3	26.8	6,880	1,009	14.7	1,359	15.6
Maritime READ MORE PAGE 44 >	6,187	474	7.7	436	8.7	23.2	6,002	465	7.7	734	22.3
Cyber & Intelligence READ MORE PAGE 46 >	2,411	199	8.3	139	2.4	1.8	2,411	182	7.5	194	1.3
HQ[2]	203	(184)	–	(258)	0.2	–	24	(135)	–	(207)	–
Deduct Intra-group	(564)	–	–	–	(0.6)	(1.0)	(535)	–	–	–	(1.0)
Deduct Tax[3]	–	–	–	–	–	–	–	–	–	(175)	–
Total	**28,335**	**3,015**	**10.6**	**3,093[4]**	**33.7**	**77.8**	**26,312**	**2,685**	**10.2**	**3,925**	**60.4**

We use financial performance measures as defined by the Group to monitor the underlying financial performance of the Group's reporting segments. The definitions and purposes of these alternative performance measures, and the reconciliations from these measures to the financial performance measures derived from IFRS, are provided in our Alternative performance measures section on page 220.

1. The definition and purpose of all performance measures defined by the Group are provided in the Alternative performance measures section on page 220.
2. HQ comprises the Group's head office activities, together with a 17% interest in Air Astana as at 31 December 2024.
3. Tax is managed on a Group-wide basis.
4. At a Group level, the key cash flow metric is free cash flow (see Alternative performance measures on page 220). In 2024, free cash flow was £2,505m (2023 £2,593m).

Electronic Systems

Electronic Systems, with 22,400[1] employees, comprises the Group's US- and UK-based Electronic Systems business and the US-based Space & Mission Systems business.

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

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

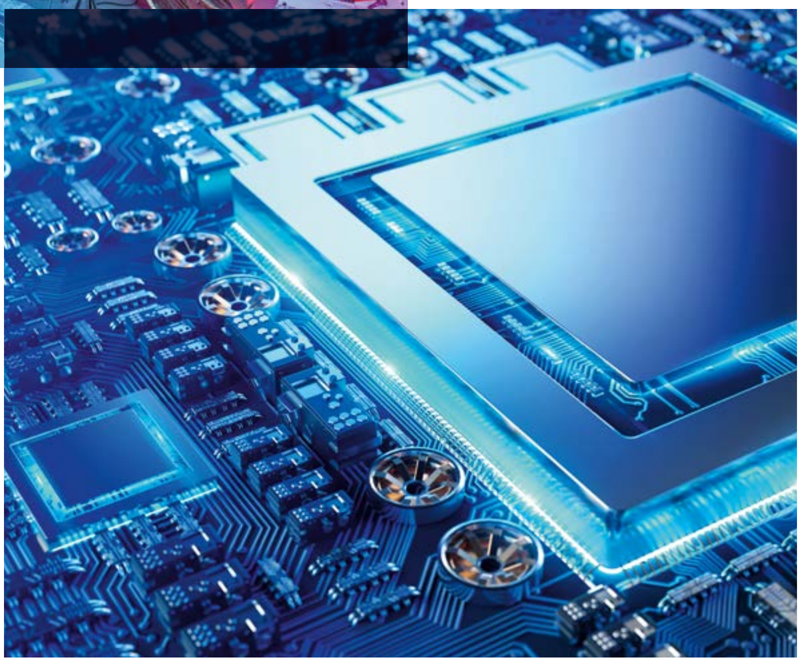
Countermeasure & Electromagnetic Attack Solutions provides next-generation threat detection, countermeasure and attack solutions that deliver full-spectrum electronic warfare capabilities to enhance mission survivability.

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

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

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

Space & Mission Systems delivers a range of products and differentiated technologies for civil, commercial and defence applications, including world-class instruments, spacecraft, tactical hardware, ground systems, data exploitation solutions and mission-enabling technologies.



Operational performance

We continued to experience strong demand across our customer base for Electronic Systems in 2024 as evidenced by our order intake. We supported existing customers on key electronic warfare and precision guided-munition programmes, while pursuing and maturing new opportunities.

After completing the Ball Aerospace acquisition in mid-February to form our SMS business, we have made excellent progress in integrating the organisation into our US operations. SMS is realising cost synergies and meeting key workforce integration milestones. It also continues to hold and reap benefits from 'synergy summits' to identify areas where our businesses can partner to pursue and capture new revenue opportunities for the US Intelligence Community, Department of Defense and civilian space agencies.

In our commercial businesses, airline traffic exceeded pre-pandemic levels, generating stronger demand for aftermarket services. However, Original Equipment Manufacturer demand schedules are recovering from supply chain and labour relation issues experienced by airframe manufacturers.

Key operational points for the year

- Our SMS team marked multiple satellite launches with our systems on board; the Weather System Follow-on Microwave satellite to bridge critical gaps in environmental monitoring capabilities for the US Space Force and NASA's Europa Clipper mission that will orbit Jupiter and conduct detailed observations of one of its moons.
- We completed testing and delivered the primary scientific instrument for the Nancy Grace Roman Space Telescope to NASA's Goddard Space Flight Center. The Roman Space Telescope is scheduled to launch by 2027 and we were selected as one of three teams to mature a next-generation stable optical system for the Habitable Worlds Observatory – NASA's next flagship astrophysics mission.
- The F-35 Lightning II programme completed deliveries on Lot 16 and is delivering Lot 17/18/DTIP+ electronic warfare (EW) systems for a cumulative total of over 1,600 EW systems as at year end.
- The US Air Force Commander of Air Combat Command declared the F-15EX programme of record had successfully achieved initial operating capability by delivering eight F-15EXs equipped with the Eagle Passive Active Warning Survivability System. BAE Systems is on contract through Boeing for Full-Rate Production Lot 5.

- The EA-37B programme is executing contracts, inclusive of international support, valued at more than $1.0bn (£0.8bn). The team is focused on the cross-decking of prime mission equipment to the new EA-37B aircraft while sustaining and upgrading the existing EC-130H fleet. We have delivered three EA-37B aircraft for formal testing and training to the US Air Force, which will evolve its electromagnetic attack capabilities.
- We are under contract to deliver additional Network Tactical Common Datalink production systems to support US Navy requirements for real-time intelligence, surveillance, reconnaissance, and command and control. Systems are currently being installed on US Navy aircraft carriers and Constellation-class guided-missile frigates.
- We delivered our first RAD510™ software development unit to a space customer. The RAD510 builds on our proven legacy of space processing to provide the next generation of radiation-hardened space computing. These software development units will enable our customers to integrate their software for testing prior to receiving flight units for their space systems.

Strategic and order highlights

- We continue to support the F-35 Block 4 EW modernisation that is on track to begin incremental production starting with Lot 17, with full lot complete by Lot 19.
- We were awarded the first task order of $116m (£91m), with follow-on production awards expected, to provide terminals and spares for the Multifunctional Information Distribution System Joint Tactical Radio System from Data Link Solutions, our joint venture with Collins Aerospace, Inc.
- Production continues on the APKWS® laser-guidance kit programme under an Indefinite Delivery, Indefinite Quantity (IDIQ) contract, and we demonstrated the APKWS counter-unmanned aircraft systems capability, leading to orders supporting both ground-to-air and air-to-air configurations.
- Our Navigation & Sensor Systems team received the annual order for military GPS receivers for strategic munitions under another five-year IDIQ contract with a major US defence prime.
- After receiving two new contracts in May on the National Oceanic and Atmospheric Administration's (NOAA) Geostationary Extended Observations (GeoXO) satellite constellation, SMS is contracted to build all three hyperspectral instruments for the mission totalling approximately $1.3bn (£1.0bn). The GeoXO satellites are expected to launch in the early 2030s as NOAA's current geostationary weather satellites near the end of their planned mission.

Financial performance

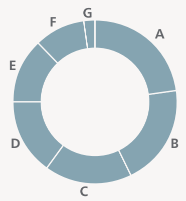
As defined by the Group

		2024	2023	Variance[2]
Sales	KPI	**£7,189m**	£5,458m	+35%
Underlying EBIT	KPI	**£1,071m**	£878m	+25%
Return on sales		**14.9%**	16.1%	–120bps
Operating business cash flow		**£801m**	£811m	£(10)m
Order intake[1]	KPI	**£7.3bn**	£6.7bn	£0.6bn
Order backlog[1]		**£12.7bn**	£8.9bn	£3.8bn

As derived from IFRS

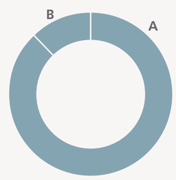
	2024	2023	Variance[2]
Revenue	**£7,186m**	£5,456m	+32%
Operating profit	**£708m**	£806m	–12%
Return on revenue	**9.9%**	14.8%	–490bps
Cash flow from operating activities	**£1,044m**	£961m	£83m
Order book	**£8.6bn**	£7.6bn	£1.0bn

Sales by line of business



A	Electronic Combat Solutions	**23%**
B	Space & Mission Systems	**20%**
C	C4ISR Systems	**17%**
D	Precision Strike & Sensing Solutions	**15%**
E	Controls & Avionics Solutions	**13%**
F	Countermeasure & Electromagnetic Attack	**10%**
G	Power & Propulsion Solutions	**2%**

Sales analysis: Defence and commercial



A	Defence	**88%**
B	Commercial	**12%**

MORE INFORMATION: FINANCIAL REVIEW PAGE 30 >

Looking forward

- Our Electronic Systems sector remains positioned for growth in the medium term. We maintain a diverse portfolio of defence and commercial products and capabilities for US and international customers and expect to benefit from applying innovative technology solutions to defence customers' existing and changing requirements, building on our significant roles on F-35 Lightning II, F-15 upgrades, EA-37B, M-Code GPS upgrades and classified programmes, as well as a number of precision weapon products.
- Over the long term, we are poised to build on our technology strengths in emerging areas of demand, including precision weaponry, space resilience, hyper-velocity projectiles, autonomous platforms and the development of multi-domain capabilities.
- In our commercial portfolio, we continue to leverage our electric drive propulsion capabilities to address growing demand for low- and zero-emission solutions across an increasing number of civil platforms, with opportunities to migrate these technologies to defence applications.
- In SMS, we continue to grow our expanding space portfolio, while also leveraging our proven capabilities in tactical systems to diversify our market presence. We continue to focus on cross-segment collaboration to identify new opportunities, unlock synergies and drive future growth.

1. Including share of equity accounted investments.
2. Growth rates for sales and underlying EBIT are on a constant currency basis. All other growth rates and year-on-year movements are on a reported currency basis.

Platforms & Services

Platforms & Services, with 11,600[1] employees and operations in the US, Sweden and the UK, manufactures and upgrades combat vehicles, weapons and munitions, and delivers services and sustainment activities, including US naval ship repair and the management and operation of two government-owned, contractor-operated ammunition plants.

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

Ordnance Systems Inc. manages the US Army's Holston and Radford ammunition plants under government-owned, contractor-operated agreements and focuses on explosives and propellants production and facility modernisation.

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

BAE Systems Hägglunds, based in Sweden, focuses on the tracked vehicle market for Swedish and international customers.

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

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

Operational performance

We have continued to scale operations to meet continued demand for our products and services, including munitions, tracked combat vehicles, artillery systems and support services.

In the US, our Combat Mission Systems team continues to produce at increased volumes across our key combat vehicle and naval programmes. Our US network of manufacturing facilities is delivering against customer demand, with support from our operations and engineering teams. We also continue to expand our production capabilities, whilst leveraging our investments in advanced manufacturing technologies, such as robotic welding capability, test and integration, paint and high-precision machining.

Our Hägglunds team continues to grow a record backlog of orders, with more contracts for CV90 combat vehicles for Sweden and partner nations looking to replenish combat vehicle fleets, mainly following donations in kind to Ukraine. In parallel, major upgrade programmes continue for existing fleets of CV90s for a number of nations.

In our support services operations, modernisation and maintenance activities continue in our US shipyards for the US Navy's non-nuclear fleet. In addition, the team is investing to expand our submarine manufacturing offering in order to meet the US Navy's shipbuilding requirements by taking on additional production programmes.

Across the US Army's two munitions facilities at the Radford and Holston ammunition plants, we are working to support the US Army's efforts to increase 155mm artillery ammunition production.

Financial performance

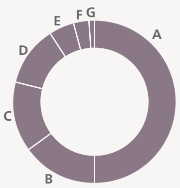
As defined by the Group

		2024	2023	Variance[2]
Sales	KPI	£4,390m	£3,922m	+15%
Underlying EBIT	KPI	£448m	£354m	+29%
Return on sales		10.2%	9.0%	+120bps
Operating business cash flow		£732m	£426m	£306m
Order intake[1]	KPI	£7.4bn	£7.7bn	£(0.3)bn
Order backlog[1]		£14.3bn	£11.5bn	£2.8bn

As derived from IFRS

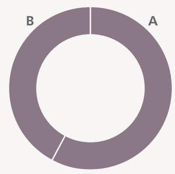
	2024	2023	Variance[2]
Revenue	£4,344m	£3,842m	+13%
Operating profit	£456m	£373m	+22%
Return on revenue	10.5%	9.7%	+80bps
Cash flow from operating activities	£976m	£624m	£352m
Order book	£13.6bn	£11.1bn	£2.5bn

Sales by line of business



A	Combat Mission Systems	50%
B	US Ship Repair	15%
C	BAE Systems Hägglunds	14%
D	Ordnance Systems	12%
E	BAE Systems Bofors	5%
F	Weapon Systems UK	3%
G	FNSS	1%

Sales analysis: Platforms and services



A	Platforms	58%
B	Services	42%

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Key operational points for the year

- Full-rate production of the US Army's AMPV programme is underway and we are delivering all five variants in the family of vehicles to Armored Brigade Combat Teams. The team has invested in the development of four additional AMPV prototypes, each featuring different mission equipment packages, further demonstrating the modular platform's future capability options. The US Marine Corps is also growing its fleet of ACVs, which had its first successful operational deployment.
- Our Hägglunds team continues to ramp up production capabilities with investments of more than $200m (£160m) in advanced manufacturing capabilities, a new customer test and acceptance centre and additional office space. A third weld line for CV90s is under construction and expected to be operational in 2026.
- We continue to progress a modern shiplift and land-level repair complex at our Jacksonville, Florida, shipyard that is expected to be operational in 2025.
- Two portfolio-adjusting transactions completed in December: the sale of our 49% share of our Turkish joint venture FNSS to partner Nurol Holdings and the sale of the Anniston Forge and Spares business in Alabama, US.

Strategic and order highlights

- Our Combat Mission Systems team secured a $754m (£590m) order from the US Army for the second phase of AMPV full-rate production, securing production through to February 2027. We also received a follow-on contract to this second phase for additional AMPVs, valued at $184m (£144m).
- We secured a five-year contract, valued up to $318m (£249m), from the US Army to perform technical and sustainment support services for its fleet of M109A6 and A7 Self-Propelled Howitzers and their companion, M992A3 Ammunition Carriers. In addition, we received a $493m (£386m) contract for additional orders of the M109A7 and M992A3, extending new production through to July 2026.
- Using supplemental funding, the US Army contracted BAE Systems to deliver conversions of legacy analogue Bradleys to the modern A4 variant. The most recent September and December contracts, jointly worth over $800m (£626m), include the conversions of more A4 variants, some of which are replacing the Bradleys the US Government has provided to Ukraine. These production contracts extend vehicle deliveries into 2027.
- In the first half, our Hägglunds business signed a framework agreement with the Danish Ministry of Defence to provide repair and maintenance services for the Danish Army's CV90s over a 15-year period, worth approximately $355m (£278m) including options.
- Building on an initial contract in May, our Hägglunds business received orders in December bringing the total value to approximately $2.5bn (£2.0bn) for CV9035 MkIIIC vehicles for both Sweden and Denmark. In addition to spares, logistics and training support, the agreement includes more than 165 new-build vehicles, plus some vehicles for Ukraine.
- Our US Ship Repair business received multiple US Navy contracts in the year supporting backlog into 2025. Our Jacksonville Ship Repair business was awarded contracts by General Dynamics Electric Boat for deck module fabrication for both US Navy Columbia- and Virginia-class submarines.

Looking forward

- We continue to shape our business to deliver on increased demand from US and international customers for production and sustainment of combat vehicles and artillery systems. We are also maintaining our position as a key supplier of US Army combat vehicles through our AMPV, M109A7 and M88 franchises. In addition, following the performance of Bradley in Ukraine, we are working with the US Army to develop the most advanced Bradley configuration to date, the M2A4E1, which features an enhanced range of defence capabilities. We are seeing increased international interest in these products.
- Across our Swedish businesses, we continue to build a growing pipeline of business opportunities for the CV90, BvS10 and Beowulf from our Hägglunds business, as well as for artillery, naval and air defence systems and munitions from our Bofors business.
- We are maintaining our strong positions on naval guns, missile launch and submarine programmes, as well as US Navy ship repair and modernisation activities where the business has invested in capitalised infrastructure and facilities in key home ports.

1. Including share of equity accounted investments.
2. Growth rates for sales and underlying EBIT are on a constant currency basis. All other growth rates and year-on-year movements are on a reported currency basis.

Air

Air, with 27,800[1] employees, comprises the Group's UK-based air build and support activities for European and international markets, US programmes, development of our Future Combat Air System and FalconWorks®, alongside our business in the Kingdom of Saudi Arabia and interests in our European joint ventures: Eurofighter and MBDA.

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

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

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

Operational performance

We continue to work with our UK and international customers to support their existing platforms and provide new enhanced capabilities. Deliveries of Typhoon aircraft to Qatar continue, alongside support to the in-service fleet. Our US Programmes division remains focused on delivery execution across all production lines. Our Future Combat Air and FalconWorks® organisations continue to invest in our people, facilities and cutting-edge technologies.

Key operational points for the year

- In the Kingdom of Saudi Arabia, we continued to deliver services under the five-year Saudi British Defence Co-operation and Salam programmes, including our support to the Royal Saudi Air Force's Tornado and Typhoon fleets.
- Activity on our Qatar Typhoon and Hawk programmes continued with four Typhoon deliveries in the year. 22 Typhoon aircraft have entered into service with the Qatar Emiri Air Force.
- Development continued on the UK's Flying Combat Air Demonstrator, which will test the next-generation skills, tools, processes and techniques needed to underpin GCAP and the entry into service of the core aircraft platform, which will be called Tempest in the UK.
- Through FalconWorks®, we continue to invest in promising new and innovative technologies for the future, including the development of uncrewed systems in collaboration across industry. PHASA-35®, our persistent high-altitude solar-powered aircraft, completed another successful stratospheric flight trials programme during the year.

Strategic and order highlights

- We have agreed to form a joint venture with Leonardo in Italy and JAIEC in Japan, subject to regulatory approvals, for the design and development of a next-generation combat aircraft, under GCAP.
- Alongside this, concept and assessment work on GCAP continues with our international partners in Italy and Japan under our respective national contracts.
- We also confirmed orders for our workshare on an additional 25 Typhoon aircraft for the Spanish Air Force and for an order for up to 24 Typhoon aircraft for the Italian Air Force. These were valued at a combined initial total of £1.1bn.
- We sustained production of the rear fuselage assemblies for the F-35 at full-rate levels at our Samlesbury site in the UK, with 152 aft fuselages completed, and agreed pricing with Lockheed Martin for F-35 production lots 18/19. This supports the continuation of production deliveries at Samlesbury into 2027.
- During the first half of 2024, we completed the acquisitions of Malloy Aeronautics and Callen-Lenz, strengthening our position in the fixed wing and rotary UAS domains.
- MBDA continued to secure significant orders through 2024. These include a large production order from the Polish Armament Agency to supply launchers and CAMM-ER (Common Anti-Air Modular Missile Extended Range) for the NAREW Air Defence System. Other air defence production orders were received for Aster missiles for the Italian Armed Forces, Patriot GEM-T missiles (under the European Sky Shield Initiative via the COMLOG Joint Venture) for the NATO Support and Procurement Agency, and an expansion of Sea Ceptor with CAMM to include the Polish, Swedish and Saudi Arabian navies.

Financial performance

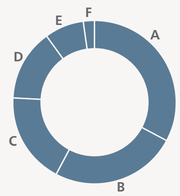
As defined by the Group

		2024	2023	Variance[2]
Sales	KPI	**£8,519m**	£8,058m	+7%
Underlying EBIT	KPI	**£1,007m**	£949m	+7%
Return on sales		**11.8%**	11.8%	–
Operating business cash flow		**£1,243m**	£1,669m	£(426)m
Order intake[1]	KPI	**£8.3bn**	£11.0bn	£(2.7)bn
Order backlog[1]		**£26.8bn**	£27.2bn	£(0.4)bn

As derived from IFRS

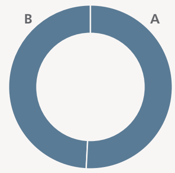
	2024	2023	Variance[2]
Revenue	**£6,880m**	£6,517m	+6%
Operating profit	**£1,009m**	£948m	+6%
Return on revenue	**14.7%**	14.5%	+20bps
Cash flow from operating activities	**£1,359m**	£1,808m	£(449)m
Order book	**£15.6bn**	£18.5bn	£(2.9)bn

Sales by line of business



A	Kingdom of Saudi Arabia	**33%**
B	European and International Markets	**25%**
C	MBDA	**18%**
D	US Programmes	**14%**
E	Future Combat Air System	**8%**
F	FalconWorks®	**2%**

Sales analysis: Platforms and services



A	Platforms	**51%**
B	Services	**49%**

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Looking forward

- GCAP is a strategically important partnership that will foster innovation, technological advancements and safeguard long-term industrial capability to design, develop, manufacture and maintain combat aircraft and the wider systems within which they will operate in the UK.
- We will continue to focus on ensuring that deliveries of Typhoon aircraft and support are made in line with agreed customer milestones. Future Typhoon production and support sales are underpinned by existing contracts and discussions continue to secure potential further contract awards.
- We expect production of the rear fuselage assemblies for the F-35 to be sustained at current levels. We play a significant role in the F-35 sustainment programme in support of Lockheed Martin and support volumes should increase as the number of jets in service continues to rise.
- In the Kingdom of Saudi Arabia, the In-Kingdom Industrial Participation programme continues to make good progress consistent with our long-term strategy, whilst supporting the Kingdom's National Transformation Plan and Vision 2030. This included a further package of industrialisation agreed during 2024 on our Salam programme.
- We expect our Saudi in-Kingdom support business to remain stable, underpinned by long-standing contracts, while we continue to address the Kingdom's current and future combat air requirements.
- Our FalconWorks® organisation will continue to pursue internal and external investment opportunities which enhance our capabilities and technologies.
- MBDA has a strong order backlog. Development programmes continue to improve the long-term capabilities of the business in air, land and sea domains. MBDA continues to be well placed to benefit from increased defence spending in Europe and internationally.

1. Including share of equity accounted investments.
2. Growth rates for sales and underlying EBIT are on a constant currency basis. All other growth rates and year-on-year movements are on a reported currency basis.

Maritime

Maritime, with 30,100[1] employees, comprises the Group's UK-based maritime and land activities, including ship build and support activities, major submarine build programmes, as well as our Australian business.

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

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

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

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

Operational performance

Our major Maritime platform programmes continue to progress. We have delivered five of the seven Astute Class submarines to the Royal Navy and continue construction on the first three Dreadnought Class submarines.

Construction of the first five UK Type 26 frigates and first Australian Hunter Class frigate is also underway, while we continue to deliver on customer requirements in both Munitions and Maritime Services. Ongoing investments in our facilities and our people support our delivery and, with the future potential of the AUKUS trilateral programme, the sector is well positioned for growth.

Key operational points for the year

- We launched the sixth Astute Class submarine, Agamemnon, marking the start of its in-water phase, while we continue construction on the final vessel in the class.
- We continued to make progress on the four Dreadnought Class submarines, with advancing levels of construction underway on the first three submarines in the class, at our site in Barrow-in-Furness, UK.
- On the Type 26 frigate programme of eight ships, investment continues both internally and within the supply chain to support delivery, with the transition from design to production remaining a key area of focus. HMS Glasgow is progressing from final outfit through to the key stages in her test and commissioning phase in advance of first of class sea trials. The second of class, HMS Cardiff, entered the water in August, before transitioning to our Scotstoun shipyard for further outfit in advance of testing and commissioning. Unit construction continues on HMS Belfast and HMS Birmingham at our Govan shipyard. Cut steel on the fifth ship, HMS Sheffield, took place in November.
- In October, there was a fire in our Devonshire Dock Hall facility in Barrow-in-Furness, UK, the impact of which is currently being assessed.
- In Australia, we successfully completed the Hunter Class Frigate Programme Production Readiness Review and entered the construction phase, officially cutting steel on the first ship in June.

- Alongside this, the upgrade and sustainment of the Anzac Class frigates continues to progress with the penultimate ship, HMAS Ballarat, being returned to water. The final ship, HMAS Parramatta, is expected to be returned in 2025.
- We made good progress on the installation of Radar 1 as part of the JORN Phase 6 upgrade with successful completion of half-radar trials enabling our team to start the full upgrade.
- Investment activity across our Munitions business continues at pace. This includes an additional manufacturing line in Washington, UK, and an explosives filling facility in Monmouthshire, UK.
- In RBSL, the Challenger 3 programme has delivered four prototype series vehicles, with two of those vehicles completing the initial phase of trials. A further four prototype series vehicles will be completed in 2025, two of which are nearing completion, ahead of entering the next phase of trials in 2025.

Strategic and order highlights

- In Australia, the release of the Surface Combatant Review confirmed the Government's commitment to the production of six Hunter Class frigates, with the contract for the first batch of three ships awarded in June. Following the cancellation of the TransCAP element of the Anzac Class frigate upgrade programme, we are working with the Commonwealth to determine the appropriate use of our Henderson facility in Western Australia.
- We secured an order of £958m for the continuation of funding for Dreadnought Boats 2 to 4.
- In March, as part of the AUKUS trilateral security pact, the Australian Government announced its selection of BAE Systems and ASC Pty Ltd (ASC) to deliver Australia's SSN-AUKUS submarines. In December, we were awarded the first Tasking Statement under the mobilisation arrangements, following successful government-to-government engagement to initiate Australia's SSN-AUKUS build programme.
- The Ministry of Defence awarded our Combat Systems team within our Naval Ships business a £285m contract to support the Royal Navy's Shared Infrastructure, Combat Management Systems and warship networks.
- The build of our new Ship Build Assembly Hall in Govan, UK, is maturing to schedule and we expect it to be fully operational in 2025. Our Applied Shipbuilding Academy in Glasgow, UK, opened in July, and is already proving to be a key training facility for our Naval Ships' current and future workforce. Read more on page 13.

Financial performance

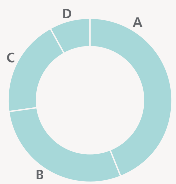
As defined by the Group

		2024	2023	Variance[2]
Sales	KPI	**£6,187m**	£5,536m	+12%
Underlying EBIT	KPI	**£474m**	£425m	+12%
Return on sales		**7.7%**	7.7%	–
Operating business cash flow		**£436m**	£291m	£145m
Order intake[1]	KPI	**£8.7bn**	£10.1bn	£(1.4)bn
Order backlog[1]		**£23.2bn**	£21.3bn	£(1.9)bn

As derived from IFRS

	2024	2023	Variance[2]
Revenue	**£6,002m**	£5,391m	+11%
Operating profit	**£465m**	£423m	+10%
Return on revenue	**7.7%**	7.8%	–10bps
Cash flow from operating activities	**£734m**	£629m	£105m
Order book	**£22.3bn**	£20.4bn	£1.9bn

Sales by line of business



A	Submarines	**44%**
B	Naval Ships	**29%**
C	Australia	**19%**
D	Land UK	**8%**

Sales analysis: Platforms and services

A	Platforms	**71%**
B	Services	**29%**

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Looking forward

- Our Submarines business is executing across three long-term programmes: Astute, Dreadnought and SSN-AUKUS. Our focus remains on strengthening our workforce, supply chain and infrastructure to provide the capability, capacity and resilience required to deliver these long-term programmes.
- We will work with ASC to deliver initial mobilisation activities to support Australia's SSN-AUKUS submarine build programme.
- We submitted design and production outputs for the Canadian River Class destroyer to enable our partner, Irving Shipbuilding Inc., to manufacture the production test module in Canada.
- In Australia, we are a key partner to the Commonwealth in the delivery of its National Defence Strategy (NDS), which seeks a strategy of denial and an integrated, focused force. AUKUS nuclear-powered submarines, an enhanced lethality surface fleet, strategic surveillance and long-range strike are prioritised in the Integrated Investment Plan which supports the NDS.
- As the UK Ministry of Defence's long-term strategic partner for munitions supply, we continue to focus our operations in support of the UK Ministry of Defence and the UK's NATO allies, as well as other customers.

1. Including share of equity accounted investments.
2. Growth rates for sales and underlying EBIT are on a constant currency basis. All other growth rates and year-on-year movements are on a reported currency basis.

Cyber & Intelligence

Cyber & Intelligence, with 10,900[1] employees, comprises the US-based Intelligence & Security business and UK-headquartered Digital Intelligence business and covers the Group's cyber security activities for national security, central government and government enterprises.

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

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

Integrated Defense Solutions provides the US Army and Navy with systems engineering, integration, and sustainment services for critical weapon systems, C5ISR (Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance and Reconnaissance) and cyber security that enhance mission effectiveness.

Our solutions are deployed across platforms and networks in the air, maritime, land and cyber domains.

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

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

Operational performance

Our Intelligence & Security business performed well, delivering innovative solutions to government customers within the US Department of Defense, federal agencies and civilian organisations. We continue to focus on maintaining a robust pipeline of qualified business opportunities to provide ongoing mission-critical integration capabilities that address evolving customer and national security requirements.

Our Digital Intelligence business saw continued demand in the security market and rigorous cost control helped to compensate for constrained customer budgets in other areas.

Key operational points for the year

- As part of the Ball Aerospace acquisition in February, we acquired Topaz Intelligence, which expands our modelling and simulation portfolio to provide data intelligence-as-a-service to drive agile decision-making for customers.
- Through our Bohemia Interactive Simulations business, we secured a follow-on development and production order from the US Army PEO-STRI for VBS4, Mantle and BlueIG product licences in support of the Training Simulation Software and Training Management Tools programme to address advanced US Army-wide training solutions.

– Our Air and Space Force Solutions business continues to expand its presence under the Instrumentation Radar Support Program providing support to 33 ranges around the world for the US Army, US Navy, US Air Force, US Space Force, Department of Energy, NASA and various international ranges. During 2024, we were awarded 250+ task orders valued at $198m (£155m). Under this contract, we will provide six mobile mechanical and multiple object radar tracking systems, systems engineering and range support activities.
– In our Digital Intelligence business investment in our product portfolio continues, with good progress made on developing cross-domain products for the US and other international markets, low Earth orbit satellites and multi-domain network solutions for the defence market.

Strategic and order highlights

– Our Intelligence Solutions business secured over $300m (£235m) in task orders on an IDIQ contract from an agency. Task orders include delivery of analytics support for critical and core mission functions to the agency and its mission partners.
– We were notified, in June 2024, that the Government Accountability Office had sustained our protest on the Integration Support Contract (ISC) 2.0 procurement and recommended the US Air Force take additional corrective action. The Air Force subsequently cancelled the solicitation. In January 2025, we were awarded an extension to our current ISC services contract with options through to July 2027, with an increased programme ceiling value of nearly $1.2bn (£0.9bn).
– Our Integrated Defense Solutions business was awarded a cost-plus-fixed-fee contract worth $122m (£95m) for systems engineering and integration services and expert studies in support of the US Trident II Strategic Weapons Systems Program and D5LE2 Life Extension 2 Strategic System Programs Alteration.
– We also secured a $251m (£196m) contract from the US Navy for on-site technical expertise and system engineering to validate total AEGIS ship combat system design in support of the US Navy, Missile Defense Agency and foreign militaries.
– Our Integrated Defense Solutions business was also awarded multiple re-compete contracts in the year with a combined total potential lifecycle value of over $500m (£391m).

Financial performance

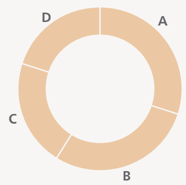
As defined by the Group

		2024	2023	Variance[2]
Sales	KPI	**£2,411m**	£2,321m	+6%
Underlying EBIT	KPI	**£199m**	£199m	+2%
Return on sales		**8.3%**	8.6%	–30bps
Operating business cash flow		**£139m**	£204m	£(65)m
Order intake[1]	KPI	**£2.4bn**	£2.5bn	£(0.1)bn
Order backlog[1]		**£1.8bn**	£2.0bn	£(0.2)bn

As derived from IFRS

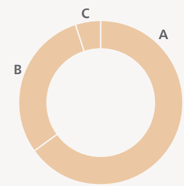
	2024	2023	Variance[2]
Revenue	**£2,411m**	£2,321m	+4%
Operating profit	**£182m**	£179m	+2%
Return on revenue	**7.5%**	7.7%	–20bps
Cash flow from operating activities	**£194m**	£261m	£(67)m
Order book	**£1.3bn**	£1.4bn	£(0.1)bn

Sales by business



A	Digital Intelligence	**30%**
	Intelligence & Security:	
B	Intelligence Solutions	**29%**
C	Integrated Defence Solutions	**21%**
D	Air & Space Force Solutions	**20%**

Sales by customer



A	US Government	**65%**
B	UK and other governments	**30%**
C	Other	**5%**

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– Our acquisition of Kirintec in Digital Intelligence further expands our product offering. Kirintec specialises in: cyber and electromagnetic activities; counter-improvised explosive devices; and counter-uncrewed aerial vehicle products for military customers. Our Digital Intelligence team will look to leverage this capability to accelerate growth in the defence market in the UK and internationally.

Looking forward

– Our Intelligence & Security business maintains a strong pipeline of qualified business opportunities. While there have been some delays in procurement decisions from the US Department of Defense, we are seeing an increase in demand driven by persistent global security challenges.
– The US defence services market remains fiercely competitive and can change quickly based on US government priorities. Our Intelligence Solutions business has identified cyber security as a key focus area for business growth and we continue to pursue opportunities in the Intelligence Community, federal/civilian agencies and the US Department of Defense.
– We are actively broadening our wargaming capabilities across new markets and customers, both in the US and internationally. This strategy enhances our growth potential and diversification in the modelling, simulation and synthetic training environment in support of a positive outlook for this market area.
– In Digital Intelligence, we will continue to progress the transformation roadmap to ensure the business is well placed to take advantage of favourable market conditions over the medium and long term, whilst also driving operational efficiencies, through system integration and a simplified organisational structure.

1. Including share of equity accounted investments.
2. Growth rates for sales and underlying EBIT are on a constant currency basis. All other growth rates and year-on-year movements are on a reported currency basis.

Responsible business

We are committed to being a responsible business and doing our part to create and secure a sustainable future.

Our approach to responsible business is driven from the top down by our Chief Executive and integrated throughout the business from our strategy, our governance systems and policies, to the integrated financial planning process and business review cycles.

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

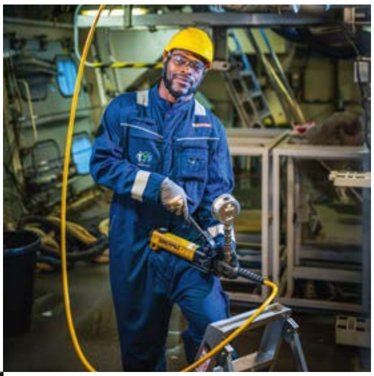
Our Board Environmental, Social and Governance (ESG) Committee provides oversight, input and assurance of the Group's agenda and progress, including approving the ESG-related objectives and targets that form part of our executive incentives.

At each meeting, the Committee receives input from both senior management and the Group's subject matter experts.

The Committee routinely reviews data and participates in site visits and meetings to engage directly with employees and hear their views. This dialogue enables the Committee to reflect employee perspectives in boardroom discussions.

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

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



Climate and the environment

The following pages outline the progress we have made in advancing and integrating our decarbonisation strategy and progress against our targets.

Our decarbonisation strategy addresses our material climate-related risks, underpinning both future business resilience and delivery of capability to our customers.

The long-term nature of our projects and order backlog, stretching out to 2040 and beyond, mean we consider climate-related risks across longer time horizons. Mitigation plans are embedded in both our sectors' five-year business plans and our ongoing Business Continuity Management systems. We assess the impact of our predicted business growth to ensure both our energy and infrastructure strategies are aligned to our decarbonisation pathways.

Our decarbonisation strategy includes:

- assessing the physical and strategic impacts of our sites and operations on our ability to achieve our near-term GHG emissions reduction target across our operations (Scope 1 and 2) by 2030;
- supporting our customers on their climate goals by developing energy efficient products and services whilst maintaining military operational advantage;
- engaging and developing the skills and capabilities of our employees to drive innovative solutions for energy management and efficiency across our operations and the product lifecycle;
- seeking to mitigate adverse environmental impacts and being good stewards of the environment in the locations where we operate;
- climate advocacy through partnering and collaborating with defence peers, through industry associations, and with academia and government to address climate and environment matters; and
- working with our local communities to support decarbonisation initiatives.

How we manage climate-related risk

Climate and environmental risk is embedded in our approach to risk management (see page 55). We have identified and assessed climate-related physical and transition risks as part of our decarbonisation strategy. Climate and environmental risk is addressed within the Group's principal risks: climate transition and environmental factors; business interruption; and legal risk (see pages 63 to 65).

Decarbonising our operations

The decarbonisation of our operations underpins business resilience over the long term by managing the material climate-related physical and transition risks of our sites and operations.

We have reviewed the language of our near-term reduction targets to reflect the currently accepted market definition of net zero (which encompasses Scopes 1, 2 and 3); and considered current practice on offsetting. Our 2030 reduction target focuses on Scopes 1 and 2 only. To this end, we have revised the language of our target from 'achieving net zero GHG emissions across our operations (Scopes 1 and 2) by 2030' to 'reduce greenhouse gas emissions across our operations (Scopes 1 and 2) by 2030'. We continue to work towards our long-term target of 'working towards a net zero value chain by 2050'.

Our near-term target and KPI, embedded in long-term incentives (see page 113), is to reduce GHG emissions across our operations (Scopes 1 and 2) by 4.2% year-on-year. Against this target, we have achieved a 6.0% GHG emissions reduction, excluding our SMS business, in 2024. Post the integration of SMS into our environmental data systems during 2024, in line with our GHG basis of reporting and methodology statement, during 2025 we will be recalculating our 2020 GHG emissions baseline to include the GHG emissions of this business.

During 2024, our overall GHG emissions increased by 6.0%, due to the integration of SMS and its associated GHG emissions into the Group (see page 50).

We have continued to progress activities to meet our near-term target. During 2024, we established a renewable energy strategy to address the transfer of electricity sourcing to renewable energy across our sites, providing energy security and future price certainty for the Group. We have included growth projections within the strategy, which we review regularly. We now have power purchase agreements in place covering wind and solar projects, which support our transition to renewable energy from 2024. In the UK, at the end of 2024, 44% of our current electricity requirements were met by renewable energy sources. We plan to have 90% of our global electricity requirement met from renewable sources by 2030.

Site consolidation, new-build and refurbishment projects provide further opportunities for us to optimise and reduce our energy consumption. We have significant capital investment planned across our UK sites over the next 10 years and are integrating decarbonisation considerations within our infrastructure programme, incorporating energy efficiency and modern building standards into both refurbishments and new buildings.

We are seeking to reduce energy use across our sites and, where possible, switch to low carbon alternatives to heat our buildings. Projects include; metering, LED lighting installations, energy switching for fleet vehicles and initial investments in heat pump and other gas-alternative heating systems.

Some examples of our innovative approach include the use of infra-red 'person heating' pads at our shipyards in Scotland and a feasibility study for hydrogenated vegetable oil for our submarine machinery testing system.

Compliance with Task Force on Climate-related Financial Disclosures (TCFD)

In line with our obligation under UK Listing Rule 6.6.6R(8), we can confirm that we have made disclosures consistent with the TCFD Recommendations and Recommended Disclosures (including the implementing guidance set out in the 2021 TCFD Annex), save for – Metrics and Targets, part b.

During 2024, we progressed internal workstreams to understand the GHG emissions associated with Scope 3 data, but we are not currently in a position to disclose our total Scope 3 emissions data.

During 2025, we will continue to progress internal workstreams to better our understanding of our Scope 3 GHG emissions related to our suppliers and products and we expect to be able to report data by 2026.

Please go to page 226 to view a table that summarises our disclosures relating to the four TCFD Recommendations and 11 Recommended Disclosures as required by UK Listing Rule 6.6.6R(8).

Climate and the environment continued

Our priority is to reduce our carbon emissions as much as practicable and we are working to minimise exposure to offsets. In parallel, we are also developing a responsible strategy to implement offsets as appropriate.

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

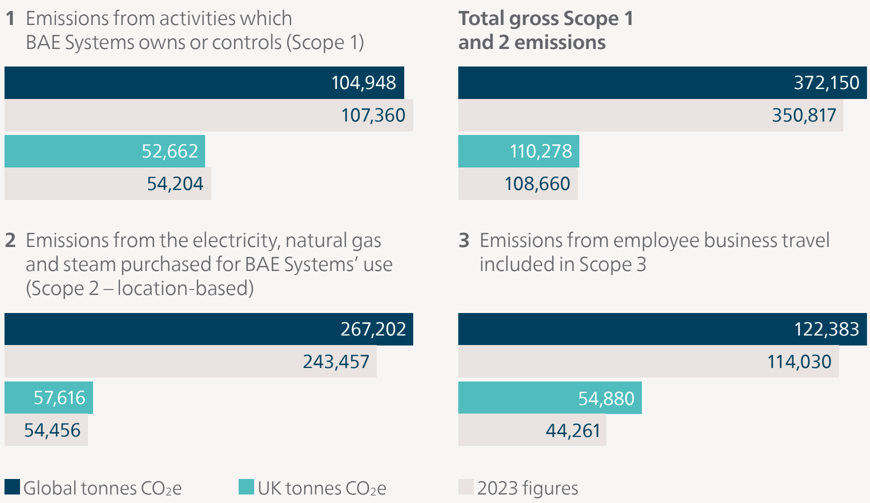
We have analysed all our global sites (510) for climate-related physical risks, mapping against climate scenarios and temperature pathways across an 80-year outlook. We are now working with the 66 sites we have identified as having a higher potential exposure to climate-related risk over that period. For each site, we are considering the potential impact on both the site and business continuity, and reviewing facilities management and business continuity plans to ensure appropriate mitigation is in place.

Value chain

We continued to work with our customers to develop and deliver products and services that support their operational performance and capability, whilst developing an energy efficient pathway and embedding environmental considerations within the overall platform or capability.

The products and services we make now and in the future need to operate under different climate temperature scenarios over the long-term. Our customers already operate today in diverse temperature and bio-diverse environments, supporting interoperability role requirements from NATO, and address logistical challenges globally – these environments are only expected to become more volatile as a consequence.

GHG emissions data[1,2]



OTHER SUSTAINABILITY INFORMATION/GHG METHODOLOGY STATEMENT PAGE 232 >

1. Relevant reporting period 1 January 2024 to 31 December 2024. The GHG emissions data includes the SMS business and its associated GHG emissions. Comparative information covers the reporting period from 1 November 2022 to 31 October 2023 and excludes the SMS business and its associated omissions.
2. Deloitte has provided independent limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) and Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the International Auditing and Assurance Standards Board (IAASB). Deloitte's full unqualified assurance opinion, which includes details of the selected metrics assured, can be found at baesystems.com/annual-report.

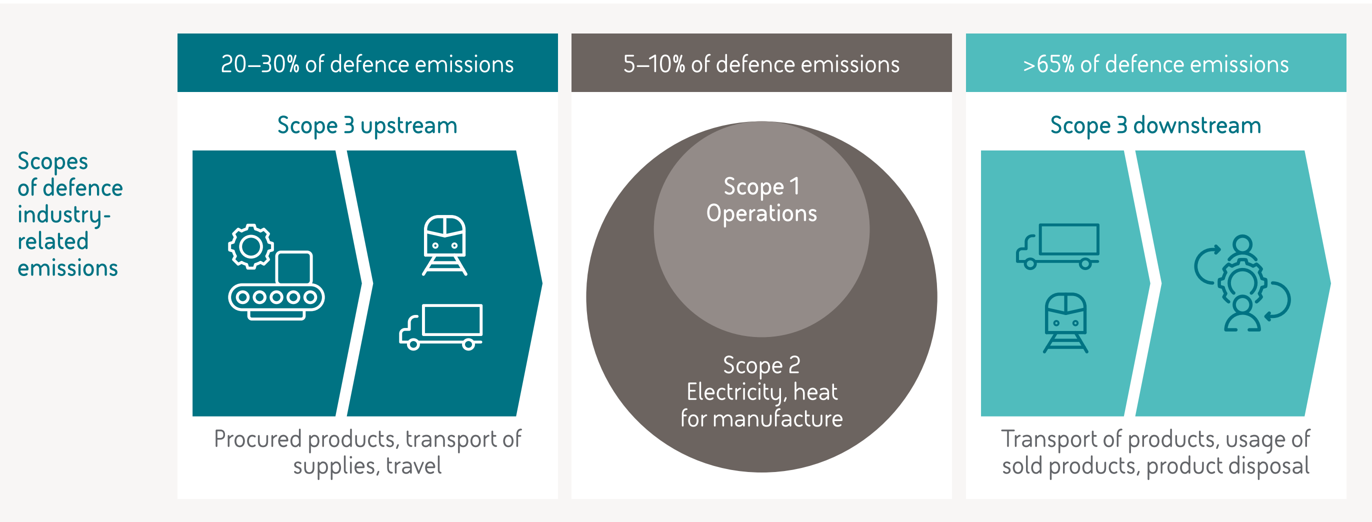
We are innovating to drive decarbonisation of products and services for customers to deliver energy security, resilience and adaptation. We intend to achieve this through:

- energy efficiency;
- alternate fuels and in situ energy production;
- electrification programmes; and
- new technology opportunities.

20–30%[3] of defence industry emissions come from upstream activities, so it is key that we collaborate and partner with our suppliers. We estimate, using recognised spend methodology, that 80% of our carbon emissions come from less than 4% of suppliers. We are prioritising engaging with these suppliers, many of whom already have active decarbonisation programmes in place.

We are expanding our understanding of climate-related impacts on material scarcity and supplier resilience.

ANALYSIS OF EMISSIONS FOR DEFENCE COMPANIES – ADAPTED FROM BOSTON CONSULTING GROUP REVIEW 2022[3]



3. Roland Berger – Defence Zero Volume 1: Military emissions and potential solutions https://www.asd-europe.org/focus-areas/innovate/sustainable-defence/understanding-greenhouse-gas-emissions-from-defence.

Environmental stewardship

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

- using energy efficiently; and
- reducing all types of waste (eg hazardous, non-hazardous, radioactive) where we can.

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

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

We are taking a business-led approach to setting reduction targets for waste and driving improvement programmes and activities to support responsible consumption. We have a pilot programme underway to explore lean optimisation of manufacturing processes and alignment to operational KPIs and identify how we can reduce consumption and waste.

Biodiversity and natural capital

Loss of natural habitats poses various risks to both the environment and society. We continue to undertake surveys and assessments to better evaluate how our facilities and operations impact the surrounding natural habitat.

Operationally, we are considering how we protect natural habitats, conserve protected species and manage invasive species in and around our sites.

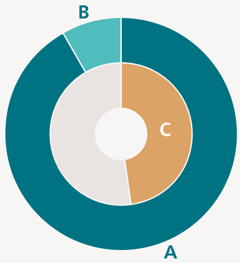
We are also considering the value of natural capital at some of our key sites, eg the role vegetation plays in preventing coastal erosion.

Employee engagement

We recognise that climate change and environment are of interest to many of our employees. We welcome and actively encourage their input and suggestions to our programmes. In 2024, we ran a Company-wide competition, Sustainability Showdown, inviting employees to input actions they had taken at work or home to reduce environmental impacts. Together, we recorded more than 77,000 actions taken.

Key environmental data

Waste production (tonnes)[1]

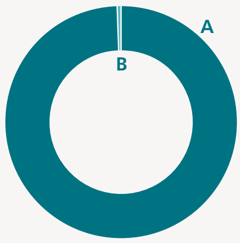


48% recycled

(2023 48%)

		2024	2023
A	Non-hazardous	**55,305**	58,482
B	Hazardous	**4,952**	9,308
	Total	**60,257**	67,790
C	Recycled	**29,200**	32,870

Electricity consumption (kWh)



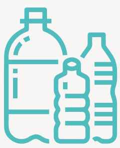
0.3% renewable

(2023 0.3%)

		2024	2023
A	Grid	**803,847,418**	755,301,151
B	Renewable	**2,505,945**	2,083,735
	Total	**806,353,363**[2]	757,384,886

OTHER SUSTAINABILITY INFORMATION/ GHG METHODOLOGY STATEMENT PAGE 232 >

SUSTAINABILITY SHOWDOWN – EMPLOYEES RECORDED MORE THAN 77,000 ACTIONS



4.3 tonnes of waste avoided

equivalent to almost 19,000 plastic bottles.

Almost 42 MWh energy saved

would power an average UK household for 11 years.

42.6 TCO_2e emissions saving

equivalent emissions of travelling 163,000 miles in a modern petrol car (or around the world 6.5 times).

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

Ethics and compliance

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

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

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

Anti-corruption programme

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

Our anti-corruption programme is designed to identify, manage and mitigate corruption risks and ensure we adhere to all relevant legal and regulatory requirements recognising the bribery and corruption risks the Group faces (see legal risk on page 65). The programme provides our employees with practical guidance, helps them to understand what is expected of them and creates an environment where they feel they can confidently and, anonymously if needed, ask questions and raise concerns.

Our ethics programme

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

We value openness and strive to create a culture where people feel they can speak up freely.

Employees can raise a concern through four primary channels: via our Ethics Officers; by email; on the telephone; and online reporting to our externally run Ethics Helpline service. Our Ethics Helpline is also open to third parties. Our Ethics Officers receive training to equip them with the skills to provide guidance to employees raising a concern.

During 2024, we received 1,722 reports, reflecting a 12% increase globally from 2023. The increase in contacts was primarily driven by BAE Systems Inc., with a steady increase seen in the UK and international businesses. There is a direct correlation between the

Total ethics enquiries[1,2]

2024	1,722
2023	1,531

Number of ethics officers

2024	288
2023	245

Anonymity rate

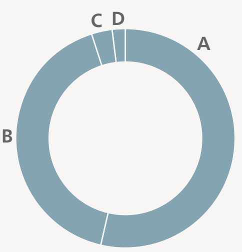
27%

(2023 25%)

Code of Conduct training

99%

2024 ethics enquiries by region

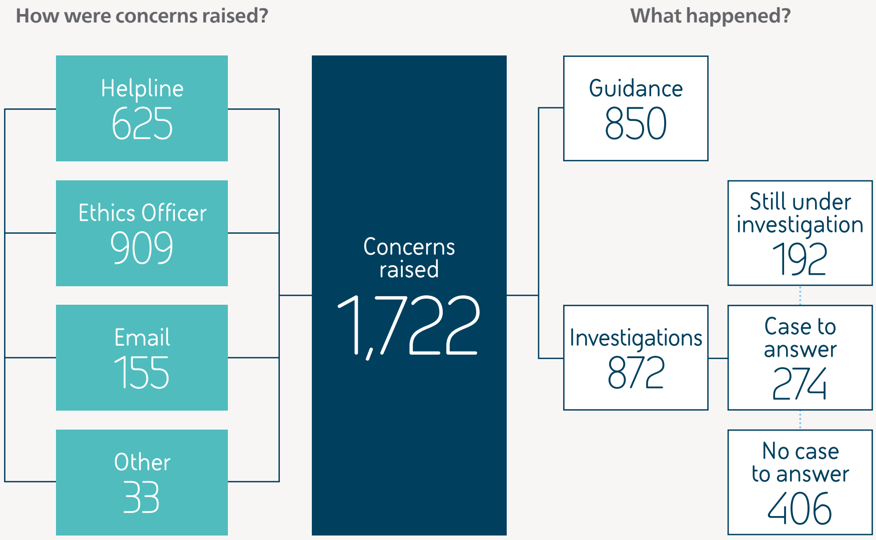


A	US	927
B	UK	713
C	Kingdom of Saudi Arabia	50
D	Australia	32

Dismissals for reasons relating to unethical behaviour[1]

2024	351
2023	300

How our Ethics Helpline has been used



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

increase in number of reports and our engagement activities delivered by the ethics leads. Overall, the numbers of reporters seeking guidance has decreased with the substantiation rate of allegations at 41%.

In 2024, our anonymity rate was 27% compared to 25% from 2023, remaining below the global benchmark[1] rate of 56%. 53% of reports were made directly to Ethics Officers in 2024 – we encourage this route for raising reports, as it allows for an immediate response by someone familiar with the local situation.

We interpret these metrics as positive indicators of our employees showing trust in the business and in 'speaking up'.

There has been an overall increase in dismissals due to unethical behaviour in 2024, though no specific trend has been identified.

Responsible supply chain

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

In 2024, we spent £15bn with 21,500 directly contracted suppliers worldwide. These relationships are often long-lasting due to the complexity of our products and their long lifecycles, so it is critical that our suppliers share our values.

We communicate our expectations about responsible supply chain through our Supplier Principles which we share with all our suppliers. Our Principles cover supplier workplace, labour standards, employee business practices and wider topics of focus.

During 2024, we undertook an annual risk-based assurance activity to assess our suppliers' adoption of our Principles and to identify any areas that required investigation and/or mitigation. We completed this assurance activity with suppliers representing more than 34% of our global spend.

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

Conflict minerals

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

UK Fair Payment Code

We are committed to paying our suppliers promptly and in accordance with agreed terms, and we were a signatory to the UK Prompt Payment Code. The Prompt Payment code ceased in December 2024, in readiness for the transition period to the Fair Payment Code.

We will be applying the UK Fair Payment Code in line with the UK Government's timetable. The Fair Payment Code requires a commitment to the principles of being clear, fair and collaborative with suppliers.

Adoption of appropriate payment practices is of significant importance to us and ensuring that we pay invoices on time is a key focus for our UK businesses.

Human rights

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

Our Human Rights Statement outlines our approach to responsible business behaviour in the activities that fall under the full, direct control of the Group, including in relation to anti-corruption and the environment, as well as our workplace, supply chain, local communities and products.

Our Code of Conduct and other global policies and processes mandated under our Operational Framework, together with our supporting principles and guidance, support our commitment to human rights, and are regularly reviewed. Our Supplier Principles communicate the human rights principles we expect of our suppliers.

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

Reporting, disclosure and assurance

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

Sustainability reporting boundary

The reporting boundary for sustainability information and data[2], including our investment in people and communities and the Responsible business section, covers wholly and not wholly-owned subsidiaries, but excludes equity accounted investments. Data includes organisational changes made in 2024.

Double materiality assessment

Sustainability is integrated into our Group strategic framework (see page 12). To understand the sustainability issues that are relevant for our business we engage internal and external stakeholders, via a materiality assessment which we plan to run every three years.

This year we conducted our first double materiality assessment to support our future compliance with the EU Corporate Sustainability Reporting Directive, required from 2028. As part of this, we conducted interviews with employees, trades unions, suppliers, customers, investors, local interest groups and non-governmental organisations, as well as peer reviews and desk top research.

ADDITIONAL INFORMATION PAGE 225 ›

Our approach to UN Sustainable Development Goals

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

FOR MORE INFORMATION PLEASE VISIT OUR WEBSITE
WWW.BAESYSTEMS.COM/EN/SUSTAINABILITY ›

Assurance of data

External assurance of GHG emissions (page 50), energy (page 51) and community investment (page 28) data is provided by Deloitte LLP.

DELOITTE'S FULL UNQUALIFIED ASSURANCE OPINION, INCLUDING DETAILS OF THE SELECTED METRICS ASSURED
WWW.BAESYSTEMS.COM/ANNUAL REPORT ›

1. Navex 2023 anonymity benchmark.
2. Includes safety data – page 27, gender diversity – page 27, community data – page 28, GHG emissions and environment data pages 50–51, ethics data – pages 52–53, supply chain – above.

Non-financial and sustainability information statement

The 'Our investment in people and communities' and 'Responsible business' sections constitute the Non-financial and sustainability information statement as required by the Companies Act 2006 as amended, together with the 'Our stakeholders and work of the Board', 'Our business model' and 'Risk' sections listed in the table below, which are incorporated in this Non-Financial and Sustainability Information Statement by reference:

Topic	Our principles, policies and standards that govern our approach	Where to find information in this report
Environmental matters and climate-related disclosures	– Climate Response and Environmental policy. – Decarbonisation plan. – Supplier Principles – Guidance for Responsible Business.	CLIMATE AND THE ENVIRONMENT PAGE 49 > ADDRESSING CLIMATE RISKS (TCFD) PAGE 49 >
Employees	– People policy. – Health and Safety policy. – Communications policy. – Code of Conduct. – Personal Data Protection policy.	OUR STAKEHOLDERS AND WORK OF THE BOARD PAGE 76 > RESPONSIBLE BUSINESS PAGE 48 >
Respect for human rights	– Code of Conduct. – Human Rights Statement. – People policy. – Product Trading policy. – Modern Slavery Statement. – Supplier Principles – Guidance for Responsible Business.	RESPONSIBLE BUSINESS PAGE 48 >
Social matters	– Community Investment policy. – Commercial policy. – Lobbying, Political Donations and Other Political Activity policy. – Dignity and Respect Standards, in support of our global workplace culture vision. – Supplier Principles – Guidance for Responsible Business.	OUR STAKEHOLDERS AND WORK OF THE BOARD PAGE 76 > RESPONSIBLE BUSINESS PAGE 48 > ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT PAGE 91 >
Anti-bribery and corruption	– Gift and Hospitality policy. – Finance policy. – Conflicts of Interest policy. – Facilitation Payments policy. – Advisers policy. – Fraud Prevention policy. – Lobbying, Political Donations and Other Political Activity policy. – Procurement policy. – Supplier Principles – Guidance for Responsible Business.	RESPONSIBLE BUSINESS PAGE 48 >
Description of principal risks relating to topics mentioned above	– Risk Management policy.	HOW WE MANAGE RISK PAGE 55 >
Description of business model		OUR BUSINESS MODEL PAGE 10 >
Non-financial key performance indicators		KEY PERFORMANCE INDICATORS PAGE 14 >

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

Section 172 statement

For the year ended 31 December 2024, in accordance with the requirements of Section 172(1) of the Companies Act 2006, the directors consider that they have acted in good faith and in a manner most likely to promote the success of the Company for the benefit of its members as a whole, having regard to stakeholders and other certain factors, including standards of business conduct and the impact of its operations on the environment and local communities.

MORE INFORMATION IN SUPPORT OF THIS STATEMENT, INCLUDING KEY MATTERS CONSIDERED AND DECISIONS MADE BY THE BOARD DURING 2024 PAGE 76 >

How we manage risk

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

Board

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

Risk is considered on a regular basis at Board and Board committee meetings and the Board reviews risk (including emerging risk) as part of its business planning and annual strategy review process. This provides the Board with an appreciation of the key risks within the business and oversight of how they are being managed.

The Board delegates oversight of certain risk management activities to the Audit and Risk Committee.

Audit and Risk Committee

The Audit and Risk Committee monitors the Group's key risks identified by the risk assessment processes and reports its findings to the Board twice a year. To support this activity, it receives insight on particular risk-related matters from the other Board sub-committees, including the Environmental, Social and Governance and Remuneration Committees. The Audit and Risk Committee is also responsible for reviewing the effectiveness of the Group's risk management and internal control framework.

Environmental, Social and Governance Committee

The Environmental, Social and Governance Committee monitors the Group's approach to, and relevant policies on, climate resilience and transition plans and the Group's approach to, and relevant policies on, workplace environment, including health and safety.

Remuneration Committee

The Remuneration Committee aims to achieve a balance between the reputational and other risks from excessive reward and the retention risk from below-market remuneration, and ensures that behavioural risks that can arise from target-based incentive plans are identified and mitigated.

Approach

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

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

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

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

The Board has conducted a review of the effectiveness of the Group's risk management and internal control framework, including material financial, operational and compliance controls, in accordance with the UK Corporate Governance Code. The Group's system of internal controls was in place throughout 2024 and to the date of this report.

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

Process

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

The Group's approach to risk management is set out in the Risk Management policy, a mandated policy under the Operational Framework. This policy details the process to be followed for Business Risks and references the Lifecycle Management Framework, a core business process under the Operational Framework, for the management of Project Risks.

Project Risks are recorded in risk registers at the project level and are reported and monitored in Project Performance Review Packs (PPRP), which are regularly reviewed by management. The financial performance of projects is reported and monitored using Contract Status Reports, which form part of the PPRP. These include programme margin metrics, which are reviewed regularly by the Executive Committee and Board. Project margin is recognised after making suitable allowances for technical and other risks related to performance milestones yet to be achieved.

How we manage risk continued

For Business Risk, the businesses and Group functions maintain detailed risk registers containing the risks that have been identified, characteristics of the risk and the mitigation strategy for the risk, including the internal controls in operation. Each risk is allocated an owner who has authority and responsibility for its assessment and management. The more significant risks identified by the businesses and Group functions are reported and reviewed at the Quarterly Business Review and the Chief Executive's Business Review, which are both core business processes mandated by the Operational Framework.

The businesses and Group functions undertake a formal refresh of their Business Risks annually. This provides a topical set of risks which, together with insight from senior management, are collated to report the Group's most significant risks to the Executive Committee. Management responsibility for these risks is then determined by the Executive Committee.

These significant risks, and their corresponding mitigation plans, are kept under review by the Executive Committee. They are reported to the Board and form the basis of the Board's assessment of the Group's Principal Risks.

Principal and emerging risks

The Board has carried out a robust assessment of the principal and emerging risks facing the Group.

Principal risks include those that would threaten the Group's business model, future performance, solvency, liquidity or reputation. Risks have been identified as principal based on the likelihood of occurrence, the potential impact on the Group and the timescale over which they might occur. A description of the principal risks and their potential impact, together with details of how they are being mitigated, can be found on pages 58 to 65.

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

For 2024, it has been determined that 'Pension funding' is no longer a principal risk. The latest triennial valuations of the Group's UK defined benefit pension schemes confirmed that there is no funding deficit on a technical provisions basis. Whilst there is always the possibility that the funding position on these schemes may deteriorate, the Group believes that, as a result of various de-risking initiatives, the likelihood of a material funding deficit is highly unlikely.

The scope of the 2023 principal risk entitled 'Cyber security' (as described on page 73 of the 2023 Annual Report) has been renamed 'Security (including cyber security)' and extended to cover certain physical security risk aspects in addition to cyber security. The Board considers this to be a better reflection of the evolving security threats the Group faces.

A principal risk entitled 'Business interruption' was introduced in 2024 and covers material business interruption events including (among other things) disruption caused by extreme weather, flooding and other natural disasters and public health crises. As a result of this change: (i) the scope of the 'Climate change and environmental factors' risk is now focused on risks caused by environmental regulatory change and those associated with the transition to a low carbon economy; and (ii) the risk entitled 'Outbreak of contagious diseases' (as described on page 77 of the 2023 Annual Report) has been deleted on the basis that a pandemic or epidemic is one of many events that might lead to a business interruption and need not be considered separately.

OUR PRINCIPAL RISKS PAGE 58 >

Our risk management framework

Board
Overall responsibility for risk management

Risk challenge, monitoring and reporting

Audit and Risk Committee
Monitors key risks and reviews effectiveness of the risk management and internal control framework

Executive Committee
Reviews the Business Risk Registers to determine the Group's key risks

Core Business Processes

Chief Executive's Business Review
Quarterly top-level review of the key operational, financial and non-financial performance issues within the business and significant forthcoming bids and events

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

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

Strategic objectives and shareholder value	Project objectives and financial return
Business Risk Risk Management policy (mandated policy)	**Project Risk** Lifecycle Management Framework (Core Business Process)

Identification
Risks recorded in risk registers

Analysis
Risks analysed for impact and probability to determine exposure

Evaluation
Risk exposure reviewed and risks prioritised

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

Operational Assurance Statement
Six-monthly management self-assessment of compliance with the Operational Framework
(Mandated Process)

Assurance Review Board
Assurance of the Business and Project Risk management processes as mandated in the Operational Framework

SEE THE GROUP'S OPERATIONAL FRAMEWORK FOR DEFINITIONS OF POLICIES, PROCESSES AND REVIEWS PAGE 75 >

Our principal risks

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

KEY LINKS TO STRATEGY

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

OUR STRATEGIC FRAMEWORK PAGE 12 >

Government customers, defence spending and terms of trade

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

KEY LINKS TO STRATEGY

1 2 3 5

Description	Impact	Mitigation
In 2024, 96% of the Group's sales were defence related. Levels of defence spending by governments are difficult to predict and can fluctuate depending on change of government policy, other political considerations, budgetary constraints, specific threats to national security and macroeconomic conditions. From time to time, there have been constraints on government expenditure in a number of the Group's principal markets. The recent changes to the political landscape in certain of the Group's principal markets has given rise to additional uncertainty over defence budget levels and spend priorities.	Lower defence spending by the Group's major customers could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.	The business is geographically spread across the US, UK and international defence markets. The Group's diverse product and services portfolio is marketed across a range of defence markets. Many of the countries in which the Group operates have announced increases or are making plans to increase spending to address the elevated threat environment. Whilst governments face global economic and fiscal pressures, the commitment to defence in the Group's major markets remains robust. In particular, the Group's principal markets – the UK, US, the Kingdom of Saudi Arabia and Australia – have a significant and sustained commitment to defence and security notwithstanding the recent political landscape changes. See 'Our markets' on page 18 of this Annual Report. The Group benefits from a large order backlog, with established positions on long-term programmes in its principal markets.
The Group has long-standing relationships and security arrangements with a number of its government customers, including its four largest customers, the governments of the US, UK, Kingdom of Saudi Arabia and Australia, and their agencies (who represented, as at 31 December 2024, 71% of the Group's revenue). It is important that these relationships and arrangements are maintained. In the defence and security industries, governments can typically modify contracts for their convenience or terminate them at short notice. Furthermore, governments from time to time review their terms of trade and underlying policies and seek to impose such new terms and policies when entering into new contracts. Most long-term US Government contracts, for example, are funded annually or incrementally and are subject to cancellation if funding appropriations for subsequent periods are not made. Further, certain of the Group's contracts with government customers are subject to financial audits and other reviews, which can result in adjustments to prices and costs.	Deterioration in the Group's principal government relationships resulting in the failure to obtain planned contracts or expected funding appropriations, adverse changes in the terms of its arrangements with those customers or their agencies, or the termination of contracts could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.	The Group has established strong and enduring relationships in its principal markets and is recognised as playing a key role in the industrial capability of each of the countries in which it operates. Government customers have sophisticated procurement and security organisations with which the Group has long-standing relationships with well-established and understood terms of business. In the event of a customer terminating a contract for convenience, the Group would typically be paid for work done and commitments made at the time of termination. Where contracts are subject to financial audits, which may lead to price or cost adjustments, the Group has established processes to ensure costs estimated and/or incurred on contracts are considered allowable under the applicable law and regulation. This approach aims to minimise the risk of detrimental price or cost adjustments.
The Group's profits and cash flows are dependent, to a significant extent, on the receipt and timing of the award of defence contracts and the profile of cash receipts thereunder.	Amounts receivable under the Group's defence contracts can be substantial and, therefore, the timing of, or failure to receive, awards and associated cash advances and milestone payments could materially impact the Group's profits and cash flows for the periods affected, thereby reducing cash available to meet the Group's capital allocation priorities, potentially resulting in the need to draw on external funding and impacting its investment grade credit rating. This in turn could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.	The Group's balance sheet continues to be managed in line with its policy to retain an investment grade credit rating and to ensure operational flexibility. The Group monitors a rolling forecast of its liquidity requirements to ensure that there is sufficient access to cash to meet its operational needs and maintain adequate headroom.

Contract risk, execution and supply chain

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

KEY LINKS TO STRATEGY

1 2 3 4 5 6

Description	Impact	Mitigation
As a major defence, aerospace and security company, the Group executes long-term high-value contracts for the provision of complex, strategically important products and services for its customers. For example, in 2024, 50% of the Group's sales were generated by its 18 largest programmes and, as at 31 December 2024, the Group had 11 programmes with an order backlog in excess of £1bn. It is important that the Group delivers on its projects within tight tolerances of quality, time and cost performance in a reliable, predictable and repeatable manner. A significant portion of the Group's revenue is derived from fixed-price contracts. Assumptions used to estimate projected costs, including those on future rates of inflation, upon which fixed prices are agreed may prove to be inaccurate and, since these contracts can extend over many years, there is a risk that actual costs may significantly exceed projected costs.	A failure by the Group to anticipate technical problems or deliver on its contractual commitments could result in (among other things) the loss, expiration, suspension, cancellation or termination of one or more of its large contracts, which could have a material adverse effect on the Group's business, results of operations, financial condition, prospects or reputation. A failure to estimate accurately and control costs on fixed-price contracts could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.	All of the Group's major programmes are managed under the Group's mandated Lifecycle Management process, the objective of which is to manage contract performance and deliver acceptable contract outcomes. In particular, the Lifecycle Management process includes the management of contract-related risks. Further, the Group has a well-balanced spread of programmes and a significant defence order backlog, which provides portfolio resiliency and forward visibility. Estimating, bid preparation and approvals processes are well established throughout the Group, with decisions required to be taken at the appropriate level in line with clear delegations of authority. Risks inherent in prospective contracts are considered carefully as part of these processes to ensure that proposed contract terms are commensurate with such risks. In particular, the Group recognises that fixed price design and development contracts are generally more risk intensive than other contract types and, as a result, the Group has limited exposure to such contracts. A significant proportion of the Group's largest and most complex contracts are with the UK Ministry of Defence. In the UK, development programmes are normally contracted with appropriate levels of risk being initially held by the customer. A leadership development programme for project leadership is in place across the Group, covering the leadership competencies required to manage complex projects containing significant levels of risk and uncertainty.
The Group is dependent on the delivery of services and materials by suppliers and the assembly of components and subsystems by subcontractors used in its products in a timely and satisfactory manner, on appropriate commercial terms and in full compliance with applicable terms and conditions. This can be exacerbated where the Group is dependent on either one or a limited number of suppliers. Some of the Group's suppliers or subcontractors may be impacted by economic factors (such as inflationary pressures and material shortages), bankruptcy or financial difficulties and other business continuity events, which could impair their ability to meet their obligations to the Group and to supply on appropriate commercial terms.	A failure by one or more of the Group's suppliers to provide the agreed-upon materials, components or products or perform the agreed-upon services, on a timely basis, at the agreed price, according to specifications (including compliance with regulatory requirements) or at all may adversely affect the Group's ability to perform its obligations, result in additional costs or delays, require the Group to transition work to other companies (resulting in further additional costs and delay) and/or result in penalties under, or the termination of, customer contracts. This impact is heightened where a supplier is a sole supplier or one of a small number of qualified suppliers. Additionally, the Group could be adversely affected by actions, or issues experienced by, the Group's suppliers which are outside its control (such as misconduct and reputational issues), which could subject the Group to liability or adversely affect its ability to compete for contracts. Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.	The Group's supply chain function establishes and manages enduring end-to-end integrated supplier arrangements, in partnership with the programmes it supports. Supply chain management starts with the Group's Global Procurement policy, which defines the requirements to be implemented by each of the Group's sectors for the establishment of procurement controls and the management of supplier-related risk to a minimum set of standards. Where the Group has long-term programmes in place, it seeks to leverage the benefit of a more stable forward visibility of long-lead requirements to allow the Group to better manage supplier deliverables against programme requirements. Risk-based due diligence, for both new and existing suppliers, is carried out with reference to a range of financial and non-financial factors. Third-party toolsets are used to support compliance and risk assessments as part of these due diligence checks. The Group's supply chain function holds regular regional and global supply chain risk and disruption reviews to ensure that the latest risk data is appropriately shared and to identify emerging risks through horizon scanning. The Group seeks to manage its supplier cost inflation risk through contracting arrangements, supplier cost management activity, long-term supplier agreements and leverage of category volumes.

Our principal risks continued

Security (including cyber security)

The Group could be negatively impacted by cyber and physical security threats or other security-related disruptions.

KEY LINKS TO STRATEGY

1 2 3 4 5 6

Description

As a major defence, aerospace and security company, the Group faces significant risks in respect of its information security, continuity of operations, integrity of its products and physical security. These threats are continuous and evolving, and are posed by organisations with a broad range of capability, from criminals to nation states.

Threats include attempts to gain unauthorised access to the Group's and customers' protected information and personal data in order to compromise the integrity, confidentiality and/or availability of that data (in some cases potentially compromising the products to which it relates); attempts to disrupt business operations through the sabotage of the Group facilities, networks and other assets; threats to the safety of employees; and threats to the Group's supply chain and partners (including joint ventures and joint venture partners).

These threats can manifest through cyber, human and/or physical means and directly or indirectly via the supply chain.

The continuing war in Ukraine has increased a number of risks to Ukraine's allies and their defence industries. Furthermore, any military conflict, which generates public interest or concern, can increase the risk of protest and operational disruption to the Group's facilities.

Impact

Whilst the impact of any such threats and/or disruption is difficult to predict, it could lead to (among other things): (a) production downtimes; (b) operational delays; (c) other detrimental impacts to the Group's operations or ability to provide products and services to customers; (d) the compromise, misappropriation, destruction or corruption of the Group's data or intellectual property and that held or generated by the Group on behalf of its customers, suppliers and partners; (e) other manipulation or improper use of the Group's or third-party systems, networks or products (eg disabling or denying their use and/or altering their performance characteristics); (f) diversion of management's attention and resources; and/or (g) financial losses from remedial actions, loss of business, or potential liability, penalties, fines and/or damages.

Furthermore, as part of its Cyber & Intelligence sector, the Group provides systems, products and services to various customers who also face cyber threats. These systems, products and services could themselves be compromised, may not be able to detect or deter threats, or effectively mitigate resulting losses, which could adversely affect the Group's customers and therefore result in financial losses from remedial actions, loss of business, or potential liability and/or damages. In addition, a failure by the Group to prevent or mitigate cyber-attacks that impact the Group could have a detrimental impact on the reputation and/or performance of the Cyber & Intelligence sector.

Any of these impacts could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.

Mitigation

The Board and senior management regularly consider security risk. These senior level reviews cover evolving threats, the Group's planned responses and the effectiveness of security controls and security investments in meeting intended objectives. Security risk is also reviewed at a functional and operating business level.

The Group's internal Cyber Security Standards are aligned to the National Institute of Standards and Technology framework. A formal, three layers of defence assurance programme, which is reviewed both internally and externally, is operated to check adherence to these standards and customer requirements. Additionally, resulting from the need to comply with government customer requirements, certain of the Group's IT networks are formally accredited by those customers.

Education and awareness to embed a strong security culture across the Group is a vital part of its preventative activities. Employees are required to complete mandatory training which (depending on role) covers cyber security, physical and personal security, document marking, security of export-controlled information and personal data protection. As many cyber-attacks involve email, the Group runs a programme of phishing exercises for all email users across the enterprise.

To increase the Group's resilience against security threats, the Group performs protective monitoring of activity on the Group's core networks via the Group's Security Operations Centres, maintains incident response and crisis management plans with updates following regular test exercises and obtains threat intelligence to the Group, utilising its internal security capabilities and from external partners including governments.

To address the heightened risk to the security of the Group's personnel, additional communications and advice are provided to all employees on personal safety precautions.

To mitigate the cyber security risk posed by working with suppliers, the Group performs risk-based due diligence and assurance and (where relevant) seeks to require suppliers to comply with cyber security-related contractual provisions.

In addition to the above, the Group purchases cyber and property insurance, however, as with all insurance, it does not provide full cover against all potential loss scenarios.

International markets

The Group operates in international markets.

KEY LINKS TO STRATEGY

1 2 3 4 5 6

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

People

The Group needs to attract and retain suitably qualified people across all of its operations.

KEY LINKS TO STRATEGY

1 2 3 4 5 6

Description	Impact	Mitigation
Delivery of the Group's strategy is dependent on its ability to recruit and retain people with appropriate talent and skills, including those with innovative technological capabilities. The Group may be unable to attract and retain suitably experienced senior executives to provide the necessary leadership and direction in a complex and dynamic environment. Competition for suitably qualified and experienced people is high both in the defence sector and in other technology-centred businesses. Further, competition is intensified by nationality and regulatory restrictions (including the requirement for security clearances for certain roles) and can be exacerbated by macroeconomic, industry and labour market conditions more generally.	The Group's long-term defence programmes benefit from continuity of leadership, and the loss of key employees or inability to attract the appropriate people on a timely basis could adversely impact the Group's ability to deliver its strategy, meet its business plan and deliver on its contractual commitments, which accordingly could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.	The Group recognises that its employees are key to delivering its strategy, business plan and contractual commitments. Accordingly, senior management proactively considers the Group's current and future workforce requirements in terms of both capabilities and staffing volumes and seeks to develop the existing workforce and hire talented people to meet those requirements. In particular, the Group has well-established graduate and apprenticeship programmes, structured attraction, recruitment and retention processes and an effective through-career capability development programme. The Group's remuneration policies and levels, including those for its senior executives, are regularly reviewed to ensure they remain fit for purpose. In order to seek to maximise its talent pool, the Group is committed to creating an inclusive environment for its employees.

Our principal risks continued

Safety

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

KEY LINKS TO STRATEGY

1 2 3 4 5 6

Description	Impact	Mitigation
The nature of the Group's business means that a number of employees work in challenging locations, perform high-risk activities and handle hazardous materials. Furthermore, many of the activities that the Group undertakes are in high-hazard industries with inherent risk of harm, such as heavy industrial production including shipbuilding. The risks associated with the Group's activities and working environments can cause harm to its people and those affected by its operations.	There could be significant impacts if the Group fails to meet the necessary standards to adequately mitigate against health and safety risks, which could potentially lead to injury or death. The Group may face criminal and civil prosecution in connection with health and safety incidents, which could result in substantial penalties and fines. Furthermore, the Group could be prevented from operating, due to employees being unavailable for work, investigations being conducted or if a regulatory approval or certification is withdrawn, potentially leading to contractual penalties due to loss of productivity or inability to deliver on contractual commitments. Moreover, a failure to maintain a safe working environment could have a detrimental impact on the Group's reputation, leading customers, suppliers and employees (both current and potential) to be disinclined to work with/for the Group. Any of these factors could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.	Safety of the Group's personnel, contractor personnel and the wider communities in which the Group operates is a primary concern. The Group proactively monitors its safety performance through leading and lagging indicators and regular operating business reviews. Safety performance is led at an Executive Committee level by the ESG, Culture and Business Transformation Director and is regularly reported to both the Environmental, Social and Governance Committee and the Board. Accountability for safety performance at a business level rests with the relevant Managing Director, who is responsible for ensuring compliance with the Group's Safety, Health and Environmental management systems and the Operational Framework. At a user level, every employee is required to complete preventative safety training that is both Company-wide and job role-specific, and is supported by dedicated health and safety professionals. The Group has implemented recognised safety risk assessment processes that are task specific and seek to ensure hazards are identified, classified and mitigated against prior to activities taking place. Where appropriate, safety management systems are externally accredited to internationally recognised standards (eg ISO 45001). In addition to the above, the Group continues to evolve and improve its health and safety practices; liaise across industry; and learn from safety-related failures in adjacent industries.
The Group designs, develops, manufactures and maintains highly complex and specialised products and services. By their very nature, many of the Group's products and services are hazardous and technical, mechanical and other failures may occur from time to time, whether as a result of a manufacturing or design defect, ineffective maintenance, incorrect usage, poorly executed integration with a third party's products or services or through some other cause. In addition, the safety of the Group's products could be compromised as a result of cyber-attacks, such as those that seize control and result in misuse or unintended use of the Group's products, or other intentional acts.	The impact of a catastrophic product, service or system failure or similar safety incident affecting the Group's, its customers' or its suppliers' products or services could be significant and could result in injuries or death, property damage, loss of strategic capabilities, loss of intellectual property, environmental harm, reputational damage or other significant effects. It could also lead to a loss of equipment, product recalls and product liability and warranty claims, other service, repair and maintenance costs, significant damages and other costs (including fines and other remedies), regulatory and environmental liabilities and a reduction in demand for the Group's products and services. Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.	The Group recognises it is vitally important to work with its customers, suppliers and partners to ensure its products continue to work safely, securely and with integrity, within their intended operational environments. Each of the Group's businesses is required to identify suitably qualified and experienced individuals with clear accountabilities for ongoing review of the application and effectiveness of the business's Product Safety Management System and certification of the products developed or traded by the business. Businesses work with customers to agree the level of safety that is required for each product, seeking the highest reasonably practicable level of safety. The Group assures the development and production of safe products through reviews by in-house subject matter experts and external regulatory agencies. Given the potential impact of sub-standard product security upon product safety performance, the Group applies product cyber security standards that meet or exceed contracted customer requirements. In addition to the above, the Group continues to communicate product safety-related information across the Group via regular bulletins; evolve and improve product safety practices; liaise across industry and its government customers to develop new product safety-related standards; and learn from safety-related failures in adjacent industries.

Acquisitions

The anticipated benefits from acquisitions may not be achieved.

KEY LINKS TO STRATEGY

1 2 3 4 5 6

Description	Impact	Mitigation
The Group considers investment in value-enhancing acquisitions where market conditions are right and where they progress its strategy. There are a number of risks and uncertainties which may arise in these transactions, including (but not limited to): the risks involved in entering new markets; the difficulty in integrating newly acquired businesses into the Group; the potential for governments or regulatory authorities to deny the proposed transactions, or to impose on those transactions conditions that undermine the business case for those transactions; diversion of management's attention and resources; unidentified issues not discovered in due diligence; the performance of underlying products, capabilities or technologies; and failure of the acquired businesses to perform in line with expectations.	Any of these factors could have a material adverse effect on the Group's business, results of operations, financial condition and prospects. In particular, the potential for an impairment of goodwill and other assets could arise.	The Group has established policies and procedures to conduct due diligence, manage the acquisition process, monitor the integration and performance of acquired businesses and identify potential impairments. Approval of acquisition transactions is made at the appropriate level in the Group in accordance with well-defined delegations of authority.

Business interruption

The Group could be negatively impacted by a range of events outside its control, including physical risks arising from natural disasters.

KEY LINKS TO STRATEGY

1 2 3 4 5 6

Description	Impact	Mitigation
The Group's operations (as well as those of its suppliers, subcontractors and customers) could be disrupted by a range of events, including (among other things) extreme weather, flooding and other natural disasters (which could increase in severity or frequency given the impact of climate change); public health crises (such as pandemics and epidemics); civil unrest, terrorism and other similar events; industrial action; and a fire incident or other incidents giving rise to damage to facilities.	Whilst the impact of any disruption caused by these events is difficult to predict, it could lead to (among other things): (a) production downtimes; (b) operational delays; (c) other detrimental impacts to the Group's operations or ability to provide products and services to customers; (d) diversion of management's attention and resources; and/or (e) financial losses from remedial actions, loss of business, or potential liability, penalties, fines and/or damages. Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.	The Group uses analytical tools to apply natural catastrophe classifications to its sites worldwide. This has informed its strategy as to where to target a programme of specific flood, windstorm and earthquake assessments of the Group's sites and implement the subsequent risk reduction recommendations. This analysis takes into account the impact of climate change on the frequency and severity of natural catastrophe events. The Group maintains incident response and crisis management plans covering a wide range of incident types with updates following regular test exercises. The Group seeks to maintain constructive relations with its various trades unions, which represent employees within the Group. The Group's experience in dealing with the COVID-19 pandemic between 2020 and 2022 will assist it in dealing with any further outbreaks of contagious diseases. This includes the establishment of safe working practices, the effective use of home working and working collaboratively with government customers to maintain critical defence and security programmes. In addition to the above, the Group maintains property insurance cover which includes property damage and business interruption; however, as with all insurance, it does not provide full cover against all potential loss scenarios.

Our principal risks continued

Climate transition and environmental factors

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

KEY LINKS TO STRATEGY

① ② ③ ④ ⑤ ⑥

Description	Impact	Mitigation
The Group is subject to comprehensive environmental laws, regulations and permitting requirements in each of the countries in which it operates, including those relating to the impacts of climate change. Such laws and regulations impose standards with respect to air emissions, wastewater discharges, the use, handling and storage of hazardous materials and waste, remediation of soil and groundwater contamination and the prevention of pollution. Increasingly, environmental legislation is seeking to encourage a reduction in GHG emissions. These laws, regulations and/or permitting requirements may be interpreted in different ways, conflict and/or change from time to time (as may any related interpretations and guidance). In addition, the Group may be impacted by climate change transition risks resulting from the process of adjusting to a low carbon economy. Associated with this are potential risks around (a) the Group's ability to attract and retain future talent; (b) the technology evolution and innovation required to respond to future customer lower-emissions requirements; (c) energy-related taxes; and (d) the increased costs of compliance with energy-related schemes. The physical risks associated with or arising from climate change are covered in 'Business interruption' above.	Environmental factors, including those relating to climate change, have the potential to materially impact the Group's business and operations. Increasing changes in environmental laws and regulations can expose the Group to increasing unplanned capital and operating costs associated with compliance, remediation and protection of the environment. Breaches of these laws and regulations can result in substantial costs, including fines, penalties or other sanctions, investigations and clean-up costs, and third-party claims for property damage or personal injury as well as the termination of permits. The shift to a low carbon economy has the potential to increase the cost of business if the Group cannot secure renewable energy contracts or switch to low carbon alternatives for heating at a reasonable cost. Failure to decarbonise products and services and develop products to operate in increasingly diverse environmental conditions could have a material adverse effect on the Group's business, results of operations, prospects and reputation.	The Group has set itself the target of achieving near-term GHG emissions reductions across its operations (Scope 1 and 2) by 2030 and working towards reducing the GHG emissions of its value chain by 2050. The primary planned activities to meet the 2030 target include the establishment of a renewable energy strategy; and optimising and reducing energy consumption via site consolidation, new builds and refurbishments, energy efficiency projects and low carbon alternatives to heating buildings. The Group also seeks to monitor and manage wider environment impacts through environmental stewardship and responsible consumption of resources. As part of this work, the Group undertakes surveys and assessments to better evaluate how its facilities and operations impact the surrounding natural habitat. With respect to reducing the GHG emissions of its value chain by 2050, the Group continues to progress programmes of work to understand the GHG emissions profile of its material products; further progress the energy efficiency of the Group's products; research and develop alternative solutions; and identify how the Group can support customer capability requirements, while having due regard for environmental considerations.

Legal risk

The Group is subject to risk from a failure to comply with applicable laws and regulations or contractual requirements.

KEY LINKS TO STRATEGY

① ② ③ ④ ⑤ ⑥

Description

The Group operates in a complex and highly regulated environment, across many jurisdictions and is therefore subject to a variety of legal, regulatory and litigation risks.

These risks relate to (among other things) trade controls, failure to protect and manage intellectual property and/or assert and defend intellectual property rights, data protection and security, contract-related claims, taxes, climate-related and environmental matters, sanctions, product safety and reliability, health and safety, employment matters, competition laws and laws governing improper business practices (such as money laundering, false accounting, anti-bribery and corruption, and anti-boycott laws). Furthermore, laws, regulations and contractual requirements may be interpreted in different ways, conflict and/or change from time to time (as may any related interpretations and guidance).

For example, export restrictions could become more stringent and political factors or changing international circumstances could result in the Group being unable to obtain or maintain necessary export licences.

Impact

Changes in laws and regulations (or the interpretation thereof) could result in higher compliance costs and impact customer or supplier contracts. Uncertainty relating to laws and regulations may also affect how the Group conducts its business and could limit its ability to enforce its rights.

A breach of applicable legislation and/or regulations by the Group, its employees, sales representatives, marketing advisers or others working on its behalf could result in significant fines, penalties or other damages and/or the suspension or debarment of the Group from government contracts or the suspension of the Group's export privileges.

If customers or other third parties were harmed by the conduct of members of the Group, this may also give rise to legal proceedings, including class actions. Other legal disputes may also arise between members of the Group and third parties relating to matters such as breaches or enforcement of legal rights or interpretation or fulfilment of obligations arising under contracts, statutes or common law. Adverse findings in any such matters may result in remedial actions, loss of business, penalties and/or damages or may result in rights not being enforced or not being enforced in the manner intended or desired.

Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.

Mitigation

The Group has a well-established legal and regulatory compliance structure aimed at ensuring adherence to regulatory requirements and identifying restrictions that could adversely impact the Group's activities.

The Group General Counsel and (in relation to those parts of the business managed by BAE Systems, Inc.) the Senior Vice President and General Counsel for BAE Systems, Inc. have responsibility for developing and maintaining a legal risk management framework across the Group. This includes defining the relevant legal risk policies and oversight of the implementation of controls to manage legal risk including, among other things, policies in relation to appointment of advisers, export control and improper business practices.

Where the Group participates in joint ventures, it exerts its influence to encourage the adoption of substantially equivalent policies governing legal and regulatory compliance by the joint venture, or otherwise through appropriate contractual provisions and/or senior director representation on the joint venture boards.

The legal function's operating model aligns legal expertise to businesses, functions, products, activities and geographic locations so that the Group's businesses have access to legal expertise and support as required. Legally-qualified and trained staff work in partnership with the businesses and functions to identify, manage and escalate legal risks as necessary.

As part of this operating model, the legal function supports the businesses and functions in reviewing proposed contracts to ensure terms are appropriate and not unduly onerous.

Businesses and functions are responsible for identifying and escalating to the legal function legal risk in their areas, as well as adherence to policy and control requirements. To enable this, the legal function provides targeted training to businesses and functions where appropriate. The Group's legal function also reinforces the Group's ethics programme globally through training and other means.

The Group's legal function manages litigation and advises on the management of associated impacts. Where appropriate, the legal function will engage external counsel on litigation matters.

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

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

Viability statement

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

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

The viability assessment period

The directors have assessed the viability of the Group over a five-year period. This is considered the most appropriate period for the assessment as it is consistent with the Group's five-year business planning cycle which provides a robust planning tool against which long-term decisions can be made.

Analysis of business prospects

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

- a diverse portfolio of businesses based on well-established market positions, providing both complex, high-technology products and programmes, and differentiated technical services and support;
- a geographically diverse business with a high proportion of sales to governments and other major prime defence contractors. The Group's robust order backlog continues to provide a strong foundation for further market diversity and growth;
- long-term visibility of sales and future sale prospects through a substantial order backlog and incumbent positions on major defence programmes; and
- market positions underpinned by a highly-skilled workforce, intellectual property assets and proprietary know-how, which are safeguarded and developed for the future by customer- and Group-funded investment.

Assessment

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

Risk management process

The Group has developed a structured approach to the management of risk (as detailed on pages 55 and 56). The Board notes that the principal risks identified on pages 58 to 65 could impact the future viability of the Group, and has undertaken a more detailed scenario analysis in relation to specific risks that are considered most likely to have a more immediate and severe financial impact on the Group as part of the Integrated Business Plan (IBP) process.

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

Integrated Business Plan

The IBP represents a common process with standard outputs and requirements that produces an integrated strategic and business plan for the Group and also for each of its businesses over the following five years.

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

Liquidity and solvency analysis

The Group's liquidity is underpinned by an undrawn committed Revolving Credit Facility (RCF) of £2bn. This facility is available to meet general corporate funding requirements.

The Board regularly reviews an analysis looking at the forecast working capital requirements, cash flow, and committed borrowing (see note 21 on page 181) and other funding facilities available to the Group over the five-year period covered by the IBP. This analysis includes 'stress testing' of the Group's liquidity and solvency under severe, but plausible, scenarios including:

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

On 16 February the Group completed on the acquisition of the Ball Aerospace business from Ball Corporation for $5.5bn (£4.4bn). The transaction was funded by a combination of $1.5bn (£1.2bn) of existing cash resources and new external debt in the form of a bridge loan facility. In March, the facility was subsequently refinanced following the issue of $4.8bn (£3.8bn) of debt finance.

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

Conclusion

On the basis of this, and other matters considered and reviewed by the Board, the Board has reasonable expectations that the Group will be able to continue in operation and meet its liabilities as they fall due over the following five years. It is recognised that such future assessments are subject to a level of uncertainty that increases with time and, therefore, future outcomes cannot be guaranteed or predicted with certainty.

Going concern statement

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

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

Strategic report

This Strategic report was approved by the Board of directors of BAE Systems plc on 18 February 2025 and signed on its behalf by:

Anthony Clarke
Company Secretary

Chair's governance letter

Dear Shareholders

This section focuses on the Company's governance structures, the work of the Board and its committees and how we comply with the UK Corporate Governance Code 2018 (the Code) and other regulatory requirements.

As you would expect from a company that plays such an important role in the UK's national security, and supplies goods and services that support the national security of other nations, high standards of governance and robust governance processes are well embedded across the Group. Clear frameworks and structures are in place to provide the Board with the appropriate level of oversight and assurance to assess the effectiveness of governance controls. Clear standards of behaviour are outlined in our Code of Conduct (which was refreshed and relaunched in January 2024), which dovetails with the Operational Framework. Both of these underpin the Company's strong governance and culture.

> We continue to play our part in protecting those who protect us.

Our governance structures also respect and uphold the special arrangements in place to protect the national security interests of our government customers. These arrangements are essential to our success as an international company and our role as a valued and trusted partner in the security interests of our customers. We have a significant presence in the US, where the Department of Defense is our largest customer. There is more detail on arrangements for managing our US business on page 75.

The Board welcomes the new UK Corporate Governance Code 2024 published by the Financial Reporting Council (FRC) in January 2024. This will apply to our 2025 financial year, with the exception of Provision 29 of the new code, which will apply to the Company from 1 January 2026. We will seek to ensure that our governance frameworks remain aligned with best practice, while taking full account of the Company's circumstances.

During the year, the Audit and Risk Committee gave detailed consideration to the changes to the Code, and monitored the Company's progress in complying with the new Principles and Provisions. In addition, the Board updated the Terms of Reference for its committees, applying a more strategic review of the committees' agendas and remit to ensure alignment with the Board's priorities and longer-term aspirations. Further, as we build on the refreshed approach to risk management and assurance outlined elsewhere in the Annual Report, our Audit Committee has been renamed the Audit and Risk Committee to reflect its role in our risk management process. This report contains further information on the work of the Board's committees, which begins on page 83.

The Nominations Committee continues to lead the process for Board appointments and ensures that plans are in place for orderly Board and senior management succession. At the conclusion of the 2024 AGM, our Company Secretary, David Parkes, retired from his role. I would like to take this opportunity to thank David for his many years of dedicated service to the Board. His successor is Anthony Clarke who we recruited externally.

Further information on the Board's approach to succession planning and our Diversity and Inclusion policy can be found on pages 72 and 73.

Visiting our operations and engaging directly with employees and local leadership teams are an important part of the Board's role. These visits and engagements give directors deeper insight into employee views and our Company culture. In 2024, the Board visited our newly acquired Space & Mission Systems business in Colorado, US, and our Board/Committee activities sections of this report provide information on other site visits undertaken in 2024. Along with its broader responsibilities, our Environmental, Social and Governance Committee continues to focus on employee matters and you can read more about its activities on page 91. The Innovation and Technology Committee has had its own programme of visits and you can read more on page 93.

Effective board performance is another key part of governance. This year, the review of the Board and its Committees was an internally-facilitated assessment, led by myself with the assistance of the Company Secretary. This followed an in-depth externally-facilitated review when I became Chair in 2023. Further details on the evaluation process, its outcomes and the actions we will be taking as a result are outlined in more detail on page 85.

Finally, as a Company with a strong heritage in defence and national security, I am incredibly proud that we continue to play our part in protecting those who protect us. I would like to thank my colleagues on the Board for their counsel and support through the last year.

Cressida Hogg CBE
Chair

In this section

Board of directors

N

Cressida Hogg CBE
Chair

Tenure: 2 years and 3 months (appointed to the Board in November 2022, appointed Chair in May 2023)

Nationality: UK

Skills, competence and experience
Cressida was appointed Chair of BAE Systems plc in May 2023, having joined the Board as a non-executive director and Chair designate in November 2022. She previously had a successful executive career, spent largely with 3i Group, where she gained a deep understanding of large long-term infrastructure projects and businesses, gaining international experience whilst working in various countries including the US, Canada, India, Australia and the Middle East. Cressida was awarded a CBE in 2014 for services to infrastructure investment and policy.

Outside commitments on listed companies
Senior Independent Director of London Stock Exchange Group plc.

Dr Charles Woodburn CBE
Chief Executive

Tenure: 8 years and 9 months

Nationality: UK

Skills, competence and experience
Charles joined BAE Systems in May 2016 as Chief Operating Officer and became Chief Executive on 1 July 2017. He is an experienced business leader with over 28 years' experience in the aerospace and defence and oil and gas industries. Prior to joining the Company in 2016, he was Chief Executive Officer of Expro Group and, before that, he spent 15 years with Schlumberger holding a number of senior management positions in Asia, Australia, Europe and the US.

Charles is a Fellow of the Royal Academy of Engineering and was awarded a CBE in 2023 for services to international trade and skills.

Outside commitments on listed companies
None.

Brad Greve
Chief Financial Officer

Tenure: 4 years and 10 months

Nationality: UK/US

Skills, competence and experience
Brad joined BAE Systems in 2019 as Group Finance Director designate and became a Board member on 1 April 2020. He is a highly experienced executive with deep financial and operational management experience, gained during a career in excess of 30 years in international engineering and technology businesses. Prior to joining the Company, he held a number of senior executive roles in Schlumberger, undertaking roles in Europe, Africa, South America and the US.

Outside commitments on listed companies
None.

Tom Arseneault
President and Chief Executive Officer of BAE Systems, Inc.

Tenure: 4 years and 10 months

Nationality: US

Skills, competence and experience
Tom was appointed to the Board on 1 April 2020 and serves as President and Chief Executive Officer of BAE Systems, Inc. Throughout his career, Tom has led complex organisations responsible for fulfilling critical and technologically challenging missions. Before becoming President and Chief Executive Officer of BAE Systems, Inc., he held various senior roles within BAE Systems, Inc.

Prior to his senior leadership appointments, Tom managed various organisations and programmes for Sanders, a Lockheed Martin company, until it was acquired by BAE Systems in 2000. Earlier in his career, he held a variety of engineering and programme management positions with General Electric and TASC. Tom is a member of the Executive committee of the Aerospace Industries Association.

Outside commitments on listed companies
None.

- Committee Chair
- A Audit and Risk Committee
- E Environmental, Social and Governance Committee
- I Innovation and Technology Committee
- N Nominations Committee
- R Remuneration Committee

Board of directors continued

E I N

Nick Anderson
Non-executive director

Tenure: 4 years and 3 months

Nationality: UK/US

Skills, competence and experience
As the former Group Chief Executive of a FTSE 100 industrial engineering company, Nick has a proven track record of leading and growing global businesses. His knowledge and experience, particularly in leading international engineering and manufacturing operations, are a particular asset to the Board.

During his 10-year tenure as Group Chief Executive of Spirax Group plc, Nick oversaw the company's successful global expansion. Prior to joining Spirax Group plc, he was Vice-President of John Crane Asia Pacific and President of John Crane Latin America, part of Smiths Group plc.

Other commitments on listed companies
Non-executive director of The Weir Group plc.

Non-executive director of Spectris plc.

E N

Crystal E Ashby
Non-executive director

Tenure: 3 years and 5 months

Nationality: US

Skills, competence and experience
Crystal has held several senior leadership roles in the energy and healthcare sectors, as well as considerable experience in government affairs and legal and regulatory matters. Throughout her executive career, Crystal held various senior leadership roles at BP America Inc., culminating with her appointment as Executive Vice President of Government and Public Affairs and Strategic University Partnerships, and membership on its Americas Leadership Team. She was previously Executive Vice President, Chief People Officer, DEI and Communications Officer of the US health insurance company, Independence Blue Cross.

Crystal is a Fellow of the National Association of Corporate Directors as well as a member of the International Women's Forum and American Bar Association.

Other commitments on listed companies
None.

A N R

Angus Cockburn
Non-executive director

Tenure: 1 year and 3 months.

Nationality: UK

Skills, competence and experience
Angus was previously the Group Chief Financial Officer of Serco Group plc and, before that, the Chief Financial Officer of Aggreko plc. He is also a former non-executive director of GKN plc, Howdens Joinery Group PLC and Global Income & Growth Trust.

Angus holds an MBA from Switzerland's IMD Business School. He is also an Honorary Professor at the University of Edinburgh and a member of the Institute of Chartered Accountants of Scotland.

Other commitments on listed companies
Chair of James Fisher & Sons plc.

Senior Independent Director and Chair of the Audit Committee of Ashtead Group plc.

A E I N R

Dame Elizabeth Corley[1] CBE
Non-executive director

Tenure: 9 years.

Nationality: UK

Skills, competence and experience
Dame Elizabeth brings a wealth of investor, governance and boardroom experience to the Board. She is a former non-executive director of Pearson plc and Morgan Stanley Inc. and served as Chief Executive Officer of Allianz Global Investors, initially for Europe then globally, from 2005 to 2016. Prior to that, she worked for Merrill Lynch Investment Managers.

Elizabeth is active in representing the investment industry and developing standards within it. She is Chair Emeritus of the Impact Investment Institute, an acclaimed writer and a Fellow of the Royal Society for the encouragement of Arts, Manufactures and Commerce.

Other commitments on listed companies
Chair of Schroders plc.

MEMBERSHIP AND ATTENDANCE FOR THE YEAR ENDED 31 DECEMBER 2024

	Board meetings	Committee membership	Audit and Risk Committee	Environmental, Social and Governance Committee	Innovation and Technology Committee	Nominations Committee	Remuneration Committee
Cressida Hogg	7/7	N	–	–	–	5/5	–
Nick Anderson	7/7	E I N	–	4/4	2/2	5/5	–
Crystal E Ashby[1]	6/7	E N	–	3/4	–	5/5	–
Angus Cockburn	7/7	A N R	5/5	–	–	5/5	5/5
Dame Elizabeth Corley[2]	7/7	A E I N R	5/5	2/2	2/2	5/5	5/5
Jane Griffiths	7/7	A E N	5/5	4/4	–	5/5	–
Ewan Kirk	7/7	I N R	–	–	2/2	5/5	5/5
Stephen Pearce	7/7	A E N	5/5	4/4	–	5/5	–
Nicole Piasecki	7/7	I N R	–	–	2/2	5/5	5/5
Lord Sedwill[3]	4/4	E N	–	2/2	–	3/3	–
Charles Woodburn Chief Executive	7/7		–	–	–	–	–
Brad Greve Chief Financial Officer	7/7		–	–	–	–	–
Tom Arseneault President and Chief Executive Officer of BAE Systems, Inc.	7/7		–	–	–	–	–

1. Crystal Ashby was unable to attend the meetings in June 2024 due to conflicting commitments.
2. Dame Elizabeth Corley was appointed to the Environmental, Social and Governance Committee in September 2024.
3. Lord Sedwill retired as a non-executive director on 10 September 2024.

A E N

Dr Jane Griffiths
Non-executive director

Tenure: 4 years and 10 months

Nationality: UK

Skills, competence and experience
Jane has experience in leading high technology businesses and international corporate leadership. In her executive career with Johnson & Johnson, she held various executive positions and led its Corporate Citizen Trust in EMEA and sponsored its Women's Leadership Initiative.

Jane is a former non-executive director of Johnson Matthey plc. She has also previously served as Company Group Chair of Janssen EMEA, Johnson & Johnson's research-based pharmaceutical arm, where she was sponsor of Janssen's Global Pharmaceuticals Sustainability Council. She is a former Chair of the European Federation of Pharmaceutical Industries and Associations, past Chair of the PhRMA Europe Committee and former member of the Corporate Advisory Board of the UK Government-backed 'Your Life' campaign, aimed at encouraging more people to study STEM subjects.

Other commitments on listed companies
None.

I N R

Dr Ewan Kirk[2]
Non-executive director

Tenure: 3 years and 8 months

Nationality: UK

Skills, competence and experience
Ewan has extensive experience in commercialising data science and quantitative analysis. He has led multiple ventures to identify, apply and leverage technology and mathematics research in both business and philanthropy. In 2006, Ewan founded Cantab Capital Partners, a science-driven investment management firm, which was acquired by GAM Investments in 2016 and is one of the top-performing quantitative investment companies in the UK. Prior to founding Cantab, Ewan was Partner and Head of Quantitative Strategies Group at Goldman Sachs.

In 2023, Ewan became the first Royal Society Entrepreneur in Residence at Cambridge University at the Centre for Mathematical Sciences. He holds a PhD in General Relativity from the University of Southampton, a MASt in Mathematics from Queen's College, Cambridge, and a BSc in Natural Philosophy and Astronomy from the University of Glasgow.

Other commitments on listed companies
None.

A E N

Stephen Pearce
Non-executive director

Tenure: 5 years and 8 months

Nationality: Australia

Skills, competence and experience
Stephen has over 20 years' experience as a director of public companies, as well as over 30 years of financial and commercial experience in the mining, oil and gas, and utilities industries. He has held a range of leadership roles, most notably serving as Finance Director of Anglo American plc for over six years. He previously served as CFO and as an executive director of Fortescue Metals Group Limited from 2010 to 2016.

Stephen is a Fellow of the Institute of Chartered Accountants, a Fellow of the Governance Institute of Australia and a Member of the Australian Institute of Company Directors.

Other commitments on listed companies
Non-executive director of South32 Limited.

I N R

Nicole Piasecki
Non-executive director and Senior Independent Director

Tenure: 5 years and 8 months

Nationality: US

Skills, competence and experience
Nicole was appointed Senior Independent Director on 1 January 2024. She has extensive experience gained from executive positions within the aerospace industry and leadership of multi-functional teams. She previously held a number of engineering, sales, marketing and business strategy roles during her 25-year career with the Boeing Company, including Vice President and General Manager of the Propulsion Systems Division and Vice President of Business Development & Strategic Integration for Boeing's commercial aircraft business and President of Boeing Japan.

Nicole formerly served on the Federal Aviation Authority's Management Advisory Board, the American Chamber of Commerce in Japan, the US Department of Transportation's Future of Aviation Advisory Committee and the Federal Reserve Bank of San Francisco's Seattle branch. She is a former director of Howmet Aerospace Inc.

Other commitments on listed companies
Non-executive director of BWX Technologies, Inc.

Non-executive director of Weyerhaeuser Company.

- Committee Chair
- A Audit and Risk Committee
- E Environmental, Social and Governance Committee
- I Innovation and Technology Committee
- N Nominations Committee
- R Remuneration Committee

1. Dame Elizabeth Corley will step down as a member of the Audit and Risk Committee with effect from 24 February 2025.
2. Ewan Kirk will become a member of the Audit and Risk Committee with effect from 24 February 2025.
3. Subsequent to the approval of this Annual Report, on 24 February, Dame Elizabeth Corley stepped down from the Environmental, Social and Governance Committee and Angus Cockburn was appointed to the Environmental, Social and Governance Committee as of the same date.

Board and executive management diversity information

The Board has adopted a Diversity and Inclusion policy[1] and recognises the importance of the Board's membership representing diversity in its broadest sense.

Board Diversity and Inclusion policy

In accordance with the Code and UK Listing Rules, the Board has adopted a Board Diversity and Inclusion policy with the aim of maintaining a diverse Board, including an appropriate balance of nationalities, gender, ethnicity, skills, knowledge, experience and personal strengths. The Board Diversity and Inclusion policy is monitored and reviewed by the Nominations Committee and aligns with the targets set by the FCA.

In accordance with the policy, appointments and succession plans are based on merit and objective criteria, reflecting the skills, knowledge and experience needed to ensure we have a well-rounded and effective Board. In the case of Non-Executive Directors, other relevant matters are also taken into account, such as independence and the ability to fulfil time commitments.

Due to the nature of the Group's activities, the UK Government holds a Special Share in the Company, ensuring that the Company cannot be non-British controlled. The Special Share also includes provisions requiring that a majority of the directors on the Board and on any Board Committee are British nationals and the roles of Chair and Chief Executive are also subject to UK nationality restrictions. Furthermore, as different diversity and inclusion requirements apply in the jurisdictions in which the Group operates, the Company accordingly adjusts the application of its policies.

As at 31 December 2024 (the reference date adopted by the Company pursuant to the UK Listing Rules), the Board met the following targets:

- at least 40% of the Board are women;
- at least one senior Board position is held by a woman; and
- at least one Board member is from a minority ethnic background.

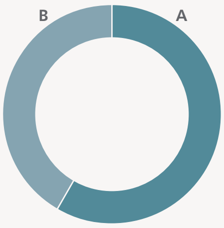
There have been no changes to the Board between the reference date and the date on which this Annual Report was approved.

Board and executive diversity data as at 31 December 2024 can be found on the next page.

1. A copy of the Board Diversity and Inclusion Policy can be found at www.baesystems.com.

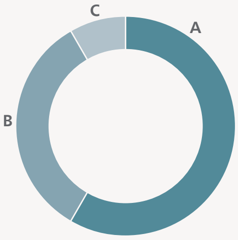
Board information

GENDER



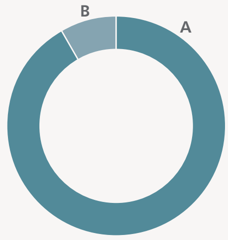
A	Male	7
B	Female	5

NATIONALITY



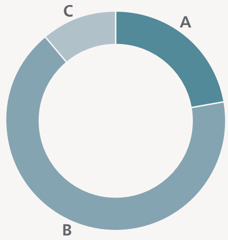
A	UK	7
B	US	4
C	Australia	1

ETHNICITY



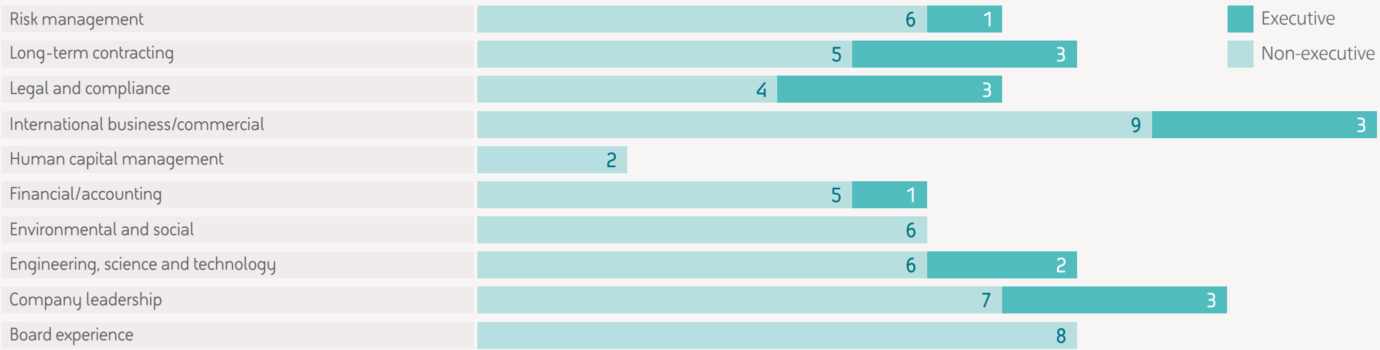
A	White British or other White (including minority White groups)	11
B	Black/African/Caribbean/ Black British	1

TENURE
(independent non-executive directors)



A	Up to three years	2
B	Over three and up to six years	6
C	Over six years	1

Skills and experience



Board and executive management diversity as at 31 December 2024

In compliance with UK Listing Rule 6.6.6R(9), the tables to the right detail the diversity of the individuals on the Board and executive management as at 31 December 2024.

As at 31 December 2024, there were 13 Executive Committee members (including the Chief Executive, President and Chief Executive Officer of BAE Systems, Inc. and the Chief Financial Officer, who are also executive directors) and 12 Board directors. The Company Secretary is included in the calculation of executive management.

The data was obtained on a voluntary self-reported basis. Participants were invited to complete a survey through a secure electronic portal, wherein they were asked to confirm their sex and gender identity, and ethnic background. The descriptive categories of sex, gender and ethnic background set out in the survey were taken verbatim from Annex 1 to UK Listing Rule 6 and therefore correspond precisely with the tables.

On 10 September 2024, following the retirement of Lord Sedwill, the number of men on the Board reduced to seven. As a result, the percentage of women on the Board increased to 41.67%. Changes were made to the executive management during the year, reducing membership from 14 to 13. As a result of this change, the percentage of women in executive management increased to 38.46%. See the Nominations Committee report on page 83 for further information and disclosure on diversity.

Sex and gender identity

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
Men	7	58.33%	2	8	61.54%
Women	5	41.67%	2	5	38.46%
Other categories	–	–	–	–	–
Not specified/ prefer not to say	–	–	–	–	–

Ethnic background

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	11	91.67%	4	12	92.31%
Asian/Asian British	–	–	–	–	–
Black/African/ Caribbean/Black British	1	8.33%	–	–	–
Other ethnic group	–	–	–	1	7.69%
Not specified/ prefer not to say	–	–	–	–	–

Governance framework

This is the structure through which we manage the Group, including the Board division of responsibilities.

The Board

Role of the Board

The Board is responsible for promoting the long-term sustainable success of the Company, generating value for shareholders, while having regard to our stakeholders and the impact of our operations on the environment and the communities in which we operate. See page 76 for more information on the work of the Board.

The Board agrees the Group's purpose, values and standards of behaviour expected of all employees, satisfying itself that these and the culture of the business are aligned. The Board also sets the Group's strategy and oversees and monitors internal controls, risk management and the Group's governance framework. Our robust governance framework, the Operational Framework, is agreed by the Board and sets out how we do business.

Purpose

The Company's purpose (see page 2) recognises that we serve, supply and protect those who serve and protect us, and that we have important wider stakeholder responsibilities that the Board has regard to in its decision-making. The Board monitors our strategy, behaviours and culture and their alignment with our purpose.

Culture

Our culture is to be performance driven and values led. The Board is responsible for ensuring that culture is aligned with our purpose, values and strategy.

Strategy

Our strategy (see page 12) is comprised of six key long-term focus areas aligned with our vision and mission. Agreed annually by the Board, it is an important part of how it promotes the long-term sustainable success of the Group.

Board engagement with stakeholders

In considering and engaging with stakeholders, the directors act in accordance with Section 172 of the Companies Act. The work of the Board during the year is detailed on pages 76 to 79.

Board composition

The Board consists of executive and independent non-executive directors, plus a non-executive Chair who was independent in accordance with the Code on her appointment. There is a clear division in the roles and responsibilities of the executive and non-executive directors and between the Chair and Chief Executive which are detailed in our Board Charter (available on the Company's website).

Chair

Leads the Board and is responsible for its overall effectiveness in directing the Company. Also facilitates constructive Board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

Senior Independent Director

Acts as a sounding board for the Chair and also as an intermediary for the other directors as necessary. Annually, or on other occasions as necessary, leading the non-executive directors in appraising the Chair's performance and providing feedback.

Chief Executive

Responsible for the development and delivery of the strategy agreed by the Board. Developing for the Board's approval, appropriate values and standards to drive the required behaviours and by leading by personal example with regards to Company culture.

Company Secretary

Ensures that Board procedures are complied with and advises the Board on all governance matters. Also supports the Board by ensuring that it has the policies, processes, information, time and resources it needs in order to function effectively.

Principal committees

The Board has established principal committees which focus on particular areas, as set out below. The chair of each committee reports to the Board on the committee's activities after each meeting.

Executive and other committees

Operational Framework

Agreed annually by the Board, the Operational Framework is a comprehensive statement of mandated governance requirements and delegated responsibilities. The Code's principles are embedded within the Operational Framework, and its policies and processes underpin all the disclosures the Board makes pursuant to the Code's provisions.

Our Operational Framework provides a stable foundation from which to deliver our strategy, improve our Group performance and continue to develop our culture.

It is mandatory across all wholly-owned entities and details our organisation, governance framework, core business practices and delegated authorities.

Internal controls

Core Business Processes
This describes the reporting and reviews mandated by the Operational Framework, which provide upwards visibility of project and business performance.

Operational Assurance
A process through which line and functional leaders respectively confirm twice yearly that their businesses and functions are compliant with the Operational Framework.

Internal Audit
Assesses the effectiveness of internal controls through a programme of reviews based on a continuous assessment of business risk across the Group.

We take pride in managing our operations effectively and responsibly

Responsible trading principles

How we conduct business is fundamental to our success and we mandate a principles-based approach to our business activity. We do not compromise on the way we conduct business and consistency of this approach is key in defining our reputation.

Product Safety policy

We set out principles which describe our approach to product safety to reduce the risk of unintentional harm to people, property and the environment. They apply throughout the life of the product and throughout the supply chain.

Workplace and operational environment

Our people management expectations are communicated to all employees and set out within our People policy. We have a zero tolerance policy regarding corruption, and our employees are made aware of their role in ensuring we maintain high standards of ethical conduct. Page 52 provides further detail about our anti-corruption programme.

The safety and wellbeing of our employees is paramount and our high standards for health and safety management provide a common framework to guide our workforce. Further information can be found on page 26.

We use our expertise to reduce our global environmental impacts and to develop products and services for our customers which reduce, where possible, the impacts on the environment. Our Environmental, Social and Governance Committee oversees our decarbonisation strategy and impact on the environment including GHG emissions, efficient use of resources, land use and biodiversity, and the environmental impact of the Group's supply chain.

We are committed to ensuring that IT systems and services are used in a manner which promotes effective communication and working practices within the organisation and to preventing damage to our business or reputation through misuse of those systems.

With the support of our Internal Audit team, our IT assurance and governance programme has been developed to support the effective management of cyber risks.

Suppliers

We depend upon our suppliers to provide fully compliant, cost-effective equipment, goods, services and solutions, which are an integral part of the world-class products required by our customers, and also support the effective operations of our businesses and the Group's standards of business conduct. Our supply chain management and Supplier Principles – Guidance for Responsible Business (the Supplier Principles) are focused on high achievement of our standards. Our standard form supplier contracts contain anti-corruption and anti-bribery provisions which stipulate the expectation that suppliers comply with applicable safety, environment and human rights legislation and also meet our standards on ethical business conduct and Supplier Principles.

Risk Management policy

We understand that effective management of risks is essential to the delivery of a business's strategic objectives and its financial targets. Our Risk Management policy provides direction to employees and line and functional leaders on how to carry out project and business risk management. We set clear requirements for the management and reporting of risks in support of the delivery of our strategy. Project risks are managed through our LCM Framework. See pages 55 to 56 for further details.

Core business processes

Our IBP represents a common process with standard outputs and requirements that produces an integrated strategic business plan for the Group and also for each of our businesses over the following five years. The Board reviews our IBP each year as part of its strategy review process. Once approved, the IBP provides the basis for setting all detailed financial budgets and strategic actions across the businesses and is subsequently used by the Board to monitor performance.

As the Operational Framework mandates, businesses and Group functions complete a bi-annual Operational Assurance Statement (OAS). The OAS is one of the Group's review processes, which provides assurance that mandated policies and processes are being complied with. Together with reviews our Internal Audit team undertakes and the work of the external auditors, the OAS forms the Group's process for reviewing the effectiveness of our system of internal controls.

Our LCM Framework describes our approach to the assurance of project risk management. LCM is integral to the successful execution of the Group's projects and programmes. Its application provides progressive risk-based assurance throughout the lifecycle to aid decisions, supporting delivery of projects to achieve customer satisfaction, schedule and financial requirements.

The purpose of the mergers, acquisitions and disposals process is to provide a structured approach to managing the acquisitions, strategic joint ventures and disposals. It forms a part of our strategy and planning framework in order to support the delivery of the IBP.

National security arrangements

The Group is subject to various national security requirements which are an important part of our governance arrangements and how we operate as a defence company, as well as how we meet the needs of our customers. Due to the nature of our activities, the UK Government holds a Special Share in the Company, ensuring that the Company cannot be non-British controlled.

We operate our US businesses through BAE Systems, Inc. and its subsidiaries. However, due to the nature of their activities, the Company, BAE Systems, Inc. and the US Government have entered into an SSA to address national security matters relating to the ownership and control of our US defence businesses. Consequently, as a member of the Group, BAE Systems, Inc. is subject to the Operational Framework and its policies except where they conflict with the SSA or the US national security interest.

The SSA augments the Group's governance structure by requiring (among other things) that BAE Systems, Inc. appoints independent non-executive directors (known as 'outside directors') to its board. These outside directors are currently retired or former members of the US armed forces and intelligence community, and also former Members of Congress, and are required by the SSA to perform their duties (including their fiduciary duties) in good faith and in a manner believed to be, first, in the US national security interest and, second, where not inconsistent with the US national security interest, in the best interests of BAE Systems, Inc. and its shareholders. Compliance with the SSA and US Government security and export regulations is overseen by a Government Security Committee, comprising the outside directors and BAE Systems, Inc. executives and meetings are held regularly with US Government oversight agencies to provide feedback on that compliance.

Similarly, our Australian operations are subject to an Overarching Deed with the Commonwealth of Australia, which protects national security and other interests, and allows the Group to own and manage certain Australian defence-related industrial assets.

Our stakeholders and work of the Board

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

This section provides details of how the directors of BAE Systems plc have acted in accordance with their duty under Section 172 of the Companies Act (s.172)* to promote the success of the Company, having regard (among other things) to certain stakeholders and other factors during the year.

However, the principles of s.172 are not only considered at Board level, they are embedded into our policies and procedures across the Group. Engagement with our stakeholders goes beyond the Board and is a critical activity in supporting our operations. Our broader business engages throughout the year covering the build-up to a new project, during a project and/or the ongoing support and maintenance that the business provides our stakeholders. This engagement is often governed by formulated policies, control frameworks, regulation and legislation. It may also differ by region.

We receive feedback at a number of different levels, which helps inform decisions made on a delegated basis across the Company within the well-developed governance structure approved by the Board. The directors also receive stakeholder feedback, either directly via executive management or through formal reporting processes.

One of our key strategic decisions related to the structure and support of GCAP, which allowed us to approve the joint venture agreement in December. GCAP is a strategically important partnership for the Company, our joint venture partners and the partner nations involved, which will allow us to foster closer collaboration with customers and industry partners in the UK, Italy and Japan. In light of this, the Board discussed the importance of this joint venture and its role in the development of a next-generation combat air system that would create long-term and skilled jobs across the partner nations.

*Companies Act 2006, s.172(1)

A director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(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.

Over the coming years, the Board will continue to consider GCAP and how best we continue to promote the success of the Company. In so doing, we will consider the more than 1,000 suppliers across the partner nations, maintain our strong relationships with customers and engage our employees involved in the delivery of the programme and the local communities in which we operate. We will also consider the impact of the programme on the environment, as well as the impact of the environment on programme plans.

We considered the workforce requirements for GCAP and our submarine build programmes in the UK and Australia, as well as the requirements for our other current and future programmes to support continued business resilience and programme delivery. Career mobility, learning culture and leadership were areas of focus in our conversations. We sought to understand the Company workforce strategy to support evolving customer expectations and how to achieve growth, whilst continuing to deliver on our existing commitments. During our strategy sessions, we considered: the Group's strategic framework; agreed the 2025 integrated business plan; discussed progress in creating a more agile and resilient workforce with the Group HR Director; and maintaining operational excellence during periods of scale and production ramp-up, whilst attracting and retaining talented people. These conversations gave us a clearer understanding of the longer-term resource requirements and the Group's plans to meet these needs.

As part of our strategy discussions, we were able to understand the Group's ambitions and progress around M&A, in the context of further strengthening our existing portfolio. During the year, we reviewed and approved a successful bid for Kirintec Ltd, which bolstered our counter UAS and electronic warfare capabilities. In September, we visited our new SMS business in Colorado, following the completion of the Ball Aerospace acquisition earlier in the year. This visit was insightful, bringing to life the expertise and excellence within the business, as well as providing additional understanding of our people, customer requirements and alignment with our strategy.

Meeting the SMS team
In September, the Board visited our SMS business in Colorado, US, and toured the state-of-the-art Aerospace Manufacturing Center and Fisher Integration Highbay facilities, learning first-hand how our SMS teams are pushing the boundaries of space to support our customers' missions.

Employee voice

In accordance with Provision 5 of the Code, the Board has established our own arrangements for workforce engagement which we believe are effective.

As a Board, we discuss employee engagement matters and feed back important elements of conversations and observations from our interactions. Site visits provide useful insight into employee voice, as well as the considerations and concerns of the local communities in which we operate. Together with data and reports from senior management, our site visits, meetings and opportunities for discussions with employees give us good perspective into the matters important to our employees and their communities. We regularly review the Board's approach to workforce engagement to ensure its effectiveness, taking into account contemporary employee engagement practices.

Our people

Employees of BAE Systems.

What's important to them

- Safety and wellbeing
- Security
- Career progression, training and development
- Remuneration, reward and recognition
- How we work together
- Business conduct
- Decarbonisation programme
- Contribution to the communities where we work

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Why we engage

The security, safety, wellbeing, skills, capabilities and commitment of our people are critical to ensuring the long-term viability of our business and delivering the innovation needed to solve our customers' complex challenges. Effective engagement enables our employees to contribute to improving business performance and helps us to create an environment in which everyone is safe, valued and can fulfil their potential.

How we engaged at Board level

- Multiple site visits during the year across the UK, US, Kingdom of Saudi Arabia and Australia. All discussions and site visits were undertaken in accordance with the national security requirements of the UK and other relevant nations.
- Regular updates to the Board on employee engagement, employee safety, recruitment, talent identification, employee pay and diversity and inclusion.

Key actions taken by the Board in 2024

- Visited the new SMS business in Colorado, US, where the Board met with employees and senior leaders, and engaged on a range of topics.
- The Chair, Group Chief Executive and President and Chief Executive Officer of BAE Systems, Inc. were panellists at an employee town hall event in Colorado.

How we engaged across the Group

- Surveys and insight sessions.
- In-person and virtual meetings, briefings, conferences, toolbox talks, safety and security stand-downs, events and listening forums at all levels.
- Employee share and incentive schemes.
- Regular leadership updates through videos and events throughout the year (including in relation to financial and business performance).
- Digital channels including our Employee App, intranet, email and TV systems.
- Engagement forums with trades unions in Australia and the UK and labour unions in the US.

Our customers and end-users

Governments and their procurement bodies, large prime contractors and commercial businesses.

The people who use our products and services, often members of the armed forces and security services.

What's important to them

- Value for money
- Trust
- Quality of our products and services
- Risk management
- Timely delivery
- Safety and wellbeing
- Supporting operational capability and operability
- Reducing product GHG emissions
- Reliability of our teams to rectify issues quickly

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Why we engage

Understanding our customers' needs and challenges is central to our strategy and how and where we invest in technologies and infrastructure. Our end-users protect people, information, infrastructure and nations. Delivering on our customer commitments is critical to our mission to protect those who protect us and drives our focus on operational excellence.

How we engaged at Board level

- Regular updates on customer relationships from the Group Chief Executive, who meets regularly with our principal customers.
- President and Chief Executive Officer of our US business provided feedback to the Board on BAE Systems, Inc.'s customers to the extent allowed by national security considerations.

Key actions taken by the Board in 2024

- Reviewed and approved the Kirintec acquisition which provided additional counter UAS and electronic warfare capabilities.

How we engaged across the Group

- Participated in major events including Farnborough International Airshow in the UK, the Association of the United States Army exposition in the US and the Land Forces exposition in Australia.
- International summits, like the NATO 75 Summit (Washington) and Shangri-La Dialogue (Singapore), provided strategic access to key customers and stakeholders.
- Bespoke technology event series which provided an opportunity to engage customers around evolving capability requirements.
- Customer meetings, programme reviews, site visits and programme milestone events.
- Close working with end-users at customer facilities, bases and sites.
- Regular dialogue with senior military leaders as well as senior ministers and political officials in our key markets.

Our stakeholders and work of the Board continued

Our suppliers

The companies we work with to deliver products and services to our customers.

What's important to them

- Labour and skills requirements
- Cost of materials and operations
- Terms of trade
- Timely payment
- Responsible sourcing
- Supply chain resilience and continuity of supply
- GHG emissions and decarbonisation agenda[1]

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Why we engage

Our suppliers and an effective, efficient and resilient supply chain are essential to enable us to deliver for our customers and end-users. Engaged suppliers perform at a much higher level, knowing they are regarded as valued partners and critical to mutual success.

How we engaged at Board level

- Directors received information on particular supply chain matters through our regular Board reports.
- Chief Procurement Officer attended an Environmental, Social and Governance Committee meeting where she provided an update on the roll-out of our supplier principles assurance programme.
- Board provided with an update on actions we are taking to increase the level of supply chain resilience.

Key actions taken by the Board in 2024

- Board received information on, and discussed, the Company's supply chain within the context of the five-year risk landscape, focusing on matters including geopolitics, economics, the environment, technology, regulation and resource.

How we engaged across the Group

- Direct engagement with our suppliers, including at major trade exhibitions and industry conferences such as Farnborough International Airshow, DPRTE (Defence, Procurement, Research, Technology and Exportability) and JOSCAR Live in the UK.
- This enabled us to maintain close relationships to help ensure continuity of supply, more proactively mitigate supply chain disruptions arising from global events and support our suppliers by providing extended demand visibility and expertise to find mutual solutions to identified supply challenges.
- We shared our expectations on the topic of our sustainability agenda with our suppliers.

Our partners

Other industry companies, trade bodies or academic institutions with whom we work.

What's important to them

- R&D investment
- Product and service development
- Collaboration on low-emission products
- Developing common standards, including an approach to reduce industry GHG emissions[1]
- Access to market and customer opportunities
- Sharing best practices and common standards, including on ESG issues

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Why we engage

We benefit from collaborating with others to address industry-wide challenges and develop technologies, products and services for our customers.

How we engaged at Board level

- Environmental, Social and Governance Committee updated on the resilience of our supply chain, with a focus on decarbonisation and modern slavery and human rights.
- Environmental, Social and Governance Committee also reviewed the community impact and investments made across the Group.

Key actions taken by the Board in 2024

- Innovation and Technology Committee site visit to our Submarines business in Barrow-in-Furness, UK, to discuss the planned technology investment and product enhancement.

How we engaged across the Group

- Extensive engagement with university partners in Australia and the UK, including joint research projects, hackathons and an annual PhD conference.
- Funding of projects at UK catapult centres to facilitate R&D collaboration with industry, government scientists and academia.
- Maintained regular dialogue with industry partners, think tanks, trade bodies and customers around challenges that require a multi-partner approach, including evolving global events, multi-domain integration, resilient use of space for intelligence and communications, and a sustainability agenda.

Our investors

Investors who provide capital to the business.

What's important to them

- Profitability, growth potential and cash generation
- Capital allocation and shareholder returns
- Operational performance
- Quality of management
- ESG considerations
- Share price performance

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Why we engage

A strong investor base and continued access to capital is critical to the long-term success of the Group. It is important to ensure the owners of our shares and potential investors have a full understanding of our business, including the strategy, growth potential and risks as well as the overall performance of the business in order to make informed investment decisions.

How we engaged at Board level

- Executive Directors and the Chair investor roadshows following full year and half year results to discuss Group performance with key shareholders.
- Chair and Chair of Environmental Social and Governance committee hosted an ESG investor event.
- AGM in May provided an opportunity for investors to engage with Board members.
- Chair and Chair of the Remuneration Committee undertook a consultation with our 65 largest shareholders, representing approximately 70% of voting rights, on proposed changes to the Directors' Remuneration policy.

Key actions taken by the Board in 2024

- Approved a final dividend of 18.5p per share in respect of 2023 and an interim dividend of 12.4p per share in respect of the first half of 2024.

How we engaged across the Group

- Comprehensive investor programme comprising a mixture of in-person and virtual engagements in the UK, US and other key international markets.
- Engagements included management and Investor Relations meetings, attendance at investor conferences, bank-led Q&A sessions and major trade shows, including Farnborough International Airshow in the UK, the Association of the United States Army exposition in the US and Eurosatory in France.
- Conducted an investor group tour of our Barrow-in-Furness, UK, submarine production facilities and broadcast several editions of our virtual technology event series.
- Held our first ever investor site visit in the Kingdom of Saudi Arabia to the King Faisal Air Academy which showcased the array of training undertaken at the Academy.

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

Our communities and the environment

The people who live where we work, the environment in which we operate and the charitable organisations we support.

What's important to them

- Employment and economic contribution
- Education outreach and skills development, especially for young people
- Community engagement and delivering meaningful local impact
- ESG considerations
- Collaboration on low-emission products
- Developing common standards, including an approach to reduce industry GHG emissions
- Support for our armed forces' communities, including veterans and military families

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Why we engage

We are committed to the communities and environment in which we operate. In many locations where we have major sites we are one of the largest employers in the area and have a responsibility to support the local communities where our people live and work both economically and socially. We also recognise that our operations have an impact on the environment and we have a responsibility to minimise impacts from our operations. As a leading defence and security company, we are dedicated to supporting members of our armed forces' communities and strengthening the STEM talent pipeline.

How we engaged at Board level

- Group Chief Executive Officer provided an update on ESG matters at each scheduled Board meeting.
- Chair of the Environmental, Social and Governance Committee reported to the Board on the activities of the Committee.
- Continued to monitor the Group's sustainability agenda and ESG strategy in conjunction with the Environmental, Social and Governance Committee.

Key actions taken by the Board in 2024

- Chair opened the new Winston Churchill Centre for Learning and Education at the British Normandy Memorial, France.
- The Centre includes an education room, providing a place for future generations to understand Britain's role in the Battle of Normandy and learn lessons for the future. Read more on page 29.

How we engaged across the Group

- Extensive education outreach programme, including STEM ambassadors in key markets, school roadshows in the UK and sponsorship of the international FIRST Championship in the US.
- Continued support for local communities through sponsorships, donations and employee volunteering, including supporting the Beacon programme in Australia which is re-igniting interest in STEM subjects and careers at a critical early stage and a partnership with REACT, a UK-based disaster relief and humanitarian aid charity that trains teams of volunteer flood responders.
- Sustained partnerships with armed forces charities, including support for Legacy in Australia, the Royal British Legion's Poppy Appeal and The Great Tommy Sleep Out in the UK.

Our regulators

Governmental bodies that oversee industry or business activities.

What's important to them

- Relevant laws and regulations
- Appropriate compliance programmes

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Why we engage

We maintain constructive dialogue and relationships with those who oversee the regulations which can impact our business.

How we engaged at Board level

- Received and reviewed legal compliance reports from Senior Council.
- Received and reviewed correspondence from other regulators, including the FRC.

Key actions taken by the Board in 2024

- Chair received a letter from the FRC's Corporate Reporting Review team who carried out a review of the Group's 2023 Annual Report and Financial Statements.
- Although there were no significant findings from the review, the Audit and Risk Committee considered the FRC recommendations and any actions.

How we engaged across the Group

- Open and constructive engagement with various regulators, including meetings and discussions with UK, US and Australian regulators in support of efforts to drive efficient compliance, improve bilateral and multilateral defence trade co-operation and support our licensing strategy.
- Participation in industry association initiatives to work with regulators to the same end.
- Regulator participation in our internal training events and conferences and support from us as speakers or participants at external conferences and engagement events.

Our pension scheme members

Members and trustees of our pension schemes.

What's important to them

- Member benefits
- Pension scheme funding position and investment strategy
- Group performance

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Why we engage

We are committed to fulfilling our obligations to current and former employees in our pension schemes. Our Trustees engage with scheme members regularly to ensure they are informed about how we continue to do so and ensure that they have access to all the information they need to manage their pension arrangements.

How we engaged at Board level

- Received updates from the Trustees and the Group's Corporate Pensions team following transfer of the management of the BAE Systems Pension Scheme to a new provider in late 2023.
- Kept updated on the tri-annual valuation of the UK pension funds, with the final outcome provided to the Board in early 2025.

How we engaged across the Group

- Continued to engage with our UK members via dedicated pensions websites, ensuring they have access to key scheme documents and pensions information.
- Newsletter made available to all members to keep them updated and engaged in their pension planning.
- Face-to-face and virtual engagement sessions for employee members around the UK, supported by a series of pension essentials videos and guides, to help them better understand their pensions.

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

Applying the 2018 UK Corporate Governance Code Principles

Applying Principles of Good Governance: The Company has applied the Principles in the Code. Using the principal headings in the Code, the following provides details of how we have applied those Principles and references other parts of these reports to provide more detail. The statements reference the Code Principles.

Principles		Reference
Section 1 – Board leadership and Company purpose		
A.	We have an effective and entrepreneurial Board that promotes the long-term sustainable success of the Company, generates value for shareholders and contributes to wider society.	RESPONSIBLE BUSINESS PAGE 48 > DIVIDENDS PAID AND CAPITAL ALLOCATION POLICY OBJECTIVES PAGE 11 > ANNUAL BOARD EVALUATION PAGE 85 >
B.	The Board has established the Company's purpose, values and strategy and satisfied itself that these and its culture are aligned. All directors are required to act with integrity, lead by example and promote the culture they wish to see for the Company.	OUR PURPOSE PAGE 2 > OUR STRATEGIC FRAMEWORK PAGE 12 > RESPONSIBLE BUSINESS PAGE 48 > GOVERNANCE FRAMEWORK PAGE 74 > ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT PAGE 91 >
C.	Through the Company's integrated strategic planning process the Board has agreed annual and long-term strategic and financial objectives for the Company. The integrated nature of the planning process helps ensure that the necessary resources are in place to meet those objectives. The Board regularly reviews progress against the plan. The Company has a comprehensive framework that enables risk to be assessed and managed.	OUR BUSINESS MODEL PAGE 10 > GOVERNANCE FRAMEWORK PAGE 74 >
D.	In order for the Company to meet its responsibilities to shareholders and stakeholders, the directors have established a number of means through which it is able to engage with them in order to better understand their views and expectations.	OUR STAKEHOLDERS AND WORK OF THE BOARD PAGE 76 > ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT PAGE 91 >
E.	The Board looks to ensure that workforce policies and practices are consistent with our values and support our long-term sustainable growth. All members of our workforce are able to raise any matters of concern through our Ethics Helpline or with a local Ethics Officer.	OUR PURPOSE PAGE 2 > OUR STRATEGIC FRAMEWORK PAGE 12 > RESPONSIBLE BUSINESS PAGE 48 >
Section 2 – Division of responsibilities		
F.	The Chair leads the Board and is responsible for the overall effectiveness of the Board in directing the Company. In doing so, she seeks to demonstrate objective judgement and promotes a culture of openness and debate within the boardroom. The directors are provided with accurate, timely and clear information to facilitate open and constructive Board relations.	GOVERNANCE FRAMEWORK PAGE 74 > ANNUAL BOARD EVALUATION PAGE 85 >
G.	The Board comprises the Chair, three executive directors and eight independent non-executive directors. There is a clear division in the roles and responsibilities of the executive and non-executive directors and between the Chair and Chief Executive which are detailed in our Board Charter (available on the Company's website).	CHAIR'S GOVERNANCE LETTER PAGE 68 > GOVERNANCE FRAMEWORK PAGE 74 >
H.	The non-executive directors have committed to having sufficient time to meet their responsibilities. The non-executive directors provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	GOVERNANCE FRAMEWORK PAGE 74 > GOVERNANCE DISCLOSURES PAGE 68 > BOARD INFORMATION PAGE 69 >
I.	The Company Secretary supports the Board in ensuring the directors have the correct policies, processes, information and time in order to function effectively and efficiently.	GOVERNANCE FRAMEWORK PAGE 74 > ANNUAL BOARD EVALUATION PAGE 85 >

Principles	Reference
Section 3 – Composition, succession and evaluation	
J. The Nominations Committee undertakes a formal, rigorous and transparent approach to succession planning for Board appointments. The Board oversees the development and implementation of succession plans for directors and senior management. Appointments and succession plans are based on merit and objective criteria, whilst also promoting diversity in all forms.	BOARD INFORMATION PAGE 69 > NOMINATIONS COMMITTEE REPORT PAGE 83 >
K. The directors look to maintain a good combination of skills, experience and knowledge on the Board and on its committees. Succession plans take into consideration the lengths of service of directors and the need to regularly refresh Board membership.	CHAIR'S GOVERNANCE LETTER PAGE 68 > BOARD INFORMATION PAGE 69 > NOMINATIONS COMMITTEE REPORT PAGE 83 >
L. The Board annual performance evaluation undertaken by the Board in 2024 considered its composition, diversity and how effectively members worked together to achieve objectives. The evaluation included an assessment of the effectiveness of individual members.	NOMINATIONS COMMITTEE REPORT PAGE 83 > ANNUAL BOARD EVALUATION PAGE 85 >
Section 4 – Audit, risk and internal control	
M. The Board through its Audit and Risk Committee has established formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions, and the work they undertake assists the Board in satisfying itself as to the integrity of financial and narrative statements.	AUDIT AND RISK COMMITTEE REPORT PAGE 86 >
N. As detailed in these reports, the directors confirm they consider the 2024 Annual Report and financial statements taken as a whole to be fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy.	DIRECTORS' RESPONSIBILITY STATEMENT PAGE 132 >
O. The Board has established procedures to manage risks. It also oversees the risk management and internal control framework and determines the nature and extent of the principal risks the Company is willing to take in order to achieve its long-term strategic objectives.	OUR RISK MANAGEMENT FRAMEWORK PAGE 57 > OUR PRINCIPAL RISKS PAGE 58 > GOVERNANCE FRAMEWORK PAGE 74 >
Section 5 – Remuneration	
P. The policies and practices of the Remuneration Committee have been designed to support our strategy and promote the long-term sustainable success of the Company. Executive remuneration is aligned to Company purpose and values and is linked to the successful delivery of our long-term strategy.	REMUNERATION COMMITTEE REPORT PAGE 94 > ANNUAL REMUNERATION REPORT PAGE 109 >
Q. The Remuneration Committee has a formal and transparent procedure for developing policy on executive remuneration and also for determining the remuneration of directors and senior management. Directors are not involved in determining their own remuneration outcome.	REMUNERATION COMMITTEE REPORT PAGE 94 > DIRECTORS' REMUNERATION POLICY PAGE 101 >
R. The Remuneration Committee has the ability to exercise its discretion and independent judgement when agreeing remuneration outcomes. When exercising such discretion it will take into account Company and individual performance, and also wider circumstances.	REMUNERATION COMMITTEE REPORT PAGE 94 >

Compliance with the 2018 UK Corporate Governance Code provisions

The Company is subject to the principles and provisions of the Code, a copy of which is available at frc.org.uk. The Company was compliant with the provisions of the Code throughout 2024. The following statements are made in compliance with the Code.

Risk management and internal control statement

The Board is responsible for the oversight of the effectiveness of the Group's risk management and internal control framework. It has delegated responsibility for monitoring and reviewing the effectiveness of this framework to the Audit and Risk Committee, which reports to the Board on its findings so that all directors can take a view on the matter.

An overview of the processes used to identify, evaluate and manage the principal risks can be found on pages 55 to 56. These processes are an integral part of our governance and are therefore included within the Operational Framework, details of which can be found on page 74. The Operational Framework mandates the OAS process, which is owned by the Group's Internal Audit function and is one of the principal processes the Board uses in monitoring the effectiveness of control systems.

The OAS process is designed to provide assurance with regard to compliance with the policies and processes which the Operational Framework mandates. It is a key element of the Group's governance. The Risk Management policy and the LCM Framework direct employees and line and functional leaders on the approach to effectively managing business and project risks. Twice a year, the line leaders for our business and the heads of our functions are required to critically analyse compliance relative to a scoring framework, which sets clear standards against which compliance must be assessed. Line and functional leaders are required to assure themselves of the level of compliance for a business and submit, as required, supporting information and data to provide evidence of compliance.

The output from the OAS process is reviewed by (and subject to challenge from) the Internal Audit function relative to its understanding of matters within particular businesses. The output from the risk management and OAS processes is provided to the Board and is reviewed in detail by the Audit and Risk Committee.

The report to the directors on the output from the risk management and OAS processes provides granular graphical and narrative analysis of compliance against the requirements of the Operational Framework, and as such is an important part of how the Board monitors and reviews the Company's risk management and internal control framework. Further details of the Board's monitoring and review process can be found in the Audit and Risk Committee report on page 86.

The risk management and internal control framework detailed in the Operational Framework were in place throughout the year and the Board, having reviewed their effectiveness, believes they accord with the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

Viability statement and going concern

As required by the provisions of the Code, the Board has undertaken an assessment of the future prospects of the Group, taking into account the Group's current position and principal risks. This assessment considered both the Group's long-term prospects and also its ability to continue in operation and meet its liabilities as they fall due over its five-year business planning period. This can be found on page 66 of the Strategic report.

Directors

In compliance with the Code, all directors are subject to annual re-election by shareholders. The Board considers all of the non-executive directors (except the Chair) named on pages 70 to 71 of this report to be independent for the purposes of the Code. The Chair was also independent on appointment.

The Board regularly reviews all of a directors' external commitments to ensure that they have sufficient time to dedicate to the Company. Prior to making Board appointments, the Board considers other demands on an individual's time to ensure that, following appointment, they can meet their Board responsibilities. Non-executive directors are required to seek prior approval before taking on additional external appointments. The Board also considers whether there are any matters that could have a bearing on a non-executive director's independence pursuant to Provision 10 of the Code. The following disclosure is made on these matters:

Director independence

Dame Elizabeth Corley was appointed to the Board on 1 February 2016 and has now been on the Board for nine years. To manage the evolution and skills profile of the Board, the search for new Non-Executive Directors is well advanced. Dame Elizabeth Corley is our most experienced non-executive director and to ensure that we can benefit from her deep understanding of the Group during this year's strategic review, we propose the extension of her tenure until the end of 2025 at the latest (subject to shareholder approval at the 2025 AGM). This will also facilitate a smooth transition for her committee memberships.

During our conversations on Board succession, we considered the length of service of the Board as a whole and how best to ensure that we retained the right balance of skills, experience and knowledge. We also specifically considered the tenure of Dame Elizabeth Corley along with the importance of independence of mind and objective judgement from non-executive directors. The Board reflected on the insightful perspectives Dame Elizabeth Corley provides based on her corporate memory, which coupled with her external background and knowledge enriches Board discussions. The Board is in unanimous agreement that it considers that Dame Elizabeth Corley to be independent.

Dame Elizabeth Corley will step down from the Audit and Risk Committee from Monday 24 February 2025. Dr Ewan Kirk will be appointed to this Committee from the same date.

Nominations Committee report

MEMBERS DURING 2024	MEMBER SINCE
Cressida Hogg (Chair)	November 2022
Nick Anderson	November 2020
Crystal E Ashby	September 2021
Angus Cockburn	November 2023
Dame Elizabeth Corley	February 2016
Jane Griffiths	April 2020
Ewan Kirk	June 2021
Stephen Pearce	June 2019
Nicole Piasecki	June 2019

Dear Shareholders

I am pleased to present this report of the Nominations Committee and provide a summary of our activities during 2024. The Committee's Terms of Reference can be found on the Company's website and provide further details of the Committee's responsibilities.

The Committee leads the process for appointments to Board and executive director roles, ensures plans are in place for orderly, well-planned succession for executive management[1] and oversees the development of a diverse succession pipeline of candidates. It also makes recommendations to the Board on certain corporate governance matters.

> The Committee ensures that plans are in place for orderly, well-planned succession for executive management.
>
> Cressida Hogg
> Chair of the Nominations Committee

Board and succession planning

The Committee regularly monitors the composition of the Board and its Committees to ensure that there remains a suitable balance of skills and experience to oversee the delivery of Group's strategy and discharge each Committee's responsibilities effectively.

During the year, particular attention was focused on succession for Dame Elizabeth Corley, who reached a tenure of nine years on the Board in February 2025. The Committee considered the skills and experience that the Board would be losing along with the future requirements of the Board. The Committee has been working with MWM Consulting[2] to help assist with identifying potential succession candidates. In addition, in September 2024, Lord Sedwill retired from the Board to assist the UK Government's Strategic Defence Review and give greater time to his evolving parliamentary and other commitments. The search for his replacement is also ongoing.

The Committee ensures that plans are in place for appropriate executive management succession. As you would expect, all companies must have resilience to maintain momentum through any unexpected management change. Therefore, the Committee also considers the succession plans for our most senior leaders, the Chief Executive Officer, the Chief Financial Officer and the President & Chief Executive Officer of BAE Systems, Inc. During the year, we considered the critical success components of these roles and the potential succession talent from both inside and outside the business. Russell Reynolds Associates[3] provided insight into this discussion.

The Committee must consider the specific nationality restrictions for certain executive roles within any succession planning. National security considerations limit the pool of talent available when considering candidates for certain leadership positions. In addition, the Special Share provisions in the Company's Articles of Association require that a majority of the members of the Board must be British nationals, and that also applies to the membership of Board Committees.

These nationality requirements are factored into the Committee's long-term plans for managing Board and Committee composition.

On an annual basis the Committee discusses the senior succession candidates with the Chief Executive. The Committee will have also met with some of these candidates during the year at site visits or specific engagements before Board meetings. Our 2024 talent review identified that our talent pipeline is being strengthened, with greater focus on development and clear succession routes for key executives below the level of the Executive Committee. More executives are being identified and developed for specific roles and short-term emergency cover. The Committee will continue to oversee the Group's executive succession planning with the objective of building a diverse and inclusive talent pipeline.

1. Executive management refers to members of the Executive Committee and the Company Secretary.
2. MWM Consulting is an executive search agency which has no other connection with the Company or any individual director.
3. Russell Reynolds Associates is an executive search and leadership advisory firm. It has no other connection with the Company or any individual director.

Nominations Committee report continued

Director external appointments

Directors are permitted additional external appointments and we have a clear process for evaluation and Board consideration of new roles. As part of the nominations process, the role is reviewed for any actual or potential conflict of interest and, if any such conflict arises, whether this could be suitably managed. The time commitment is also assessed to determine if the role would impact the director's ability to properly fulfil their duties as a director of BAE Systems.

On an annual basis, the Committee considers all non-executive directors' time commitments to ensure that there are no concerns with overboarding. This review considers the number of appointments, the scope and size of the company in which the position is held, as well as the most recent published guidelines and recommendations. The Board remains confident that all Board members continue to have sufficient time to dedicate to their duties.

Board diversity

The Board recognises that diversity is an important factor in its effectiveness and strives to maintain a diverse Board, which includes, among other things, an appropriate balance of gender, ethnicity, skills, knowledge and experience.

The Board's Diversity and Inclusion policy, which the Committee routinely reviews, outlines the approach to diversity and inclusion for BAE Systems' Board of directors and is available to view on the Company's website.

The Committee regularly considers the composition of committees, including the needs for particular attributes, skills and experience, when undertaking non-executive search activities. The membership of the Board's Audit and Risk, Remuneration and Nominations committees is drawn from the wider membership of the Board and therefore the membership of these bodies is broadly aligned with the Board's Diversity and Inclusion policy.

Although the Committee strives to maintain the targets set within the Board's Diversity and Inclusion policy, it must also take full account of the Company circumstances and the unique national security requirements to which the Company must adhere. Further information on the Board's approach to diversity can be found on pages 72 to 73.

Cressida Hogg CBE
Chair of the Nominations Committee

The Nominations Committee's year

- Discussed succession plans for executive roles.
- Considered non-executive director succession planning.
- Discussed the role specification and candidate profile for future non-executive director search.
- Discussed senior succession plans.
- Discussed non-executive director planning for the medium to long term.
- Considered the composition of the Board Committees.

Board evaluation

Delivery against the 2024 ambitions

From the 2023 Board evaluation, certain areas of focus were identified. Progress in these areas is provided below.

Area of focus from the 2023 evaluation	Progress
Optimising the scheduling of formal and informal Board time	To enhance the scheduling of Board meetings, and diary management for directors, the Board meeting schedule is now managed over a five-year horizon. Alongside this, a two-year forward agenda planner is used for known items. In addition, the time allocated to Board and Committee meetings has been reviewed and will remain under observation to ensure we maintain the correct balance. Further, additional informal Board dinners were hosted around offsite meetings, which were attended by Executive Committee members, senior management and other staff supporting the offsite meeting/site visit. Site visits also provided opportunity for directors to spend more time together in a more relaxed environment.
Giving more time to discussing senior executive development and succession planning	Senior executive development and succession planning featured regularly on the Nominations Committee agenda in 2024.
Greater insight into how new technologies are likely to impact the future development of the business	The Board has had several 'teach-ins' and focused discussions on the impact of new technologies throughout the year.
Reviewing the Board composition for the longer term	At the start of the year, the Nominations Committee reviewed/discussed the current and future Board composition with particular focus on those non-executive directors nearing the end of their tenure and the skills needed on the Board for the longer term. Further discussion on this topic was held during the year, along with discussion on executive director succession.

2024 Board evaluation process

The Board conducts an annual evaluation of the effectiveness of the performance of the Board, its Committees, the Chair and individual directors, with the assistance of an external independent facilitator at least every third year.

In 2024, the annual evaluation of the effectiveness of the Board and its Committees was conducted internally. The Chair led the process which was facilitated by the Company Secretary. We circulated questionnaires via an electronic platform, with responses anonymised and the conclusions discussed by the Board. In addition, I held one-on-one discussions with each Board member to gather views on Board performance.

The internal evaluation considered a number of matters, including the composition of the Board and its committees, culture, the effectiveness of meetings and the quality of information flow to the Board. From my one-on-one discussions, I was able to consider whether each director continues to contribute effectively. No director was involved in the review of their own individual performance.

Each of the directors is considered to be an effective member of the Board and, accordingly, the Board recommends to shareholders the re-election of the directors standing at the 2025 AGM.

In my capacity as Chair of the Board, my performance was also evaluated, with questions covering areas such as my effectiveness both inside and outside of the Board meetings, my interactions with internal and external stakeholders, and key strengths.

The Company Secretary collated the Chair evaluation results and shared these with the Senior Independent Director, Nicole Piasecki. After engaging with other Board members, Nicole Piasecki discussed the feedback with me.

1. Questionnaire agreed and distributed electronically to Board members.
2. One-on-one discussions between the Chair and Board members.
3. Outcome of questionnaires provided to the Board and Committee members and discussed at a meeting of the Board in December 2024.
4. Action plan agreed following discussion of the reports.

Evaluation outcome

The Board and Committee member feedback indicated that the evaluation was objective and rigorous and that the Board and its Committees are considered to operative effectively. Key topics were discussed for the year ahead for the Board and each Committee, based on director feedback. Feedback also indicated that there are good personal relationships and a high degree of mutual respect among directors.

Areas of focus for 2025	Proposed action
People	The Board agreed to continue its focus on talent in 2025, with deeper discussion on talent management and diversity along with Executive Committee and senior management succession.
Strategy	The updated process supporting the strategy discussions was considered to work well, so will be continued in 2025. Specific areas of discussion for the strategy agenda were also agreed.
Site visits	Positive feedback was received on site visits undertaken in 2024, which were considered to enhance the relationships between directors and provide opportunities for workforce engagement. The importance of site visits as part of the director onboarding process was also recognised. We will look to build on our current process and, where possible, align site visits to Board calendar items.

Audit and Risk Committee report

MEMBERS DURING 2024	MEMBER SINCE
Stephen Pearce (Chair)	January 2020
Angus Cockburn	November 2023
Dame Elizabeth Corley	January 2020
Jane Griffiths	January 2024

> The Committee's name has changed in order to reflect the Committee's continued focus on the Group's risk management and internal control environment.

Stephen Pearce
Chair of the Audit and Risk Committee

Dear Shareholders

I am pleased to provide you with an overview of the Audit and Risk Committee's main activities and key areas of focus during the year. On page 90 there is an overview of the areas we have reviewed and discussed during the year. As part of this report, I will give a summary of some of our discussions.

Following the adoption of new Terms of Reference (which can be found on the Company's website), the Committee's name has changed in order to reflect the Committee's continued focus on the Group's risk management and internal control environment. In addition to our regular reviews of the risk and internal control framework, we also oversee the work and effectiveness of the Group's internal and external auditors, as well as undertake, on behalf of the Board, a more detailed review of the Group's financial and non-financial disclosures.

Committee composition

In accordance with the Code, all members of the Audit and Risk Committee are independent and the Committee Chair has recent and relevant financial experience.

Our biographies on pages 69 to 71 provide a summary of our skills and our experience, which highlights that all Committee members have the necessary skills, and financial literacy, to effectively discharge our duties as an Audit and Risk Committee.

Meeting processes

We receive regular updates on reporting (financial and non-financial, including ESG and other climate-related disclosures), as well as on external and internal auditing, internal control and risk management, ethics and compliance matters.

Before each meeting, I have a pre-meeting in order to ensure that the key areas of focus are properly reviewed and discussed during the Committee meeting. I meet with the Chief Financial Officer, the Internal Audit Director, the Group Financial Controller, the Audit Partners from Deloitte LLP and the Deputy Company Secretary (the Committee Secretary). In and outside of the meeting cycle, I maintain regular conversation with the Internal Audit Director and the Audit Partners.

In 2024, we held five formal meetings and one informal meeting. Our formal meetings are attended by the Board Chair, the Chief Executive, the Chief Financial Officer, the Group General Counsel, the Internal Audit Director, the Group Financial Controller and the Audit Partners. After three of these meetings, we held meetings without management present for discussion with the Internal Audit teams and Audit Partners. We also met over an informal dinner, wherein we discussed key assurance matters with Internal Audit teams and Audit Partners.

Depending on the matters to be discussed, other senior executives are invited to attend our meetings to provide subject matter expertise and further insight.

After each Committee meeting, I report to the Board on the Committee's activities, the key matters discussed and any recommendations from the Committee.

Corporate governance

Over the past few years, the Board has closely monitored the proposed changes to the Code. On behalf of the Board, the Committee has regularly reviewed the proposed Code changes in greater depth, particularly those in relation to Risk Management and Internal Controls and the Audit Committees and the External Audit: Minimum Standard. In addition to our annual deep dive on Corporate Governance matters, which took place in November, during various points of the year, we received updates from the management team on the work being undertaken to ensure the Group's readiness to comply with the new Code.

In preparation for full compliance with the changes to the Code, the Committee focused on the output of the management team's review, which examined the Group's existing processes against the new Code. We were provided updates from the workstreams which were established in order to identify, implement and steer progress against key actions in readiness for the Code's changes in 2025 and 2026.

With the enactment of the Economic Crime and Corporate Transparency Act 2023, the Committee sought to further understand the Group's obligations in respect of fraud monitoring and mitigation. As a result of the synergies with governance, risk and internal control matters, the Group has sought to take a holistic approach to its processes and as a result the Committee has reviewed these matters in tandem.

Progress was made within the year and, during 2025, the Committee will continue to review and monitor the Group's approach.

Risk management and internal controls

The Group's Risk Management policy and associated internal control framework are designed to manage, rather than eliminate,

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014

The Company has complied with the Statutory Audit Services Order issued by the UK Competition and Markets Authority for the financial year ended 31 December 2024.

ASSESSING THE EFFECTIVENESS OF EXTERNAL AUDIT

Who we surveyed to inform our assessment on the effectiveness of the Group's External Auditor

Senior Finance Executives | Internal Audit Director

What we surveyed

Partners & Audit Teams | Planning Scope & Execution | Communication & Reporting | Challenge & Insight

Outcome

The Committee noted that the output of the review was broadly positive and consistent with prior years. Participants felt that the external auditor provided robust and constructive challenge and overall delivered an effective audit.

On the basis of the review, following the 2024 year-end audit, the Committee proposed to the Board that it recommends that shareholders support the re-appointment of Deloitte LLP at the 2025 AGM.

the risk of failure to achieve its strategic objectives. It can only, therefore, provide reasonable and not absolute assurance against material misstatement or loss.

A key focus for the Committee in 2024 was the oversight of the evolution and maturation of the Group's business risk management process. During the year, we received updates on the progress of various risk and internal controls improvements and deep dived into these areas. We discussed, in detail, the changes to the process introduced in 2024 and enhancements planned for 2025.

The outputs of the risk review and Operational Assurance Statement (OAS) processes are key ways in which the Group obtains assurance on the efficacy of the risk management and internal control framework.

An overview of the Group's risk management process and principal risks is provided on pages 55 to 65 of this Annual Report.

As part of our responsibilities, we oversee the effectiveness and operation of the relevant policies, standards and procedures. These are essential to the work undertaken by the Committee and underpin our ability to seek assurance that the Annual Report and Financial Statements are prepared in accordance with applicable standards.

Climate-related financial reporting

To stay abreast of developments, we regularly receive updates from the management team on various reporting regulations, including global initiatives and climate-related reporting regulations, in relevant jurisdictions that could impact the Group.

The Committee is responsible for the oversight of the internal and external assurance processes in regard to ESG data, including the sustainability agenda-related disclosures that are linked to the financial statements, which includes TCFD.

We consider the impact of climate-related transition activities and physical risks on financial reporting. We judged there to be no material impact on the Group's Consolidated financial statements for the year ended 31 December 2024 and we will continue to closely review this position. Read more on page 150.

External audit

Following a tender process, Deloitte LLP was appointed as the Group's external auditor at the 2018 Annual General Meeting and has now completed seven years, the second with lead Audit Partner Claire Faulkner.

The Committee regularly reviews the role of the external auditor and the scope of its work, and receives reports from the external auditor which include challenge of management assumptions, management observations and responses, and progress of audit activities. During the year, Deloitte shared their perspective on key programmes and contracts across the business, challenging judgements impacting revenue and margin recognition.

The Committee reviewed and agreed the scope of the external audit plan in respect of the auditors' review of the half-yearly financial statements, and of their audit of the full-year financial statements, taking into consideration key audit risks and other particular areas of focus for the Group. We also reviewed and approved the fees for this work and the audit engagement letters.

Audit and Risk Committee report continued

Auditor independence and effectiveness

We oversee the relationship with the external auditor and regularly assess their effectiveness to ensure that they retain their independence and objectivity.

As part of this process, we formally consider when it would be appropriate to complete a competitive tender process for the external audit. We do so in line with the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, concerning the frequency and governance of tenders for the appointment of the external auditor.

The effectiveness of the external auditor was assessed using a formal questionnaire that was distributed to Audit and Risk Committee members and senior management. This questionnaire required consideration of performance areas that could be focused on by the auditor and areas where the auditor was meeting expectations. Senior management received responses and comments from the questionnaire and consolidated them into a report, which the Audit and Risk Committee used to facilitate a discussion in February 2025.

The Committee concluded that Deloitte remained effective in its role as external auditor. In view of this, and having considered the continued objectivity, independence and effectiveness of the auditors, the Committee considers it to be in the best interests of the Company's shareholders for Deloitte LLP to remain as external auditor for the upcoming financial year. The scope and output of our annual review of the external auditor's independence and effectiveness is discussed on page 87.

We will continue to review the effectiveness and independence of Deloitte LLP as external auditor and will ensure that an audit tender is conducted no later than the 2028 financial year.

Non-Audit Services policy

We maintain a policy on non-audit services which is aligned to the FRC's 2019 Revised Ethical Standard of Permitted Audit-Related and Non-Audit Services. The policy prohibits the auditor from undertaking certain activities and places restrictions on the employment of former employees of the auditor.

The policy permits the provision of audit-related services and permitted non-audit services up to limits that are pre-approved by the Committee, with specific Committee approval required beyond such limits.

As such, these matters were approved by the Committee and were compatible with the general standard of independence for auditors. Prior to approving any non-audit work, the Committee considered the nature of the services and concluded that the provision of these services did not impair the independence of the external auditor. Further information about the audit and non-audit fees for 2024 is disclosed in note 3 to the Consolidated financial statements on page 157.

Internal audit

The Group's Internal Audit function is independent and has no responsibility for operational business management. Through its assurance activities, it is able to independently review the effectiveness of internal control systems and processes. The Internal Audit Director (whose appointment is a matter reserved for the Committee) and the VP Internal, BAE Systems, Inc. attend Committee meetings. The Internal Audit Director provides regular reports to the Committee on the assurance of the Group's risk management activities, internal controls and corporate governance framework.

The scope and authority of the Internal Audit function is defined within its charter, which the Committee reviews annually. Internal Audit's activity is generally guided by its Internal Audit plan, which reflects key developments and risks in the Group. The Committee reviews and approves the scope of the Internal Audit plan, as well as any adjustments, and we receive updates on the execution of the Internal Audit plan, relevant findings and enhancement opportunities and remediation plans.

The effectiveness of the Internal Audit function is monitored regularly by a variety of inputs including the quality and content of ongoing Internal Audit reports received, interactions with the Internal Audit Director, and the outputs of the bi-annual OAS.

Taking all these elements into account, the Committee concluded that Internal Audit continued to be effective.

Financial statements and narrative reporting

As in previous years, the Committee reviewed all significant issues concerning the Annual Report, which include the going concern and viability statements. In considering the Company's Annual Report, the Committee assessed whether the report was fair, balanced and understandable and also whether it provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

In order to make this determination, we received updates on the internal verification processes which had taken place and used that to assist our assessment of the disclosures made within the Annual Report. We also received early sight of the draft Annual Report and Financial Statements, in advance of final review and sign-off by the Board, allowing us the opportunity to consider the Annual Report as a whole.

After careful review and consideration of all relevant information, the Committee was satisfied that, taken as a whole, the 2024 Annual Report and Financial Statements are considered to be fair, balanced and understandable and we therefore affirmed this view to the Board.

The Committee also agreed the parameters of, and subsequently reviewed, the reports which supported the going concern statement (see page 67) and the statement on the Board's assessment of the prospects of the Group (see the viability statement on page 66).

The assessment of the going concern and the directors' viability statement is underpinned by assessments of reasonably plausible, but severe, downside scenarios related to the Group's principal risks. The assessment of various scenarios includes the impact on the future cash flows, profitability, financial covenants, solvency and liquidity of the Group. As part of this process, we also considered the period covered by the viability statement and we continue to be of the view that a five-year period remains the most appropriate timespan for the Group, given the business planning cycle and the long-term nature of a number of the Group's programmes.

OVERVIEW OF THE PROCESS TO ENSURE THAT THE COMPANY'S ANNUAL REPORT, TAKEN AS A WHOLE, IS FAIR, BALANCED AND UNDERSTANDABLE AND PROVIDES INFORMATION NECESSARY FOR SHAREHOLDERS TO ASSESS THE GROUP'S POSITION AND PERFORMANCE, BUSINESS MODEL AND STRATEGY

1. Fulsome guidance issued to all the contributors at an operational level.
2. A verification and certification process dealing with the factual content of the reports.
3. Thorough reviews undertaken at different levels in the Group that aim to ensure consistency and overall balance.
4. A comprehensive review by the directors and the Executive Committee.

During the year, the FRC's Corporate Reporting Review (CRR) team carried out a review of the Group's 2023 Annual Report and Financial Statements as part of its annual review of corporate reporting. The Committee received and reviewed the final report from the CRR team which identified no significant findings, with no substantive questions or queries raised.

The Committee considered the recommendations provided by the CRR team when preparing this Annual Report and notes that the FRC's review does not provide assurance that the Annual Report is correct in all material respects as the FRC's role is not to verify information provided, but to consider compliance with reporting requirements.

The principal areas of judgement considered concerning the 2024 financial statements were as set out below.

Margin recognition

The estimation of contract margin and the level of revenue and profit to recognise in a single accounting period requires the exercise of management judgement. The Committee reviewed key estimates and judgements applied in determining the financial status of the more significant programmes.

Pensions

Accounting for pensions and other post-employment benefits involves making estimates when measuring the Group's retirement benefit obligations. These estimates require assumptions to be made about uncertain events, such as discount rates, inflation rates and longevity. As at 31 December 2024, a number of the Group pension schemes remain in an accounting surplus. The Group has recognised the surpluses on the basis that the future economic benefits are unconditionally available to the Group. These were recognised after deducting a 25% withholding tax, which would be levied prior to the future refunding of any surplus and were presented on a net basis as this is not deemed to be an income tax of the Group. We reviewed this presentation and concluded this estimate is appropriate based on the Group's ability to access its defined benefit surpluses.

We reviewed the methodology used to allocate a proportion of the net post-employment benefit surpluses to equity accounted investments and concluded that this continues to be appropriate with reference to agreement between the Company and the retirement benefit schemes. We also considered the disclosures in respect of the sensitivity of the surplus to changes in these key assumptions (see note 24 on page 183).

Taxation

Computation of the Group's tax expense and liability, the provisioning for potential tax liabilities and the level of deferred tax asset recognition are underpinned by management judgement and estimation of the amounts that could be payable.

Although the Board determines the tax policy, we reviewed the Group's tax strategy. Twice during the year, we reviewed the Group's tax expense and tax provisions, and discussed these with the Group Tax Director.

Ball Aerospace acquisition and integration

Following the successful completion of the Ball Aerospace acquisition in February 2024, the Committee spent time assessing Ball Aerospace's integration into the wider Group. This included compliance with the Operational Framework, accounting policies and methodologies, the restructuring provisions and the key issues and judgements resulting from the acquisition.

The Committee reviewed the purchase price allocation of the acquisition, which amounted to £4,352m, given the complexity of the assessment and the application of management's judgement involved in the allocation. This review included the valuation of intangible assets acquired, such as customer relationships, and the subsequent residual goodwill balance.

The Committee also received reports on the Ball Aerospace acquisition from Internal Audit, which focused on the impact of the acquisition on the Group's overall control environment and closely monitored the integration plan that was implemented. The Committee also received a report from the external auditor regarding audit procedures performed in respect of the Ball Aerospace acquisition accounting.

Stephen Pearce
Chair of the Audit and Risk Committee

Audit and Risk Committee report continued

The Audit and Risk Committee's year[1]

- Reviewed the Annual Report and Financial Statements and specific disclosures, including viability and going concern, for recommendation to the Board.
- Received a presentation from the Group Financial Controller and Group Treasurer in respect of work supporting the viability and going concern statements.
- Considered the accounting, financial control and audit issues reported by the external auditor that flowed from the year-end audit work and half-year review work.
- Reviewed the effectiveness of the external audit process.
- Received a report from the Group Tax Director.
- Reviewed external auditor independence and nature and value of non-audit services.
- Agreed the external audit engagement letter.
- Considered outputs from the six-monthly OAS reviews.
- Agreed final iteration of the 2024 Internal Audit programme.
- Reviewed the Company's compliance with ESG reporting, including compliance with TCFD.
- Considered development of ESG-related disclosures, including climate change and TCFD reporting requirements.
- Agreed the 2024 external audit plan and scope.
- Agreed external audit fee proposal.
- Considered any emerging accounting issues prior to the half year.
- Reviewed the Non-Audit Services policy.
- Reviewed the nature and value of non-audit services.
- Reviewed the ESG assurance map.
- Received an update on the assurance work undertaken by Deloitte following the Ball Aerospace acquisition.
- Reviewed the financial statements and specific disclosures, including going concern, for recommendation to the Board.
- Conducted a deep dive into the Group's business ethics and received a report that includes key indications in relation to whistleblowing reports.
- Undertook a deep dive on the proposed changes to the Code and the implications of the UK Economic Crime and Corporate Transparency Act 2023.
- Reviewed the effectiveness of the risk management and internal control framework and the overall risk profile of the Group (including emerging risks), and ratified the Group's principal risks for recommendation to the Board.
- Reviewed improvements made to risk management processes.
- Considered any emerging accounting issues prior to the year end.
- Considered the external auditor's controls report.
- Considered output of the Internal Audit Director's report.
- Considered and approved the Internal Audit strategy, charter and mandate.
- Received a presentation from VP, Internal Audit, for the US businesses.
- Received a report on export control compliance from the Chief Counsel Export Control and Compliance.
- Set the parameters for work supporting the viability and going concern statements.
- Received technical accounting and reporting updates.
- Considered and approved the 2025 Internal Audit programme.

1. The Committee holds a quarterly session with the Internal Audit Director and external auditor without management present. The Audit Committee Chair also meets with the Chief Financial Officer, the Internal Audit Director and the external auditor on an ad hoc basis.

Environmental, Social and Governance Committee report

MEMBERS DURING 2024	MEMBER SINCE
Jane Griffiths (Chair)	September 2020
Nick Anderson	November 2020
Crystal E Ashby	September 2021
Dame Elizabeth Corley	September 2024
Stephen Pearce	January 2024
Lord Sedwill	Retired September 2024

Dear Shareholders

I am pleased to present this report of the Environmental, Social and Governance Committee and provide a summary of our activities during 2024.

The Committee provides oversight of the management of climate, social, safety and business responsibility matters, including review of progress against objectives and targets. Our Terms of Reference can be found on the Company's website and provides further details of the Committee's responsibilities.

At each meeting, we reviewed and challenged the updates from Executive Committee members and senior leadership, against delivery of the Group's ESG programme and various initiatives. During the year, we met four times and, after each Committee meeting, I reported to the Board on the Committee's activities, the key matters discussed and any recommendations from the Committee.

Environment and climate transition

Environmental factors, including those related to climate change, impact two of the Group's principal risks. As such, climate transition and climate resilience remained an important area of discussion during our meetings in 2024.

Following updates from the Environment, Climate & Infrastructure Director, we were able to better understand and provide insight on the impact of climate change on the Group's activities. We also discussed the various transition risks and opportunities and also considered areas such as material scarcity, supplier vulnerability and emerging regulatory disclosures.

We are pleased that the Group is making good progress around our workstream of building climate resilience. As reported in the Group's half-yearly results announcement, our renewable energy strategy is aligned with current operations and future business growth. Further detail can be found on pages 49 to 51.

Workplace environment

We discussed the various initiatives that were undertaken throughout the year, to create and maintain a positive and welcoming atmosphere, in line with the overall culture.

Strategic workforce planning was a continued area of focus for the Board and, at the Committee level, the workplace environment remained one of our continued priorities.

Safety, wellbeing and the approach to inclusion are integral to the Group's employer of choice approach. The performance on DEI is a non-financial component of the annual incentive plan for senior executives. The objectives operate as a downward underpin to the incentive, reducing incentive payments if performance is not at the expected levels. This is to ensure we are able to attract and retain talent, in order to meet our strategic workforce planning requirements. We set, measure and determine the level of performance achieved against all ESG objectives and make a recommendation to the Remuneration Committee.

Employee and product safety have long been key areas of focus for the Group, the Board and this Committee.

During the year, the Committee reviewed the Group's global safety performance and the safety focus for 2024. We discussed in detail, the development of the 'Life Saving Rules', sponsored by the Executive Committee and the deployment of an integrated safety, health and environment risk assessment platform to business units. Our Safety, Health and Wellbeing Director also presented safety initiatives to the Committee, which we supported.

We were disappointed with the increase in recordable injuries during the year. In 2024, the recordable injury rate was 459 which was an increase of 8% and major injuries were 47, an increase of 18%.

At our Committee and Board meetings we discussed, the improvements in visible leadership and the various initiatives being undertaken to improve safety culture. The incidents at Glascoed and Barrow-in-Furness, both in the UK, were discussed in detail in Board meetings.

We will continue to pay attention to the learnings from safety events and review processes around the Group's use of leading and lagging safety indicators, and the sharing of these learnings across the business.

Environmental, Social and Governance Committee report continued

> Strategic workforce planning was a continued area of focus for the Board and, at the Committee level, the workplace environment remained one of our continued priorities.

The supply chain

In the year, the Committee was updated on the resilience of the supply chain, with a particular focus on decarbonisation, modern slavery and human rights, and risk management and assurance.

The Committee reviewed the Group's activity in relation to global modern slavery legislation and monitored the Procurement team's progress with its ongoing review of the Company's 'Suppliers' Principles'. These Principles set out best practice, responsible and sustainable expectations for suppliers and are scheduled to be updated in 2025.

Communities

The communities in which we operate and the Group's impact are regularly reviewed by the Committee. During our meetings, we discuss the community impact and investments being made across the Group. £4.8m was invested in STEM education initiatives, £2.9m donated in support of armed forces charities, £1.3m provided to local community projects and £448k contributed to heritage projects.

Jane Griffiths
Chair of the Environmental, Social and Governance Committee

The Environmental, Social and Governance Committee's year

- Received an update on the resilience of the Group's supply chain.
- Reviewed workplace safety and wellbeing.
- Received an overview of the Code changes and the Group's approach to anti-corruption compliance.
- Discussed the progress of the Group's environment and climate transition – decarbonisation programme.
- Performed a deep dive on the Group's safety, health and wellbeing performance to date, with a particular focus on the BAE Systems, Inc. SMS business.
- Received an update on the Group's social value activities, particularly in respect of skills and education, communities and employee wellbeing.
- Reviewed the 2023 key strategic objectives and approach for 2024.
- Considered the initial proposed objectives and annual incentive targets for 2024.

Innovation and Technology Committee report

MEMBERS DURING 2024	MEMBER SINCE
Ewan Kirk (Chair)	October 2021
Nick Anderson	October 2021
Dame Elizabeth Corley	May 2022
Nicole Piasecki	October 2021

> Throughout the year, the Committee focused considerably on the impact of digital disruption in the defence sector.
>
> Ewan Kirk
> Chair of the Innovation and Technology Committee

Dear Shareholders

I am pleased to present this report of the Innovation and Technology Committee and provide a summary of our activities during 2024. The Committee seeks to promote the success of the Group through the effective oversight of the application of science, engineering and technology and the successful exploitation of its intellectual property and know-how in pursuit of its business and commercial goals. Our Terms of Reference can be found on the Company's website which provides further details of the Committee's responsibilities.

The Committee balances its time between formal meetings and site visits, and updates the Board on important insights from our interactions and discussions with employees during our site visits.

Digital

Throughout the year, the Committee focused considerably on the impact of digital disruption in the defence sector, as well as the emerging digital technology solutions required to effectively meet our customers' evolving needs. We heard from the Chief Technology & Information Officer (CTIO) and the Technology Director about the Group's landscape, future trends, customer priorities and key technology drivers for the Group's global customers.

During the year, we reviewed how the combination of geopolitical, economic and technology factors is changing the role of established defence companies, as well as our current capabilities and anticipated future trends.

Site visits

At the outset of the Committee's establishment, we agreed that the approach taken in respect of format would likely evolve over time. This is due to the novel nature of this Committee and our area of focus. We are cognisant of our mandate to undertake our work in a way that best promotes the long-term success of the Group and, annually, review the structure of meetings, richness of conversations and make improvements to our ways of working. As a result of our reflections, in 2024 we decided to take a site visit-led approach to our meetings. We believe that the informal approach to site visits and a more agile nature of meetings would allow for the Committee, and other Board members, to get a better feel for key technologies, innovation culture and the alignment with the Group's strategic priorities.

In 2024, the Committee visited the Submarines business in Barrow-in-Furness, UK. I also visited our Maritime Services business in Portsmouth, UK. We discussed the technology strategy for each area, which includes planned technology investment, product enhancement and market positioning. Other directors and members of senior management were invited to attend these sessions when appropriate.

Ewan Kirk
Chair of the Information and Technology Committee

The Innovation and Technology Committee's year

- Discussed the technology strategy for our Submarines and Maritime Services businesses.
- Informal lunches with employees to understand and hear first-hand experiences.
- Product demonstrations, de-briefs and tours.
- Deep dive into the impact of digital disruption.
- Meet and greet with employees during the site visits.

Remuneration Committee report

MEMBERS DURING 2024	MEMBER SINCE
Nicole Piasecki (Chair)	May 2022
Angus Cockburn	January 2024
Dame Elizabeth Corley	February 2016
Ewan Kirk	March 2023

Contents

Remuneration Committee

We achieve our objectives with an executive remuneration programme that:

- offers competitive pay that allows us to retain and attract top talent;
- emphasises pay for performance that drives superior financial results and value creation;
- provides strong alignment with the interests of our shareholders;
- mitigates unnecessary and excessive risk-taking; and
- considers the needs of our entire workforce.

> BAE Systems has delivered another year of strong operational and financial performance.

- Group underlying EPS up 10%.
- Free cash flow of £2.5bn in 2024.
- Group order intake of £33bn.
- TSR of 145% over three years.

Dear Shareholders

On behalf of the Board, I am pleased to present the Remuneration Committee's report for 2024.

The Remuneration Committee is responsible for determining the policy for, and setting, directors' remuneration to support strategy and sustainable success.

At our 2025 AGM, we will be asking shareholders to vote on three remuneration resolutions:

- Directors' Remuneration Report which summarises performance and the resulting remuneration outcomes for 2024, including decisions made by the Committee in respect of the year (explained on pages 109 to 125);
- Remuneration policy, which outlines the remuneration framework proposed to apply from 2025, if approved by shareholders at the 2025 AGM, with rationale for the proposed changes (set out on pages 101 to 107); and
- Long-Term Incentive Plan (LTIP) rules, updated to facilitate changes proposed by the new Remuneration policy (further information will be provided in the Notice of Annual General Meeting).

A 'quick read' section summarising each remuneration element and the performance outcomes for the year, with resulting total remuneration for each executive director is shown on pages 98 to 100.

Pay and performance in 2024

BAE Systems has delivered another year of strong operational and financial performance, delivering significant shareholder returns. Within this context, the Committee has determined the following outcomes for the annual bonus and long-term incentive plans for performance periods ended 31 December 2024.

Annual bonus

75% of executive directors' annual bonus opportunity is determined by financial performance, and 25% by the achievement of key strategic objectives.

The financial performance measures and targets are set in line with the IBP, around which an appropriate range is set for threshold (below which no bonus is paid) and stretch (at which maximum bonus is paid) to represent sufficient challenge without motivating excessive risk-taking. The 2024 targets were set at the beginning of the year but revised to reflect the February 2024 acquisition of Ball Aerospace (now the SMS business) and the partial disposal of the Group's partial shareholding in Air Astana.

For 2024, the Group financial outcomes exceeded stretch and most of the key strategic objectives were fully achieved. The Committee considered these formulaic outcomes in the context of overall business performance. In view of the increase in recordable injuries during the year (as reported in the Environmental, Social and Governance Committee report on page 91), the achievement of key strategic objectives for each of the executive directors have been reduced. The annual bonus outcomes are around 98% of maximum (see page 112), with one-third of the bonus amounts deferred into shares for the next three years.

Long-term incentive

Performance Shares were granted to executive directors and other senior executives in 2022, with vesting dependent upon performance over the three-year period to 31 December 2024 comprising total shareholder return (TSR), growth in EPS, cash flow, and strategic progress metrics.

> For the three-year performance period ended 31 December 2024, TSR grew by 145% making BAE Systems the third-highest performing stock in the FTSE 100.

The Committee chose to exclude the impact of the acquired SMS business for long-term incentive awards granted before 2024, to enable like-for-like measurement with the basis on which the original performance targets were set. Accordingly, earnings from SMS and the related capital employed in 2024 have been excluded from the vesting calculation.

For the three-year performance period ended 31 December 2024, TSR grew by 145% making BAE Systems the third-highest performing stock in the FTSE 100. Average annual EPS growth is 12.5% per annum, with free cash flow of £6.8bn over the period, exceeding the stretch targets set in 2022. Most of the strategic progress metrics were fully achieved by 31 December 2024, and therefore the calculated vesting outcome for the Performance Shares is between 92.9% and 95.6% of maximum for each of the executive directors (see page 114). The Committee considered these outcomes in the context of overall business and competitive performance, including any volatility in share price around the time of grant which might result in a windfall gain, and determined that the calculated vesting outcomes were appropriate.

The Committee has the discretion to adjust formulaic outcomes. Except for the reduction applied to annual bonuses for 2024, the Committee did not consider it necessary to make any other adjustments. Accordingly, the Remuneration policy has operated as intended throughout the year in the context of Company performance and overall pay outcomes.

Wider workforce

The Committee actively reviews and considers wider workforce pay when determining executive director remuneration. The policies and practices applying to the wider workforce are broadly the same as those applying to executive directors, although quantum and participation by location and grade may vary.

During 2024, UK employees received an average pay increase of between 4.5% and 5.2%. UK employees are eligible to receive a performance-related bonus, and participate in the Company's pension arrangements, as well as receive life insurance, income protection insurance, health and wellbeing benefits, shopping discounts, access to a 24/7/365 employee assistance programme, and financial assistance through a credit union owned and operated by BAE Systems' employees and retirees. In addition, employees can become shareholders through an annual award of shares dependent upon Group financial performance (worth £629 in 2024, with a further £613 of shares to be granted in 2025). Employees in participating countries have an opportunity to acquire further shares, including free matching shares, through an all-employee Share Incentive Plan. Similar pay arrangements including health, wealth and lifestyle benefits exist for employees across our other operating locations including the US.

Long-term incentive share awards are granted to around 800 employees each year, mostly senior executives (to three reporting levels below the executive directors) plus selected high-performing and high-potential employees whose specialist skills and innovation we want to retain.

Proposed changes in 2025

The current Remuneration policy was approved by shareholders in 2023. Since then the geopolitical and economic environment has become more uncertain, and the Committee believes that the risks of losing key executives and the urgent opportunities to recruit new types of talent Company-wide warrant addressing some changes to the Remuneration policy now, rather than waiting another year.

We have an excellent leadership team led by Charles Woodburn, Brad Greve and Tom Arseneault, and we are focused on keeping them. They provide the continuity of leadership and relationships that are essential to executing existing programmes and securing multi-decade, multi-country programmes such as AUKUS and GCAP, and new markets including SMS.

It is our practice to secure key talented individuals to support our leaders, a task that is becoming both more essential and more challenging because:

- the range of our business operations means that we compete for talent outside the traditional defence sector, in competition with big tech, start-ups, private equity and adjacent-sector multi-nationals. To retain and attract the employees needed to deliver our commitments, our pay plans need to consider these other competitors;
- we are a global company and our employees are highly prized internationally, including in locations where remuneration levels are significantly higher than in the UK; and
- national security considerations place restrictions on certain roles – for example, our Chief Executive must be a UK national, and the President and Chief Executive Officer of BAE Systems, Inc. can only be a US resident citizen. Similar nationality and security requirements exist at other levels throughout the organisation. This means that our talent pool for recruiting new hires is limited, yet our existing employees can choose to work anywhere, so a remuneration policy that is sufficiently competitive to retain existing talent, by growing and keeping our own, is ever more important.

Summary of key decisions and outcomes

- 2025 base pay increases are 3% for the UK executive directors, and 4% for the US executive director, each in line with the wider workforce in the same locality.
- 2024 annual bonus outcomes for executive directors are around 98% of maximum.
- Performance Shares granted in 2022 will vest at between 92.9% and 95.6% of maximum.

Remuneration Committee report continued

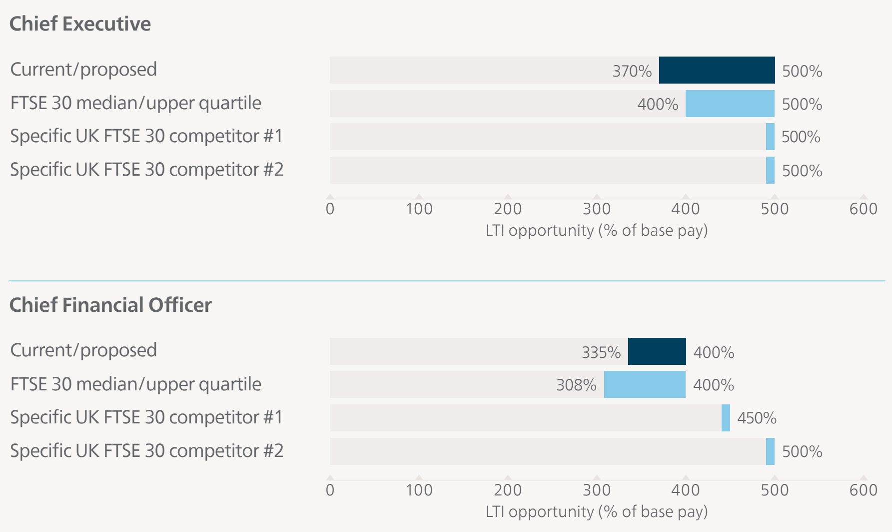
> Shareholder feedback has been extremely valuable in helping the Committee determine its final proposals.

We pay local market rates in the locations in which we operate, but this can create pay compression challenges for globally mobile employees. For example, target remuneration for some of our US employees is close to or greater than for our UK-based executive directors. We risk losing critical employees to organisations able to offer higher pay opportunities globally, and even within the same country. Our current Remuneration policy means that we have difficulty matching and recruiting from those same competitors, and we are increasingly forced to pay our joiners more than our stayers, and that is an unsustainable attraction and retention strategy.

While we are not proposing a global move to US (or other country) pay levels, we will continue our approach of paying appropriately for the local competitive market in which an employee is based. LTI opportunity for our UK executive directors and some key senior executives has fallen below the UK market levels needed to compete for talent, including some specific UK competitors that actively seek our employees. The proposed increases to LTI opportunity are designed to mitigate those risks, without overpaying in the market.

In preparing our policy proposal, we consulted with our 65 largest shareholders, representing nearly 70% of shares held, and I was delighted with the level of engagement and support received. Shareholder feedback has been extremely valuable in helping the Committee determine its final proposals.

LTI opportunity – Performance Shares (% of base pay)



For the most part, our existing Remuneration policy remains appropriate, but we would like to make some changes to strengthen and simplify it, enhancing the competitiveness of our long-term incentives to retain key employees by better aligning their pay with the markets in which we actively compete for talent. The key proposed changes are to:

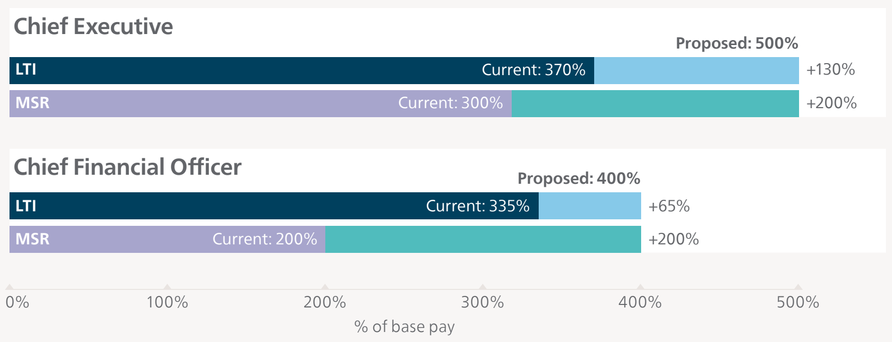
1. Increase LTI opportunity for UK executive directors and other key senior executives to a more competitive level, aligned with the local competitive market in which they are based. No increase in LTI opportunity is proposed for the US executive director.
2. Increase Minimum Shareholding Requirements (MSR) for the UK executive directors to a level corresponding to their proposed new maximum grant of Performance Shares, to incentivise executives to stay for the long term and deliver long-term growth. The increased MSR levels will also apply to their post-employment shareholding requirements.
3. Remove the current facility that enables executives to sell up to 75% of their shares before achieving their MSR, and instead require that they "may not sell, except for tax, any vested shares until their MSR is met in full" thereby requiring long-term commitment and investment in the Company.

The increased LTI awards will include appropriately stretching performance targets to reflect the increased LTI opportunity, and we shall continue to review all targets to ensure they remain appropriately stretching.

We are also proposing some changes to simplify our Remuneration policy and remove unnecessary restrictions that might prevent us from hiring and rewarding the best talent:

1. Remove the current restriction that "no role will have a salary greater than the Chief Executive". This policy restriction may prevent us from hiring niche skills in the future, or from acquiring a new international business where base pay levels are already higher than our own.
2. Remove the current salary increase limit of "10% in any single year for executive directors" and instead adopt a more practical limit that "ordinarily any increases will not exceed the average percentage increase for the wider workforce in the same locality".
3. Make no changes to executive directors' maximum bonus opportunity but change the bonus level at threshold performance to 25% of maximum (currently 20% of maximum) to align with a more normal payout curve of 25%–50%–100% for threshold–target–stretch achievement, aligned with the Company's other incentive programmes, including the existing long-term incentive plan.
4. Replace the safety and diversity underpin for annual bonus that currently applies only to the outturn of non-financial objectives (representing 25% of bonus opportunity) with a 'bonus moderator' that can reduce the whole of the calculated bonus if there are any factors that warrant a reduction. This would continue to include important safety metrics but enable a broader consideration of other factors, with any application to be fully disclosed in the annual report.

Proposed increases to LTI and MSR



> They would not receive anything extra as a result of the proposed LTI increases unless they are still employed by the Company in five years' time (i.e. 2030).

By the time of the 2025 AGM, Charles Woodburn will have been Chief Executive for nearly eight years and Brad Greve will have been Chief Financial Officer for over five years. The Performance Shares have a five-year vesting period, and therefore the proposed increases for Charles and Brad mean that (excepting any unfortunate personal circumstances) they would not receive anything extra as a result of the proposed LTI increases unless they are still employed by the Company in five years' time (i.e. 2030).

These changes to the Remuneration policy will enable changes to incentive pay for other senior executives across our businesses, enabling their remuneration to be competitive, rewarding performance and mitigating key retention risks.

> Our Chief Executive's pay is 86% performance-based with 64% paid in shares.

Executive director pay in 2025

Incorporating the proposed Remuneration policy changes explained above, the remuneration framework for executive director pay in 2025 is:

Base pay

With effect from 1 January 2025, the UK executive directors received base pay increases of 3% and the US executive director received a base pay increase of 4%, each in line with the average percentage increase for the wider workforce in their same locality.

Pension and benefits

No changes to policy or operation, although pension contributions for Brad Greve increased from 8% to 9% of base pay with effect from 1 January 2025, aligned with the level available to new joiners to the UK workforce which was increased from 8% to 9% of base pay during 2024.

Annual incentive plan

The annual bonus structure and opportunity for executive directors will remain unchanged in 2025, other than the proposed change from 20% to 25% of maximum for bonus payout at threshold performance. The financial performance measures and weightings will continue to be based on earnings, cash and order intake, with performance targets set in line with the IBP.

The safety and diversity underpin (currently applying to only 25% of bonus opportunity) will be replaced with a 'bonus moderator' that can reduce the whole of the bonus if there are any factors that warrant a reduction.

Long-term incentives

If approved by shareholders at the 2025 AGM, increased awards of Performance Shares will be granted to the UK executive directors. No increase in LTI opportunity is proposed for the US executive director. The performance measures will continue to be EPS, TSR, cash flow, ROCE and ESG with the same weightings as for 2024, but will include increased stretch in the targets.

Minimum Shareholding Requirements (MSR)

If approved by shareholders at the 2025 AGM, increased MSR will apply to in-employment and post-employment shareholding requirements for the UK executive directors, and they will not be able to sell, except for tax, any vested shares until their MSR is met in full.

In conclusion

I hope that you find this year's report a clear account of the Committee's considerations and decisions relating to the remuneration outcomes for 2024, and the timely recommendations for the changes we would like to make to our Remuneration policy in 2025, to retain key employees and strengthen the link between pay and performance.

Thank you to the numerous shareholders, institutional investors and other stakeholders who have helped inform and shape our Remuneration policy proposals, and thank you to all the investors for the faith you place in us. I hope that you will support the proposed changes at the 2025 AGM and remain invested in our shared future.

On behalf of the Board

Nicole Piasecki
Chair of the Remuneration Committee

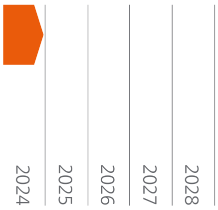
Quick read summary

Current Remuneration policy summary and 2024 implementation

This section summarises the key features of the current Remuneration policy approved by shareholders at the 2023 AGM. Please refer to the 2022 Annual Report (available on the Company's website) for full details.

Remuneration element and time horizon | **Policy summary** | **2024 implementation**

Base pay



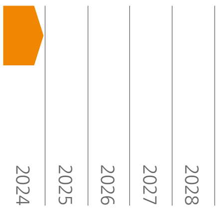
Operation
Base salaries are reviewed annually, taking into account performance, skills, the scope of the role, and the individual's time in role.

Opportunity
Increases for executive directors will generally not exceed the average percentage increase for employees as a whole. As a maximum, in exceptional circumstances (eg a material increase in job size or complexity, or for a recently appointed executive director where salary has been positioned low against the market), the increase is not expected to exceed 10% in any single year for executive directors performing in the same role.

Performance
Business and individual performance will be taken into consideration.

Base pay	Effective 1 January 2024	Effective 1 January 2025	2025 % increase
Charles Woodburn	£1,233,764	£1,270,800	3.0%
Brad Greve	£783,907	£807,500	3.0%
Tom Arseneault	$1,143,314	$1,189,000	4.0%
UK workforce (average)			3.0%
US workforce (average)			4.0%

Pension



Operation
For UK executive directors, a defined contribution pension plan, or a salary supplement in lieu, or some combination thereof. Base salary is the only element of pensionable remuneration. The President and Chief Executive Officer of BAE Systems, Inc. participates in the US Defined Benefit pension plans and a US Section 401(k) defined contribution plan.

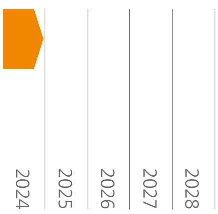
Opportunity
The maximum employer contribution for the Chief Executive has been aligned to the weighted average of the UK workforce (14%). The maximum employer contribution for any new UK executive director is in line with the level available to new joiners to the wider UK workforce (8%, increased to 9% from 1 August 2024). The maximum annual accrual for the US Defined Benefit pension plans is $1,500, and the maximum 401(k) contribution is 6% of base salary, capped at applicable US regulatory limits.

Performance
No performance conditions.

Pension contributions	During 2024 (% of base pay)	Effective 1 January 2025 (% of base pay)
Charles Woodburn	14%	14%
Brad Greve	8%	9%
Tom Arseneault	US DB + 401(k)	US DB + 401(k)

(see page 111)

Benefits



Operation
Employment benefits which are competitive in line with relevant home market.

Opportunity
The maximum amount is the cost of providing the benefits, subject to the limits of those benefit plans and any tax or regulatory limits.

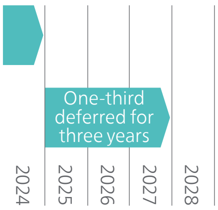
Performance
No performance conditions.

Benefits during 2024 include:
- Transportation benefits
- Financial and tax support
- Medical benefits

(see page 110)

Remuneration element and time horizon	Policy summary	2024 implementation

Annual incentive



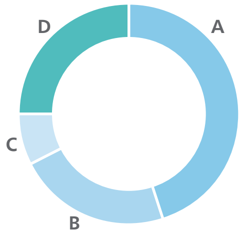
Operation
Annual bonus linked to in-year financial performance, corporate responsibility and other non-financial objectives. One-third of the total net bonus is compulsorily deferred for three years into shares without any matching. Malus and clawback provisions apply.

Opportunity
No bonus for below threshold performance, with 20% of maximum at threshold; 50% of maximum at target; 100% of maximum at stretch; and payout determined on a straight-line basis for performance between these points.

Performance
75%-80% of targets will relate to financial metrics aligned with long-term earnings and cash. The non-financial element will be based on a combination of personal performance objectives that provide clear line of sight to our strategic objectives.

Annual incentive	At maximum (% of base pay)	Actual 2024 (% of max)	Actual 2024 (£/$)
Charles Woodburn	225%	98.5%	£2,734,329
Brad Greve	200%	98.5%	£1,544,296
Tom Arseneault	225%	98.23%	$2,526,924

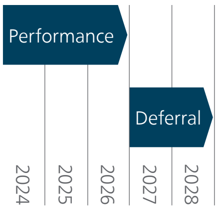
2024 performance measures



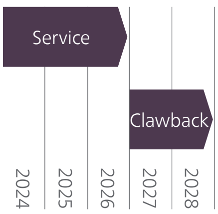
Financial performance	
A EPS/Earnings	45%
B Cash	22.5%
C Order intake	7.5%
	75%
Other	
D Key strategic objectives	25%
	100%

Long-term incentives

Performance Shares



Restricted Shares (US executive director)



Operation
Performance Share awards are subject to three-year performance conditions. For UK executive directors, shares are deferred for a further two years and vest from the fifth anniversary of grant, and for US executive directors the shares vest in three equal tranches on the third, fourth and fifth anniversaries of grant.

US executive directors receive Restricted Shares, subject to remaining employed for three years after grant, with a requirement to retain those shares for a further two-year clawback period.

Opportunity
Nil vesting for below threshold performance, with 25% of maximum at threshold; 50% of maximum at target; 100% of maximum at stretch; and vesting on a straight-line basis between these points.

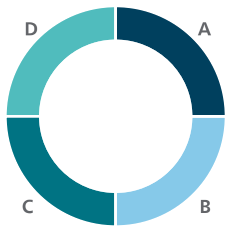
Performance
Direct financial measures based on the KPIs that drive our financial ambitions, linked to long-term strategic priorities. The Committee has discretion to override the formulaic outcome if it is not reflective of underlying performance. Malus and clawback provisions apply.

No performance conditions for Restricted Shares.

Performance Shares	Maximum opportunity (% of base pay)	2024 grant (% of base pay)	Vesting based on performance ended in 2024 (% of max)
Charles Woodburn	370%	370%	95.6%
Brad Greve	335%	335%	95.6%
Tom Arseneault	440%[1]	440%[1]	92.9%

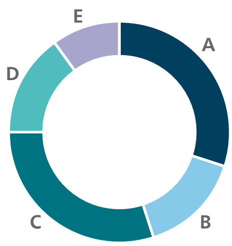
1. Plus Restricted Shares awarded at 150% of base pay.

2022 grant performance measures (performance period ended 2024)



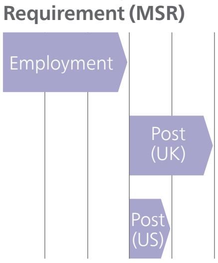
A EPS	25%
B TSR	25%
C Cash	25%
D Strategic progress	25%
	100%

2024 grant performance measures



A EPS	30%
B TSR	15%
C Cash	30%
D ROCE	15%
E ESG	10%
	100%

Minimum Shareholding Requirement (MSR)



Executive directors are required to establish and maintain a minimum shareholding equal to a set percentage of base salary. Executive directors are expected to achieve 50% of the MSR as quickly as possible, and achieve the full MSR within a five-year period.

If an executive director leaves employment for any reason, they are required to maintain a minimum level of shares for a minimum period post-cessation.

	Full MSR (% of base pay)	Post-cessation MSR (% of base pay)	Actual shareholding 31 December 2024 (% of base pay)
Charles Woodburn	300%	300% for two years	859%
Brad Greve	200%	200% for two years	180%
Tom Arseneault	425%	300% for one year	1,466%

Quick read summary continued

2024 performance outcomes

	Actual performance against targets set for 2024				Weighting		
	Threshold	Target	Stretch	Actual performance	UK executive directors	US executive director	% of maximum achieved
Annual bonus							
Group underlying EPS	61.5p	64.8p	66.8p	69.6p	45%	15%	100%
Group free cash flow	£482m	£892m	£1,302m	£2,526m	22.5%	7.5%	100%
Group order intake	£20.8bn	£22.0bn	£23.1bn	£33.6bn	7.5%	2.5%	100%
Inc. underlying EBIT	$1,900m	$2,000m	$2,067m	$2,130m		30%	100%
Inc. free cash flow	$563m	$801m	$1,039m	$1,909m		15%	94.9%
Inc. order intake	$13.39bn	$14.16bn	$14.92bn	$20.59bn		5%	100%
Key strategic objectives	See page 113				25%	25%	94%–96%
					100%	100%	98.23%–98.5%
Long-term incentives							
Annual average EPS growth (3-year)	3% p.a.	5% p.a.	7% p.a.	12.5% p.a.	25%	25%	100%
TSR vs FTSE 100	9.6% median		53.9% 80th percentile	145.5%	25%	25%	100%
Free cash flow	£3.5bn	£4.0bn	£4.2bn	£6.8bn	25%		100%
Inc. operating cash flow	$4.1bn	$4.5bn	$4.6bn	$5.5bn		25%	100%
Strategic progress metrics							
– Operational excellence (on-time delivery) UK/International	–5%	Improvement in 3-year average	+3%	+13.1%	4.5%	–	100%
– Operational excellence (on-time delivery) Inc.	–5%	Improvement in 3-year average	+3%	–2.1%	3.8%	8.3%	39.3%
– Return on capital employed (ROCE)	15.66%	15.91%	16.16%	17.34%	8.3%	8.3%	100%
– Advance technology (milestone achievements)	7	11	15	13	8.3%	8.3%	75%
					100%	100%	92.9%–95.6%

Key ● Below target ● Between target and stretch ● At or exceeds stretch

Note: Actual results have been adjusted to be on a comparable basis with the targets, including alignment of foreign exchange rates. Free cash flow for the annual bonus is measured on a quarterly basis, with achievement reflecting performance throughout the year.

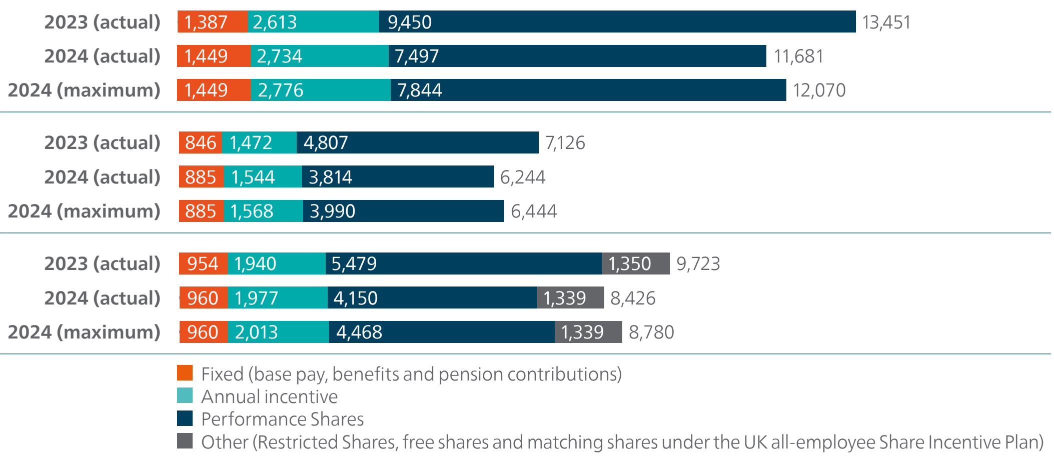
Total remuneration

The charts below show the breakdown of total remuneration received by the executive directors for 2023 and 2024, and their maximum total remuneration opportunity for 2024.

Charles Woodburn
(£'000)

Brad Greve
(£'000)

Tom Arseneault
(£'000)



The values for the Performance Shares included in the figures for 2023 calculated in the 2023 Annual Report based on the three-month average share price to 31 December 2023 (£10.6475) have been adjusted to reflect the actual value for the tranche at vesting for Tom Arseneault based on the share price at the vesting date of 25 March 2024 (£13.60). The totals for Charles Woodburn and Brad Greve include £1k classified as 'Other' relating to the value of Free Share awards and Matching Shares under the all-employee Share Incentive Plan (SIP).

Proposed new Remuneration policy

The following sections set out our proposed new Directors' Remuneration policy, which is subject to shareholder approval at the AGM on 7 May 2025, and which, if approved, will take effect from the conclusion of the AGM.

Below is a summary of the key changes between the current Remuneration policy and the proposed new Remuneration policy, which are designed to simplify and strengthen our policy by removing unnecessary restrictions that might prevent us from hiring and rewarding the best talent, while enhancing the competitiveness of our long-term incentives to retain key employees and align their pay with the markets in which we actively compete for talent. We are not proposing any new incentive plans. We are aiming to deliver an overall remuneration package that provides an appropriate balance between short-term and long-term reward, and between fixed and variable reward.

Remuneration type	Proposed changes	Rationale
Base pay	– Remove the current restriction that "no role will have a salary greater than the Chief Executive". – Remove the current salary increase limit of "10% in any single year" and replace with the requirement that "ordinarily any increases will not exceed the average percentage increase for the wider workforce in the same locality".	– The current policy restrictions may prevent us from hiring niche skills in the future, or from acquiring a new international business where base pay levels are already higher than our own. – Incorporate a more practical limit for managing executive director pay increases relative to the wider workforce.
Annual incentive plan (AIP)	– No changes to executive directors' maximum bonus opportunity. – Change the bonus level at threshold performance to 25% of maximum (currently 20% of maximum). – Replace the safety and diversity underpin with a 'bonus moderator' that can reduce the whole of the calculated bonus if there are any factors that warrant a reduction.	– Alignment with a more normal payout curve of 25%–50%–100% for threshold–target–stretch achievement simplifies the bonus calculation and aligns with the payout curve for other incentive programmes including the LTI plan. – The underpin currently only applies to the outturn of non-financial objectives (representing 25% of bonus opportunity), but the 'bonus moderator' can reduce (but not increase) the whole of the calculated bonus for a broad range of factors including workplace culture and important safety metrics.

Long-term incentives (LTI)	– Increase maximum Performance Shares grant for the UK executive directors:
	  – Chief Executive from 370% to 500% of base pay.
	  – Chief Financial Officer from 335% to 400% of base pay.
		– Incentivise executives to stay for the long term and deliver long-term growth.
		– Long-term incentive opportunity has fallen below the UK market levels needed to compete for talent.
		– No increase in LTI opportunity is proposed for the US executive director.

Minimum Shareholding Requirement (MSR)	– Increase MSR for the UK executive directors to a level corresponding to the new maximum Performance Shares opportunities:
	  – Chief Executive from 300% to 500% of base pay.
	  – Chief Financial Officer from 200% to 400% of base pay.
	– Increased MSR for the UK executive directors applies to both their in-employment and post-employment shareholding requirements.
	– Executives will not be able to sell, except for tax, any vested shares until their MSR is met in full (replacing the previously complex two-step arrangement that enabled up to 75% of shares to be sold before the MSR was achieved).
		– MSR requires executives to have long-term commitment and investment in the Company.
		– Simplification of MSR operation requires executives to build their MSR as quickly as possible.

In addition, it is proposed that the current policy of an annual aggregate cost of fees and benefits paid to non-executive directors (currently £3.0m in total and £1.25m for the Chair) is replaced with a more practical and meaningful approach to setting fees that takes into account responsibility of each role, time commitment, practice in other comparable companies, and the average increase for the wider workforce. Fee levels are disclosed on page 119.

Proposed new Remuneration policy continued

Base pay

Purpose and link to strategy

Provides a fixed level of earnings, appropriate to the market and requirements of the role.

Operation

Reviewed annually, usually with effect from 1 January, taking into account:

- the scope of the role;
- the individual's skills, experience and performance;
- competitive market data;
- pay and conditions elsewhere in the Group; and
- overall business performance.

There is no obligation to increase base pay upon any such review and any decision to increase base pay will take into account the associated impact on overall quantum.

Opportunity

There is no maximum base pay, but ordinarily any increases will not exceed the average percentage increase for the wider workforce in the same locality. In specific circumstances, the Committee may award increases above this level, for example where:

- base pay for a recently appointed executive director has been set with a view to allowing progression in the role over time; or
- there has been a significant increase in the size or scope of an executive director's role or responsibilities.

Performance

Personal performance will be taken into consideration in determining any base pay increase.

Pension

Purpose and link to strategy

Provides a basis for an income in retirement.

Operation

UK-based executive directors may:

- participate in the defined contribution pension plan;
- receive a cash allowance in lieu; or
- some combination thereof.

US based executive directors may participate in:

- the US defined benefit pension plans; and
- US Section 401(k) defined contribution plan.

Base pay is the only element of pensionable remuneration.

Opportunity

The maximum employer contribution for the:

- Chief Executive is aligned with the weighted average available to the UK workforce (currently 14%).
- Chief Financial Officer and any other new UK-based executive director is the level available to the majority of UK defined contribution plan members (currently 9%).
- President and Chief Executive Officer of BAE Systems, Inc. maximum annual accrual for the US defined benefit pension plans is $1,500 and the maximum 401(k) contribution is 6% of base pay, capped at applicable US regulatory limits.

Performance

No performance conditions.

Benefits

Purpose and link to strategy

Provides benefits and allowances appropriate to the market to assist employees in their duties and to ensure their safety and security.

Operation

In line with other employees, benefits may include:

- health allowance, including medical and dental benefits;
- life insurance;
- ill-health and disability insurance;
- financial and tax support; and
- all-employee Share Incentive Plan participation.

In line with other senior executives, executive directors may receive a non-pensionable cash allowance in lieu of a company car.

From time to time, the executive directors may use a chauffeur-driven car and a company aircraft.

Opportunity

The maximum value is the actual cost of providing the benefits which, for insured benefits, may vary from year to year.

The maximum opportunity for the all-employee Share Incentive Plan is the same for all participants, capped at applicable UK HMRC limits.

Performance

No performance conditions.

Annual incentive plan (AIP)

Purpose and link to strategy

Incentivises and rewards the achievement of annual financial performance and the delivery of key strategic objectives.

Operation

In normal circumstances:

- performance is assessed over a one-year period;
- performance measures and weightings are set each year, to be relevant and aligned with the Group's strategic priorities;
- performance targets are set to be appropriately stretching, taking into account forecasts in the business plan, budgets, prior year performance and market expectations;
- bonus awards are determined after the end of the performance period, taking into consideration performance against targets and individual performance;
- two-thirds of any bonus award is paid in cash, with one-third of the total net bonus deferred into shares for three years, with dividends or dividend equivalents paid during the deferral period; and
- malus and clawback applies to cash awards and deferred shares.

Opportunity

The maximum opportunity for the:

- Chief Executive is 225% of base pay;
- Chief Financial Officer and any other UK-based executive director is 200% of base pay;
- President and Chief Executive Officer of BAE Systems, Inc. is 225% of base pay.

The performance payout range is:

- nil bonus for performance below threshold;
- 25% of maximum at threshold;
- 50% of maximum at target; and
- 100% of maximum at stretch; with
- payout on a straight-line basis for performance between these points.

The Committee will consider the calculated outcome in the context of a range of factors (not just the specific performance measures) including overall business performance, safety and workforce culture, and may apply a 'bonus moderator' to reduce (but not increase) the bonus if there are any factors that warrant a reduction.

Performance

A combination of:

- financial performance (with at least 75% weighting); and
- key strategic objectives.

Long-term incentives (LTI)	Minimum shareholding requirement (MSR)	Non-executive director (NED) fees
Purpose and link to strategy Provides a direct and transparent link between executive pay and the delivery of long-term performance.	**Purpose and link to strategy** Ensures long-term commitment and investment in the Company, aligning executive pay with shareholder returns.	**Purpose and link to strategy** Provides an appropriate reward to attract and retain high-calibre NEDs with the relevant skills, knowledge and experience.
Operation Performance Shares: – a performance period of three years, plus a further two-year deferral period; – for UK-based executive directors, shares vest five years after grant; for the US executive director, shares vest in three equal tranches on the third, fourth and fifth anniversaries of grant; – performance measures and weightings are set each year, to be relevant and aligned with the delivery of shareholder returns over the long term; – performance targets are set to be appropriately stretching, taking into account forecasts in the strategic plan, prior performance and market expectations; – dividends or dividend equivalents accrue during the performance and deferral periods based on the number of shares that have vested, but excluding any shares that have lapsed; and – malus and clawback applies. Restricted Shares: – for US executive director only, subject to remaining employed for three years from the grant date, plus a further two-year clawback period; and – notional reinvested dividends accrue during the vesting period.	**Operation** Executive directors may not sell, except for tax, any vested shares until their MSR is met in full. Executive directors must maintain their MSR (or their actual shareholding at the date of leaving, if lower) for at least two years after leaving employment with the Group (one year for the US executive director). The sale of shares prior to the MSR being met may be permitted in extenuating situations, for example, a change to personal circumstances, ill health, etc.	**Operation** NED fees are determined by the Chair and executive directors. NEDs receive a base fee, with an additional fee for: – the Senior Independent Director (SID); – Committee Chair (except Nominations Committee); and – Committee membership (except Nominations Committee). The Chair's fee is determined by the Committee. NED and Chair fees are reviewed periodically, taking into account: – responsibility of each role; – time commitment; – practice in other comparable companies; and – the average increase for the wider workforce.
Opportunity The maximum Performance Shares annual grant for the: – Chief Executive is 500% of base pay; – Chief Financial Officer and any other UK-based executive director is 400% of base pay; – President and Chief Executive Officer of BAE Systems, Inc. is 440% of base pay. The performance payout range for Performance Shares is: – nil vesting for performance below threshold; – 25% of maximum at threshold; – 50% of maximum at target; and – 100% of maximum at stretch; with – vesting on a straight-line basis for performance between these points. The Committee will assess the formulaic vesting calculation, and may amend the vesting outcome in the context of a range of factors including overall business and share price performance. The President and Chief Executive Officer of BAE Systems, Inc. additionally receives an annual grant of Restricted Shares equivalent to 150% of base pay. There are no performance conditions for Restricted Shares, other than continued employment for at least three years from the grant date with a further two-year clawback period.	**Opportunity** The Minimum Shareholding Requirement (comprising shares owned outright) for the: – Chief Executive is 500% of base pay; – Chief Financial Officer and any other UK-based executive director is 400% of base pay; – President and Chief Executive Officer of BAE Systems, Inc. is 425% of base pay. Post-employment shareholding requirements for the: – Chief Executive is 500% of base pay for two years; – Chief Financial Officer and any other UK-based executive director is 400% of base pay for two years; – President and Chief Executive Officer of BAE Systems, Inc. is 300% of base pay for one year.	**Opportunity** There is no cap on the amount of NED fees payable, but fees are reviewed periodically taking account of the factors listed above and may be increased at appropriate intervals. NEDs are not eligible to participate in any Company pension arrangements or any performance-related incentives. The Chair may be provided with a chauffeur-driven car. This may be used for non-Company business, providing that the cost of the benefit is paid for by the Chair. Travel and subsistence expenses (including any associated tax cost) incurred on Company business by a director or their accompanying partner may be reimbursed. Directors' and Officers' insurance cover is provided.
Performance For the Performance Shares, an appropriate mix of financial and other measures based on the key performance indicators that drive our financial ambitions, linked to long-term strategic priorities with the majority determined by financial metrics.	**Performance** Not applicable.	**Performance** No performance conditions.

Proposed new Remuneration policy continued

Remuneration policy notes

Area	Commentary
Decision-making process	– The Remuneration Committee (the Committee) is governed by Terms of Reference setting out its purpose, constitution and duties. These are reviewed regularly to ensure they remain appropriate including updated corporate governance and other guidance. – In determining the new Remuneration policy, the Committee undertook an extensive review to ensure that it remains fit for purpose in an increasingly challenging environment. – The Committee appoints external advisers to provide independent advice. – In addition, to avoid any conflicts of interest or appearance thereof, no director is involved in determining their own remuneration and is not present in such discussions.
Prior commitments	– The Company will honour any commitments made in respect of executive and non-executive director remuneration and benefits before the date on which either: (i) the Directors' Remuneration policy becomes effective; or (ii) an individual becomes a director, if in the opinion of the Committee, the commitment or payment was not in contemplation of the individual becoming a director.
Long-term incentives	– Long-term incentives (LTI) operate in accordance with the rules of the BAE Systems Long-Term Incentive Plan. – On a change of control or similar transaction, generally awards will vest to the extent performance conditions are then satisfied (if applicable) and pro-rated to reflect the accelerated vesting timescale, unless the Committee decides otherwise. Alternatively, awards may be exchanged for equivalent awards over shares in the acquiring company. – The Committee has discretion to vary the weighting of Performance Shares and Restricted Shares for a US executive director, but the overall expected value (EV) will remain the same (assuming EV is 50% of face value for Performance Shares and 100% of face value for Restricted Shares) and with Restricted Shares comprising no more than 150% of base pay. – Restricted Shares are not subject to a performance condition as they are designed to address competitive market practice and retention issues principally in the US.
Minor amendments	– Awards and performance conditions may be adjusted to take account of variations of share capital and other transactions or events. – The Committee may amend share plan rules in certain circumstances to include minor changes for administrative, tax or other regulatory purposes. – Performance conditions of awards already granted may be amended.
Performance measures and targets	– Performance conditions will be selected which align to the Group's key performance indicators and other objectives designed to achieve the Group's strategy. Non-financial performance conditions may be determined by the Committee in consultation with other committees including the Environmental, Social and Governance Committee. – The Committee determines performance conditions annually, taking account of the Group's strategic priorities, the internal business plan and budgets, external market expectations and general economic conditions. – Performance targets that are considered commercially sensitive and detrimental to the interests of the Company to disclose prospectively, will be disclosed retrospectively after the end of the relevant financial period.
Discretion	– For the AIP and LTI, the Committee has discretion to adjust any formulaic outcomes if it determines that it is not reflective of underlying performance for that metric or for the business as a whole. This discretion may apply upwards or downwards, and any discretion will be applied in a disciplined manner with the rationale and impact reported transparently.
Malus and clawback	– Malus and/or clawback may be applied to any bonus, to deferred bonus until the end of the three-year deferral period, and to LTIs until two years after vesting (or if sooner, the fifth anniversary of grant), or the occurrence of certain corporate events where: – the Company is entitled to terminate employment for cause or the participant has engaged in misconduct (including breach of policy) which gives rise to other disciplinary sanction; – the results of the Company and/or relevant business or businesses for any period have been restated or subsequently appear materially inaccurate or misleading; – any Group company or business unit has made a material financial loss; and/or – the measurement of any performance condition does not reflect the performance of the Company over the performance period.

Service contracts and letters of appointment	– All executive directors have rolling service agreements which may be terminated in accordance with those terms. – Notice periods for executive directors will not exceed 12 months, except when recruiting a new executive director operating in the US this may be extended to a maximum of 24 months, reducing to no more than 12 months by the end of their first year. – No executive director has provisions in their service contract that relate to a change of control of the Company. – The Chair's appointment is documented in a letter of appointment. – The Chair's appointment is normally for an initial three-year period unless terminated earlier in accordance with the Company's Articles of Association or by the Company or the Chair giving not less than six months' notice. The Chair's appointment may then be reviewed by the Nominations Committee and they may be invited to serve for an additional period. – Non-executive directors are normally appointed for an initial three-year period and, subject to review, may be extended. Non-executive directors do not have notice periods or service contracts and their letters of appointment detail the basis of their appointment. – All directors are subject to annual election or re-election at the Company's AGM.
Remuneration policy for other employees	– Policies and practices applying to other employees are broadly the same as those applying to executive directors, although quantum and participation by location and grade may vary. – A consistent approach to annual base pay reviews is applied across the Group, considering the role, level of experience, performance and relevant market data. – Employees may participate in an annual bonus plan dependent on financial, business and/or individual performance. Other employees may participate in performance-based incentives with metrics relevant for that business. – LTI awards may be granted to senior executives below executive director level, plus selected high-performing and high-potential employees.
Consideration of employment conditions elsewhere in the Company	– The Committee is responsible for reviewing Group workforce remuneration and related policies and takes these into account when setting the policy and pay for executive directors. To support this, the Committee is provided with details of remuneration practices in the different sectors, geographies and populations across the Company's wider workforce. When reviewing base pay increases for executive directors, the Committee considers average base pay increases for the wider workforce in the same locality and external market. – The Committee does not consult directly with employees on executive pay, but the Annual Report is the principal means through which we communicate and engage with employees on how executive directors' remuneration aligns with that of the wider workforce. Many of the Company's employees are shareholders and they receive a direct link to the annual report and an invitation to vote on the resolutions being put to the AGM, including those relating to executive director remuneration. The results of the employee shareholder voting are subsequently reported to the Board for discussion.
Stakeholder considerations	– The Committee seeks to maintain an active dialogue with investors regarding remuneration and corporate governance more generally. During 2024 and 2025 the Committee sought feedback from its 65 largest shareholders (representing nearly 70% of shares held) and representative bodies regarding the Directors' Remuneration policy, so that shareholders could enter into further consultations with the Committee Chair and express their views in advance of the Committee making any final proposals. The responses helped inform and shape the Committee's thinking in formulating the Remuneration policy proposals. The Committee is grateful to shareholders for their feedback and continues to appreciate all feedback.

Approach to recruitment

The Committee aims to pay no more than it considers necessary to attract appropriate candidates and it is not anticipated that remuneration will need to be different from the structure or exceed the limits set out in the Remuneration policy table.

Item	Policy
'Buy-out' of forfeited incentives	The Committee may make awards upon hiring an external candidate to 'buy out' existing incentives or other elements of remuneration that is forfeited upon leaving their previous employer. The Committee will take account of relevant factors including: – any performance conditions attached to those awards; – the form in which the awards were granted; and – the time period over which they would have vested. Buy-out awards will be no higher than the expected value of the forfeited awards, with details disclosed in the following year's remuneration report, and are excluded from the maximum incentive opportunities set out in the remuneration policy table. To facilitate any buy-out awards, the Committee may rely on the exemption in the Listing Rules, which allows for the grant of awards to facilitate, in unusual circumstances, the recruitment of an executive director, without seeking prior shareholder approval or under any other appropriate Company incentive plan.
Relocation	Where a new executive director has to relocate to take up the appointment, practical and financial support may be provided in relation to their relocation.

Proposed new Remuneration policy continued

Policy on payment for loss of office

An executive director's payments for loss of office will be determined by the policy that was in place at the date when the payments for loss of office were agreed.

Any termination payment will be subject to approval by the Committee, having regard to the terms of the service contract or other legal obligations and the specific circumstances regarding the termination, including the circumstances of leaving, performance, service and health or other relevant factors.

For executive directors, employment contracts will generally allow termination with up to 12 months' notice from either party or by way of payment of base pay in lieu of notice, at the Company's discretion. Neither notice nor a payment in lieu of notice will be given in the event of termination for gross misconduct. For US-based executive directors, employment contracts are typically for one-year periods and renew automatically unless one party gives at least 60 days' notice of non-renewal.

In all cases, the Committee seeks to include provisions in executive directors' employment contracts that allow the Company to pay any notice or severance payments on a phased basis and apply mitigation if the executive director secures alternative employment, if this is reasonably practicable taking into account local labour law, tax and other relevant considerations.

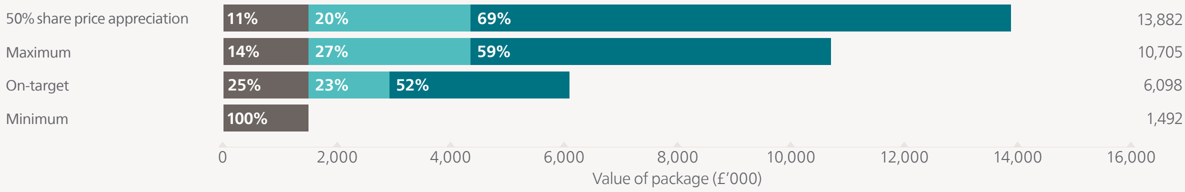
Item	Policy
Base pay, pension and benefits	Payment made up to the termination date in accordance with contractual notice periods. Pension benefits paid as governed by the rules of the relevant pension plan. US executive director: If employment is terminated by the Company (other than for cause as defined in the contract) or the executive director resigns for a 'good reason' (as defined in the contract), the executive director will be entitled to a termination payment equal to one year's base pay. They will also be entitled to a continuation of medical benefits for 18 months (or a cash payment in lieu).
Annual bonus	UK executive directors: Where employment is terminated after the end of a performance year but before any bonus payment is made, the executive director will remain eligible for a bonus in respect of that performance year based on performance achieved in the period. No award will be made in the event of termination for gross misconduct. Where an executive director leaves during the relevant performance year by reason of death, ill-health, injury, disability, retirement, sale or transfer of a business, redundancy, or other circumstances as the Committee determines, the Committee may use its discretion to determine if they remain entitled to receive a bonus (based on performance during the performance year and pro-rated for time served) in respect of the financial year in which they ceased employment. One-third of the total net bonus will be subject to compulsory deferral, unless the Committee decides otherwise. An annual bonus will not be awarded for any portion of a notice period not served. US executive director: If employment is terminated by the Company (other than for cause as defined in the contract) or the executive director resigns for a 'good reason' (as defined in the contract), the executive director will be entitled to a termination payment equal to the bonus payable at target level pro-rated for time served during the relevant financial year.
Long-term incentives	As governed by the relevant share plan rules. Where an executive director leaves the Group by reason of ill-health, injury, disability, retirement with the agreement of the Company (other than Restricted Shares held by US executive directors), sale or transfer of a business, redundancy or other circumstances as the Committee determines, unvested awards and options generally continue and vest on the normal vesting date (or, for Performance Shares held by US executive directors, the first normal vesting date or, if later, cessation), unless the Committee determines that the awards should vest earlier. Any performance conditions will be applied at the time of vesting and the number of awards or options will, unless the Committee decides otherwise, be reduced pro-rata to reflect the period in which the executive director was in employment as a proportion of the relevant vesting period (or, for Performance Shares held by US executive directors, as a proportion of the initial three-year vesting period). Options normally remain exercisable for six months after cessation (or vesting, if later) and 12 months after death. In the event of death, awards generally vest immediately subject to meeting any performance conditions at that time, with awards pro-rated as described above. Where an executive director's employment is terminated for any other reason, their unvested awards and options will lapse. Where an executive director's employment is terminated or an executive director is under notice of termination for any reason, no LTI awards will be granted. In the case of unvested deferred bonus shares, these continue and vest on the normal vesting date, except in the event of death when the shares vest immediately.
Other	The Committee may pay amounts necessary to settle or compromise any claim or by way of damages, where it is the opinion of the Committee that it is in the best interests of the Company to do so. In the event of termination, it is the Committee's policy to seek to limit any payment to not more than one year's base pay. Where appropriate, the Company may also meet a director's reasonable legal expenses in connection with their termination.
Chair and non-executive directors	The Chair's letter of appointment includes a six-month notice period. In the event of the termination of the Chair's appointment, a payment in lieu may be paid for any portion of the notice period not served. Non-executive directors do not have notice periods and no additional payments will be due. Upon termination, the Company has no obligation to make any termination payments to non-executive directors.

Illustration of application of policy

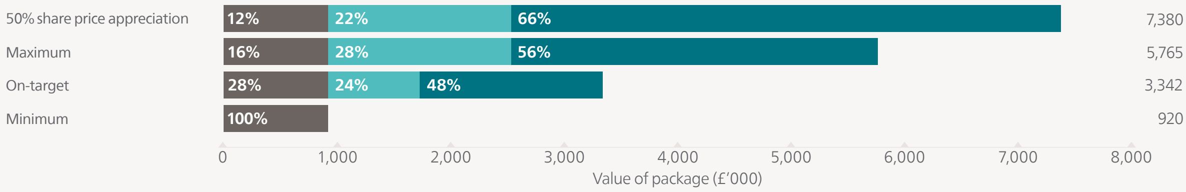
The charts below illustrate the value of remuneration for each executive director in the first year of operation of the Remuneration policy. The values are based on 2025 levels for base pay, estimated pension and benefits, and 2025 award levels for annual incentive and long-term incentives. The charts assume the following scenarios and exclude dividends:

Minimum	Fixed pay comprising base pay, pension and benefits plus Restricted Shares for the US executive director.
On-target	Minimum fixed pay plus on-target performance (50% of maximum) for annual incentives and Performance Shares.
Maximum	Minimum fixed pay plus stretch performance (100% of maximum) for annual incentives and Performance Shares.
Maximum plus 50% share price appreciation	In addition to the maximum scenario, a 50% gain in share price over the relevant vesting period in respect of Performance Shares and Restricted Shares.

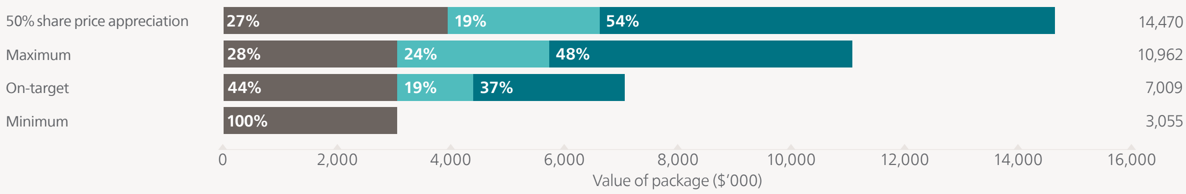
Chief Executive
(£'000)



Chief Financial Officer
(£'000)



President and Chief Executive Officer of BAE Systems, Inc.
($'000)



- Fixed pay (base pay, pension and benefits plus Restricted Shares)
- Annual incentives
- Performance Shares

2025 remuneration framework

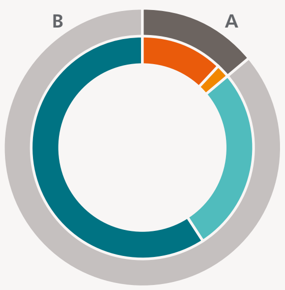
The table and charts below provide an overview of the proposed 2025 remuneration framework for the executive directors (subject to approval at the 2025 AGM).

		Charles Woodburn Chief Executive	**Brad Greve** Chief Financial Officer	**Tom Arseneault** President and Chief Executive Officer of BAE Systems, Inc.
Base pay		£1,270,800	£807,500	$1,189,000
Pension and benefits	Pension	Defined contribution (14% of base pay)	Defined contribution (9% of base pay)	US defined benefit and Section 401(k) defined contribution
	Benefits	Transportation benefits Financial and tax support Medical benefits		
Annual incentive	On-target/maximum opportunity (% base pay)	112.5%/225%	100%/200%	112.5%/225%
	Deferral	One-third deferred into shares for three years		
Performance Shares	Grant (% base pay)	500%[1]	400%[1]	440%
	Vesting	Three-year performance period, vests in year 5		Three-year performance period with vested shares released one-third in years 3, 4, 5
Restricted Shares	Grant (% base pay)	n/a		150%
	Vesting	n/a		Three-year service condition plus two-year clawback period
Minimum Shareholding Requirement	In-employment (% base pay)	500%[1]	400%[1]	425%
	Post-employment (% base pay)	500% for two years[1]	400% for two years[1]	300% for one year

1. Subject to approval at the 2025 AGM.

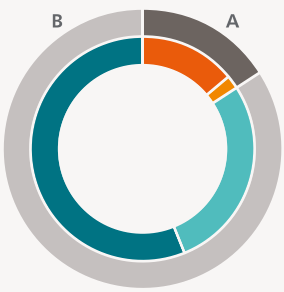
TOTAL REMUNERATION – FIXED AND VARIABLE (AT MAXIMUM)

Charles Woodburn
Chief Executive



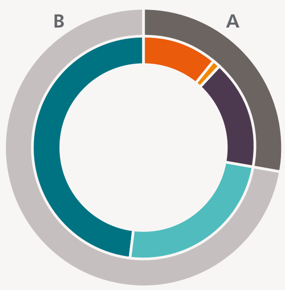
A Fixed		**14%**
	Base pay	12%
	Pension/benefits	2%
B Variable		**86%**
	Annual incentive	27%
	Performance Shares	59%

Brad Greve
Chief Financial Officer



A Fixed		**16%**
	Base pay	14%
	Pension/benefits	2%
B Variable		**84%**
	Annual incentive	28%
	Performance Shares	56%

Tom Arseneault
President and Chief Executive Officer of BAE Systems, Inc.



A Fixed		**28%**
	Base pay	11%
	Pension/benefits	1%
	Restricted Shares	16%
B Variable		**72%**
	Annual incentive	24%
	Performance Shares	48%

Annual remuneration report

How our approach to remuneration aligns with strategy

Our remuneration approach has been designed to incentivise and reward delivery of the Group strategy and the achievement of long-term sustainable performance. In alignment with the provisions of the UK Corporate Governance Code, the Committee has continued to consider our approach to executive remuneration to ensure that our policies, structures and performance measures have clear strategic rationale.

The Committee considers it important that the performance measures for the annual incentive and long-term incentive arrangements are directly aligned to the Group's KPIs and other strategic priorities as shown in the following table.

How do the performance measures used for incentive arrangements align with the Group's 2025 KPIs and other strategic objectives?

Group KPIs and strategic objectives	Earnings per share (EPS)	Cash	Order intake	Total shareholder return (TSR)	Return on capital employed	Environmental, social and governance	Key strategic objectives
Links to strategy	3 5	1 5	1 2 3	5	5	1 4 6	1 2 3 4 5 6
Annual incentive	45%	22.5%	7.5%				25%
Long-term incentive	30%	30%		15%	15%	10%	

LINKS TO STRATEGY

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

Alignment with the UK Corporate Governance Code

When determining the proposed new Directors' Remuneration policy, the Committee reviewed our alignment with the provisions of the 2018 and 2024 UK Corporate Governance Codes.

The table below details how the Committee addressed the principles set out in the UK Corporate Governance Code in respect of the Directors' Remuneration policy:

Clarity	In line with our commitment to full transparency and engagement with shareholders on executive remuneration, the Chair of the Remuneration Committee consulted with major shareholders and shareholder representative bodies regarding the proposed changes to the 2025 Remuneration policy. The Company consults directly with the broader employee population on remuneration through a variety of methods including virtual meetings, explanatory guides hosted on the intranet, human resources or business-led briefings, direct line manager engagement and materials posted to employees' home addresses.
Simplicity	Simple construct of fixed pay, annual incentive and long-term incentives has been in use for a number of years. The objective of each element of our policy is explained and the amount paid in respect of each pay component is clearly set out.
Risk	Design features exist within the remuneration arrangements to take into account risk including: malus and clawback; application of reasonable discretion to override formulaic outcomes; and consideration of annual bonus outcomes in the context of a range of factors including overall business performance, safety and workforce culture. Incentive plan targets and stretch are set to represent sufficient challenge without motivating excessive risk taking.
Predictability	The Remuneration policy includes maximum award levels and vesting outcomes applicable to annual and long-term incentives, with the ability to apply malus, clawback and reasonable discretion where appropriate.
Proportionality	Performance conditions for annual and long-term incentives require a minimum level of performance to be achieved for any payout. There is a direct link between an individual's reward and their contribution. No payment is made for poor performance. Any individual's performance that is below expectations is dealt with as part of the performance management process – any individual leaving employment due to performance issues will not be entitled to any incentive payments.
Alignment to culture	There is a direct link between delivering BAE Systems' strategy and an individual's reward, with incentive plan performance measures chosen to align with the Company's key performance indicators. The Committee assesses performance against a range of objectives, to ensure that remuneration is not determined solely based on financial performance, but the behaviours are consistent with BAE Systems' culture.

Annual remuneration report continued

'Single figure' of remuneration – executive directors (audited)

The following table shows the single total figure of remuneration for each executive director in respect of qualifying services for the 2024 financial year, together with comparatives for 2023.

	Fixed				Variable						
						LTIP[1]					
	Base pay £'000	Benefits £'000	Pension £'000	Total fixed £'000	AIP £'000	Face value £'000	Share appreciation £'000	Total LTIP £'000	Other[2] £'000	Total variable £'000	**Total £'000**
2024											
Charles Woodburn	**1,234**	**42**	**173**	**1,449**	**2,734**	4,014	3,483	**7,497**	**1**	**10,232**	**11,681**
Brad Greve	**784**	**38**	**63**	**885**	**1,544**	2,042	1,772	**3,814**	**1**	**5,359**	**6,244**
Tom Arseneault	**895**	**50**	**15**	**960**	**1,977**	2,222	1,928	**4,150**	**1,339**	**7,466**	**8,426**
2023											
Charles Woodburn	1,181	41	165	1,387	2,613	4,012	5,438	9,450	1	12,064	13,451
Brad Greve	750	36	60	846	1,472	2,041	2,766	4,807	1	6,280	7,126
Tom Arseneault	880	60	14	954	1,940	2,129	3,349	5,479	1,350	8,768	9,723

1. The 2024 values for the LTIP are calculated based on the three-month average share price to 31 December 2024 (£12.665) as these awards are yet to vest. The vesting values shown in the 2023 columns, calculated in the 2023 Annual Report based on the three-month average share price to 31 December 2023 (£10.6475) have been adjusted to reflect the actual value for the tranche at vesting of Performance Shares for Tom Arseneault based on the share price at the vesting date of 25 March 2024 (£13.60).
2. Other includes the value of Free Share awards under the UK all-employee Share Incentive Plan (SIP) of £613 for Charles Woodburn and Brad Greve, and their respective Matching Shares from voluntary investment in the SIP (£810); and the value at grant of the 2024 Restricted Shares award equivalent to 150% of base pay for Tom Arseneault. This award formed part of Tom Arseneault's 2024 LTIP allocation but is required to be reported under 'Other' as it has no performance conditions.

Tom Arseneault is paid in US dollars with the disclosed figures converted to pounds sterling at the appropriate exchange rate.

Base pay (audited)

Base pay for 2024 is shown below.

Base pay for 2024 and 2025

	Effective 1 January 2024	Effective 1 January 2025	% increase
Charles Woodburn	£1,233,764	£1,270,800	3.0%
Brad Greve	£783,907	£807,500	3.0%
Tom Arseneault	$1,143,314	$1,189,000	4.0%

Benefits (audited)

Benefits received by the executive directors during 2024 is shown below:

	Transportation benefits[1]		Financial and tax support		Medical benefits[2]		Total	
	2024 £'000	2023 £'000	**2024 £'000**	2023 £'000	**2024 £'000**	2023 £'000	**2024 £'000**	2023 £'000
Charles Woodburn	**26**	25	**8**	8	**8**	8	**42**	41
Brad Greve	**22**	20	**8**	8	**8**	8	**38**	36
Tom Arseneault	**19**	26	**12**	12	**19**	22	**50**	60

1. Transportation benefits include company car or cash allowance and private use of chauffeur-driven car for UK executive directors, and private use of chauffeur-driven car and company aircraft for the US executive director.
2. Medical benefits include private medical insurance and other insured benefits for UK executive directors, and private medical and executive medical benefits, dental benefits, life insurance and disability benefits for the US executive director.

Benefits for 2025

Benefits for 2025 remain unchanged and in line with the proposed 2025 Remuneration policy.

Pension (audited)

Charles Woodburn receives pension contributions equal to 14% of base pay, aligned to the weighted average pension contributions of the UK workforce.

During 2024, Brad Greve received pension contributions equal to 8% of base pay, in line with the level available to new joiners to the wider UK workforce. From 1 August 2024, the pension contributions available to new joiners increased to 9% of base pay and, accordingly, Brad Greve received pension contributions of 9% of base pay from 1 January 2025.

For Charles Woodburn and Brad Greve, the maximum permitted by the Annual Allowance (£10,000 per annum for 2024) is paid into the Company's defined contribution (DC) pension plan, with the excess paid as a taxable cash allowance.

Tom Arseneault participates in the US defined benefit and Section 401(k) defined contribution plan as follows:

Arrangement	Accrued benefit at 1 January 2024	Accrued benefit at 31 December 2024
BAE Systems ERP Qualified Plan – life pension	$39,348 per annum	$39,348 per annum
BAE Systems ERP 2006 Qualified Plan – lump sum	$85,000	$86,000
12/31/2004 BRP Restoration Plan – life pension	$5,283 per annum	$5,283 per annum
2007 BRP – ten-year pension	$97,416 per annum	$99,920 per annum
Section 401(k)	$1,719,441	$1,953,446

The accrued defined benefit for Tom Arseneault is an annual pension and lump sum payable at retirement (normal retirement age 65) prior to any reduction for early retirement. Tom Arseneault also participates in a Section 401(k) defined contribution arrangement for US employees in which the Company will match his contributions up to a maximum contribution of 6% of base pay, up to US regulatory limits (2025 $23,500; 2024 $23,000). In 2024, the Company paid contributions of $18,341 into this arrangement. The accrued Section 401(k) benefit for Tom Arseneault is the total value of his Section 401(k) account including both employee and company contributions as well as investment returns.

Pensions for 2025

Pension arrangements for Charles Woodburn and Tom Arseneault remain unchanged and in line with the proposed 2025 Remuneration policy.

Brad Greve will receive pension contributions equal to 9% of base pay in line with the level available to the majority of UK defined contribution plan members (with the maximum permitted by the Annual Allowance paid into the Company's defined contribution pension plan and the excess payable as a taxable cash allowance).

Payments to former directors and for loss of office (audited)

There were no payments to former directors in 2024. There were no payments for loss of office in 2024.

Annual remuneration report continued

Annual bonus (audited)

The 2024 annual bonuses are based on performance for the year ended 31 December 2024. 75% of the bonus opportunity is determined by financial performance and 25% is based on the achievement of key strategic objectives.

The figures in the table below represent the total annual bonus amounts to be paid, including the cash amount payable in March 2025 (two-thirds of total), and the amount deferred into BAE Systems shares for a further three years to be released in March 2028 subject to malus and clawback provisions (one-third of total).

2024 annual bonus for Charles Woodburn and Brad Greve

	2024 performance range and outcome								Weighted outcome (%)	
Performance measure	Threshold (20% max)	Target (50% max)	Stretch (100% max)	Actual performance	Percentage of maximum achieved		Weighting		Charles Woodburn	Brad Greve
Financial										
● Group underlying EPS	61.5p	64.8p	66.8p	69.6p	100%	x	45%	=	45%	45%
● Group free cash flow	£482m	£892m	£1,302m	£2,526m	100%	x	22.5%	=	22.5%	22.5%
● Group order intake	£20.8bn	£22.0bn	£23.1bn	£33.6bn	100%	x	7.5%	=	7.5%	7.5%
Non-financial										
Key strategic objectives	See page 113									
● Charles Woodburn					94%	x	25%	=	23.5%	
● Brad Greve					94%	x				23.5%
Total (% of maximum)							**100%**		**98.5%**	**98.5%**
									x	x
Maximum bonus opportunity (% of base pay)									225%	200%
									x	x
2024 base pay									£1,233,764	£783,907
									=	=
2024 annual bonus									**£2,734,329**	**£1,544,296**

2024 annual bonus for Tom Arseneault

	2024 performance range and outcome								Weighted outcome (%)	
Performance measure	Threshold (20% max)	Target (50% max)	Stretch (100% max)	Actual performance	Percentage of maximum achieved		Weighting		Tom Arseneault	
Financial										
● Group underlying EPS	61.5p	64.8p	66.8p	69.6p	100%	x	15%	=	15%	
● Group free cash flow	£482m	£892m	£1,302m	£2,526m	100%	x	7.5%	=	7.5%	
● Group order intake	£20.8bn	£22.0bn	£23.1bn	£33.6bn	100%	x	2.5%	=	2.5%	
● Inc. underlying EBIT	$1,900m	$2,000m	$2,067m	$2,130m	100%	x	30%	=	30%	
● Inc. free cash flow	$563m	$801m	$1,039m	$1,909m	94.9%	x	15%	=	14.23%	
● Inc. order intake	$13.39bn	$14.16bn	$14.92bn	$20.59bn	100%	x	5%	=	5%	
Non-financial										
● Key strategic objectives	See page 113				96%	x	25%		24%	
Total (% of maximum)							**100%**		**98.23%**	
									x	
Maximum bonus opportunity (% of base pay)									225%	
									x	
2024 base pay									$1,143,314	
									=	
2024 annual bonus									**$2,526,924**	**£1,977,171**

Key ● Below target ● Between target and stretch ● At or exceeds stretch

Note: Actual results have been adjusted to be on a comparable basis with the targets, including alignment of foreign exchange rates. Free cash flow is measured on a quarterly basis, with achievement reflecting performance throughout the year.

An underpin applies to the non-financial element, with the requirement to uphold and deliver our commitment to high standards of safety and an inclusive workforce. Performance in respect of this underpin was determined by the Environmental, Social and Governance Committee (whose report is shown on pages 91 to 92). In view of the increase in recordable injuries during the year, the Remuneration Committee determined that the achievement of the non-financial key strategic objectives for each of the directors should be adjusted by a factor of 0.96.

Key strategic objectives

Achievement of key strategic objectives represents 25% of the annual bonus opportunity. These objectives relate to the delivery of the Group's strategic priorities as listed below. Executive directors and Executive Committee members are collectively responsible for shared common strategic objectives.

Shared strategic objective	Assessment
Enhance financial performance and deliver sustainable shareholder growth ● – Drive efficiencies and effectiveness	– Accelerated margin expansion through driving functional efficiencies and improved organisational structures. – Successful integration of Ball Aerospace within BAE Systems, Inc.
Sustain and grow our defence and security business ● – Enable enhanced growth and effectiveness outcomes ● – Enable growth through recruitment fulfilment, effectiveness and demand accuracy	– Improved and implemented IT controls to maintain our digital and cyber assurances. – Rationalised our policies, processes and procedures to increase consistency in our ways of working. – Achieved improvements to our resourcing capability through a focus on recruitment fulfilment, efficiency and effectiveness at all points of the life-cycle, and developing accurate in-year recruitment demand plans.
Continue to grow our business in adjacent markets ● – Enable growth in adjacent markets ● – Increase adjacent market portfolio mix	– Exceeded key technology milestones against our strategic technology growth themes. – Established margin accretive opportunities to increase future adjacency orders.
Develop and expand our international business ● – Pursue growth internationally	– Significant progress against our non-home and non-core growth ambitions. – Successfully pursued additional margin accretive opportunities to increase our international market share.
Inspire and develop a diverse workforce to drive success ● – Succession development ● – Enhance workplace culture	– Embedded robust talent management practices including increased identification of High Potentials and developing robust succession plans, talent profiles and objectives, to establish a strong future talent pipeline. – Within Inc., successfully met goals to track movement and development of high-potential employees on succession plans. – Successfully met stretch targets to increase UK gender diversity and ethnicity. – Within Inc., achieved goals to increase workforce diversity.
Advance and integrate our sustainability agenda ● Environment – Progress decarbonisation of global operations (Scopes 1 and 2)[1] – Advance Scope 3 reduction roadmap ● Social and Governance – Embed refreshed Code of Conduct – Conduct feasibility study on ESG data	– Engaged suppliers in the UK, Australia and KSA in line with agreed phases in our Supply Chain decarbonisation roadmap. – Within Inc., progressed key projects that support decarbonisation of our product portfolio (Scope 3). – Implemented a refreshed Code of Conduct. – Established a disclosure roadmap to address gaps in compliance in key ESG materials.

1. Against target baseline year of 2020. The baseline year will be recalculated during 2025 to include the respective GHG emissions of the SMS business.

Key ● Below target ● Between target and stretch ● At or exceeds stretch

	Key strategic objective outturn (% of maximum)		Underpin		Percentage of maximum achieved
Charles Woodburn	98%	x	0.96	=	94%
Brad Greve	98%	x	0.96	=	94%
Tom Arseneault	100%	x	0.96	=	96%

Annual incentive for 2025

In line with the proposed 2025 Remuneration policy, the 2025 annual incentive maximum opportunity levels remain unchanged. The 2025 annual incentive will remain subject to the same performance measures and weightings as for 2024, with 75% based on financial performance (comprising earnings, cash and order intake) and 25% based on the achievement of key strategic objectives. Subject to approval at the 2025 AGM, the underpin (currently applying to only 25% of bonus opportunity) will be replaced with a 'bonus moderator' that can reduce the whole of the calculated bonus if there are any factors that warrant a reduction. The performance payout curve will be 25%–50%–100% of maximum for threshold–target–stretch performance achievement with payout on a straight-line basis for performance between these points.

The Committee is of the view that bonus targets are commercially sensitive and that it would be detrimental for the Company to disclose them in advance. The targets will be disclosed retrospectively after the end of the relevant financial year.

Annual remuneration report continued

Long-term incentive (audited)

The following table summarises the achievement of Performance Share awards vesting in respect of the three-year performance period ended 31 December 2024.

Key performance indicators	Actual performance against targets: Threshold (25% vesting)	Target (50% vesting)	Stretch (100% vesting)	Actual performance	Percentage of maximum achieved	Weight (percentage of maximum): UK executive directors	US executive director	Weighted vested outcome (%): UK executive directors	US executive director
● Annual average EPS growth (3-year)	3% p.a.	5% p.a.	7% p.a.	12.5% p.a.	100%	25%	25%	25%	25%
● TSR vs FTSE 100	9.6% median		53.9% 80th percentile	145.5%	100%	25%	25%	25%	25%
● Free cash flow	£3.5bn	£4.0bn	£4.2bn	£6.8bn	100%	25%		25%	
● Inc. operating cash flow	$4.1bn	$4.5bn	$4.6bn	$5.5bn	100%		25%		25%
Strategic progress metrics									
● – Operational excellence (on-time delivery) UK/International	–5%	Improvement in 3-year average	+3%	+13.1%	100%	4.5%	–	4.5%	–
● – Operational excellence (on-time delivery) Inc.	–5%	Improvement in 3-year average	+3%	–2.1%	39.3%	3.8%	8.3%	1.5%	3.3%
● – Return on capital employed (ROCE)	15.66%	15.91%	16.16%	17.34%	100%	8.3%	8.3%	8.3%	8.3%
● – Advance technology (milestone achievements)	7	11	15	13	75%	8.3%	8.3%	6.3%	6.3%
						100%	100%		
Overall vesting								**95.6%**	**92.9%**

Key ● Below target ● Between target and stretch ● At or exceeds stretch

Note: Actual results have been adjusted to be on a comparable basis with the targets, including alignment of foreign exchange rates.

The Committee chose to exclude the impact of the acquired SMS business for LTI awards granted before 2024, to enable like-for-like measurement with the basis on which the original performance targets were set. Accordingly, earnings from SMS and the related capital employed in 2024 have been excluded from the vesting calculation.

For the three-year performance period ended 31 December 2024, EPS, TSR and cash flow targets exceeded the stretch targets set in 2022. Most of the strategic progress metrics were fully achieved by 31 December 2024 and therefore the calculated vesting outcome for the Performance Shares is between 92.9% and 95.6% of maximum for each of the executive directors.

Before approving the vesting outcomes, the Committee considered overall business and competitive performance, and whether there had been any windfall gain due to volatility in the share price around the time of grant in March 2022. Having considered the share price movements around the time of grant, and also having retrospectively reviewed share price performance since grant, the Committee was satisfied that the calculated vesting outcomes and values for the Performance Shares vesting in respect of the performance period ended 31 December 2024 are appropriate.

Long-term incentives for 2025

Subject to approval at the 2025 AGM, the 2025 long-term incentive opportunities will be:

Performance Shares	2025 grant (% of base pay)
Charles Woodburn	500%
Brad Greve	400%
Tom Arseneault	440%[1]

1. Plus a grant of Restricted Shares equivalent to 150% of base pay.

The Performance Shares to be granted in 2025 will remain subject to the same performance measures and weightings as for 2024, as shown on the next page.

The performance payout range will remain at 25%–50%–100% of maximum for threshold–target–stretch performance achievement with vesting on a straight-line basis for performance between these points.

Description of share plans

Performance Shares

Performance Shares are subject to a performance period of three years, plus a further two-year deferral period. For UK-based executive directors, shares vest five years after grant; for the US executive director, shares vest in three equal tranches on the third, fourth and fifth anniversaries of grant. Dividends or dividend equivalents accrue during the performance and deferral periods based on the number of shares that have vested, but excluding any shares that have lapsed.

The description of the performance conditions for awards granted since 2023, and for awards proposed to be granted in 2025, are shown below. Details of the performance conditions for awards granted before 2023 are provided in the respective Annual Reports available on the Company's website.

	Weighting	Awards	Threshold (25% vesting)	Target (50% vesting)	Stretch (100% vesting)
EPS Average annual diluted underlying EPS growth over three years.	30%	2023 & 2024	3% pa	5% pa	7% pa
		2025	4% pa	6% pa	8% pa
TSR Vesting is determined by (i) the Company's TSR measured against other companies in the FTSE 100 index; and (ii) whether there has been a sustained improvement in the Company's underlying financial performance.	15%	2023 & 2024	Median	–	80th percentile
		2025	Median	–	80th percentile
Cash For UK executive directors, three-year cumulative free cash flow (FCF) at a Group level, and for the US executive director, three-year operating cash flow (OCF) in respect of BAE Systems, Inc.	30%	2023, 2024 & 2025	Due to commercial sensitivity, the targets will be disclosed retrospectively after the end of the relevant performance period		
ROCE Comparison in ROCE versus IBP. Due to commercial sensitivity, exact targets will be disclosed retrospectively after the end of the relevant performance period.	15%	2023 & 2024	25bps reduction	Consistent	25bps improvement
		2025	25bps reduction	Consistent	25bps improvement
ESG Reduce Group GHG emissions (Scope 1 and 2) aligned to a science-based pathway of 1.5°C, year-on-year over ten years[1].	10%	2023 & 2024	5% reduction	12.6% reduction	14% reduction
		2025	5% reduction	12.6% reduction	14% reduction

1. Against baseline year of 2020. The baseline year will be recalculated during 2025 to include the respective GHG emissions of the SMS business.

Awards vest on a straight-line basis for performance between threshold, target and stretch.

Restricted Shares

Restricted Shares are not subject to any performance conditions as they are designed to ensure remuneration for senior US executives remain competitive in the local market and to assist in mitigating retention risks in respect of certain key executives. The shares are subject only to the condition that the participant remains employed by the Group at the vesting date (three years after the award date). Restricted Shares accrue notional reinvested dividends during the vesting period. Awards made to the US executive director are subject to a further two-year clawback period after the initial three-year vesting period.

Annual remuneration report continued

Statement of directors' shareholdings and share interests

Scheme interests awarded during the financial year (audited)

Scheme	Date of grant	Number of shares	Basis of award (% of base pay)	Face value of award[1] £	Exercise price £	Date to which performance is measured (three years to)
Charles Woodburn						
Performance Shares	21.03.24	341,686	370%	4,564,927	nil	31.12.26
Brad Greve						
Performance Shares	21.03.24	196,563	335%	2,626,088	nil	31.12.26
Tom Arseneault						
Performance Shares	21.03.24	294,011	440%	3,927,994	n/a	31.12.26
Restricted Shares	21.03.24	100,231	150%	1,339,089	n/a	n/a

1. The value of the award is calculated on the grant date by reference to the middle market quotation at close on the preceding day (£13.36 for the grants made on 21 March 2024).

Note: Performance Shares for UK executive directors are structured as nil cost options. For the US executive director, awards of Performance Shares are classified as conditional share awards (rather than share options) and are deliverable on the third, fourth and fifth anniversary of grant, subject to attainment of the performance condition. For the UK executive directors, shares vest on the fifth anniversaries of grant. 25% vests at threshold; 50% vests at target; and 100% vests for stretch performance. Further detail on the performance conditions is set out on page 115.

Minimum Shareholding Requirement (MSR) (audited)

Executive directors are required to establish and maintain a minimum personal shareholding equal to a fixed percentage of their base pay as set out in the table below.

Where an executive director leaves employment for any reason, a post-employment shareholding requirement will apply. For UK executive directors, the policy is based on the full MSR continuing to apply for a period of two years. For US executive directors, the policy is based on MSR of 300% of base pay applying for a period of one year. Executive directors will be required to sign a contract upon leaving employment to ensure compliance with this requirement. Any case of non-compliance will be dealt with by the Committee.

The following table sets out the MSR and actual shareholdings (as a percentage of base pay) as at 31 December 2024.

	MSR	Actual	Achieved MSR	Post-employment MSR
Charles Woodburn	300%	859%	Yes	300% for 2 years
Brad Greve	200%	180%	Expected by April 2025	200% for 2 years
Tom Arseneault	425%	1,466%	Yes	300% for 1 year

The actual MSR figures at 31 December 2024 are based on the year-end share price of £11.485.

Minimum Shareholding Requirement (MSR) from 2025

Subject to approval at the 2025 AGM, the in-employment and post-employment shareholding requirements (as a percentage of base pay) will be:

	In-employment MSR	Post-employment MSR
Charles Woodburn	500%	500% for 2 years
Brad Greve	400%	400% for 2 years
Tom Arseneault	425%	300% for 1 year

Share interests as at 31 December 2024 (audited)

The interests of the executive directors in the shares of BAE Systems plc, or scheme interests in relation to those shares, were:

	Shares	Scheme interests: Options and awards over shares					
		Share awards with performance conditions	Share awards without performance conditions	Share options with performance conditions	Share options with performance conditions, vested but unexercised	Share options without performance conditions, vested but unexercised	Total scheme interests
Charles Woodburn	923,752	–	–	2,911,196	–	–	2,911,196
Brad Greve	123,270	–	–	1,574,436	–	–	1,574,436
Tom Arseneault	1,164,504	1,445,659	402,549	–	–	888,091	2,736,299

Note: The share options without performance conditions were granted to Tom Arseneault prior to him being appointed an executive director. These options are vested but unexercised with an exercise price ranging from £4.85 to £6.49 per share, and expiry dates ranging from 21.03.2027 to 20.03.2029.

The interests of the non-executive directors who served during the year ended 31 December 2024 in the shares of BAE Systems plc were:

	Shares
Chair	
Cressida Hogg	13,698
Non-executive directors	
Nick Anderson	14,000
Crystal E Ashby	–
Angus Cockburn	2,000
Dame Elizabeth Corley	19,000
Jane Griffiths	10,117
Ewan Kirk	10,000
Stephen Pearce	10,000
Nicole Piasecki[1]	3,132
Lord Mark Sedwill[2]	–

1. Shares held in the form of 783 American Depositary Shares.
2. Holding shown at date retired from the Board (10 September 2024).

The interests of directors include those of their connected persons.

Since 31 December 2024, Charles Woodburn and Brad Greve have each acquired an additional 37 shares through the all-employee Share Incentive Plan. Their beneficial shareholdings at the date of this report stood at 923,789 and 123,307 respectively.

There have been no other changes in the interests of the directors in the shares of BAE Systems plc between 31 December 2024 and 17 February 2025 (the latest practicable date for inclusion in this report).

Share Options – options exercised during 2024

	Exercised during the year	Exercise price £	Date of grant	Date of exercise	Market price at exercise £
Tom Arseneault 2015 Share Options	258,380	5.425	25.03.2015	22.10.2024	13.3015
Tom Arseneault 2016 Share Options	289,258	4.988	23.03.2016	22.10.2024	13.3015
Charles Woodburn 2018 Performance Shares	704,014	nil	20.03.2018	08.03.2024	12.5460
Charles Woodburn 2019 Performance Shares	485,694	nil	20.03.2019	04.06.2024	13.8884

- The Share Options granted to Tom Arseneault were granted prior to him being appointed an executive director and do not have performance conditions attached. Options are normally exercisable between the third and tenth anniversary of their grant. Share options granted to him from 2015 onwards are subject to a two-year clawback period after the initial three-year vesting period.
- The 2018 and 2019 Performance Shares granted to Charles Woodburn vested based on TSR and EPS performance conditions with vesting outcomes of 100% and 57.9% respectively. The awards were structured as nil-cost options and accrued notional reinvested dividends during the performance and deferral periods. The shares vested on the fifth anniversary of grant and were exercisable until the seventh anniversary of their grant.

The tables above have been subject to audit.

Annual remuneration report continued

Executive directors' service contracts

All executive directors have rolling service agreements which may be terminated in accordance with the terms of those agreements.

Dates of appointment for executive directors:

Name	Date of appointment	Expiry of current term
Charles Woodburn	1 July 2017	12 months' notice by either party
Brad Greve	1 April 2020	12 months' notice by either party
Tom Arseneault[1]	1 April 2020	60 days' notice by either party

1. Tom Arseneault's contract of employment automatically renews for a one-year period from 31 December each year, unless one party gives the other at least 60 days' notice.

In accordance with the UK Corporate Governance Code, all directors are subject to annual election or re-election at the Company's AGM.

Chair and non-executive directors – letters of appointment

The appointment of Cressida Hogg as Chair is documented in a letter of appointment. Her appointment is for three years ending on 4 May 2026 unless terminated earlier in accordance with the Company's Articles of Association or the Company or by the Chair giving not less than six months' notice.

Non-executive directors do not have service contracts but have letters of appointment detailing the basis of their appointment. The non-executive directors are normally appointed for an initial three-year term that, subject to review, may be extended subsequently for further such terms. Non-executive directors do not have notice periods. The dates of their original appointment and expiry of their current term are shown below:

Name	Date of appointment	Expiry of current term
Nick Anderson	1 November 2020	31 October 2026
Crystal E Ashby	1 September 2021	1 September 2027
Angus Cockburn	6 November 2023	5 November 2026
Dame Elizabeth Corley	1 February 2016	31 December 2025
Jane Griffiths	1 April 2020	31 March 2026
Ewan Kirk	1 June 2021	31 May 2027
Stephen Pearce	1 June 2019	1 June 2025
Nicole Piasecki	1 June 2019	1 June 2025

'Single figure' of remuneration for the Chair and non-executive directors (audited)

	Committee membership as at 31 December 2024	Fixed: Fees £'000 2024	Fixed: Fees £'000 2023	Fixed: Benefits £'000 2024	Fixed: Benefits £'000 2023	Fixed: Other £'000 2024	Fixed: Other £'000 2023	Total remuneration £'000 2024	Total remuneration £'000 2023
Chair									
Cressida Hogg[1]	N (Chair)	**700**	486	**–**	–	**–**	–	**700**	486
Sir Roger Carr[2]		**n/a**	243	**–**	–	**–**	–	**–**	243
Non-executive directors									
Nick Anderson	E I N	**129**	110	**14**	8	**–**	–	**143**	118
Crystal E Ashby	E N	**110**	99	**18**	6	**–**	9	**128**	114
Angus Cockburn[3]	A N R	**129**	16	**5**	–	**–**	–	**134**	16
Dame Elizabeth Corley	A E I N R	**153**	121	**3**	2	**–**	–	**156**	123
Jane Griffiths	A E (Chair) N	**146**	120	**7**	3	**–**	–	**153**	123
Chris Grigg[4]		**n/a**	143	**–**	–	**–**	–	**–**	143
Ewan Kirk	I (Chair) N R	**146**	131	**4**	3	**–**	–	**150**	134
Stephen Pearce	A (Chair) E N	**146**	120	**20**	1	**–**	–	**166**	121
Nicole Piasecki	I N R (Chair)	**182**	143	**21**	11	**–**	9	**203**	163
Lord Mark Sedwill[5]	E N	**74**	99	**–**	–	**–**	–	**74**	99

1. Appointed to the Board on 1 November 2022 and as Chair on 4 May 2023.
2. Retired from the Board and as Chair on 4 May 2023.
3. Appointed to the Board on 6 November 2023.
4. Retired from the Board on 31 December 2023.
5. Retired from the Board on 10 September 2024.

The amounts for 'Benefits' relate to travel and subsistence expenses.

● Committee Chair
A Audit and Risk Committee
E Environmental, Social and Governance Committee
I Innovation and Technology Committee
N Nominations Committee
R Remuneration Committee

Chair of the Board

Cressida Hogg succeeded Sir Roger Carr as Chair on 4 May 2023, and received the same fee and benefits as her predecessor of £700,000 per annum. Her fee was reviewed and with effect from 1 April 2025, will be increased by 3% to £721,000 per annum. The fee for the Chair of the Board is set by the Remuneration Committee.

Non-executive directors

Fees for the non-executive directors were reviewed in February 2025 by the Chair and executive directors. It was agreed that with effect from 1 April 2025, the fees will be increased by 3% in line with the average percentage increase for the wider workforce in the UK.

	Effective 1 April 2023	Effective 1 April 2024	2024 % increase	Effective 1 April 2025	2025 % increase
Base fee	£88,400	£92,500	4.6%	£95,300	3%
Additional fees					
Senior Independent Director	£35,000	£36,500	4.3%	£37,600	3%
Committee Chair (except Nominations Committee)	£35,000	£36,500	4.3%	£37,600	3%
Committee membership (except Nominations Committee)	£15,000	£20,000	33.3%	£20,600	3%

Annual remuneration report continued

Annual percentage change in directors' remuneration

As required by legislation, the table below shows the percentage change in remuneration for executive directors, non-executive directors and an average employee comparator group (being those employed by BAE Systems plc on a full-time equivalent basis). The percentage changes represent the change in remuneration, as reported in the single figure of remuneration, and therefore may indicate significant increases or decreases when comparing pay representing a part-year.

	2023/2024 % change			2022/2023 % change			2021/2022 % change			2020/2021 % change			2019/2020 % change		
	Base pay/ fees	**Benefits[1]**	**Annual bonus**	Base pay/ fees	Benefits[1]	Annual bonus	Base pay/ fees	Benefits[1]	Annual bonus	Base pay/ fees	Benefits[1]	Annual bonus	Base pay/ fees	Benefits[1]	Annual bonus
Executive directors															
Charles Woodburn	**+4.5**	**+3.3**	**+4.6**	+4.0	+11.0	+4.9	+2.5	+56.4	+2.9	+12.7	+17.7	+39.1	+6.9	–3.9	–12.1
Brad Greve[2]	**+4.5**	**+6.6**	**+4.9**	+14.1	+14.2	+43.6	+5.6	+79.3	+6.0	+36.0	+44.2	+68.7	n/a	n/a	n/a
Tom Arseneault[2]	**+1.7**	**–17.1**	**+1.9**	+3.3	+7.1	+4.0	+15.0	+24.1	+15.8	+27.9	+156.9	+115.4	n/a	n/a	n/a
Current non-executive directors															
Cressida Hogg[2]	**+43.9**	**n/a**	**n/a**	+3,333.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nick Anderson[2]	**+17.2**	**+86.2**	**n/a**	+29.5	+642.4	n/a	0.0	–42.7	n/a	+500.0	+81.0	n/a	n/a	n/a	n/a
Crystal E Ashby[2]	**+11.6**	**+171.8**	**n/a**	+16.2	+51.7	n/a	+200.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Angus Cockburn[2]	**+703.2**	**n/a**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dame Elizabeth Corley	**+26.2**	**+101.8**	**n/a**	+42.7	+69.7	n/a	0.0	–47.6	n/a	+1.5	0.0	n/a	+4.7	–100.0	n/a
Jane Griffiths[2]	**+21.9**	**+94.9**	**n/a**	+9.1	+288.3	n/a	0.0	–82.2	n/a	+72.5	0.0	n/a	n/a	n/a	n/a
Ewan Kirk[2]	**+11.5**	**+45.8**	**n/a**	+19.4	+101.7	n/a	+75.8	+92.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Stephen Pearce[2]	**+21.9**	**+2,326.6**	**n/a**	+9.1	–20.3	n/a	0.0	–50.0	n/a	+1.1	+90.4	n/a	+133.0	–4.0	n/a
Nicole Piasecki[2]	**+28.0**	**+95.6**	**n/a**	+40.7	+72.2	n/a	+19.2	n/a	n/a	+1.5	–100.0	n/a	+79.5	–35.5	n/a
Former non-executive directors															
Sir Roger Carr[2]	**n/a**	**n/a**	**n/a**	–65.2	0.0	n/a	0.0	0.0	n/a	0.0	0.0	n/a	0.0	0.0	n/a
Dame Carolyn Fairbairn[2]	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	–58.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Chris Grigg	**n/a**	**n/a**	**n/a**	+29.6	n/a	n/a	0.0	n/a	n/a	+7.3	0.0	n/a	+28.1	–100.0	n/a
Ian Tyler[2]	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	–65.2	–8.8	n/a	+1.1	+8.9	n/a	+3.6	–64.7	n/a
Lord Mark Sedwill[2]	**–25.5**	**–100.0**	**n/a**	+597.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Average employee[3]	**+4.5**	**+4.5**	**+2.8**	+6.0	+6.0	+63.3	+4.5	+4.5	+9.2	+1.5	+1.5	+28.4	+2.5	+2.5	–2.0

1. Where figures are £nil (as is often the case for non-executive directors), the percentage change is shown as n/a.
2. Remuneration reflects part-years as follows: 2019 remuneration for Stephen Pearce and Nicole Piasecki; 2020 remuneration for Brad Greve, Tom Arseneault, Nick Anderson and Jane Griffiths; 2021 remuneration for Crystal E Ashby, Dame Carolyn Fairbairn and Ewan Kirk; 2022 remuneration for Cressida Hogg, Lord Mark Sedwill, Dame Carolyn Fairbairn and Ian Tyler; 2023 remuneration for Angus Cockburn and Sir Roger Carr; 2024 remuneration for Lord Mark Sedwill.
3. Figures in respect of the median average employee are determined on a full-time equivalent basis with annual bonus estimated based on the expected financial outturn for 2024.

Pay ratio in relation to the Group Chief Executive

The table below provides the ratio between the 'single figure' of remuneration for the Chief Executive and the total remuneration of UK employees at the upper quartile (75th percentile), median (50th percentile) and lower quartile (25th percentile).

		Pay ratio		
Year	Method	25th percentile	Median	75th percentile
2024	B	232:1	183:1	157:1
2023	B	264:1	191:1	181:1
2022	B	256:1	185:1	168:1
2021	B	171:1	140:1	99:1
2020	B	121:1	103:1	89:1
2019	B	90:1	72:1	59:1
2018	B	61:1	48:1	38:1

£	25th percentile	50th percentile	75th percentile
Total pay and benefits	£50,310	£63,839	£74,612
Base pay	£39,543	£49,444	£56,112

Pay ratio commentary

Between 2023 and 2024 the ratio of total remuneration for the Chief Executive compared to UK employees has reduced. This is principally the result of the total remuneration of the Chief Executive being lower when compared with the previous year. In considering the median pay ratio since 2018, the general upward trend corresponds to improving financial performance, resulting in increased annual and long-term incentive outcomes.

The Chief Executive's total remuneration comprises a significant proportion in variable pay and therefore varies considerably depending on performance and the outturn of the annual and long-term incentive plans. The other employees typically receive a higher proportion of fixed pay and therefore their total remuneration is less variable with financial performance. The ratio at each of the three quartile positions is consistent with our pay, reward and progression policies, with the ratio increasing as the Chief Executive's remuneration is compared with that of more junior employees.

Methodology

The Companies (Miscellaneous Reporting) Regulations 2018 permit different options for calculating the pay ratio. We have chosen Option B for calculating the pay ratio for 2024, consistent with our gender pay reporting which is considered the most appropriate methodology for reporting. The total full-time equivalent pay and benefits for the relevant employees have been calculated on the same basis as the Chief Executive's 'single figure' of remuneration as at 31 December 2024. For pension-related benefits, employer pension costs have been estimated using the employer contribution rates applicable to the member's pension plan. No other estimates or adjustments have been used in the calculation and no remuneration items have been omitted.

Bonus amounts for 2024 are not able to be calculated for some eligible employees until after publication of this report and, therefore, it is not possible to determine exact 2024 total remuneration for all UK employees within this timescale which is required for Option A.

To ensure a sufficiently robust representation at each quartile, we calculate the average total pay and benefits of a number of employees centred around each quartile. Any anomalies arising in the pay and benefit amounts (for example, if an employee left part way through the year) are adjusted or excluded.

Gender and ethnicity pay

The 2024 UK gender pay gap and ethnicity pay gap reports are available on the Company's website. The average (mean) gender pay gap for our UK workforce was 7.6% (2023 7.7%). The average (mean) ethnicity pay gap for our UK workforce was 5.9% (2023 3.9%).

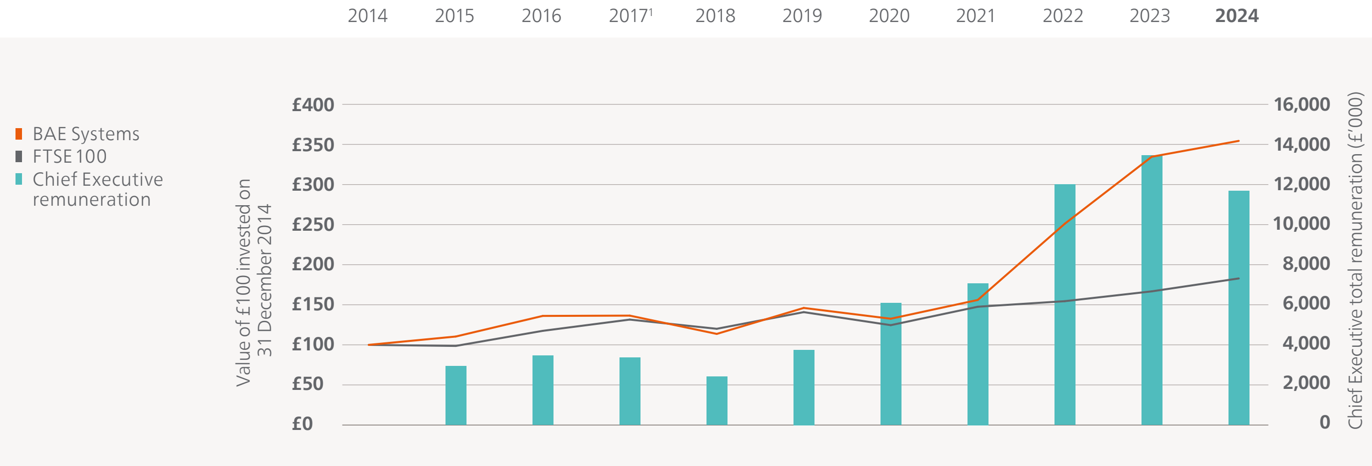
Annual remuneration report continued

Total Shareholder Return (TSR) performance and Chief Executive pay

The chart below shows the value as at 31 December 2024 of £100 invested in BAE Systems shares on 31 December 2014, compared to £100 invested in the FTSE 100 on the same date. If invested in BAE Systems that shareholding would be worth £354.42 on 31 December 2024, compared to £182.85 if invested in the FTSE 100.

The FTSE 100 was chosen as the comparator because it is a broad equity index of which BAE Systems is a constituent member and reflects the investment interests of our UK shareholder base. In addition, comparative performance with the FTSE 100 forms part of the performance measure for Long-Term Incentive (LTI) awards.

Value at 31 December 2024 of £100 investment at 31 December 2014



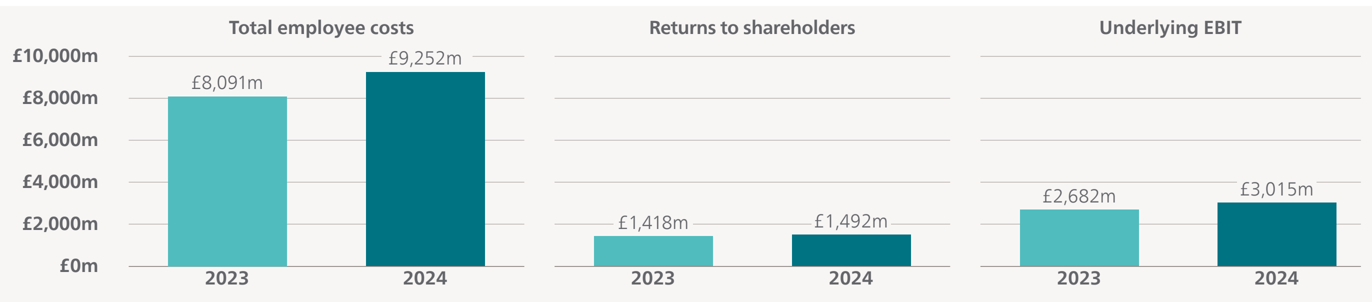
Change in Chief Executive's remuneration over ten years

	2015	2016	2017[1]	2018	2019	2020	2021	2022	2023	**2024**
Chief Executive total remuneration (£'000)										
Charles Woodburn	–	–	1,279	2,416	3,747[2]	6,080	7,071	12,008	13,451	**11,681**
Ian King	2,929	3,463	2,086	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**
	2,929	3,463	3,365	2,416	3,747[2]	6,080	7,071	12,008	13,451	**11,681**
Bonus paid as a percentage of maximum										
Charles Woodburn	–	–	75.8%	65.6%	95.6%	78.7%	97.1%	97.5%	98.4%	**98.5%**
Ian King	72.4%	82.3%	75.9%	n/a	n/a	n/a	n/a	n/a	n/a	**n/a**
LTI vesting as a percentage of maximum										
Charles Woodburn	–	–	–	nil	10.9%[2]	100%	57.9%	100%	97.9%	**95.6%**
Ian King	nil	nil	11.3%	–	–	–	–	–	–	**–**

1. In 2017, Charles Woodburn succeeded Ian King as Chief Executive. Ian King's remuneration is shown from the start of 2017 until 30 June 2017 and Charles Woodburn's remuneration is shown from 1 July 2017 to the end of that year.
2. Total remuneration includes the value of share plans vesting that were granted prior to appointment as Chief Executive.

Relative importance of spend on pay

The chart below shows the relative importance of expenditure on pay[1] compared to returns to shareholders[2]. Underlying EBIT[3] is shown for information.



1. Wages and salaries increased by approximately 5.44% per employee in 2024, excluding the impact of exchange translation.
2. Returns to shareholders comprise dividends to ordinary shareholders paid in the year and share repurchases in 2023 (£561m) and 2024 (£555m).
3. Underlying EBIT is the Group's principal measure of operational profitability as defined in the Alternative performance measures section on page 220.

Remuneration for employees below the Board

General Remuneration policy

Our Remuneration policy aims to ensure all employees are rewarded fairly and appropriately for their contribution, to attract and retain the best talent with competitive market pay and a range of useful benefits for employees and their families.

This means our total reward packages include a competitive level of base pay, short-term and long-term incentives (where applicable) to share our success with employees and a range of health, wealth and lifestyle benefits aligned with the relevant local markets.

Summary of our remuneration structure and rationale for employees below the Board

<table>
<tr><th colspan="2">Remuneration element</th><th>Executive Committee</th><th>Senior executives</th><th>Middle management</th><th>Wider workforce</th></tr>
<tr><td>Base pay</td><td></td><td colspan="3">Provides a fixed level of earnings, appropriate to the market and requirements of the role.
Normally reviewed annually with increases ordinarily in line with the wider workforce in the same locality.</td><td>Provides a fixed level of earnings, subject to negotiation with recognised trades unions, and/or in line with market and/or performance.</td></tr>
<tr><td>Pension and benefits</td><td></td><td colspan="4">To assist employees in their duties, by providing a range of health, wealth and lifestyle benefits, including retirement savings, in line with the relevant local market.</td></tr>
<tr><td rowspan="2">Annual bonus</td><td>Cash</td><td>Incentivises and rewards the achievement of annual financial performance and the delivery of key strategic objectives.</td><td colspan="2">Incentivises and rewards the achievement of annual financial performance and personal objectives and behaviours.</td><td>Typically rewards business results and individual/team achievements (UK only).</td></tr>
<tr><td>Deferral</td><td colspan="2">Compulsory deferral of part of annual bonus into shares, increasing alignment with long-term shareholder interests (UK and International only).</td><td colspan="2"></td></tr>
<tr><td rowspan="4">Long-term incentives/ Share ownership</td><td>Free shares</td><td colspan="4">Eligible employees receive an annual award of free shares (or cash equivalent in some countries), based on Group financial performance.</td></tr>
<tr><td>Share Incentive Plan (SIP)</td><td colspan="4">Eligible employees may receive free matching shares when investing their own money in the Company SIP or international equivalent.</td></tr>
<tr><td>Performance Shares</td><td colspan="2">Performance Shares are dependent upon three-year performance conditions, providing a direct and transparent link between executive pay and the delivery of long-term performance.</td><td colspan="2" rowspan="2"></td></tr>
<tr><td>Restricted Shares</td><td colspan="2">Restricted Shares are predominantly provided in the US to be market competitive; and are subject to remaining employed for three years from the grant date.</td></tr>
</table>

Engagement with key stakeholders

In line with our commitment to full transparency and engagement with our shareholders on executive remuneration, the Chair of the Remuneration Committee periodically consults with shareholders and shareholder representative bodies to seek feedback on executive pay matters and any contemplated changes to the Remuneration policy or structure. In particular, when considering the proposed changes to the 2025 Remuneration policy, the Committee Chair engaged directly with major shareholders to seek their views. The feedback received was shared with all Committee members and proved extremely valuable in helping the Committee determine its final proposals.

This report is the principal means through which we communicate and engage with employees regarding executive remuneration alignment with the wider workforce. Over 58,000 of the Company's employees are shareholders in the Company and they receive email communications with a direct link to this report on the Company's website and an invitation to vote on the resolutions being put to the Annual General Meeting (AGM), including those resolutions on executive remuneration.

Effective engagement enables employees to contribute to improving business performance and helps us to create an environment in which everyone is safe, valued and can fulfil their potential. We used a range of channels to engage with employees during 2024, including surveys and insight sessions, in-person and virtual meetings, briefings, conferences, toolbox talks, safety and security stand-downs, events and listening forums at all levels. Additionally, employee share and incentive plan communications, regular leadership updates through videos and live-streaming throughout the year (including financial and business performance updates), and digital channels including our employee app, intranet, email and TV systems were also used.

Annual remuneration report continued

Remuneration Committee composition and advisers

The Committee members comprise Nicole Piasecki (Chair), Angus Cockburn, Dame Elizabeth Corley and Ewan Kirk. Committee attendance is shown on page 70. Advisers to the Remuneration Committee are shown below.

During the year under review, the Committee received material assistance and advice on remuneration policy from the Group Reward Director, Roger Fairhead, and the Group Human Resources Director, Tania Gandamihardja. Charles Woodburn in his role as Chief Executive and Brad Greve as Chief Financial Officer also provided input that was of material assistance to the Committee.

Adviser	Services provided	Appointment	Governance	Fees (in respect of services provided to the Committee)
PricewaterhouseCoopers (PwC)	From November 2024, independent adviser to the Committee, including attendance at Remuneration Committee meetings.	Committee appointment. By the Company at the request of the Committee.	The Committee is aware that PwC provides other services to the Company, including tax and pensions advice. PwC also provides a range of consultancy services. The Committee is satisfied that the PwC LLP engagement partner and team who provide remuneration advice to the Committee do not have connections with the Group or the individual directors that could impair their independence or objectivity. PwC is a member of the Remuneration Consultants Group (RCG) and is a signatory to the RCG's code of conduct.	£33,700 Fee basis: Fixed fee/hourly
Willis Towers Watson (WTW)	Until October 2024, independent adviser to the Committee, including attendance at Remuneration Committee meetings. Also provided information on remuneration market practice, market trends and benchmarking of remuneration for the senior executive population.	Committee appointment. By the Company at the request of the Committee.	The Committee is aware that WTW provides unrelated services to the Company in the areas of benefits and pensions advice. The Committee is satisfied that the WTW lead adviser and team who provided remuneration advice to the Committee do not have connections with the Group or the individual directors that could impair their independence or objectivity. WTW is a member of the Remuneration Consultants Group (RCG) and is a signatory to the RCG's code of conduct.	£58,333 Fee basis: Fixed fee/hourly

Statement of voting

Shareholder voting on the resolutions to approve the Annual remuneration report at the 9 May 2024 AGM and the Directors' Remuneration policy at the 4 May 2023 AGM were:

Annual remuneration report (2024)

Votes for	%	Votes against	%	Total votes cast	Votes withheld (abstentions)
2,104,688,229	97.33	57,820,584	2.67%	2,162,508,813	10,670,190

Directors' Remuneration policy (2023)

Votes for	%	Votes against	%	Total votes cast	Votes withheld (abstentions)
2,150,307,412	97.61	52,732,857	2.39	2,203,040,269	5,851,354

THE 2023 DIRECTORS' REMUNERATION POLICY APPROVED AT THE 2023 AGM IS AVAILABLE ON THE COMPANY'S WEBSITE AT WWW.BAESYSTEMS.COM/REMPOLICY >

The Remuneration Committee's year

January

Committee (Videoconference)

- Assessed outturn of 2023 key strategic objectives.
- Agreed 2024 key strategic objectives.
- Received an update on provisional 2023 financial performance for incentive plan purposes.
- Approved 2024 base pay increases for Executive Committee members.

February

Committee (London, UK)

- Determined 2023 bonuses for executive directors and Executive Committee members for payment in March 2024.
- Approved 2023 Group All-Employee Free Shares Plan award.
- Determined vesting outcome for 2021 long-term incentive awards.
- Approved grant of 2024 long-term incentive awards and associated performance targets.
- Approved 2023 Directors' remuneration report.

June

Committee (Washington, USA)

- Reviewed AGM voting outcomes.
- Considered market practice and internal relativities for incentive opportunity and remuneration of executive directors and other senior executives.
- Considered Remuneration policy changes to simplify and improve competitiveness.

September

Committee (Colorado, USA)

- Determined the approach for seeking shareholder feedback on proposed Remuneration policy changes.
- Noted considerations for remuneration changes for other executives.

November

Committee (West Sussex, UK)

- Received an update on gender and ethnicity pay gaps.
- Noted the performance update on annual incentive and in-flight long-term incentive awards.

December

Committee (London, UK)

- Considered shareholder feedback on Directors' Remuneration policy proposals and extended the consultations.
- Approved executive directors' base pay increases from 1 January 2025.
- Agreed the structure, weightings and financial metrics for the 2025 annual incentive plan.
- Agreed the structure, weightings and metrics for 2025 long-term incentive awards.

Directors' Remuneration Report

The Directors' Remuneration Report was approved by the Board of directors on 18 February 2025.

Nicole Piasecki
Chair, Remuneration Committee

Statutory and other regulatory information

Company registration

BAE Systems plc is a public company limited by shares registered in England and Wales with the registered number 01470151.

Directors

The directors who served during the 2024 financial year are listed on pages 69 to 71. Lord Sedwill also served during the year, retiring as a director on 10 September 2024.

Dividend

An interim dividend of 12.4p per share was paid on 2 December 2024. On 18 February, the directors proposed a final dividend of 20.6p per ordinary share. Subject to shareholder approval, the final dividend will be paid on 2 June 2025 to shareholders on the share register on 22 April 2025.

AGM

The Company's 2025 AGM is scheduled to be held on 7 May 2025.

Disclosures required under UK Listing Rule 6.6

There are no disclosures required to be made under UK Listing Rule 6.6 which have not already been disclosed elsewhere in this Report. Details of long-term incentives can be found within the Annual remuneration report on page 109 and details of dividend waivers can be found in note 26 of the Consolidated financial statements on page 196.

Office of Fair Trading undertakings

As a consequence of the merger between British Aerospace and the former Marconi Electronic Systems businesses in 1999, the Company gave certain undertakings to the Secretary of State for Trade and Industry (now the Secretary of State for Business and Trade). In February 2007, the Company was released from the majority of these undertakings and the remainder have been superseded and varied by a new set of undertakings. Compliance with the undertakings is monitored by a compliance officer. Further information regarding the undertakings and the contact details of the compliance officer may be obtained through the Company Secretary at the Company's registered office or through the Company's website.

Other information that is relevant to the Directors' report, and which is incorporated by reference into this report

Further information	Reference
Disclosures in relation to the use of financial instruments	FINANCIAL STATEMENTS PAGE 173 >
Particulars of important events affecting the Group which have occurred since 31 December 2023	CHIEF EXECUTIVE'S REVIEW PAGE 6 > SEGMENTAL REVIEW PAGE 37 >
An indication of likely future developments in the business of the Group	CHIEF EXECUTIVE'S REVIEW PAGE 6 > OUR INVESTMENT IN TECHNOLOGY PAGE 20 > SEGMENTAL REVIEW PAGE 37 >
An indication of the activities of the Group in the field of R&D	OUR BUSINESS MODEL PAGE 10 >
Actions taken to introduce, maintain or develop arrangements aimed at employees	OUR INVESTMENT IN PEOPLE AND COMMUNITIES PAGE 24 >
GHG emissions	CLIMATE AND THE ENVIRONMENT PAGE 50 >
Employee engagement (including regarding employee interests and encouraging employees to be shareholders)	OUR INVESTMENT IN PEOPLE AND COMMUNITIES PAGE 24 >
Fostering business relationships with suppliers, customers and others	OUR STAKEHOLDERS PAGE 76 >
Policy in relation to employment of disabled persons	OUR INVESTMENT IN PEOPLE AND COMMUNITIES PAGE 27 >
Details of long-term incentive schemes	DIRECTORS' REMUNERATION REPORT PAGE 109 >

Trades Unions

We have structures in place to work with Trades Union representatives in our local markets, where it is appropriate and legally acceptable. Of our UK workforce, 67% are covered by collective bargaining agreements. Approximately 55% of the UK workforce are Trades Union members. In the US, approximately 9% of the workforce is covered by a collective bargaining agreement. In Australia, approximately 20% of the workforce is covered by a collective bargaining agreement.

Profit forecast

In its Half-yearly results announcement published on 1 August 2024, the Group made the following statement in respect of the year ending 2024, which is regarded as a profit forecast for the purposes of UK Listing Rule 6.2.23 and which replaced the profit forecast made in the Company's 2023 Annual Report:

"While the Group is subject to geopolitical and other uncertainties, the Group guidance is provided on current expected operational performance. The guidance is based on the measures used to monitor the underlying financial performance of the Group.

Underlying EBIT guidance is increased by 100 bps to 12% to 14% reflecting the sales profile and strong operational performance. Underlying earnings per share guidance is increased by 100 bps to 7% to 9% aligned to underlying EBIT.

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

Guidance is provided on a constant currency basis using an exchange rate of $1.24:£1, which is in line with the actual 2023 exchange rate."

For the year ended 31 December 2024, Underlying EBIT was £3,015m and Underlying earnings per share was 68.5p.

See Financial review on page 30 for more information.

Political donations

During 2024, the Company did not: (i) make any political donations to a UK political party, other UK political organisation or any UK independent election candidate and/or incur any UK political expenditure; or (ii) make any contribution to a non-UK political party.

It remains the policy of the Company not to make any political donations or incur political expenditure within the normal understanding of those terms and the Company has no intention of altering this policy. However, the definitions of 'political donation' and 'political expenditure' within the UK Companies Act 2006 are very wide and potentially capture activities that would not be ordinarily considered to be such but form part of the Company's usual business engagement with key stakeholders and allow the Company to participate in public debate and opinion-forming on matters which affect its business. Consequently, to avoid inadvertent infringement of the UK Companies Act 2006, authority will be sought from shareholders at the 2025 AGM to make political donations and incur political expenditure up to a specified limit (as has been done in prior years).

In accordance with the US Federal Election Campaign Act, BAE Systems, Inc. provides administrative support to a federal Political Action Committee (PAC) in the US, funded by the voluntary political contributions of eligible employees. The PAC is not funded by BAE Systems, Inc. and all decisions regarding the amounts and recipients of contributions are directed by a Board of Trustees comprising employees eligible to contribute to the PAC. Contributions to political organisations reported by the PAC during 2024 totalled $559,000 (2023 $682,000).

Distributable reserves

As at 31 December 2024, the distributable reserves of the Company were £2,130m (2023 £1,993m).

Issued share capital

As at 31 December 2024, BAE Systems' issued share capital of £79,877,649 comprised 3,195,105,949 ordinary shares of 2.5p each and one Special Share of £1.

Share buyback

During the year, 43,121,336 ordinary shares of 2.5p each were repurchased under the buyback programme of up to £1.5bn announced on 28 July 2022 (which was completed on 24 July 2024) and under the buyback programme of up to £1.5bn announced on 2 August 2023 (which commenced on 25 July 2024) and such repurchased shares have been cancelled.

The total consideration for the purchase of these shares, including commission and stamp duty, was £551,833,967.

The percentage of called up share capital (excluding treasury shares) as at 31 December 2024, which the shares repurchased in 2024 represents, is 1.35%.

Treasury shares

As at 1 January 2024, the number of shares held in treasury totalled 204,041,705 (having a total nominal value of £5,101,043 and representing 6.3% of the Company's called up share capital as at 31 December 2023). During 2024, the Company used 20,367,966 treasury shares (having a total nominal value of £509,199 and representing 0.64% of the Company's called up share capital as at 31 December 2024) to satisfy awards under the Company's Free and Matching elements of the Share Incentive Plan (3,456,594 shares in aggregate), awards under the Free and Matching elements of the International Share Incentive Plan (146,495 shares in aggregate), awards vested under the Performance Shares element of the Long-Term Incentive Plan (8,200,751 shares), awards vested under the Restricted Shares element of the Long-Term Incentive Plan (1,972,692 shares) and options exercised under the Share Options element of the Long-Term Incentive Plan and Executive Share Option Plan (6,419,939 shares). The treasury shares utilised in respect of the Share Incentive Plan, the International Share Incentive Plan, and the Performance and Restricted Shares elements of the Long-Term Incentive Plan were disposed of by the Company for nil consideration. As at 31 December 2024, 183,673,739 Ordinary shares of the issued share capital were held in treasury. The 6,419,939 shares disposed of by the Company in respect of the Share Options element of the Long-Term Incentive Plan and the Executive Share Option Plan were disposed of by the Company for an aggregate consideration of £32,457,056.

Statutory and other regulatory information continued

As at 31 December 2024, the number of shares held in treasury totalled 183,673,739 (having a total nominal value of £4,591,843 and representing 5.7% of the Company's called up share capital at 31 December 2024).

The rights to treasury shares are restricted in accordance with the Companies Act and, in particular, the voting and dividend rights attaching to these shares are automatically suspended.

Rights and obligations of ordinary shares

The full rights attaching to shares are set out in the Company's Articles of Association. Currently, the voting rights of each ordinary share carry one vote at a general meeting of the Company. Subject to the relevant statutory provisions and the Company's Articles of Association, holders of ordinary shares are entitled to a dividend where declared or paid out of profits available for such purposes. Subject to the relevant statutory provisions and the Company's Articles of Association, on a return of capital on a winding-up, holders of ordinary shares are entitled, after repayment of the £1 Special Share, to participate in such a return. There are no redemption rights in relation to the ordinary shares.

Rights and obligations of the Special Share

In the interests of national security, a Special Share is held on behalf of the Secretary of State for Business and Trade (the Special Shareholder). Certain provisions of the Company's Articles of Association cannot be amended without the consent of the Special Shareholder. These provisions include the requirement that:

- no foreign person, or foreign persons acting in concert, can have more than a 15% voting interest in the Company;
- the majority of the directors (including any alternate directors) must be British citizens, British Overseas Territories citizens or British Overseas citizens by virtue of the British Nationality Act 1981 (British Citizens);
- any Chief Executive or Executive Chair must be a British Citizen; and
- if the Company has a Non-Executive Chair and a Non-Executive Deputy Chair, then one of them must be a British Citizen.

The holder of the Special Share is entitled to attend a general meeting, but the Special Share carries no right to vote or any other rights at any such meeting, other than to speak in relation to any business in respect of the Special Share. Subject to the relevant statutory provisions and the Company's Articles of Association, on a return of capital on a winding-up, the holder of the Special Share shall be entitled to repayment of the £1 capital paid up on the Special Share in priority to any repayment of capital to any other members.

The holder of the Special Share has the right to require the Company to redeem the Special Share at par or convert the Special Share into one ordinary share at any time.

Restrictions on transfer of securities

The restrictions on the transfer of shares in the Company are as follows:

- the Special Share may only be issued to, held by and transferred to the Special Shareholder or their successor or nominee;
- the directors shall not register any allotment or transfer of any shares to a foreign person, or foreign persons acting in concert, who at the time have more than a 15% voting interest in the Company, or who would, following such allotment or transfer, have such an interest;
- the directors shall not register any person as a holder of any shares unless they have received: (i) a declaration stating that upon registration, the share(s) will not be held by foreign persons or that upon registration the share(s) will be held by a foreign person or persons; (ii) such evidence (if any) as the directors may require of the authority of the signatory of the declaration; and (iii) such evidence or information (if any) as to the matters referred to in the declaration as the directors consider appropriate;
- the directors may also refuse to register any instrument of transfer of shares unless the instrument of transfer is in respect of only one class of share and it is lodged at the place where the register of members is kept, accompanied by a relevant certificate or such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer;
- the directors may refuse to register an allotment or transfer of shares in favour of more than four persons jointly;
- where a shareholder has failed to provide the Company with certain information relating to their interest in shares, the directors can, in certain circumstances, refuse to register a transfer of such shares;
- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws);
- restrictions may be imposed pursuant to the UK Listing Rules whereby certain of the Group's employees require the Company's approval to deal in shares; and
- awards of shares made under the Company's Long-Term Incentive Plan 2023, Long-Term Incentive Plan 2014, Deferred Bonus Plan, Share Incentive Plan, International Share Incentive Plan, Group All-Employee Free Shares Plan and International Profit Sharing Scheme are subject to restrictions on the transfer of shares prior to vesting and/or release.

The Company is not aware of any arrangements between its shareholders that may result in restrictions on the transfer of shares and/or voting rights.

Significant direct and indirect holders of securities

Information provided to the Company by substantial shareholders (holding voting rights of 3% or more in the Company) pursuant to the UK Disclosure Guidance and Transparency Rules (DTRs) are published via a Regulatory Information Service and is available on the Company's website. Up to 31 December 2024, the Company had been advised of the following significant direct and indirect interests in the voting rights attached to its shares:

Name of investor	Date of disclosure	Percentage of total voting rights notified[1]
BlackRock, Inc.	29 June 2021	9.90%
The Capital Group Companies, Inc.	22 August 2023	12.98%
FMR LLC[2]	29 July 2024	5.01%
Investco Limited	04 April 2017	4.97%
Silchester International Investors Limited	24 June 2011	3.01%

1. The percentage of voting rights detailed above was calculated at the time of the relevant disclosures made in accordance with Rule 5 of the DTRs.
2. On 21 October 2024, it was announced that FMR LLC had notified the Company that its holding in the Company had decreased from 5.01% to 4.96%. On 22 October 2024, FMR LLC notified the Company that, due to a processing error, the notification it provided to the Company on 21 October was incorrect and that FMR LLC's holding did not fall below the 5% threshold.

Between 31 December 2024 and 18 February 2025 (being the latest practicable date for inclusion in this report), the Company had not received any additional notifications pursuant to Rule 5 of the DTRs.

Exercise of rights of shares in employee share schemes

The trustees of the employee trusts do not seek to exercise voting rights on shares held in the employee trusts other than on the direction of the underlying beneficiaries. No voting rights are exercised in relation to shares unallocated to individual beneficiaries. The trustees of the employee trusts also waive their entitlement to receive dividends in respect of shares that are the beneficial property of the trusts.

Restrictions on voting deadlines

The notice of any general meeting shall specify the deadline for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be proposed at the general meeting. The number of proxy votes for, against or withheld in respect of each resolution are publicised on the Company's website after the meeting.

Appointment and replacement of directors

Subject to the nationality requirements outlined under Rights and obligations of the Special Share on page 196 and in the Company's Articles of Association, the Company may by ordinary resolution appoint any person to be a director.

The directors also have the power to make appointments to the Board at any time. Any individual so appointed will hold office until the next AGM and shall then be eligible for election or re-election.

The Company must have not less than six directors holding office at all times. If the number is reduced to below six, then such number of persons shall be appointed as directors as soon as is reasonably practicable to reinstate the number of directors to six. The Company may by ordinary resolution from time to time vary the minimum number of directors.

All directors will stand for election or re-election in 2025 as required by the Company's Articles of Association and in compliance with the Code.

Amendment of the Company's Articles of Association

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. Where class rights are varied, such amendments must be approved by the members of each class of shares separately.

In addition, certain provisions of the Articles of Association cannot be amended without the consent of the Special Shareholder. These provisions include the requirement that no foreign person, or foreign persons acting in concert, can have more than a 15% voting interest in the Company, the requirement that the majority of the directors are British, and the requirement that the Chief Executive or any executive Chair are British.

Powers of the directors

The directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation, and the Articles of Association.

At the 2024 AGM, the directors were given the power to buy back a maximum number of 302,815,089 ordinary shares at a minimum price of 2.5p each. The maximum price was the higher of (i) an amount equal to 105% of the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such ordinary shares are contracted to be purchased, and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange.

This power will expire at the earlier of the conclusion of the 2025 AGM or, if earlier, at the close of business on 30 June 2025. A special resolution will be proposed at the 2025 AGM to renew the Company's authority to acquire its own shares.

At the 2024 AGM, the directors were given the power to issue new shares up to a nominal amount of £25,232,067. This power will expire on the earlier of the conclusion of the 2025 AGM or, if earlier, at the close of business on 30 June 2025. Accordingly, a resolution will be proposed at the 2025 AGM to renew the Company's authority to issue further new shares.

Conflicts of interest

As permitted under the Companies Act 2006, the Company's Articles of Association contain provisions which enable the Board to authorise conflicts or potential conflicts that individual directors may have.

To avoid potential conflicts of interest the Board requires the Nominations Committee to check that any individual it nominates for appointment to the Board is free of potential conflicts. In addition, the Board's procedures and the induction programme for new directors emphasise a director's personal responsibility for complying with the duties relating to conflicts of interest. The procedure adopted by the Board for the authorisation of conflicts reminds directors of the need to consider their duties as directors and not grant an authorisation unless they believe, in good faith, that this would be likely to promote the success of the Company. As required by law, the potentially conflicted director cannot vote on an authorisation resolution or be counted in the quorum. Any authorisation granted may be terminated at any time and the director is informed of the obligation to inform the Company without delay should there be any material change in the nature of the conflict or potential conflict so authorised.

Directors' indemnities

The Company has entered into deeds of indemnity with all of its current directors and those persons who were directors for any part of 2024 which are qualifying indemnity provisions for the purpose of the Companies Act 2006.

The directors of BAE Systems Pension Funds Trustees Limited, BAE Systems 2000 Pension Plan Trustees Limited, BAE Systems Executive Pension Scheme Trustees Limited and Alvis Pension Scheme Trustees Limited benefit from indemnities in the governing documentation of the BAE Systems Pension Scheme, the BAE Systems 2000 Pension Plan, the BAE Systems Executive Pension Scheme and the Alvis Pension Scheme, respectively, which are qualifying indemnity provisions for the purpose of the Companies Act 2006.

All such indemnity provisions are in force as at the date of this Directors' report.

Statutory and other regulatory information continued

Change of control – significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination, alteration or other similar rights in the event of a change of control of the Company:

Group

- The Company, BAE Systems, Inc., BAE Systems (Holdings) Limited and BAE Systems Holdings Inc. entered into a renewed SSA, effective date of 5 January 2023, with the US Department of Defense regarding the management of BAE Systems, Inc. in order to comply with the US Government's national security requirements. In the event of a change of control of the Company, the Agreement may be terminated or altered by the US Department of Defense.
- The Company and BAE Systems Holdings Inc. have entered into a £2bn RCF dated 27 September 2023. The facility provides that, in the event of a change of control of the Company, the lenders are entitled to renegotiate terms, or if no agreement is reached on negotiated terms within a certain period, to call for the repayment or cancellation of the facility. The RCF was undrawn as at 31 December 2024.

Platforms & Services

- In May 2023, BAE Systems Hägglunds AB entered into a contract with Försvarets Materielverk and the Ministry of Defence of the Czech Republic (MoD Czech Republic) for the manufacture of 246 CV90 MkIV infantry fighting vehicles. The contract provides that any change of control of BAE Systems Hägglunds AB (or its direct or indirect holding company) is subject to the MoD Czech Republic's consent.

Air

- The Company has entered into a Restated and Amended Shareholders Agreement with European Aeronautic Defence and Space Company EADS N.V. (EADS) and Finmeccanica S.p.A. (Finmeccanica) relating to MBDA S.A.S. dated 18 December 2001 (as amended). In the event that control of the Company passes to certain specified third-party acquirors, the agreement allows EADS and Finmeccanica to exercise an option to terminate certain executive management level nomination and voting rights, and certain shareholder information rights of the Company in relation to the MBDA joint venture. Following the exercise of this option, the Company would have the right to require the other shareholders to purchase its interest in MBDA at fair market value. The Company and EADS have agreed that, if Finmeccanica acquires a controlling interest in the Company, EADS will increase its shareholding in MBDA to 50% by purchasing the appropriate number of shares in MBDA at fair market value.
- In April 2019, BAE Systems (Operations) Limited, Rolls Royce, MBDA and Leonardo entered into a contract with the UK Ministry of Defence (MoD) for the Tempest Programme to develop and mature future combat air-related technologies and concepts. Since then further contract funding has been awarded. This contract provides that where the MoD has any concerns about the actual or proposed change of control of BAE Systems (Operations) Limited (or its direct or indirect holding company), which may include, but is not limited to, such change of control having an impact on the reputation or public perception of the MOD or national security, then the MoD shall advise the contractor in writing of any concerns it may have and the MoD may terminate the contract.
- In June 2021, BAE Systems (Operations) Limited entered into a contract with the MoD for the Future Combat Air System Acquisition Programme Concept and Assessment Phase Contract to advance the concepting and technology of the next-generation Combat aircraft. In 2023, additional MoD funding of approximately £800m was awarded. This contract provides that where the MoD has any concerns about the actual or proposed change of control of BAE Systems (Operations) Limited (or its direct or indirect holding company), which may include, but is not limited to, potential threats of national security, then the MoD shall advise the contractor in writing of any concerns it may have. The MoD may terminate the contract within six months of it being notified of such actual or proposed change of control.
- In March 2022, the Hawk Integrated Support contract was entered into between BAE Systems (Operations) Limited and the MoD for the provision of support services to the Royal Air Force's fleet of Hawk fast jet trainer aircraft and the Royal Air Force Aerobatic Team aircraft. Where the MoD has any concerns about the actual or proposed change of control of BAE Systems (Operations) Limited (or its direct or indirect holding company), which may include, but is not limited to, potential threats of national security, then the MoD shall advise the contractor in writing of any concerns it may have. The MoD may terminate the contract within six months of such actual or proposed change of control.
- In December 2024, BAE Systems (Holdings) Limited entered into a joint venture agreement with Leonardo S.p.A and Japan Aircraft Industrial Enhancement Co. Ltd in connection with GCAP. If there is a change of control of the Company without the consent of the other shareholders, the agreement provides that BAE Systems (Holdings) Limited would lose its voting rights, its information rights and its right to nominate directors to the board of the GCAP joint venture company, in each case, until the change of control is reversed.

Maritime

- In December 2011, BAE Systems Marine Limited entered into a contract with the MoD for the design of the Dreadnought submarines. Where the MoD considers that a proposed change of control of BAE Systems Marine Limited (or its direct or indirect holding company) would be contrary to the defence, national interest or national security of the UK, then the change of control shall not take place until agreement is reached with the MoD on how to proceed. In the event that there is a change of control notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the contract with immediate effect.

- In November 2015, BAE Systems Marine Limited entered into a contract with the MoD for the design, construction, testing and commissioning of Boat 5 of the Astute Class programme. In March 2016, BAE Systems Marine Limited entered into a contract with the MoD for the design, construction, testing and commissioning of Boat 6 of the Astute Class Programme. In March 2018, BAE Systems Marine Limited entered into a contract with the MoD for the design, construction, testing and commissioning of Boat 7 of the Astute Class Programme. Where the MoD considers that a proposed change of control of BAE Systems Marine Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK, then the change of control shall not proceed until agreement is established with the MoD. In the event that there is a change of control notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the agreements immediately.
- In September 2016, BAE Systems Marine Limited entered into a contract with the MoD for the initial phase of manufacturing activities for the Dreadnought Class programme. This contract was extended and amended in March 2022 to include continuation of manufacturing and associated activities on all four boats in the class. Where the MoD considers that a proposed change of control of BAE Systems Marine Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK, then the change of control shall not proceed until agreement is established with the MoD. In the event that there is a change of control, notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the agreements immediately.
- In June 2017, BAE Systems Surface Ships Limited entered into a contract with the MoD for the manufacture of the first batch of three Type 26 frigates. This contract was amended and restated in November 2022 to include the manufacture of the second batch of five Type 26 frigates. Where the MoD considers that a proposed change of control of BAE Systems Surface Ships Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK or where the change of control would result in increased costs to the MoD under the contract, then the change of control shall not proceed until agreement with the MoD is established. If there is a change of control without notice or notwithstanding the objection of the MoD on such grounds, then the MoD may terminate the contract with immediate effect.
- In December 2018, BAE Systems' subsidiary, ASC Shipbuilding Pty Limited, entered into a contract providing the framework for the design and manufacture of Hunter Class frigates for the Royal Australian Navy (Head Contract). As part of the acquisition of ASC Shipbuilding Pty Limited from the Commonwealth of Australia (the Commonwealth), BAE Systems Australia Limited entered into a Sovereign Capability and Option Deed (SCOD). Under the Head Contract and the SCOD, if there is a change of control of ASC Shipbuilding Pty Limited or BAE Systems Australia Limited or, in the case of the Head Contract, there is a change of control of the Company as guarantor, consent is required from the Commonwealth prior to any change of control occurring. If there is a change of control without notice or notwithstanding an objection, the Commonwealth may terminate the Head Contract, take any action to mitigate an actual or potential threat to Australia's national security interests, or exercise its call option under the SCOD and regain ownership of ASC Shipbuilding Pty Limited.
- In November 2020, BAE Systems Global Combat Systems Munitions Limited and the MoD entered into a 15-year agreement for the provision of ammunition to UK forces (the Next Generation Munitions Solution (NGMS) agreement) from 2023 to 2037. Where the MoD has any concerns regarding a proposed change of control of BAE Systems Global Combat Systems Munitions Limited (or its direct or indirect holding company) and such concerns are not resolved, then if the change of control proceeds, the MoD may terminate the contract.
- In March 2021, BAE Systems Surface Ships Limited and the MoD entered into the FMSP Ships Engineering Management and Delivery agreement for the provision of surface ship engineering management and delivery services relating to HM Naval Base Portsmouth. Where the MoD considers that a proposed change of control of BAE Systems Surface Ships Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK, then the change of control shall not proceed until agreement with the MoD is established. If there is a change of control without notice or notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the agreement.
- In June 2021, BAE Systems Australia Limited entered into a contract providing the framework for the provision of in-service support for the Hawk aircraft until June 2031. If there is a change of control of BAE Systems Australia Limited or BAE Systems plc without consent from the Commonwealth, the Commonwealth may terminate the contract.
- In June 2023, BAE Systems Marine Limited entered into a contract with the MoD for the funding of facilities required for the SSN-AUKUS Class programme. In July 2023, BAE Systems Marine Limited entered into a contract with the MoD for the development of the design of the SSN-AUKUS Class of submarines and long lead item procurement for that programme. In each contract where the MoD considers that a proposed change of control of BAE Systems Marine Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK, then the change of control shall not proceed until agreement is established with the MoD. In the event that there is a change of control notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the agreements immediately.
- In December 2024, BAE Systems Australia Submarines Pty Ltd signed a Tasking Statement with the Commonwealth in connection with the SSN-AUKUS Pillar 1 programme. The Tasking Statement is a call-off contract from the Mobilisation Deed framework arrangement that was entered into in November 2024 between the Commonwealth, BAE Systems Australia Submarines Pty Ltd and ASC SSN-AUKUS Pty Ltd. The Tasking Statement will enable the commencement of the development of the SSN-AUKUS Pillar 1 programme foundations. If there is a change of control of BAE Systems plc without the consent of the Commonwealth, then the Commonwealth may either: (i) terminate the Enterprise Collaboration Deed/Mobilisation Deed/Tasking Statement arrangements; or (ii) agree not to terminate subject to BAE Systems Australia Submarines Pty Ltd providing further information, giving specified undertakings or entering into further agreements as may be required by the Commonwealth.

In addition, the Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

Auditor

Deloitte LLP has indicated its willingness to be re-appointed as the Company's auditor and a resolution proposing its re-appointment will be put to the 2025 AGM.

Statutory and other regulatory information continued

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report, and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable law, and have elected to prepare the parent company financial statements in accordance with UK accounting standards, including Financial Reporting Standard (FRS) 101, Reduced Disclosure Framework.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company, and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the UK;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006.

Responsibility statement of the directors in respect of the Annual Report and financial statements

Each of the directors, whose names and functions can be found on pages 69 to 71, confirms that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the undertakings included in the consolidation taken as a whole; and
- the Strategic report and Directors' report (which together comprise a management report for the purposes of DTR 4.1.8R), taken together, include a fair review of the development and performance of the business, and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, each of the directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board

Cressida Hogg
Chair

18 February 2025

The directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulation, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and regulation.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Controls over financial reporting

Through implementation of the Operational Framework, internal control procedures are in place to support the approval of the financial statements of the Group.

Management is responsible for reviewing the financial reports and disclosures to ensure that they have been subject to adequate verification and comply with applicable standards and legislation (including reviewing data for consolidation into the Group's financial statements to ensure that it gives a true and fair view of the Group's results in compliance with applicable accounting policies). Where appropriate, management reports its conclusions to the Audit and Risk Committee, which debates such conclusions and provides further challenge. Finally, the Board scrutinises and approves results announcements and the Annual Report and ensures that appropriate disclosures have been made.

This governance process ensures that both management and the Board are given sufficient opportunity to debate and challenge the financial statements of the Group and other significant disclosures before they are made public.

Statement of disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' report

This Directors' report was approved by the Board of directors of BAE Systems plc on 18 February 2025 and signed on its behalf by:

Anthony Clarke
Company Secretary

Financial statements

Auditor's report

Consolidated financial statements

Company financial statements

Group accounting policies

Material accounting policies are included within the relevant note to the Consolidated financial statements.

Independent Auditor's report
to the members of BAE Systems plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of BAE Systems plc (the "Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2024 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated income statement;
- the Consolidated statement of comprehensive income;
- the Consolidated statement of changes in equity;
- the Consolidated balance sheet;
- the Consolidated cash flow statement;
- the related notes 1 to 35 in the Consolidated financial statements;
- the Company statement of changes in equity;
- the Company balance sheet; and
- the related notes 1 to 13 in the Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the year are disclosed in note 3 to the Consolidated financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Revenue and margin recognition on long-term contracts; and
- Ball Aerospace fair value acquisition accounting.

Within this report, key audit matters are identified as follows:

! Newly identified

<> Similar level of risk

Materiality

The materiality that we used for the Group financial statements was £130m (2023 £100m) which was determined on the basis of underlying earnings before interest and taxes[1] ("underlying EBIT").

Scoping

We focused our work on 28 (2023 26) components where we performed an audit of the entire financial information or an audit on one or more classes of transactions, account balances and disclosures. These components accounted for 81% (2023 85%) of revenue, 83% (2023 85%) of profit before tax and 90% (2023 91%) of total assets.

Significant changes in our approach

Following the acquisition of Ball Aerospace in February 2024, we have identified the associated fair value acquisition accounting as a new key audit matter. We have also identified the Space & Mission Systems ("SMS") business as a newly-acquired component.

Last year, the valuation of post-employment benefit obligations was included as a key audit matter due to the significant audit effort required and the susceptibility of the defined benefit obligations to changes based on the assumptions used. The level of audit effort was impacted by the Group moving its primary investment manager to a third-party provider and the level of audit effort has reduced. On this basis, we have concluded that the valuation of post-employment benefit obligations no longer represents a key audit matter.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of the directors' process for determining the appropriateness of the going concern basis;
- evaluating the Group's existing access to sources of financing, including existing debt and undrawn committed bank facilities;
- obtaining an understanding of relevant controls over the going concern models prepared by management, including the review of the inputs and assumptions used in those models;
- testing the accuracy of management's models, including agreement to the most recent Board approved budgets and forecasts;
- challenging the key assumptions underpinning these forecasts by:
  - reading analyst reports, industry data and other external information and comparing these with management's estimates;
  - comparing forecast revenue with the Group's order book and historical performance;
  - evaluating the historical accuracy of forecasts prepared by management;
  - considering potential macro-economic impacts on the forecasts as a consequence of the current geo-political environment; and
  - assessing the sensitivity of the headroom to key assumptions; and
- assessing the appropriateness of the Group's disclosure concerning the going concern basis.

Based on the work performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, are of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Underlying EBIT is defined in the Alternative performance measurements section on page 220.

Independent Auditor's report continued

5.1. Revenue and margin recognition on long-term contracts

Refer to page 89 (Audit and Risk Committee Report), Note 1 (Preparation of the Consolidated financial statements) and Note 2 (Segmental analysis and revenue recognition)

Revenue:
£26,312m (2023 £23,078m)

Operating profit:
£2,685m (2023 £2,573m)

Key audit matter description

The estimation of both overall lifetime contract margin and the appropriate level of revenue and profit to recognise in any single accounting period requires the exercise of judgement. Within the Group's contract portfolio there are a number of programmes where there is a high degree of estimation required in reaching these judgements. Key estimates include forecast costs to complete on contracts, the impact of assumed learning efficiencies over the life of a programme, the scheduled completion dates, and the appropriateness of contingency held against the risk of future cost growth. Consequently, we consider that revenue and margin recognition represent a key audit matter.

We focussed a greater proportion of audit effort on a number of contracts where we consider there to be a higher degree of judgement required and designed contract-specific procedures to mitigate the associated risks.

In order to identify contracts where there is the greatest risk of material misstatement, we undertook a contract risk assessment process at each component utilising data analytics, the latest contract information, our understanding of the business, the results of prior audits and review of external information about market and geo-political conditions which might impact certain contracts. We held meetings with key finance and contract managers, attended quarterly business review meetings and other key management meetings, read and understood underlying contract documentation and obtained support for key contract judgements. In addition, we looked for contracts that might have higher levels of judgement associated with the risk of schedule delivery or technical complexity, fixed price contracts which increase the risk of contract losses and other indicators that could increase the risk of a material impact on the financial statements.

As a result of our risk assessment, we identified one contract where we consider there to be an elevated risk of misstatement, owing to the high degree of judgement required in estimating the trading margin position, impacting the 2024 financial statements.

How the scope of our audit responded to the key audit matter

Our contract testing approach included:

Testing the relevant controls

- We obtained an understanding of and tested relevant financial and IT controls across the Group's project accounting processes established to ensure that contracts are appropriately forecast, managed, controlled and reported.
- We observed the controls in operation by attending a sample of project contract status review meetings, quarterly business review meetings and Group-level meetings to assess the levels of challenge applied to the forecasts.

Challenging assumptions and estimates

To gain assurance over the contract judgements and estimates made, our work included:

- inspection of customer contracts – inspecting customer contracts to gain an understanding of key contractual terms;
- enquiry – making enquiries of programme management and other operational personnel to obtain an understanding of the performance of the projects throughout the year and at year-end;
- historical forecasting accuracy – evaluating historical forecasting accuracy of costs against actual costs, including on similar programmes, and challenging future cost expectations with reference to those data points;
- site visits – conducting production site visits to inform our challenge of the cost to complete estimates and understanding of contract status;
- tests of detail of costs to date and estimates to complete – testing the underlying calculations used in the contract assessments for sensitivity, accuracy and completeness, including the estimated costs to complete the contract alongside associated contingencies and testing a sample of expenditure to date. In auditing the cost to complete, we have challenged the key assumptions with reference to previous programmes and current run-rate data, resource availability, supply chain issues (such as inflation and contract delivery schedule) and other factors that could impact on contract and schedule risk;
- inspection and evaluation of external evidence – examining external evidence to assess contract status, timeframe for delivery and any variation of consideration (including associated recoverability of contract balances), such as customer correspondence. For certain contracts, this evidence was evaluated by meeting with the customer directly;
- legal – enquiring with in-house legal counsel regarding contract-related litigation and claims and analysing legal opinions where applicable; and
- stand back assessment – considering whether there were any indicators of management override of controls or bias in arriving at their reported position, including a stand back assessment of the contract position.

Key observations

As a result of the audit procedures outlined above, we consider the judgements made by the Group in recognising revenue and profit to be reasonable.

5.2. Ball Aerospace fair value acquisition accounting !

Refer to page 89 (Audit and Risk Committee report) and Note 32 (Acquisition of businesses)

Key audit matter description

In February 2024, the Group completed the acquisition of Ball Aerospace (known as Space & Mission Systems or "SMS" post-acquisition) for an aggregate purchase price of £4,352m. The purchase price was allocated to the assets acquired and liabilities assumed based on their respective fair values in accordance with IFRS 3 Business Combinations. The purchase price allocation ("PPA") assessment is complex and involves both management judgement and the use of forward-looking estimates. The key estimates in the PPA are the valuation of property, plant and equipment, intangible assets relating to customer relationships and subsequent residual goodwill. Management engaged an external expert to assist in the preparation of the PPA assessment.

Fair values recorded included property, plant and equipment of £690m and intangible assets of £2,270m, with £1,873m relating to customer relationships, and goodwill of £1,507m.

We consider this a key audit matter due to: (i) the significant judgment developing the fair value of the customer relationship intangible asset; and (ii) the audit effort involved in performing procedures and evaluating the significant assumptions related to an acquisition of this scale and complexity.

How the scope of our audit responded to the key audit matter

To respond to this key audit matter, we completed the following procedures:

- we obtained an understanding of the transaction via enquiries of management and evaluation of the signed purchase agreement;
- we assessed whether the accounting treatment applied was in accordance with the requirements of IFRS 3 Business Combinations and was consistent with the underlying terms of the purchase agreement;
- we obtained an understanding of the process adopted by management to derive the fair value acquisition accounting and the relevant controls in place;
- we critically assessed the capabilities, competence and objectivity of management's expert engaged for the PPA assessment;
- with involvement of our valuation specialists, we:
  - evaluated the reasonableness of the valuation methodologies applied and the conclusions in the report of management's expert;
  - assessed projected contract revenues and win rates used to estimate the fair value of future customer relationships;
  - evaluated the reasonableness of significant assumptions including the discount rate and long-term revenue growth rates used to estimate the present value of future customer relationships; and
  - evaluated the reasonableness of significant assumptions used to estimate the fair value of property, plant & equipment; and
- we tested the mechanical accuracy of the valuation models;
- we recalculated the measurement of goodwill based upon the consideration transferred, the assets acquired, and liabilities assumed; and
- we assessed the presentation and disclosures of the transactions including the accounting estimates.

Key observations

We consider that the judgements and estimates made in accounting for the Ball Aerospace acquisition are reasonable and that the disclosures included in Note 32 of the financial statements are appropriate.

Independent Auditor's report continued

6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	£130m (2023 £100m)	£86m (2023 £65m)
Basis for determining materiality	4.3% of underlying EBIT of £3,015m (2023 4.3% of adjusted profit before tax of £2,352m).	0.4% of total assets of £23,436m, capped at 66% of Group materiality (2023 0.4% of total assets of £18,369m capped at 65% of Group materiality).
Rationale for the benchmark applied	We have changed our materiality benchmark from adjusted profit before tax to underlying EBIT. While underlying EBIT is similar to the benchmark applied in the previous year, we consider underlying EBIT to be of greater relevance to users of the financial statements as it is a metric disclosed by management and reconciled to the financial statements within this annual report. We consider the measure suitable having also considered the other relevant benchmarks such as revenue, where our materiality equates to 0.5%, and net assets, where our materiality equates to 1.1%.	We consider total assets to be the key benchmark used by members of the Company in assessing financial position as the primary purpose of the entity is to hold investments.

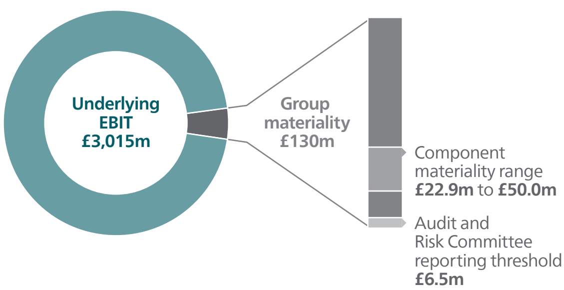
6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Company financial statements
Performance materiality	70% (2023 70%) of Group materiality	70% (2023 70%) of Company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: – the size and nature of the uncorrected misstatements identified in the prior year audit; – our assessment of the potential for uncorrected misstatements in the current year; – our risk assessment, including our assessment of the overall control environment; and – the size and nature of the contract-based significant risks of material misstatement identified.	
Component performance materiality	For components other than the Company, where our work on a component included an audit of the entire financial information or an audit on one or more classes of transactions, account balances and disclosures, this work was completed to component performance materiality levels between £22.9m and £50.0m (2023 £20.4m and £40.9m).	

6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £6.5m (2023 £5.0m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.



7. An overview of the scope of our audit

7.1. Identification and scoping of components

We performed our scoping of the Group audit by obtaining an understanding of the Group and its environment, including Group-wide controls. We developed our Group audit plan by assessing the qualitative and quantitative risk characteristics of each significant classes of transactions, account balances and disclosures. We considered the relative contribution of each component to the financial statement line items to determine which components would be subject to audit procedures.

Based on this assessment, we focused our work on 27 (2023 26) components to perform an audit of the entire financial information or an audit on one or more classes of transactions, account balances and disclosures. These components accounted for 81% (2023 85%) revenue, 83% (2023 85%) profit before tax and 90% (2023 91%) total assets.

Our calculation of revenue and total asset coverage only includes components where audit procedures are performed over the revenue and asset account balances respectively. For profit before tax ("PBT"), our coverage calculation includes those components where we perform audit procedures over the majority of balances which constitute PBT.

We engaged component auditors from the Deloitte member firms in the US, UK, Kingdom of Saudi Arabia, Sweden and Australia to perform procedures under our direction, supervision and review. This approach allowed us to engage local auditors who have appropriate knowledge of local regulations to perform the audit work, under a common Deloitte audit approach. The Company is located in the United Kingdom and audited directly by the Group audit team.

In respect of MBDA, an equity accounted investment, we engaged with the entity's non-Deloitte auditor to perform an audit of the entire financial information under our direction, supervision and review.

We centrally performed audit procedures on classes of transactions, account balances and disclosures including: treasury, post-employment benefit obligations, litigation and claims, goodwill, tax, and head office costs.

7.2. Our consideration of the control environment

In the current year, our controls approach was principally planned to inform our risk assessment and also to allow us to evaluate the operating effectiveness of certain relevant revenue and pension asset valuation controls. We also assessed relevant general IT controls.

We focussed our controls assessment on the Group's contract accounting processes. For each component where revenue is in scope, we obtained an understanding of key contract controls, such as the estimation of contract costs and the amount of contract revenue to recognise in the period, and evaluated those revenue controls relevant to our audit. At each of these components, we also evaluated contract accounting controls relating to other income statement and balance sheet account balances where they were considered relevant to our audit for risk assessment purposes.

The Group operates a range of IT systems which form a key part of the financial reporting process, and these vary by component and/or by geography. For all components where we performed an audit of the entire financial information or an audit on one or more classes of transactions, account balances and disclosures, we identified relevant IT systems for the purpose of our audit work. These were typically the principal Enterprise Resource Planning ("ERP") systems for each component that underpin the general ledger, and in some cases also included ancillary/feeder systems into the ERPs. The Group continues to invest in its IT systems and improvements have been made in response to control findings previously identified.

We also gained an understanding of the head office controls relating to central balances and processes, such as post-employment benefit obligations, consolidation and financial reporting, treasury, tax, and the Group's planning and budgeting process.

During the course of our audit, we placed reliance on a number of relevant contract accounting controls and certain valuation controls in relation to pension scheme assets. Where deficiencies have been identified and the remediation activity remained ongoing during the year, or the remediated controls were not effective throughout the whole accounting period, we did not seek to place reliance on those relevant controls for the purpose of our audit.

7.3. Our consideration of climate-related risks

We have engaged with both the central finance and sustainability functions to gain an understanding of the Group's assessment of, and the process undertaken to both identify and quantify, the Group's climate-related risks. We have engaged our climate specialists in our assessment to consider broader industry and market-wide practice.

We completed an independent climate-based risk assessment in order to consider the potential impact of climate change on the Group's financial statements incorporating both business specific knowledge and wider industry awareness. We used this to assess the completeness of the Group's identified risks. In addition, component teams have considered the local regulatory and legal environment, and therefore the likelihood of unidentified environmental claims arising. As set out by management in pages 150 and 151 to the financial statements, the areas of financial reporting principally impacted are those reliant on future forecasts or future performance, notably recoverability of goodwill.

In relation to the Group's future forecasts, we considered the appropriateness of amounts included by management in relation to climate change in the context of the underlying businesses' specific needs and existing asset base, including engaging with segment management to understand the process undertaken to identify required activities to achieve the Group's decarbonisation ambitions. We also assessed whether these disclosures reflect our understanding of the Group's approach to climate. With respect to the financial statements, we considered whether the current assessed impact of climate change required further or enhanced disclosure as part of critical accounting estimates. However, we concluded the current presentation as a factor within the estimate of goodwill, rather than a material driver of these estimates, is proportionate to the relative risk of the Group and currently assessed potential financial impact.

Independent Auditor's report continued

7.4. Working with other auditors

Our oversight of component auditors included directing the planning of their audit work and understanding their risk assessment process to identify key areas of estimates and judgement, as well as supervising the execution of their audit work. As part of our direction, we issued detailed referral instructions to the component auditors and all teams were involved in our annual planning workshop, which was led by the Group audit partner and team.

Our supervision included regular communication with all component audit teams to interact on any related audit and accounting matters that arose. Either the lead audit partner or senior members of the Group engagement team visited component teams in the UK, US, Australia, Sweden and Kingdom of Saudi Arabia. These visits were conducted during the planning and performance stages of our audit, where we supervised and reviewed their work. In addition, we performed remote reviews of the underlying audit documentation to challenge the related component inter-office reporting and findings from their work. We attended component audit closing meetings in person, or virtually where in person attendance was not possible.

The BAE Systems Inc. components in the US and components owned via BAE Systems Inc. such as Hägglunds, a Swedish subsidiary, are subject to a Department of Defence Special Security Agreement, which is a US government requirement setting out specific protocols that foreign controlled companies must comply with in order to be able to undertake government defence contracts. As part of this, there is restriction on the flow of information outside of the US. Therefore, for the US and related components there are restrictions around access to the audit files and specific workpapers for non-US nationals. As such, and consistent with previous years, we have designed alternative procedures, including involvement of an additional independent US national partner, to ensure appropriate direction, supervision and review of the US component audit team.

8. Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, internal legal counsel, internal audit, directors and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the Group's industry;
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud; and
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations, including obtaining an understanding of the Group's bribery and corruption and whistleblowing policies.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the level of judgement involved in estimating costs to complete and the subsequent impact on revenue and margin recognition on long-term contracts. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pension legislation and taxation legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty, including in respect of export controls, defence contracting and anti-bribery and corruption legislation.

11.2. Audit response to risks identified

As a result of performing the above, we identified revenue and margin recognition on long-term contracts as a key audit matter, with the greatest potential for fraud owing to the level of estimation uncertainty and management judgement. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit and Risk Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports, and reviewing correspondence with relevant regulatory authorities; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent Auditor's report continued

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 67;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 66;
- the directors' statement on fair, balanced and understandable set out on page 132;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 56;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 82; and
- the section describing the work of the Audit and Risk Committee set out on page 86.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if, in our opinion, certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit and Risk Committee, we were appointed by the members on 10 May 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is seven years covering the years ended 31 December 2018 to 31 December 2024.

15.2. Consistency of the audit report with the additional report to the Audit and Risk Committee

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.15R – DTR 4.1.18R, these financial statements will form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R. We have been engaged to provide assurance on whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R and will publicly report separately to the members on this.

Claire Faulkner
Senior Statutory Auditor

For and on behalf of
Deloitte LLP Statutory Auditor

London, United Kingdom
18 February 2025

Consolidated income statement for the year ended 31 December

	Note	2024 £m	2024 Total £m	2023 £m	2023 Total £m
Continuing operations					
Revenue	2		**26,312**		23,078
Operating costs	3		**(24,106)**		(20,917)
Other income	5		**266**		204
Share of results of equity accounted investments	13		**213**		208
Operating profit	2		**2,685**		2,573
Finance income		**135**		172	
Finance costs		**(488)**		(419)	
Net finance costs	6		**(353)**		(247)
Profit before tax			**2,332**		2,326
Tax expense	7		**(291)**		(386)
Profit for the year			**2,041**		1,940
Attributable to:					
Equity shareholders			**1,956**		1,857
Non-controlling interests			**85**		83
			2,041		1,940
Earnings per share	8				
Basic earnings per share			**64.9p**		61.3p
Diluted earnings per share			**64.1p**		60.4p

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2024 Other reserves[1] £m	2024 Retained earnings £m	2024 Total £m	2023 Other reserves[1] £m	2023 Retained earnings £m	2023 Total £m
Profit for the year		**–**	**2,041**	**2,041**	–	1,940	1,940
Other comprehensive income							
Items that will not be reclassified to the income statement:							
Consolidated:							
Remeasurements on post-employment benefit schemes	24	**–**	**414**	**414**	–	(658)	(658)
Remeasurements on other investments		**–**	**–**	**–**	–	(11)	(11)
Tax on items that will not be reclassified to the income statement	7	**–**	**(25)**	**(25)**	–	4	4
Share of the other comprehensive income/(expense) of associates and joint ventures accounted for using the equity method (net of tax)	13	**–**	**15**	**15**	–	(25)	(25)
Items that may be reclassified to the income statement:							
Consolidated:							
Currency translation on foreign currency net investments		**4**	**–**	**4**	(510)	–	(510)
Reclassification of cumulative currency translation reserve on divestment of interest in equity accounted investments and other business disposals		**3**	**–**	**3**	–	–	–
Fair value loss arising on hedging instruments during the year	15	**(36)**	**–**	**(36)**	(4)	–	(4)
Cumulative fair value loss/(gain) on hedging instruments reclassified to the income statement		**69**	**–**	**69**	(19)	–	(19)
Tax on items that may be reclassified to the income statement	7	**(7)**	**–**	**(7)**	3	–	3
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method (net of tax)	13	**4**	**–**	**4**	11	–	11
Total other comprehensive income/(expense) for the year (net of tax)		**37**	**404**	**441**	(519)	(690)	(1,209)
Total comprehensive income/(expense) for the year		**37**	**2,445**	**2,482**	(519)	1,250	731
Attributable to:							
Equity shareholders		**38**	**2,357**	**2,395**	(511)	1,175	664
Non-controlling interests		**(1)**	**88**	**87**	(8)	75	67
		37	**2,445**	**2,482**	(519)	1,250	731

1. An analysis of other reserves is provided in note 26.

Consolidated statement of changes in equity for the year ended 31 December

		Attributable to equity holders of BAE Systems plc						
	Note	Issued share capital £m	Share premium £m	Other reserves[1] £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2023		82	1,252	6,951	2,930	11,215	185	11,400
Profit for the year		–	–	–	1,857	1,857	83	1,940
Total other comprehensive expense for the year		–	–	(511)	(682)	(1,193)	(16)	(1,209)
Total comprehensive (expense)/income for the year		–	–	(511)	1,175	664	67	731
Share-based payments (inclusive of tax)	29	–	–	–	132	132	–	132
Cumulative fair value gain on hedging instruments transferred to the balance sheet (net of tax)		–	–	(38)	–	(38)	–	(38)
Ordinary share dividends	26	–	–	–	(857)	(857)	(88)	(945)
Purchase of own shares	26	(1)	–	1	(558)	(558)	–	(558)
Proceeds from unclaimed asset programme		–	1	–	–	1	–	1
At 31 December 2023		81	1,253	6,403	2,822	10,559	164	10,723
Profit for the year		**–**	**–**	**–**	**1,956**	**1,956**	**85**	**2,041**
Total other comprehensive income for the year		**–**	**–**	**38**	**401**	**439**	**2**	**441**
Total comprehensive income for the year		**–**	**–**	**38**	**2,357**	**2,395**	**87**	**2,482**
Share-based payments (inclusive of tax)	29	**–**	**–**	**–**	**145**	**145**	**–**	**145**
Cumulative fair value loss on hedging instruments transferred to the balance sheet (net of tax)		**–**	**–**	**5**	**–**	**5**	**–**	**5**
Ordinary share dividends	26	**–**	**–**	**–**	**(937)**	**(937)**	**(90)**	**(1,027)**
Purchase of own shares	26	**(1)**	**–**	**1**	**(551)**	**(551)**	**–**	**(551)**
At 31 December 2024		**80**	**1,253**	**6,447**	**3,836**	**11,616**	**161**	**11,777**

1. An analysis of other reserves is provided in note 26.

Consolidated balance sheet as at 31 December

	Note	2024 £m	2023 £m
Non-current assets			
Goodwill	9	**13,297**	11,386
Other intangible assets	10	**2,965**	713
Property, plant and equipment	11	**4,843**	3,635
Right-of-use assets	12	**1,755**	1,311
Investment property		**38**	57
Equity accounted investments	13	**823**	832
Other investments		**83**	84
Contract and other receivables	14	**734**	633
Post-employment benefit surpluses	24	**1,271**	804
Other financial assets	15	**265**	227
Deferred tax assets	16	**315**	609
	20	**26,389**	20,291
Current assets			
Inventories	17	**1,324**	1,156
Trade, contract and other receivables	14	**6,663**	6,185
Current tax	18	**176**	160
Other financial assets	15	**212**	205
Cash and cash equivalents	19	**3,378**	4,067
		11,753	11,773
Total assets		**38,142**	32,064
Non-current liabilities			
Loans	21	**(7,713)**	(4,432)
Lease liabilities	12	**(1,658)**	(1,273)
Contract liabilities	22	**(1,720)**	(1,955)
Other payables	23	**(1,859)**	(1,594)
Post-employment benefit obligations	24	**(503)**	(575)
Other financial liabilities	15	**(193)**	(227)
Deferred tax liabilities	16	**(14)**	(10)
Provisions	25	**(363)**	(332)
		(14,023)	(10,398)
Current liabilities			
Loans	21	**(699)**	(679)
Lease liabilities	12	**(183)**	(147)
Contract liabilities	22	**(4,504)**	(3,865)
Trade and other payables	23	**(6,383)**	(5,436)
Other financial liabilities	15	**(264)**	(295)
Current tax	18	**(55)**	(285)
Provisions	25	**(254)**	(236)
		(12,342)	(10,943)
Total liabilities		**(26,365)**	(21,341)
Net assets		**11,777**	10,723
Capital and reserves			
Issued share capital	26	**80**	81
Share premium		**1,253**	1,253
Other reserves	26	**6,447**	6,403
Retained earnings		**3,836**	2,822
Total equity attributable to equity holders of BAE Systems plc		**11,616**	10,559
Non-controlling interests		**161**	164
Total equity		**11,777**	10,723

Approved by the Board of directors of BAE Systems plc on 18 February 2025 and signed on its behalf by:

C N Woodburn
Chief Executive

B M Greve
Chief Financial Officer

Consolidated cash flow statement for the year ended 31 December

	Note	2024 £m	2023 £m
Profit for the year		**2,041**	1,940
Tax expense	7	**291**	386
Adjustment in respect of research and development expenditure credits	5	**(45)**	(53)
Share of results of equity accounted investments	13	**(213)**	(208)
Net finance costs	6	**353**	247
Depreciation, amortisation and impairment	3	**1,097**	787
Net loss/(gain) on disposal of property, plant and equipment, and investment property	3,5	**6**	(10)
Gain in respect of divestment of interests in equity accounted investments and other business disposals	5,33	**(94)**	–
Cost of equity-settled employee share schemes	4	**144**	110
Movement in provisions		**24**	–
Difference between pension funding contributions paid and the pension charge		**(249)**	(169)
(Increase)/decrease in working capital:			
Inventories		**(144)**	(223)
Trade, contract and other receivables		**(121)**	(287)
Trade and other payables, and contract liabilities		**1,010**	1,635
Tax paid net of research and development expenditure credits received		**(175)**	(395)
Net cash flow from operating activities		**3,925**	3,760
Dividends received from equity accounted investments	13	**158**	134
Interest received		**130**	126
Principal element of finance lease receipts		**12**	10
Purchase of property, plant and equipment, and investment property		**(990)**	(826)
Purchase of intangible assets		**(173)**	(131)
Proceeds from funding related to assets		**153**	149
Proceeds from sale of property, plant and equipment, investment property and intangible assets		**23**	19
Purchase of subsidiary undertakings, net of cash and cash equivalents acquired	32	**(4,776)**	(14)
Cash flow in respect of divestment of interests in equity accounted investments and other business disposals	33	**194**	(8)
Net cash flow from investing activities		**(5,269)**	(541)
Interest paid		**(543)**	(356)
Equity dividends paid	26	**(937)**	(857)
Purchase of own shares	26	**(555)**	(561)
Dividends paid to non-controlling interests		**(89)**	(88)
Principal element of lease payments		**(190)**	(292)
Cash inflow from derivative financial instruments (excluding cash flow hedges)		**136**	193
Cash outflow from derivative financial instruments (excluding cash flow hedges)		**(266)**	(389)
Cash inflow from bond finance/private placement		**3,753**	162
Cash outflow from repayment of bond finance		**(626)**	–
Cash inflow from draw-down of bridge loan facility		**3,180**	–
Cash outflow from repayment of bridge loan facility		**(3,168)**	–
Net cash flow from financing activities	27	**695**	(2,188)
Net (decrease)/increase in cash and cash equivalents		**(649)**	1,031
Cash and cash equivalents at 1 January		**4,067**	3,107
Effect of foreign exchange rate changes on cash and cash equivalents		**(40)**	(71)
Cash and cash equivalents at 31 December	19	**3,378**	4,067

Notes to the Consolidated financial statements

1. Preparation of the Consolidated financial statements

Basis of preparation

BAE Systems plc (the ultimate parent company) is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the parent company's registered office is shown on page 236.

Following review, the directors have concluded that it is appropriate to adopt the going concern basis for these financial statements and have not identified any material uncertainties concerning the Group's ability to do so in the 12-month period from the date of approving them. Accordingly, the Consolidated financial statements of BAE Systems plc have been prepared on a going concern basis, and in accordance with UK-adopted international accounting standards and the Companies Act 2006.

The Consolidated financial statements are presented in pounds sterling and, unless stated otherwise, rounded to the nearest million. They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments).

Transactions in foreign currencies are translated at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date, with the resulting exchange differences recognised in the Consolidated income statement.

Material accounting policies

The material accounting policies applied in the preparation of these Consolidated financial statements are set out in the relevant notes. These policies have been applied consistently to all the years presented, unless otherwise stated. The directors believe that the Consolidated financial statements reflect appropriate judgements and estimates, and provide a true and fair view of the Group's financial performance and position.

Key sources of estimation uncertainty

The application of the Group's accounting policies requires the use of estimates. In response to the potential impact of risks and uncertainties, the Group undertakes risk assessments and scenario planning in order to be able to respond to potential rapid changes in circumstances. The Group considers a range of estimates and assumptions in the application of its accounting policies and management's assessment of the carrying value of assets and liabilities. In the event that these estimates or assumptions prove to be inaccurate, there may be an adjustment to the carrying values of assets and liabilities within the next year. Areas of the Group's financial statements which could be materially impacted may include, but are not limited to:

Accounting policy	Description	Note
Revenue and profit recognition	The Group accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers. For most of the Group's contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired. The ultimate profitability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks which are reliant on the knowledge and experience of the Group's project managers, engineers, and finance and commercial professionals. Material changes in these estimates could affect the profitability of individual contracts. Revenue and cost estimates are reviewed and updated at least quarterly, or more frequently as determined by events or circumstances. The long-term nature of many of the Group's contracts means that judgements are made in estimating future costs on a contract, as well as when risks will be mitigated or retired. The impact of global supply chain issues, volatility in global energy prices, and the ongoing response to climate change, have increased uncertainty in relation to these judgements and estimates. The Group continues to work closely and collaboratively with its key customers to deliver effectively on its contracts and commitments. However, the volume, scale, complexity and long-term nature of its programmes mean that potential sensitivities would be wide-ranging and not practicable to calculate. Owing to the potential future impact of current uncertainties, the Group's estimates and assumptions related to revenue recognition could be impacted by issues such as reduced productivity as a result of operational disruption, production delays and increased costs as a result of disruption to the supply chain, changing working practices to move towards our decarbonisation ambitions or, where there is uncertainty as to the recovery from customers, of programme costs incurred. As described in the Group's accounting policy on page 152, revenue and profit is recognised only to the extent that it is highly probable that there will not be a reversal of revenue in the future. Therefore, in any given reporting year, the Group would expect to recognise an amount of revenue that did not meet the highly probable threshold at the end of the previous reporting year, but subsequently became highly probable in the current reporting year. Accordingly, the Group has recognised £0.2bn (2023 £0.3bn) of revenue in respect of performance obligations satisfied or partially satisfied in previous years. This continues to provide an approximation of the potential revenue sensitivity arising as a result of management's estimates and assumptions for variable consideration, future costs, and technical and other risks; however, it may not reflect the full potential impact on the contract receivables and contract liabilities balances.	2

Notes to the Consolidated financial statements continued

1. Preparation of the Consolidated financial statements continued

Accounting policy	Description	Note
Post-employment benefit obligations	A number of actuarial assumptions are made in assessing the value of post-employment benefit obligations, including the discount rate, inflation rate and mortality assumptions. For each of the actuarial assumptions used, there is a wide range of possible values and management estimates a point within that range that most appropriately reflects the Group's circumstances. If estimates relating to these actuarial assumptions are no longer valid, or change due to changing economic and social conditions, then the potential obligations due under these schemes could change significantly. Discount and inflation rates could change significantly as a result of a prolonged economic downturn, monetary policy decisions and interventions or other macroeconomic issues. The impact of estimates made with regard to mortality projections may also change. Similarly, the values of many assets are subject to estimates and assumptions, in particular those which are held in unquoted pooled investment vehicles. The associated fair value of these unquoted pooled investments is estimated with consideration of the most recently available valuations provided by the investment or fund managers. These valuations inherently incorporate a number of assumptions, including the impact of climate change, on the underlying investments. The overall level of estimation uncertainty in valuing these assets could therefore give rise to a material change in valuation within the next 12 months. Furthermore, estimates are required around the Group's ability to access its defined benefit surpluses, and on what basis, which then determines the associated rate of tax to apply. Depending on the outcome, judgement is then required to determine the presentation of any tax payable in recovering a surplus. Note 24 provides information on the key assumptions and analysis of their sensitivities.	24

Critical judgements made in applying accounting policies

In the course of preparing the Consolidated financial statements and when applying its accounting policies, the Group has been required to make judgements with regard to the actions required to enable the business to continue to meet customers' requirements in an operating environment still dominated by global economic uncertainties. No critical judgements have been made in the process of applying the Group's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the Consolidated financial statements.

Impact of climate on the Consolidated financial statements

In preparing the Consolidated financial statements management has considered the potential impact of climate change, both in the context of the disclosures included in the Strategic report, and the impact of climate-related risks and opportunities and the Group's decarbonisation ambitions and activities on the Group's financial results.

As a responsible defence business, sustainability is embedded in our strategic framework, with one of the Group's long-term objectives to advance and integrate our ESG agenda. The products and services we provide are complex, diverse and developed over extended periods of time. Sustainability and the impact of our operations is considered in the planning and ongoing production of our products and services, including incorporation of the impact of the Group's decarbonisation ambitions and activities. These are embedded in our financial reporting, forecasting and governance processes.

Estimates and judgement are required in determining how the Group will pursue its decarbonisation ambitions. These, as well as mitigating actions required from the detailed review of climate risks and opportunities identified within the TCFD disclosures on page 226, have been factored into the current and future plans of the Group through the Integrated Business Plan (IBP). The IBP is the Group's annual long-term strategy review and five-year plan for each segment, including the investment case to decarbonise.

There are a number of core practices and processes that support the business to remain resilient and adapt to the impacts of climate change, whilst controlling the financial impacts to the Group. These include:

- Maintenance and investment in our infrastructure – our products are designed and built to remain in service for decades to come, and require development and construction over a significant period of time. In order to deliver complex engineering and technologically advanced products, we continuously invest in the maintenance and upkeep of our global sites and facilities. The Group regularly invests in its facilities to ensure they are maintained and adapted to enable our operations. Regular maintenance and investing in Group infrastructure is embedded in our strategy, and the expected associated costs are reflected in our IBP. Insurance also provides underlying cover for more immediate and unexpected impacts of climate change.
- Investment in renewable energy – during the year, the Group has continued to contract for Power Purchase Agreements (PPAs) to invest in renewable energy, providing long-term security of energy and pricing.
- Proactive estate management – a large part of our business is based on sites that are leased to the Group, as reflected in our right-of-use assets in the Consolidated financial statements. Although some facilities, such as shipyards, are required to be in certain locations, many of our operations are not tied to a particular location. Given the long-term outlook of our business, future physical impacts of climate change could be mitigated through movement of activities on these sites to facilities that will be less impacted by climate change. As and when sites are identified that would benefit from relocation, the associated costs are reflected within the IBP. We have not currently identified any sites which require relocation due to climate change. We also use opportunities to build new infrastructure and refurbish existing buildings to upgrade energy efficiency.

The more immediate financial impacts of climate-related risks, and the actions being taken to address them, are reflected in the financial results of the Group for the year. These are not considered to have had a material impact. Areas impacted by climate-related risks and opportunities include:

- Goodwill and other intangible assets – the annual impairment review uses cash flow projections from the IBP, which incorporates any financial impact of climate-related risks and opportunities identified. This includes product repair and adaptation, as well as investment in facilities to progress the Group's decarbonisation ambitions. All Cash-Generating Units showed sufficient headroom after incorporation of climate-related costs and opportunities.

1. Preparation of the Consolidated financial statements continued

- Property, plant and equipment – the useful economic life of existing capitalised assets across the Group has been reviewed in light of any repairs, upgrades to existing infrastructure, or future investment in facilities that will be required as a result of the climate-related risks and opportunities identified across our sites. No significant impairment of assets has been identified from this review.
- Right-of-use assets, lease liabilities, and financial assets and liabilities – the Group has continued to contract for PPAs during the year to provide more sustainable energy from renewable sources. Once the projects are completed, and where the accounting for these agreements falls within the scope of IFRS 16 Leases, the relevant right-of-use assets and corresponding liabilities will be recognised in the Consolidated financial statements. The associated costs of the arrangement will be recognised in line with the term of the agreement. The Group has also considered whether any embedded derivatives have arisen, within the scope of IFRS 9 Financial Instruments, as a result of the PPAs entered into during the year. None are considered to exist at the balance sheet date; however, this will continue to be monitored as the associated contractual arrangements are refined and the construction of the facilities approaches completion.
- Pension plans – in assessing the value of pension assets for the UK schemes, the Group has considered the impact of climate change which is incorporated into the cash flow projections used in valuing infrastructure investment assets and pooled investment vehicle cash flows upon which the Group bases its assessment. There is also alignment between the UK Main Scheme and the Group's climate change objectives with consistent long-term decarbonisation ambitions. This has not materially impacted the Group's net pension position during the year.
- Deferred tax assets – the recoverability of deferred tax assets is dependent on the future availability of profits, which in turn could be impacted by climate-related matters. The recoverability of deferred tax assets has been reviewed against the Group's future forecasts resulting from the IBP process, which incorporate identified climate-related risks and opportunities. No material risk to the recoverability of deferred tax assets has been identified.
- Share-based payments – the award of Performance Shares within the Director's Long-Term Incentive framework has a 10% weighting based on the reduction of Group GHG emissions (Scope 1 and 2) aligned to a science-based pathway. The ability to meet this target will impact the amount and timing of any share-based payments over the term of the policy. This condition has not materially impacted the financial results of the Group for the current year.

Changes in accounting policies

The following standards, interpretations and amendments to existing standards became effective on 1 January 2024 and have not had a material impact on the Group:

- Amendments to IAS 1: Classification of Liabilities as Current or Non-current;
- Amendments to IAS 1: Non-current Liabilities with Covenants;
- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements; and
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2024. These either have been, or are expected to be, endorsed by the UK Endorsement Board and are not expected to have a material impact on the Group:

- Amendments to IAS 21: Lack of Exchangeability, effective from 1 January 2025;
- Amendments to IFRS 9 and IFRS 7: Amendments to the Classification and Measurement of Financial Instruments, effective from 1 January 2026;
- Amendments to IFRS 9 and IFRS 7: Contracts Referencing Nature-dependent Electricity, effective from 1 January 2026;
- Annual Improvements to IFRS Accounting Standards – Volume 11, effective from 1 January 2026;
- IFRS 19 Subsidiaries without Public Accountability: Disclosures, effective from 1 January 2027; and
- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or joint venture.

The following new standard is expected to change the presentation of the Consolidated financial statements:

- IFRS 18 Presentation and Disclosure in Financial Statements, effective from 1 January 2027.

Consolidation

The financial statements of the Group consolidate the results of the Company and its subsidiary entities, and include its share of results of investments accounted for under the equity method.

A subsidiary is an entity controlled by the Group. The Group controls a subsidiary when it is exposed, or has the rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The results of subsidiaries are included in the Consolidated income statement from the date of acquisition, or up until the date of disposal.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated financial statements.

Joint ventures and investments in associated undertakings are accounted for under the equity method and the Consolidated income statement includes the Group's share of their profits and losses, the Consolidated statement of comprehensive income includes its share of their other comprehensive income and expense, and the Consolidated balance sheet includes its share of their net assets within equity accounted investments.

The assets and liabilities of overseas subsidiaries and equity accounted investments are translated at the exchange rates ruling at the balance sheet date. The Consolidated income statements of such entities are translated at average rates of exchange during the year. All resulting exchange differences are recognised directly in a separate component of equity. Translation differences that arose before the transition date to IFRS (1 January 2004) are presented in equity, but not as a separate component. When a foreign operation is sold, the cumulative exchange differences recognised in equity since 1 January 2004 are recognised in the Consolidated income statement as part of the profit or loss on sale.

Notes to the Consolidated financial statements continued

2. Segmental analysis and revenue recognition

Revenue and profit recognition

Revenue represents income derived from contracts for the provision of goods and services, over time or at a point in time, by the Group to customers in exchange for consideration in the ordinary course of the Group's activities.

The Group accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers. For most of the Group's contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired.

The ultimate profitability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks which are reliant on the knowledge and experience of the Group's project managers, engineers, and finance and commercial professionals. Revenue and cost estimates are reviewed and updated at least quarterly, or more frequently as determined by events and circumstances.

The Group typically enters into the following types of contracts with customers:

- to design, build or create assets uniquely available to the customer such as ships, aircraft and spacecraft;
- to service or maintain assets over a period of time;
- to give access to software and licences; and
- to offer bespoke services to customers, for example through training or the offering of cyber, intelligence and security capabilities.

Revenue is recognised against each of these types of contracts in line with the following accounting policies.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

In some cases, the Group provides warranties to its customers to give them assurance that its products and services will function in line with agreed-upon specifications. Warranties are not provided separately and, therefore, do not represent separate performance obligations. As they are not provided separately, they are not considered to be insurance contracts in scope of IFRS 17 Insurance Contracts. A provision for warranties is recognised when the underlying products and services are sold (see note 25 for further details).

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as variable price mechanisms, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the Group's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are typically no observable stand-alone selling prices. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin consistent with the Group's pricing principles.

Whilst payment terms vary from contract to contract, on many of the Group's contracts, an element of the transaction price is received in advance of delivery. When cash is received in advance of goods or services being delivered a contract liability is recognised. The Group therefore has significant contract liabilities (note 22). The Group's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price. UK Ministry of Defence contracting rules prohibit the inclusion of financing in the sales price. Negotiations on competitive international export contracts do not make allowance for the cash payment profile.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied and control of the goods and services is transferred to the customer.

For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

The Group has determined that most of its contracts satisfy the over-time criteria, either because the customer simultaneously receives and consumes the benefits provided by the Group's performance as it is performed (typically services or support contracts, for example in the case of ongoing maintenance and support of aircraft and flying capability), or the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date (typically development or production contracts, such as in the production of ships or aircraft to customers' unique specifications).

2. Segmental analysis and revenue recognition continued

For each performance obligation to be recognised over time the Group recognises revenue using an input method, based on costs incurred in the year. Revenue and attributable margin are calculated by reference to reliable estimates of the transaction price and total expected costs, after making suitable allowances for technical and other risks including the impact of global economic uncertainties and climate change. Revenue and associated margin are therefore recognised progressively as costs are incurred and as risks have been mitigated or retired. The Group has determined that this method appropriately depicts the Group's performance in transferring control of the goods and services to the customer.

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

When it is probable that total contract costs will exceed total contract revenue the expected loss is recognised immediately as an expense.

Software licences

The Group sells software licences either separately or together with other goods and services, including computer hardware and implementation, hosting and support. Revenue recognition in respect of software licences sold as part of a bundle of goods and services is considered separately when the licence is determined to be a separate performance obligation. Software licences either represent a right to access the Group's intellectual property as it exists throughout the licence period or a right to use the Group's intellectual property as it exists at the point in time at which the licence is granted. Revenue in respect of a right to access licence is recognised over the licence term or, in relation to perpetual licences, over the related customer relationship. Revenue in respect of a right-to-use licence is recognised on delivery of the software to the customer or, if the customer chooses not to access and take delivery of the software, on expiry of the licence arrangement. A software licence is considered to be a right to access the Group's intellectual property as it exists throughout the licence period if all of the following criteria are satisfied:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property;
- the licence directly exposes the customer to the effects of those activities; and
- those activities do not result in the transfer of a good or service to the customer.

Contract modifications

The Group's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing, or creates newly enforceable, rights and obligations. The effect of a contract modification on the transaction price, and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates, is recognised in one of the following ways:

1. prospectively, as an additional, separate contract;
2. prospectively, as a termination of the existing contract and creation of a new contract; or
3. as part of the original contract using a cumulative catch-up.

The majority of the Group's contract modifications are treated under either 1 (for example, the requirement for additional distinct goods or services) or 3 (eg a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary and may result in different accounting outcomes.

Costs to obtain a contract

The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded, such as sales commission.

Costs to fulfil a contract

Contract fulfilment costs in respect of over-time contracts are expensed as incurred. Contract fulfilment costs in respect of point in time contracts are accounted for under IAS 2 Inventories.

Reporting segments

The Group has five sectors which, together with HQ, make its six reporting segments as defined by IFRS 8 Operating Segments. The SMS business, which was acquired in February 2024, has been reported within the pre-existing Electronic Systems reporting segment. SMS has been combined with the existing Electronic Systems business due to the similarities in services and products offered, being the provision of advanced defence electronic solutions such as tactical missile and munition subsystems, C4ISR, and civil and military space electronics.

- Electronic Systems comprises the US- and UK-based electronics solutions business and the US-based SMS business. The teams deliver electronic warfare systems, navigation systems, electro-optical sensors, military and commercial digital engine and flight controls, precision guidance and seeker solutions, next-generation military communications systems and data links, persistent surveillance capabilities, electric drive propulsion systems as well as space electronics, spacecraft and ground systems.
- Platforms & Services, with operations in the US, Sweden and UK, manufactures and upgrades combat vehicles, weapons and munitions, and delivers services and sustainment activities, including naval ship repair, and the management and operation of two government-owned contractor-operated ammunition plants.
- Air comprises the Group's UK-based air build and support activities for European and international markets, US programmes, development of our Future Combat Air System and FalconWorks®, alongside our business in the Kingdom of Saudi Arabia and interests in our European joint ventures: Eurofighter and MBDA.

Notes to the Consolidated financial statements continued

2. Segmental analysis and revenue recognition continued

Reporting segments continued

- **Maritime** comprises the Group's UK-based maritime and land activities, including ship build and support activities, major submarine build programmes, as well as our Australian business.
- **Cyber & Intelligence** comprises the US-based Intelligence & Security business and UK-headquartered Digital Intelligence business, which have been aggregated together due to the similarities of the services offered. Together, they cover the Group's cyber security activities for national security, central government and government enterprises.
- **HQ** comprises the Group's head office and UK-based shared services activities.

The Board (the chief operating decision maker as defined by IFRS 8 Operating Segments) monitors the results of these reporting segments to assess performance and make decisions about the allocation of resources. Segmental performance is evaluated based on key performance indicators – sales[1] and underlying EBIT[2]. Net finance costs and tax expense are managed on a Group basis.

Revenue and sales[1] by reporting segment

	Revenue		Deduct: Sales to equity accounted investments		Add back: Share of sales by equity accounted investments		Sales[1]	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Electronic Systems	**7,186**	5,456	**(258)**	(253)	**261**	255	**7,189**	5,458
Platforms & Services	**4,344**	3,842	**–**	–	**46**	80	**4,390**	3,922
Air	**6,880**	6,517	**(1,413)**	(1,405)	**3,052**	2,946	**8,519**	8,058
Maritime	**6,002**	5,391	**(6)**	(5)	**191**	150	**6,187**	5,536
Cyber & Intelligence	**2,411**	2,321	**–**	–	**–**	–	**2,411**	2,321
HQ	**24**	10	**–**	–	**179**	461	**203**	471
	26,847	23,537	**(1,677)**	(1,663)	**3,729**	3,892	**28,899**	25,766
Intra-group revenue/sales	**(535)**	(459)	**(29)**	(23)	**–**	–	**(564)**	(482)
	26,312	23,078	**(1,706)**	(1,686)	**3,729**	3,892	**28,335**	25,284

	Revenue from external customers		Intra-group revenue	
	2024 £m	2023 £m	**2024 £m**	2023 £m
Electronic Systems	**6,988**	5,299	**198**	157
Platforms & Services	**4,288**	3,796	**56**	46
Air	**6,840**	6,484	**40**	33
Maritime	**5,915**	5,305	**87**	86
Cyber & Intelligence	**2,271**	2,194	**140**	127
HQ	**10**	–	**14**	10
	26,312	23,078	**535**	459

Revenue and sales[1] by customer location

	Revenue		Sales[1]	
	2024 £m	2023 £m	**2024 £m**	2023 £m
UK	**7,039**	6,102	**7,439**	6,629
Europe (excluding UK)	**1,733**	1,533	**2,842**	2,706
US	**12,559**	10,700	**12,536**	10,672
Canada	**189**	177	**189**	177
Kingdom of Saudi Arabia	**2,892**	2,687	**2,962**	2,688
Qatar	**259**	450	**468**	711
Australia	**1,158**	943	**1,170**	949
Asia and Pacific (excluding Australia)	**354**	264	**455**	421
Other	**129**	222	**274**	331
	26,312	23,078	**28,335**	25,284

2. Segmental analysis and revenue recognition continued

Revenue by major customer

Revenue from the Group's three principal customers, which individually represent over 10% of total revenue, is as follows:

	2024 £m	2023 £m
US Department of Defense	**8,189**	7,518
UK Ministry of Defence	**6,478**	5,766
Kingdom of Saudi Arabia Ministry of Defense	**2,810**	2,607

Revenue from the UK Ministry of Defence and the US Department of Defense was generated by the five reporting segments, excluding HQ. Revenue from the Kingdom of Saudi Arabia Ministry of Defense was generated by the Air segment.

Operating profit/(loss) by reporting segment

	Operating profit/(loss)		Finance and tax expense/(income) of equity accounted investments		Amortisation of programme, customer-related and other intangible assets, and impairment of equity accounted investments and intangible assets		Adjusting items		Underlying EBIT[2]	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Electronic Systems	**708**	806	**–**	–	**307**	93	**56**	(21)	**1,071**	878
Platforms & Services	**456**	373	**9**	2	**–**	–	**(17)**	(21)	**448**	354
Air	**1,009**	948	**(14)**	1	**10**	–	**2**	–	**1,007**	949
Maritime	**465**	423	**4**	2	**5**	–	**–**	–	**474**	425
Cyber & Intelligence	**182**	179	**–**	–	**22**	20	**(5)**	–	**199**	199
HQ	**(135)**	(156)	**10**	28	**–**	3	**(59)**	2	**(184)**	(123)
Operating profit	**2,685**	2,573	**9**	33	**344**	116	**(23)**	(40)	**3,015**	2,682
Net finance costs	**(353)**	(247)								
Profit before tax	**2,332**	2,326								
Tax expense	**(291)**	(386)								
Profit for the year	**2,041**	1,940								

1. Sales is an alternative performance measure defined in the Alternative performance measures section on page 220. Sales includes revenue from the Group's subsidiaries as well as the Group's share of revenue of equity accounted investments, recognising the strategic importance in its industry of its equity accounted investments. It is presented here as our internal measure of segmental performance and to provide additional information on performance to the user.
2. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 220. It provides a measure of operating profitability, excluding one-off events or adjusting items that are not considered to be part of the ongoing operational transactions of the business, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group. It is presented here as our internal measure of segmental performance and to provide additional information on performance to the user.

Notes to the Consolidated financial statements continued

2. Segmental analysis and revenue recognition continued

Adjusting items

Adjusting items are items of financial performance which have been determined by management as being material by their size or incidence and not relevant to an understanding of the Group's underlying business performance. Adjusting items include profit or loss on business transactions, the impact of substantively enacted tax rate changes, and costs incurred which are one-off in nature, for example non-routine costs or income relating to post-retirement benefit schemes, and other items which management has determined as not being relevant to an understanding of the Group's underlying business performance.

2024

Adjusting items in 2024 totalled a net gain of £23m. This comprised a net profit on disposal of a number of business of £94m, the most significant being the partial disposal of the Group's partial shareholding in Air Astana which generated a profit of £75m. In addition, we recognised a settlement gain of £13m on a US pension buy-out. This was offset by £72m of acquisition and integration-related costs, primarily in relation to Ball Aerospace, and £12m of other charges related to historical transactions.

2023

Adjusting items in 2023 comprises a £60m settlement gain on a US pension annuity buy-out recognised within Electronic Systems, Platforms & Services and Cyber & Intelligence, partially offset by £13m costs related to the Ball Aerospace acquisition in Electronic Systems, and £7m related to current and historical business acquisitions in Cyber & Intelligence and HQ.

Performance obligations

The Group's order book, which represents its unsatisfied performance obligations, as at 31 December 2024 was £60.4bn (2023 £58.0bn).

The Group expects that approximately 35% (2023 34%) of the order book will be recognised as revenue during the next year, with the remainder largely recognised over the following four (2023 four) years.

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on costs incurred in the year. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method appropriately depicts the Group's performance in transferring control of the goods and services to the customer. Accordingly, revenue of £0.2bn (2023 £0.3bn) was recognised during the year in respect of performance obligations satisfied or partially satisfied in previous years.

3. Operating costs

Research and development

The Group undertakes research and development activities either on its own behalf or on behalf of customers, including research and development expenditure in relation to the Group's Sustainability Accelerator Fund.

Group-funded expenditure on research, and on development activities not meeting the conditions for capitalisation, is written off as incurred and charged to the Consolidated income statement.

	Note	**2024 £m**	2023 £m
Inventories recognised as an expense		**9,085**	7,873
Staff costs	4	**9,252**	8,091
Depreciation		**663**	564
Amortisation	10	**422**	218
Impairment – intangible assets	10	**6**	5
Impairment – property, plant and equipment	11	**6**	–
Acquisition and integration-related costs	32	**72**	20
Loss on disposal of property, plant and equipment, and investment property		**18**	1
Other operating charges		**4,582**	4,145
Operating costs		**24,106**	20,917

Operating costs includes research and development expenditure of £357m (2023 £274m) funded by the Group. Development investment of £8m (2023 £8m) was capitalised during the year (see note 10).

Fees payable to the Company's auditor and its associates included in operating costs

	2024			2023		
	UK £'000	**Overseas £'000**	**Total £'000**	UK £'000	Overseas £'000	Total £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	**3,145**	**–**	**3,145**	3,043	–	3,043
Fees payable to the Company's auditor and its associates for other services to the Group:						
The audit of the Company's subsidiaries	**5,579**	**8,578**	**14,157**	5,444	6,953	12,397
Total audit fees	**8,724**	**8,578**	**17,302**	8,487	6,953	15,440
Audit-related assurance services[1]	**1,405**	**4**	**1,409**	1,281	52	1,333
Other non-audit services	**1**	**–**	**1**	13	–	13
Total non-audit fees[2]	**1,406**	**4**	**1,410**	1,294	52	1,346
Total fees payable to the Company's auditor and its associates	**10,130**	**8,582**	**18,712**	9,781	7,005	16,786

1. Audit-related assurance services principally comprises fees in respect of the review of the Group's Half-yearly report, along with European Single Electronic Format (ESEF) controls and ESG assurance work.
2. In addition to the amounts shown above, the auditor received fees of £500k (2023 £518k) for the audit of the BAE Systems UK pension schemes and £392k (2023 £423k) for the audit of BAE Systems US pension schemes.

Notes to the Consolidated financial statements continued

4. Employees

The average and year-end numbers of Group employees, excluding employees of equity accounted investments, were as follows:

	Average		At year end	
	2024 Number '000	2023 Number '000	**2024 Number '000**	2023 Number '000
Electronic Systems	**22**	17	**22**	18
Platforms & Services	**12**	12	**12**	12
Air	**21**	20	**21**	20
Maritime	**28**	26	**30**	28
Cyber & Intelligence	**11**	11	**11**	11
HQ	**3**	3	**4**	3
	97	89	**100**	92

The aggregate staff costs of Group employees, excluding employees of equity accounted investments, were as follows:

	Note	**2024 £m**	2023 £m
Wages and salaries		**7,999**	6,983
Social security costs		**615**	536
Share-based payments	29	**144**	110
Pension costs – defined contribution plans	24	**334**	309
Pension costs – defined benefit plans	24	**133**	128
Other post-employment benefit costs	24	**27**	25
		9,252	8,091

5. Other income

	Note	**2024 £m**	2023 £m
Research and development expenditure credits		**45**	53
Operating lease income from investment property		**1**	3
Operating lease income from subleasing right-of-use assets		**–**	1
Gain on divestment of interest in equity accounted investments and other business disposals	33	**94**	–
Profit on disposal of investment property		**12**	11
Management recharges to equity accounted investments	30	**3**	8
Royalties		**31**	28
Pensions settlement gain	24	**13**	60
Other		**67**	40
Other income		**266**	204

6. Net finance costs

Finance income and finance costs

Finance income and finance costs are recognised in the Consolidated income statement in the year in which they are incurred.

	Note	2024 £m	2023 £m
Interest income on cash and other financial instruments		**116**	130
Interest income on finance lease receivables	12	**1**	1
Net interest income on post-employment benefit obligations	24	**18**	41
Finance income		**135**	172
Interest expense on loans and other financial instruments		**(482)**	(286)
Facility fees		**(4)**	(14)
Interest expense on lease liabilities	12	**(73)**	(53)
Net present value expenses on provisions and other payables		**(13)**	(9)
Loss on remeasurement of financial instruments at fair value through profit or loss[1,2]		**(6)**	(267)
Foreign exchange gains[2,3]		**90**	210
Finance costs		**(488)**	(419)
Net finance costs		**(353)**	(247)

1. Comprises gains and losses on derivative financial instruments, principally held to manage the Group's exposure to interest rate fluctuations on current and anticipated external borrowings and exchange rate fluctuations on balances with the Group's subsidiaries and equity accounted investments.
2. The net gain or loss on remeasurement of financial instruments at fair value through profit or loss and the net gain or loss on foreign exchange are presented within finance costs as the gains and losses relate to the same underlying transactions.
3. Foreign exchange gains reflects exchange rate movements on US dollar-denominated borrowings and balances with the Group's subsidiaries and equity accounted investments.

7. Tax expense

Income tax expense comprises current and deferred tax. Current and deferred tax is recognised in the Consolidated income statement, except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is not recognised for temporary differences:

- on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, except for transactions giving rise to equal taxable and deductible temporary differences, or to temporary differences associated with right-of-use assets and lease liabilities;
- related to investments in subsidiaries and equity accounted investments to the extent that it is probable that they will not reverse in the foreseeable future; and
- arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The Group's underlying effective tax rate is sensitive to the geographic mix of profits and is impacted by the UK's enactment of the Organisation for Economic Co-operation and Development's Global Anti-Base Erosion Model Rules (Global Minimum Tax) effective from 1 January 2024. The Group has applied the temporary exception issued by the International Accounting Standards Board from the accounting requirements for deferred taxes in IAS 12. Accordingly, the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Global Minimum Tax income taxes.

Notes to the Consolidated financial statements continued

7. Tax expense continued

Tax expense

	2024 £m	2023 £m
Current tax		
UK:		
Current year	**(157)**	(103)
Adjustments in respect of prior years	**27**	(8)
	(130)	(111)
Overseas:		
Current year	**(230)**	(477)
Adjustments in respect of prior years	**292**	(132)
	62	(609)
Total current tax	**(68)**	(720)
Deferred tax		
UK:		
Origination and reversal of temporary differences	**(19)**	(11)
Adjustments in respect of prior years	**8**	(13)
Tax rate adjustment	**–**	1
	(11)	(23)
Overseas:		
Origination and reversal of temporary differences	**43**	228
Adjustments in respect of prior years	**(255)**	129
	(212)	357
Total deferred tax	**(223)**	334
Tax expense	**(291)**	(386)
UK	**(141)**	(134)
Overseas	**(150)**	(252)
Tax expense	**(291)**	(386)

Reconciliation of tax expense

The following table reconciles the theoretical income tax expense, using the UK corporation tax rate, to the reported tax expense. The UK corporation tax rate increased from 19% to 25% with effect from 1 April 2023. A blended rate of 23.5% is used in the prior year comparative column below to reflect this change. The reconciling items represent, besides the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from differences between the local tax base and the reported financial statements.

	2024 £m	2023 £m
Profit before tax	**2,332**	2,326
UK corporation tax rate	**25.0%**	23.5%
Expected income tax expense	**(583)**	(547)
Effect of tax rates in foreign jurisdictions, including US state taxes	**3**	(7)
Expenses not tax effected	**(12)**	(19)
Income not subject to tax	**162**	125
Research and development tax credits	**38**	22
Adjustments in respect of prior years	**72**	(24)
Adjustments in respect of equity accounted investments	**55**	48
Tax rate adjustment	**–**	1
Other	**(26)**	15
Tax expense	**(291)**	(386)

7. Tax expense continued

Tax recognised in other comprehensive income

	2024			2023		
	Before tax £m	**Tax (expense)/ benefit £m**	**Net of tax £m**	Before tax £m	Tax benefit/ (expense) £m	Net of tax £m
Items that will not be reclassified to the income statement:						
Consolidated:						
Remeasurements on post-employment benefit schemes	**414**	**(25)**	**389**	(658)	4	(654)
Remeasurement of other investments	**–**	**–**	**–**	(11)	–	(11)
Share of the other comprehensive income/(expense) of associates and joint ventures accounted for using the equity method	**16**	**(1)**	**15**	(25)	–	(25)
Items that may be reclassified to the income statement:						
Consolidated:						
Currency translation on foreign currency net investments	**4**	**–**	**4**	(510)	–	(510)
Reclassification of cumulative currency translation reserve on divestment of interest in equity accounted investments and other business disposals	**3**	**–**	**3**	–	–	–
Fair value loss arising on hedging instruments during the year	**(36)**	**8**	**(28)**	(4)	1	(3)
Cumulative fair value loss/(gain) on hedging instruments reclassified to the income statement	**69**	**(15)**	**54**	(19)	2	(17)
Share of the other comprehensive income/(expense) of associates and joint ventures accounted for using the equity method	**4**	**–**	**4**	12	(1)	11
	474	**(33)**	**441**	(1,215)	6	(1,209)

	2024			2023		
	Other reserves £m	**Retained earnings £m**	**Total £m**	Other reserves £m	Retained earnings £m	Total £m
Current tax						
Consolidated:						
Remeasurements on post-employment benefit schemes and other investments	**–**	**11**	**11**	–	76	76
	–	**11**	**11**	–	76	76
Deferred tax						
Consolidated:						
Remeasurements on post-employment benefit schemes and other investments	**–**	**(36)**	**(36)**	–	(72)	(72)
Fair value loss arising on hedging instruments during the year	**8**	**–**	**8**	1	–	1
Cumulative fair value (loss)/gain on hedging instruments reclassified to the income statement	**(15)**	**–**	**(15)**	2	–	2
Share of the other comprehensive income of associates and joint ventures accounted for using the equity method	**–**	**(1)**	**(1)**	(1)	–	(1)
	(7)	**(37)**	**(44)**	2	(72)	(70)
Tax on other comprehensive (income)/expense	**(7)**	**(26)**	**(33)**	2	4	6

Notes to the Consolidated financial statements continued

8. Earnings per share

The number of ordinary shares outstanding at the start of the year is calculated by taking the total number of ordinary shares in issue, less treasury shares and shares held in trust which are contingently returnable (i.e. where the performance conditions attached to those shares have not been met, excluding the passage of time). The weighted average number of ordinary shares purchased, issued or released is calculated by reference to the day on which each transaction occurred.

The weighted average number of ordinary shares used in calculating earnings per share is the number of ordinary shares outstanding at the start of the year, less the weighted average number of shares repurchased, plus the weighted average number of shares issued within the year (including those issued from treasury), and those shares held in trust that are no longer contingently returnable (i.e. all performance conditions attached to them are met, excluding the passage of time).

The weighted average number of ordinary shares used in calculating diluted earnings per share is the weighted average number of ordinary shares outstanding, plus the number of ordinary shares which are considered potentially dilutive ordinary shares in respect of share incentive schemes, should the vesting conditions have been met as at the year end.

Movement in shares for the purpose of calculating earnings per share	Ordinary shares millions	Treasury shares millions	Contingently returnable shares held in trust millions	Outstanding shares for purpose of earnings per share millions	Weighted average share movement in the year millions
At 1 January 2023	3,297	(220)	(22)	3,055	
Ordinary shares repurchased in the year	(58)	–	–	(58)	(38)
Net shares issued in the year	–	16	2	18	14
At 31 December 2023	3,239	(204)	(20)	3,015	
Ordinary shares repurchased in the year	(44)	–	–	(44)	(20)
Net shares issued in the year	–	20	5	25	18
At 31 December 2024	**3,195**	**(184)**	**(15)**	**2,996**	

	2024 Number of shares millions	2023 Number of shares millions
Outstanding shares for purpose of earnings per share at 1 January	**3,015**	3,055
Average ordinary shares repurchased in the year	**(20)**	(38)
Average ordinary shares issued in the year (net)	**18**	14
Weighted average shares for the purpose of calculating basic earnings per share at 31 December	**3,013**	3,031
Incremental ordinary shares in respect of employee share schemes	**40**	41
Weighted average shares for the purpose of calculating diluted earnings per share at 31 December	**3,053**	3,072

	2024	2023
Profit for the year attributable to equity shareholders (£m)	**1,956**	1,857
Basic earnings per share (pence)	**64.9**	61.3
Diluted earnings per share (pence)	**64.1**	60.4

9. Goodwill

Under the acquisition method for business combinations, goodwill is the acquisition-date fair value of the consideration transferred, less the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed. On acquisition of joint ventures and associates, goodwill is included in the carrying value of equity accounted investments. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is not amortised, but is tested annually for impairment, and carried at cost less accumulated impairment losses.

Impairment

Goodwill is tested annually for impairment as required by IAS 36 Impairment of Assets. For the purposes of impairment testing, goodwill is allocated to Cash-Generating Units (CGUs), or a group of CGUs on a consistent basis. The impairment calculations require the use of estimates of the future profitability and cash-generating ability of the CGU to determine its value in use based on the Group's five-year IBP and the pre-tax discount rate used in discounting these projected cash flows.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount, which is the greater of its value in use and its fair value less cost of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses are recognised in the Consolidated income statement. An impairment loss in respect of goodwill is not reversed.

	Note	Goodwill £m
Cost or valuation		
At 1 January 2023		16,593
Business acquisitions		3
Foreign exchange adjustments		(545)
At 31 December 2023		16,051
Business acquisitions	32	1,812
Business disposals		(3)
Foreign exchange adjustments		128
At 31 December 2024		**17,988**
Impairment		
At 1 January 2023		4,774
Foreign exchange adjustments		(109)
At 31 December 2023		4,665
Foreign exchange adjustments		26
At 31 December 2024		**4,691**
Net book value		
At 31 December 2024		**13,297**
At 31 December 2023		11,386
At 1 January 2023		11,819

Notes to the Consolidated financial statements continued

9. Goodwill continued

Impairment testing

The recoverable amount of the Group's goodwill is based on value in use, estimated using risk-adjusted future cash flow projections from the five-year IBP and a terminal value based on the projections for the final year of that plan, with long-term growth rates between 1.0% and 3.8% (2023 2.0%) applied across each significant group of CGUs. The IBP process includes the use of historical experience, available government spending data and the Group's order backlog, as well as the impact of evolving issues such as global economic uncertainty and climate change. Pre-tax discount rates have been used in discounting the projected risk-adjusted cash flows and are adjusted for other factors specific to each CGU, such as the territory and market in which they operate.

Significant CGUs

A summary of the significant CGUs is presented below.

		Allocated goodwill		Pre-tax discount rate	
Cash-Generating Unit	Key assumptions	**2024 £bn**	2023 £bn	**2024 %**	2023 %
Electronic Systems (excluding Space & Mission Systems)	Continued demand from the US Government for electronic warfare systems (where the business has a leadership position), other technology-based solutions and growth in the commercial avionics market.	**5.1**	5.0	**9**	9
Space & Mission Systems	Continued demand from the US Government, US Intelligence Community and civilian space agencies for capabilities in the design, build and operation of satellites and satellite systems, space electronics and instrument payloads.	**1.5**	n/a	**8**	n/a
Platforms & Services	Continued demand in the Group's principal markets for existing and successor military tracked vehicles, naval guns, missile launchers, artillery systems, munitions, upgrade programmes and support, and in the US for complex infrastructure and maritime services.	**3.6**	3.6	**9**	9
Maritime	Continued demand, primarily from the UK and Australian Governments, for existing and successor programmes for submarines, complex warships and munitions. This includes upgrade and sustainment programmes in these areas as well as in the field of air, electronic systems and wide-area surveillance.	**1.4**	1.5	**9**	10

The Group has undertaken sensitivity analysis on the key assumptions used in the impairment testing against each group of CGUs to which goodwill is allocated. Applying a reasonably possible change in any of these key assumptions did not cause the CGUs carrying amount to exceed its recoverable amount.

Other CGUs

The remaining goodwill balance of £1.7bn (2023 £1.3bn) is allocated across multiple CGUs. No individual CGU exceeds 10% of the Group's total goodwill balance. The majority of the projected cash flows within these CGUs is primarily underpinned by expected levels of government spending on defence, aerospace and security and the Group's ability to capture a broadly consistent market share.

10. Other intangible assets

Other intangible assets are carried at cost or valuation, less accumulated amortisation and impairment losses.

Cost or valuation

Software

Software includes:

- Computer software licences acquired for use within the Group are capitalised as an intangible asset on the basis of the costs incurred to acquire and bring to use the specific software;
- Software development costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Group-funded expenditure associated with enhancing or maintaining computer software programmes for sale is recognised as an expense as incurred; and
- Software as a service cloud computing arrangements are not deemed to be controlled by the Group, and costs associated with the implementation and ongoing receipt of these services are expensed as the costs are incurred.

Development costs

Development costs funded by the Group on activities applied to a plan or design for the production of new or substantially improved products are capitalised as an internally generated intangible asset if certain conditions are met. The costs capitalised include materials, direct labour and related overheads.

Programme and customer-related

Intangible assets recognised by the Group include those relating to ongoing programmes within businesses acquired, mainly in respect of customer relationships and order backlog. These assets are initially recognised at their fair value at the acquisition date.

Other

Other intangible assets includes patents, trademarks and licences.

Amortisation

Amortisation on other intangible assets is charged to the Consolidated income statement on a straight-line basis over their estimated useful lives.

For programme-related intangibles, amortisation is set on a programme-by-programme basis over the life of the individual programme. Amortisation for customer-related intangibles is also set on an individual basis.

The estimated useful lives are as follows:

Software	up to 5 years
Development costs	up to 10 years
Programme and customer-related	up to 15 years
Other	up to 20 years

The Group has no indefinite-life intangible assets other than goodwill.

Impairment of intangible assets, property, plant and equipment, right-of-use assets, investment property and equity accounted investments

The carrying amounts of the Group's intangible assets (excluding goodwill), property, plant and equipment, right-of-use assets, investment property and equity accounted investments are reviewed at each balance sheet date to determine whether there is any indication of impairment, as required by IAS 36 Impairment of Assets. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, impairment testing is performed annually. In estimating the asset's recoverable amount, the Group takes into consideration the impact of the Group's sustainability ambitions.

Impairment losses are recognised in the Consolidated income statement. An impairment loss in respect of other intangible assets, property, plant and equipment, investment property and equity accounted investments is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the Consolidated financial statements continued

10. Other intangible assets continued

	Note	Software £m	Development costs £m	Programme and customer-related £m	Other £m	Total £m
Cost or valuation						
At 1 January 2023		973	141	688	130	1,932
Additions:						
Acquired separately		111	–	–	1	112
Internally developed		11	8	–	–	19
Business acquisitions		–	–	–	8	8
Disposals		(49)	–	(3)	(2)	(54)
Foreign exchange adjustments		(25)	(8)	(39)	(4)	(76)
At 31 December 2023		1,021	141	646	133	1,941
Additions:						
Acquired separately		149	–	–	–	149
Internally developed		16	8	–	–	24
Business acquisitions	32	48	–	2,317	136	2,501
Disposals		(46)	(15)	(24)	(12)	(97)
Foreign exchange adjustments		(2)	2	17	1	18
At 31 December 2024		**1,186**	**136**	**2,956**	**258**	**4,536**
Amortisation and impairment						
At 1 January 2023		663	91	286	67	1,107
Amortisation		103	4	97	14	218
Impairment charge		5	–	–	–	5
Disposals		(49)	–	(3)	(2)	(54)
Foreign exchange adjustments		(20)	(7)	(18)	(3)	(48)
At 31 December 2023		702	88	362	76	1,228
Amortisation		86	2	312	22	422
Impairment charge		6	–	–	–	6
Disposals		(46)	(15)	(24)	(12)	(97)
Foreign exchange adjustments		–	2	9	1	12
At 31 December 2024		**748**	**77**	**659**	**87**	**1,571**
Net book value						
At 31 December 2024		**438**	**59**	**2,297**	**171**	**2,965**
At 31 December 2023		319	53	284	57	713
At 1 January 2023		310	50	402	63	825

Capital commitments

At 31 December 2024, capital expenditure of £43m (2023 £44m) in respect of intangible assets was contracted for but not provided for in the Consolidated financial statements.

11. Property, plant and equipment

Cost

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of demonstration assets is written off as incurred. The reimbursement of the cost of an item of property, plant and equipment by way of a government grant is presented as deferred income and recognised in the Consolidated income statement on a basis consistent with the depreciation of the asset over its estimated useful life.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided, normally on a straight-line basis, to write off the cost of items of property, plant and equipment over their estimated useful lives to any estimated residual value, using the following rates:

Buildings	up to 50 years, or the lease term if shorter
Plant and machinery:	
Computing equipment and motor vehicles	4 to 5 years
Other equipment	10 to 20 years, or the project life if shorter

No depreciation is provided on freehold land and assets in the course of construction.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date, taking into consideration the impact on the assets' useful economic lives as a result of the Group's sustainability ambitions.

Impairment

The carrying amounts of the Group's property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment in accordance with the policy shown in note 10.

Notes to the Consolidated financial statements continued

11. Property, plant and equipment continued

	Note	Land and buildings £m	Plant and machinery £m	Total £m
Cost				
At 1 January 2023		3,170	4,121	7,291
Additions		413	411	824
Reclassification between categories		(38)	38	–
Disposals		(33)	(104)	(137)
Foreign exchange adjustments		(82)	(127)	(209)
At 31 December 2023		3,430	4,339	7,769
Additions		386	585	971
Business acquisitions	32	464	230	694
Disposals		(32)	(99)	(131)
Business disposals		(7)	(24)	(31)
Foreign exchange adjustments		8	25	33
At 31 December 2024		**4,249**	**5,056**	**9,305**
Depreciation and impairment				
At 1 January 2023		1,339	2,717	4,056
Depreciation		112	232	344
Disposals		(30)	(100)	(130)
Foreign exchange adjustments		(47)	(89)	(136)
At 31 December 2023		1,374	2,760	4,134
Depreciation		158	286	444
Impairment charge		5	1	6
Disposals		(30)	(96)	(126)
Business disposals		(3)	(16)	(19)
Foreign exchange adjustments		5	18	23
At 31 December 2024		**1,509**	**2,953**	**4,462**
Net book value				
At 31 December 2024[1]		**2,740**	**2,103**	**4,843**
At 31 December 2023[1]		2,056	1,579	3,635
At 1 January 2023		1,831	1,404	3,235

1. Includes £1,262m (2023 £1,145m) of assets at Barrow-in-Furness, UK funded by the UK Government.

Assets in the course of construction

Included in the above analysis, the following balances relate to those assets which are still in the course of construction:

	Land and buildings £m	Plant and machinery £m	Total £m
At 31 December 2024	**579**	**658**	**1,237**
At 31 December 2023	750	394	1,144

Capital commitments

At 31 December 2024, capital expenditure of £539m (2023 £442m) in respect of property, plant and equipment was contracted for but not provided for in the Consolidated financial statements.

Assets pledged as security

Within the Land and buildings balance, there are assets with a carrying value of £160m (2023 £62m) which the Group cannot pledge as security for borrowings or sell to another entity.

12. Leases

The Group as lessee

All leases in which the Group is lessee are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between repayment of the lease liability and finance cost. The finance cost is charged to the Consolidated income statement over the lease term to produce a constant periodic rate of interest on the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured as the present value of future lease payments, discounted using the Group's incremental borrowing rate, where the interest rate implicit in the lease is not determinable. The Group's incremental borrowing rate is the interest rate the Group would have to pay to borrow the amount necessary to obtain an asset of similar value, in a similar economic environment with similar terms and conditions.

The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made (net of any incentives received from the lessor) before the commencement of the lease, any initial direct costs and any restoration costs.

The carrying amounts of the Group's right-of-use assets are reviewed at each balance sheet date to determine whether there is any indication of impairment in accordance with the policy shown in note 10.

Payments in respect of short-term leases, low-value leases and leases of intangible assets are charged to the Consolidated income statement on a straight-line basis over the lease term.

The Group leases land, buildings, vehicles and equipment under non-cancellable lease arrangements. The leases have varying terms, including escalation clauses, renewal rights and purchase options. None of these terms represents unusual arrangements or creates material onerous or beneficial rights or obligations.

Right-of-use assets

		2024			2023		
	Note	**Land and buildings £m**	**Plant and machinery £m**	**Total £m**	Land and buildings £m	Plant and machinery £m	Total £m
Net book value at 1 January		**1,280**	**31**	**1,311**	1,400	25	1,425
Additions		**494**	**21**	**515**	115	19	134
Business acquisitions	32	**77**	**–**	**77**	–	–	–
Lease modifications		**53**	**2**	**55**	20	(1)	19
Depreciation		**(203)**	**(16)**	**(219)**	(202)	(12)	(214)
Business disposals		**(1)**	**–**	**(1)**	–	–	–
Foreign exchange adjustments		**20**	**(3)**	**17**	(53)	–	(53)
Net book value at 31 December		**1,720**	**35**	**1,755**	1,280	31	1,311

Lease liabilities

A maturity analysis of the future undiscounted lease payments in respect of the Group's lease liabilities is presented in the table below:

	2024 £m	2023 £m
Payments due:		
Within one year	**260**	197
Between one and five years	**891**	537
Later than five years	**1,342**	1,229
Total undiscounted gross payments	**2,493**	1,963
Deduct: Impact of discounting	**(652)**	(543)
Lease liabilities	**1,841**	1,420

The Group is also committed to future undiscounted lease payments of £76m in respect of leases which had not yet commenced at 31 December 2024 (2023 £68m).

The total cash outflow for leases in the year ended 31 December 2024, including short-term leases and low-value leases, amounted to £295m (2023 £376m).

Notes to the Consolidated financial statements continued

12. Leases continued

Amounts recognised in the Consolidated income statement

	2024 £m	2023 £m
Included in operating costs:		
Depreciation on right-of-use assets	**(219)**	(214)
Short-term lease expense	**(25)**	(25)
Low-value lease expense	**(8)**	(5)
	(252)	(244)
Included in net finance costs:		
Interest income on finance lease receivables	**1**	1
Interest expense on lease liabilities	**(73)**	(53)
	(72)	(52)

13. Equity accounted investments

Equity accounted investments comprise joint ventures and associates. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement. An associate is an entity over which the Group has significant influence but not control or joint control.

The Group recognises its share of the profit or loss and other comprehensive income of equity accounted investments as a separate line in the Consolidated income statement and Consolidated statement of comprehensive income, respectively.

The carrying value of an equity accounted investment comprises the Group's share of net assets and purchased goodwill, and is assessed for impairment as a single asset. The carrying amounts of the Group's equity accounted investments are reviewed at each balance sheet date to determine whether there is any indication of impairment, in accordance with the policy shown in note 10.

Group summary

The Group has two individually material joint ventures which are Eurofighter Jagdflugzeug and MBDA, the carrying values of which are included below.

The Group also has a number of individually immaterial joint ventures and associates, the carrying values of the most significant of which at 31 December 2024 are as follows: Rheinmetall BAE Systems Land (RBSL) (£89m), FADEC International (£47m), Air Astana (£37m), and Panavia Aircraft (£19m). The following table shows a reconciliation of opening to closing carrying value for both the Group's principal and immaterial joint ventures and associates in aggregate. The fair value of the Group's investment in Air Astana as at 31 December 2024 was £74m.

The following table shows a reconciliation of the opening to closing carrying values for both the Group's principal and other joint ventures and associates.

	Principal equity accounted investments £m	Other joint ventures £m	Other associates £m	Total £m
At 1 January 2023	528	167	92	787
Group's share of profit for the year	165	39	4	208
Group's share of remeasurements on post-employment benefit schemes	(24)	(1)	–	(25)
Tax on items that may be reclassified to the income statement	(1)	–	–	(1)
Foreign exchange adjustments	3	3	–	6
Amounts recognised in hedging reserve	2	4	–	6
Group's share of total comprehensive income for the year	145	45	4	194
Acquisition of equity accounted investments	–	5	–	5
Dividends received from equity accounted investments	(110)	(24)	–	(134)
Foreign exchange adjustments	(12)	(8)	–	(20)
At 31 December 2023	551	185	96	832
Group's share of profit for the year	197	10	6	213
Group's share of remeasurements on post-employment benefit schemes	16	–	–	16
Tax on items that will not be reclassified to the income statement	(1)	–	–	(1)
Foreign exchange adjustments	4	(1)	–	3
Amounts recognised in hedging reserve	(1)	2	–	1
Group's share of total comprehensive income for the year	215	11	6	232
Divestment of interest in equity accounted investments	–	(56)	–	(56)
Dividends received from equity accounted investments	(135)	(22)	(1)	(158)
Foreign exchange adjustments	(28)	1	–	(27)
At 31 December 2024	**603**	**119**	**101**	**823**

13. Equity accounted investments continued

Contingent liabilities

The Group is not aware of any material contingent liabilities in respect of its equity accounted investments.

Principal equity accounted investments

Joint venture	Principal activities	Shareholding	Principally operates in
Eurofighter Jagdflugzeug	Management and control of the European Typhoon programme	33.3%	Germany
MBDA	Development and manufacture of guided weapons	37.5%	Europe

The following tables summarise the financial information of the Group's principal equity accounted investments included in their own financial statements, as adjusted for fair value adjustments at acquisition and differences in accounting policies, and reconcile this to the Group's interest in those equity accounted investments.

	2024		2023	
	Eurofighter Jagdflugzeug £m	**MBDA £m**	Eurofighter Jagdflugzeug £m	MBDA £m
Revenue (100%)	**4,187**	**4,159**	4,169	3,871
Underlying EBIT[1] excluding depreciation and amortisation	**38**	**603**	23	568
Depreciation and amortisation	**(4)**	**(149)**	(4)	(138)
Finance income	**10**	**229**	3	145
Finance costs	**(2)**	**(30)**	(3)	(13)
Tax expense	**(13)**	**(156)**	(9)	(130)
Profit for the year (100%)	**29**	**497**	10	432
Remeasurements on post-employment benefit schemes, net of tax	**–**	**40**	–	(65)
Amounts recognised in hedging reserve, net of tax	**–**	**(2)**	–	4
Foreign exchange adjustments	**–**	**12**	–	8
Total comprehensive income for the year (100%)	**29**	**547**	10	379
Group's share of total comprehensive income for the year	**10**	**205**	3	142
Non-current assets[2]	**29**	**3,100**	29	2,717
Cash and cash equivalents	**27**	**5,065**	43	4,109
Current assets excluding cash and cash equivalents	**9,892**	**5,486**	9,089	4,626
Current assets	**9,919**	**10,551**	9,132	8,735
Non-current financial liabilities excluding trade and other payables, and provisions	**–**	**(6)**	–	(15)
Other non-current liabilities	**(47)**	**(66)**	(45)	(85)
Non-current liabilities	**(47)**	**(72)**	(45)	(100)
Current financial liabilities excluding trade and other payables, and provisions	**(13)**	**–**	(9)	–
Other current liabilities	**(9,851)**	**(12,033)**	(9,077)	(9,942)
Current liabilities	**(9,864)**	**(12,033)**	(9,086)	(9,942)
Net assets (100%)	**37**	**1,546**	30	1,410

1. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 220.
2. Includes MBDA's share of the net IAS 19 surplus in the Group's defined benefit schemes of £100m (2023 £56m).

	2024			2023		
	Eurofighter Jagdflugzeug £m	**MBDA £m**	**Total £m**	Eurofighter Jagdflugzeug £m	MBDA £m	Total £m
Group's share of net assets	**12**	**580**	**592**	10	529	539
Goodwill adjustment	**–**	**11**	**11**	–	12	12
Carrying value	**12**	**591**	**603**	10	541	551

	2024			2023		
	Eurofighter Jagdflugzeug £m	**MBDA £m**	**Total £m**	Eurofighter Jagdflugzeug £m	MBDA £m	Total £m
Dividends received	**6**	**129**	**135**	2	108	110

Notes to the Consolidated financial statements continued

14. Trade, contract and other receivables

Trade and contract receivables are measured at amortised cost under IFRS 9 Financial Instruments as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Contract receivables represent amounts for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprise costs incurred plus attributable margin.

Trade receivables, contract receivables, amounts owed by equity accounted investments and finance lease receivables include a provision for expected credit losses. The Group measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Group writes off a receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation.

US deferred compensation plan assets are measured at fair value in accordance with IAS 19 Employee Benefits.

	Note	**2024 £m**	2023 £m
Non-current			
Contract receivables		**108**	18
Prepayments		**168**	215
US deferred compensation plan assets		**367**	340
Finance lease receivables		**18**	15
Other receivables		**73**	45
		734	633
Current			
Contract receivables		**3,749**	3,377
Trade receivables		**1,357**	1,196
Amounts owed by equity accounted investments	30	**52**	77
Prepayments		**1,005**	933
Accrued income		**27**	19
US deferred compensation plan assets		**50**	42
Finance lease receivables		**6**	9
Other receivables		**417**	532
		6,663	6,185

Trade receivables are stated net of a provision for expected credit losses. Disclosures relating to the ageing of trade receivables and movements in the provision for expected credit losses are provided in note 15.

15. Other financial assets and liabilities and financial risk management

Derivative financial instruments and hedging activities

The international nature of the Group's business means it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations, the Group's policy is to hedge all material firm transactional exposures.

The Group uses interest rate derivative instruments to manage the Group's exposure to interest rate fluctuations on its borrowings and deposits by varying the proportion of fixed-rate debt relative to floating-rate debt over the forward time horizon.

The Group uses foreign exchange derivative instruments to manage the Group's exposure to currency fluctuations on its borrowings and deposits with the Group's subsidiaries and equity accounted investments.

In accordance with its Treasury policy, the Group does not hold derivative financial instruments for trading purposes.

The Group aims to achieve hedge accounting treatment for all derivatives that hedge material foreign currency exposures.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, such instruments are stated at fair value at the balance sheet date. The fair values are estimated by discounting expected future cash flows based on reputable third-party forecast data, and then adjusting for credit risk, including the Group's own credit risk, and market risk.

Fair value through profit or loss

Gains and losses on derivative financial instruments that are not designated as cash flow hedges are recognised within net finance costs in the Consolidated income statement for the year.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows relating to a highly-probable forecast transaction (income or expense) or recognised asset or liability, the effective portion of any change in the fair value of the instrument is recognised in other comprehensive income and presented in the hedging reserve in equity. Amounts recognised in equity are removed from the hedging reserve and included in the cost of the underlying transaction or reclassified to the Consolidated income statement when the underlying transaction affects profit or loss. These amounts are presented within the same line item in the Consolidated income statement as the underlying transaction, typically revenue or operating costs. The ineffective portion of any change in the fair value of the instrument is recognised in the Consolidated income statement within net finance costs immediately. The Group treats the foreign currency basis element of the designated foreign exchange derivative hedging instruments as a cost of hedging and as such it is excluded from the hedge designation. Any hedges entered into on behalf of equity accounted investments (note 30) are classified as cash flow hedges.

	2024		2023	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Non-current				
Cash flow hedges – foreign exchange contracts	**152**	**(169)**	127	(170)
Debt-related derivative financial instruments	**110**	**(21)**	100	(57)
Other foreign exchange/interest rate contracts	**3**	**(3)**	–	–
	265	**(193)**	227	(227)
Current				
Cash flow hedges – foreign exchange contracts	**163**	**(225)**	162	(184)
Debt-related derivative financial instruments	**–**	**–**	–	(21)
Other foreign exchange/interest rate contracts	**49**	**(39)**	43	(90)
	212	**(264)**	205	(295)

Debt-related derivative financial instruments

The debt-related derivative financial instruments represent the fair value of cross-currency, interest rate and foreign exchange derivatives relating to the US$500m 7.5% bond, repayable 2027 and the US$1,300m 3.4% bond, repayable 2030 (see note 21). In the comparative year, there were also debt-related derivative financial instruments in respect of the US$800m 3.8% bond, repayable 2024 and the US$400m 5.8% bond, repayable 2041.

Notes to the Consolidated financial statements continued

15. Other financial assets and liabilities and financial risk management continued

Interest rate risk

The Group's objective is to manage its exposure to interest rate fluctuations on borrowings through varying the proportion of fixed-rate debt relative to floating-rate debt with derivative instruments, including interest rate and cross-currency swaps.

The Group's interest rate management policy is that a minimum of 50% (2023 50%) and a maximum of 90% (2023 90%) of borrowings are maintained at fixed interest rates. At 31 December 2024, the Group had 86% (2023 86%) of fixed-rate debt and 14% (2023 14%) of floating-rate debt based on a gross debt of £8.3bn (2023 £5.1bn), including debt-related derivative financial assets.

Based on contracted maturities and/or repricing dates, the following amounts are exposed to interest rate risk over the future as shown below:

	2024			2023		
	Within one year £m	**Between one and two years £m**	**Later than two years £m**	Within one year £m	Between one and two years £m	Later than two years £m
Cash and cash equivalents	**3,378**	**–**	**–**	4,067	–	–
Loans	**1,197**	**1,197**	**1,197**	703	–	–

The floating-rate debt has been predominantly achieved by entering into interest rate swaps which swap the fixed-rate US dollar interest payable on debt into a floating rate. New interest rate swaps were entered into in the year in relation to the debt issued on financing of the Ball Aerospace acquisition (see note 21). At the end of 2024, the Group had a total of $1.5bn (2023 $0.9bn) of this type of swap outstanding with a weighted average duration of 3.2 years (2023 0.8 years). In respect of the fixed-rate debt, the weighted average period in respect of which interest is fixed was 11.6 years (2023 12.4 years). Given the level of short-term interest rates during the year, the average cost of the floating-rate debt was 6.0% (2023 7.7%) on US dollars. The cost of the fixed-rate debt was 4.3% (2023 3.7%).

Sensitivity analysis

A change of 100 basis points in short-term rates applied to the average fixed/floating mix and level of borrowings would vary the interest cost to the Group by approximately £12m (2023 £7m).

In respect of cash deposits, given the fluctuation in the Group's working capital requirements, cash is generally invested for short-term periods based at floating-interest rates. A change of 100 basis points in the average interest rates during the year applied to the average cash deposits would vary the interest receivable by approximately £23m (2023 £29m). Should interest rates fluctuate by a different rate to those disclosed, the impact can be linearly interpolated.

15. Other financial assets and liabilities and financial risk management continued

Liquidity risk

Contractual cash outflows on financial liabilities

The contracted cash outflows on loans, derivative financial instruments and other financial instruments at the reporting date are shown below, classified by maturity. The cash outflows are shown on a gross basis, are not discounted, are translated at the spot rate and include estimated interest payments where applicable. Contracted cash outflows reflect the gross cash outflow on derivative financial instruments and exclude the broadly offsetting cash inflows for the receive leg of derivatives that are settled separately to the pay leg.

	2024					2023				
		Contracted cash outflow					Contracted cash outflow			
	Carrying amount £m	**Within one year £m**	**Between one and five years £m**	**Later than five years £m**	**Total £m**	Carrying amount £m	Within one year £m	Between one and five years £m	Later than five years £m	Total £m
Cash outflows without directly offsetting inflows										
Accruals[1]	**(1,713)**	**(1,684)**	**(29)**	**–**	**(1,713)**	(1,758)	(1,739)	(19)	–	(1,758)
Trade and other payables[2]	**(3,440)**	**(3,351)**	**(89)**	**–**	**(3,440)**	(2,681)	(2,660)	(21)	–	(2,681)
Lease liabilities	**(1,841)**	**(260)**	**(891)**	**(1,342)**	**(2,493)**	(1,420)	(197)	(537)	(1,229)	(1,963)
Loans	**(8,412)**	**(977)**	**(3,295)**	**(8,071)**	**(12,343)**	(5,111)	(825)	(1,585)	(4,794)	(7,204)
	(15,406)					(10,970)				
Cash outflows with largely offsetting inflows[3]										
Cash flow hedges – financial assets	**315**	**(5,199)**	**(4,932)**	**(1,465)**	**(11,596)**	289	(6,003)	(4,623)	(135)	(10,761)
Cash flow hedges – financial liabilities	**(394)**	**(7,154)**	**(6,026)**	**(1,310)**	**(14,490)**	(354)	(6,775)	(6,127)	(477)	(13,379)
Debt-related derivatives – financial assets	**110**	**(23)**	**(347)**	**(36)**	**(406)**	100	(23)	(370)	(36)	(429)
Debt-related derivatives – financial liabilities	**(21)**	**(35)**	**(141)**	**(1,018)**	**(1,194)**	(78)	(92)	(141)	(1,053)	(1,286)
Other foreign exchange/interest rate contracts – financial assets	**52**	**(2,977)**	**–**	**–**	**(2,977)**	43	(2,674)	–	–	(2,674)
Other foreign exchange/interest rate contracts – financial liabilities	**(42)**	**(2,045)**	**(327)**	**–**	**(2,372)**	(90)	(1,468)	–	–	(1,468)
	20					(90)				
	(15,386)					(11,060)				

1. Accruals presented in the table excludes £1,082m (2023 £910m) of accruals which are non-financial liabilities.
2. Trade and other payables excludes other taxes and social security costs, deferred income and US deferred compensation plan liabilities (see note 23) on the basis that these are non-financial liabilities.
3. Cash outflows in relation to derivatives presented in this table do not include the cash inflows which would be received when closing out the trades. These cash inflows are expected to largely offset all outflows presented within this table.

Borrowing facilities

The Group's objective is to maintain adequate undrawn committed borrowing facilities.

At 31 December 2024, the Group had a committed Revolving Credit Facility (RCF) of £2bn (2023 £2bn). During the year, the Group exercised the first of two one-year extension options, taking the maturity of the facility to 2029. The RCF was undrawn throughout the year. The RCF also acts as a backstop to Commercial Paper issued by the Group. At 31 December 2024, the Group had no Commercial Paper in issue (2023 £nil).

Notes to the Consolidated financial statements continued

15. Other financial assets and liabilities and financial risk management continued

Currency risk

The Group's objective is to reduce its exposure to transactional volatility in earnings and cash flows from movements in foreign currency exchange rates, mainly the US dollar, euro, Saudi riyal and Australian dollar.

The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency-denominated transactions. All material firm transactional exposures are hedged using foreign exchange forward contracts and the Group aims, where possible, to apply cash flow hedge accounting to these transactions.

The currency and notional amount of the designated hedging instruments match the currency and principal amounts of the forecast transactions being hedged; therefore, the hedging instruments and hedged items have values which will generally move in opposite directions because of the same hedged risk. As the critical terms of the hedging instruments match those of the hedged items, an economic relationship can be demonstrated on an ongoing basis.

The hedge ratio is 1:1 on the basis that the notional amount of the designated hedging instruments matches the principal amount of the forecast foreign currency sales/purchases designated as the hedged items. The Group does not designate groups of items with offsetting risk positions as hedged items.

The Group considers the potential sources of hedge ineffectiveness to be:

- valuation adjustments for credit risk made to derivative hedging instruments at each hedge effectiveness measurement date;
- changes to the timing and amount of forecast transactions; and
- non-occurrence of the designated hedged items.

Foreign currency basis is excluded from the currency hedge designation and was highly immaterial.

The Group enters into derivative contracts with varying maturities up to 2034. The following table presents the sterling nominal amounts of the foreign currency contracts used to hedge foreign currency risk, split by maturity profile, along with the exchange rate:

		2024				2023			
		Currency purchased		**Currency sold**		Currency purchased		Currency sold	
(Purchase)/sale contracts	**Maturity date**	**Weighted average hedged rate**	**Notional value of currency purchased £m**	**Weighted average hedged rate**	**Notional value of currency sold £m**	Weighted average hedged rate	Notional value of currency purchased £m	Weighted average hedged rate	Notional value of currency sold £m
Sterling/US dollar	Within one year	**1.27**	**(2,015)**	**1.28**	**2,627**	1.26	(2,762)	1.27	2,657
	Between one and five years	**1.27**	**(1,304)**	**1.26**	**1,728**	1.26	(1,608)	1.27	1,898
	Later than five years	**1.30**	**(10)**	**1.30**	**10**	1.33	(13)	1.40	5
Sterling/euro	Within one year	**1.15**	**(2,944)**	**1.15**	**2,550**	1.12	(2,725)	1.12	2,525
	Between one and five years	**1.11**	**(3,207)**	**1.11**	**3,165**	1.10	(2,913)	1.09	2,702
	Later than five years	**1.06**	**(1,455)**	**1.06**	**1,449**	1.07	(136)	1.07	133
Other	Within one year	**n/a**	**(2,243)**	**n/a**	**2,222**	n/a	(2,208)	n/a	2,209
	Between one and five years	**n/a**	**(1,814)**	**n/a**	**1,815**	n/a	(1,795)	n/a	1,781
	Later than five years	**n/a**	**(27)**	**n/a**	**25**	n/a	(333)	n/a	326
Cash flow hedges			**(15,019)**		**15,591**		(14,493)		14,236

The effect of cash flow hedges on the Group's financial position and performance for the year is as follows:

	2024				2023			
(Purchase)/sale contracts	**Change in the value of hedging instruments since 1 January £m**	**Change in the value of hedged items since 1 January £m**	**Notional amount £m**	**Carrying amount £m**	Change in the value of hedging instruments since 1 January £m	Change in the value of hedged items since 1 January £m	Notional amount £m	Carrying amount £m
Sterling/US dollar	**(24)**	**24**	**1,036**	**(28)**	44	(44)	177	(29)
Sterling/euro	**(15)**	**15**	**(442)**	**(17)**	(5)	5	(414)	(2)
Other	**3**	**(3)**	**(22)**	**(34)**	(43)	43	(20)	(34)
Cash flow hedges	**(36)**	**36**	**572**	**(79)**	(4)	4	(257)	(65)

15. Other financial assets and liabilities and financial risk management continued

Currency risk continued

Sensitivity analysis

The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. The Group does not hedge the translation effect of exchange rate movements on the income statements or balance sheets of foreign subsidiaries and equity accounted investments it regards as long-term investments.

The estimated impact on foreign exchange gains and losses in net finance costs of a ten cent movement in the closing sterling to US dollar exchange rate on the retranslation of US dollar-denominated bonds held by BAE Systems plc is approximately £545m (2023 £229m).

The Group enters into cash flow hedges in order to manage all material firm transactional exposures. The estimated impact on fair value gains and losses in other reserves of a ten cent movement in the closing sterling to US dollar exchange rates on the transactional cash flow hedges is approximately £85m (2023 £16m). The estimated impact of a ten cent movement in the closing sterling to euro exchange rate on the transactional cash flow hedges is approximately £35m (2023 £35m).

Credit risk

For trade receivables, contract receivables, amounts due from equity accounted investments and finance lease receivables, the Group measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Group's assessment is that credit risk in relation to defence-related sales to government customers or subcontractors to governments is extremely low as the probability of default is insignificant; therefore, the provision for expected credit losses is immaterial in respect of receivables from these customers. For all non-government commercial customers, the Group assesses expected credit losses, including risk arising from global economic uncertainty; however, this is not considered material to the financial statements. The Group considers that default has occurred when a receivable is past 180 days overdue, unless there is evidence of recoverability, because historical experience indicates that these receivables are generally not recoverable. The Group recognises a provision of 100% against all receivables over 180 days past due unless there is evidence that individual receivables in this category are recoverable.

The carrying amount of the Group's financial assets represents the maximum exposure to credit risk.

Movements on the provision for expected credit losses for trade receivables are as follows:

	2024 £m	2023 £m
At 1 January	**20**	20
Business acquisitions	**1**	–
Net remeasurement of loss allowance	**3**	3
Amounts written off	**(5)**	(3)
At 31 December	**19**	20

For contract receivables, amounts due from equity accounted investments and finance lease receivables the expected credit loss provision is immaterial as the probability of default is considered insignificant.

The Group writes off a receivable when there is evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation. The ageing of trade receivables is detailed below:

	2024			2023		
	Gross £m	**Provision £m**	**Net £m**	Gross £m	Provision £m	Net £m
Not past due	**895**	**–**	**895**	822	–	822
Up to 180 days overdue	**438**	**(3)**	**435**	336	(1)	335
Past 180 days overdue	**43**	**(16)**	**27**	58	(19)	39
	1,376	**(19)**	**1,357**	1,216	(20)	1,196

Cash management

Cash flow forecasting is performed by the businesses on a monthly basis. The Group monitors a rolling forecast of its liquidity requirements to ensure that there is sufficient cash to meet operational needs and maintain adequate headroom.

Surplus cash held by the businesses over and above balances required for working capital management is loaned to the Group's centralised treasury department. Surplus cash is invested in instant-access current accounts, short-term deposits and money market funds, choosing instruments with appropriate maturities or sufficient liquidity to provide adequate headroom as determined by cash flow forecasts.

The Group's objective is to monitor and control counterparty credit risk and credit limit utilisation. The Group adopts a conservative approach to the investment of its surplus cash which is deposited for short periods with financial institutions with investment-grade (BBB- and above) credit ratings. The cash and cash equivalents balance at 31 December 2024 of £3,378m (2023 £4,067m) was invested with 40 (2023 42) financial institutions. A credit limit is allocated to each institution taking account of its market capitalisation, credit rating and credit default swap price. The cash and cash equivalents of the Group are invested in non-speculative financial instruments which are usually highly liquid, such as short-term deposits. Therefore, the Group believes it has reduced its exposure to counterparty credit risk through this process.

Notes to the Consolidated financial statements continued

15. Other financial assets and liabilities and financial risk management continued

Credit risk continued

The cash and cash equivalents balance is subject to review for impairment under IFRS 9 and, due to the high credit ratings of the counterparties set out below, no impairment has been recognised within the year:

Counterparty credit rating at 31 December	**2024**	2023
AAA to AA-	**62%**	60%
A+ to A-	**37%**	39%
BBB+ to BBB-	**1%**	1%

Offsetting financial assets and liabilities

Financial assets and liabilities are offset, and the net amount reported in the balance sheet, when there is a legally enforceable right to offset the recognised amounts. The following table sets out the Group's financial assets and financial liabilities which are subject to a master netting agreement. The master netting agreements regulate settlement amounts in the event a party defaults on their obligations.

	2024			2023		
	Balance sheet £m	**Amounts not offset £m**	**Net balance £m**	Balance sheet £m	Amounts not offset £m	Net balance £m
Assets						
Other financial assets	**477**	**(363)**	**114**	432	(382)	50
Liabilities						
Other financial liabilities	**(457)**	**363**	**(94)**	(522)	382	(140)

16. Deferred tax

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets/(liabilities)

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Property, plant and equipment	**13**	17	**(163)**	(118)	**(150)**	(101)
Other intangible assets	**66**	41	**(56)**	(2)	**10**	39
Capitalised research and development	**350**	458	**–**	–	**350**	458
Provisions and accruals	**256**	229	**–**	–	**256**	229
Goodwill	**–**	–	**(399)**	(352)	**(399)**	(352)
Pension/post-employment schemes:						
Deficits	**39**	80	**–**	–	**39**	80
US deferred compensation plans	**115**	106	**–**	–	**115**	106
Share-based payments	**86**	94	**–**	–	**86**	94
Financial instruments	**16**	21	**(3)**	(1)	**13**	20
Other items, including tax losses carried forward	**30**	28	**(49)**	(2)	**(19)**	26
Deferred tax assets/(liabilities)	**971**	1,074	**(670)**	(475)	**301**	599
Set off of tax	**(656)**	(465)	**656**	465	**–**	–
Net deferred tax assets/(liabilities)	**315**	609	**(14)**	(10)	**301**	599

16. Deferred tax continued

Movement in temporary differences during the year

	At 1 January 2024 £m	Foreign exchange adjustments £m	Acquisitions and disposals £m	Recognised in income £m	Recognised in equity £m	**At 31 December 2024 £m**
Property, plant and equipment	(101)	(3)	–	(46)	–	**(150)**
Other intangible assets	39	–	(57)	28	–	**10**
Capitalised research and development	458	6	–	(114)	–	**350**
Provisions and accruals	229	3	–	24	–	**256**
Goodwill	(352)	(7)	–	(40)	–	**(399)**
Pension/post-employment schemes:						
Deficits	80	–	–	(5)	(36)	**39**
US deferred compensation plans	106	2	–	7	–	**115**
Share-based payments	94	–	–	23	(31)	**86**
Financial instruments	20	–	–	–	(7)	**13**
Other items, including tax losses carried forward	26	(3)	58	(100)	–	**(19)**
	599	(2)	1	(223)	(74)	**301**

	At 1 January 2023 £m	Foreign exchange adjustments £m	Acquisitions and disposals £m	Recognised in income £m	Recognised in equity £m	At 31 December 2023 £m
Property, plant and equipment	(78)	7	–	(30)	–	(101)
Other intangible assets	13	–	–	26	–	39
Capitalised research and development	149	(17)	–	326	–	458
Provisions and accruals	233	(13)	–	9	–	229
Goodwill	(352)	21	–	(21)	–	(352)
Pension/post-employment schemes:						
Deficits	97	(3)	–	(2)	(12)	80
UK additional pension contributions	60	–	–	–	(60)	–
US deferred compensation plans	102	(6)	–	10	–	106
Share-based payments	64	–	–	13	17	94
Financial instruments	16	–	–	1	3	20
Other items, including tax losses carried forward	29	(5)	–	2	–	26
	333	(16)	–	334	(52)	599

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following items:

	2024		2023	
	Gross amount £m	**Unrecognised deferred tax asset £m**	Gross amount £m	Unrecognised deferred tax asset £m
Deductible temporary differences, including tax credits	**2**	**2**	2	2
Tax losses carried forward	**502**	**114**	438	89
	504	**116**	440	91

These assets have not been recognised as the incidence of future profits in the relevant countries and legal entities cannot be accurately predicted at this time.

The Group has not recognised any deferred tax liability on temporary differences totalling £158m (2023 £211m) relating to potentially taxable unremitted earnings of overseas subsidiaries and equity accounted investments because the Group is in a position to control the timing of the reversal of the temporary differences and none are expected to reverse in the foreseeable future.

Both the recognised and unrecognised UK deferred tax balances at 31 December 2024 have been calculated at 25% (2023 25%), which reflects the rate at which they are expected to unwind.

Notes to the Consolidated financial statements continued

17. Inventories

Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value. Inventory cost is valued using the most appropriate method based on the business use of inventory. In the majority of cases this is moving average unit cost, with some businesses using standard cost or first in first out (FIFO) as methods more indicative of their use of inventory.

	2024 £m	2023 £m
Raw materials and consumables	**746**	646
Work-in-progress	**471**	437
Finished goods and goods for resale	**107**	73
	1,324	1,156

The Group recognised £23m (2023 £4m) as a write down of inventories to net realisable value during the year.

18. Current tax

Current tax for the current and prior years is recognised as a liability to the extent that it has not yet been settled and as an asset to the extent that the amounts already paid exceed the amount due or the benefit of a tax loss can be carried back to recover current tax of a prior year. Current tax assets and liabilities are measured at the amount expected to be paid to or recovered from tax authorities, using the rates that have been enacted or substantively enacted by the balance sheet date.

	2024 £m	2023 £m
Tax provisions	**(78)**	(370)
Research and development expenditure credits receivable	**85**	156
Other tax receivables	**114**	89
	121	(125)
Represented by:		
Current tax assets	**176**	160
Current tax liabilities	**(55)**	(285)
	121	(125)

Tax provisions of £78m (2023 £370m) are in respect of known tax issues, of which £46m (2023 £71m) relates to the UK and £32m (2023 £299m) relates to the US. Corresponding deferred tax assets are therefore recognised in relation to the same tax judgements, and have similarly reversed in line with the reduction in current tax provisions.

19. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, call and term deposits, investments in money market funds and other short-term liquid investments with original maturities of three months or less and which are subject to an insignificant risk of change in value.

	2024 £m	2023 £m
Cash	**604**	502
Money market funds	**1,227**	1,375
Short-term deposits	**1,547**	2,190
	3,378	4,067

Cash and cash equivalents includes £53m (2023 £59m) which is subject to regulatory restrictions and is therefore not available for general use by other entities within the Group.

20. Geographical analysis of non-current assets

Asset location	Note	2024 £m	2023 £m
UK		**5,902**	4,877
Europe (excluding UK)		**2,326**	2,065
US		**14,316**	10,167
Kingdom of Saudi Arabia		**870**	533
Australia		**467**	499
Asia and Pacific (excluding Australia)		**8**	8
		23,889	18,149
Other investments		**83**	84
Other receivables	14	**566**	418
Post-employment benefit surpluses	24	**1,271**	804
Other financial assets	15	**265**	227
Deferred tax assets	16	**315**	609
Non-current assets		**26,389**	20,291

21. Loans

Loans are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, loans are stated at amortised cost. Any difference between the amount initially recognised and the redemption value is recognised in the Consolidated income statement over the period of the borrowings.

	2024 £m	2023 £m
Non-current		
US$750m 3.85% bond, repayable 2025	**–**	587
US$500m 7.5% bond, repayable 2027	**399**	392
US$800m 5% bond, repayable 2027	**636**	–
US$1,250m 5.125% bond, repayable 2029	**993**	–
US$1,300m 3.4% bond, repayable 2030	**1,032**	1,013
US$1,000m 1.9% bond, repayable 2031	**793**	778
US$500m 5.25% bond, repayable 2031	**397**	–
US$1,500m 5.3% bond, repayable 2034	**1,187**	–
US$400m 5.8% bond, repayable 2041	**317**	311
US$550m 4.75% bond, repayable 2044	**430**	423
US$1,000m 3% bond, repayable 2050	**784**	770
US$201m 6.05%, private placement, repayable 2053	**160**	158
US$750m 5.5%, bond, repayable 2054	**585**	–
	7,713	4,432
Current		
US$800m 3.8% bond, repayable 2024	**–**	627
US$750m 3.85% bond, repayable 2025	**598**	–
US$201m 6.05%, private placement, repayable 2053	**1**	–
Accrued interest	**100**	52
	699	679

The US$500m 7.5% bond, repayable 2027, was converted at issue to a sterling fixed-rate bond by utilising cross-currency swaps and had an effective rate during 2024 of 7.8%.

The US$800m 5% bond, repayable 2027, has been converted to a dollar floating-rate bond by utilising interest rate swaps that mature in March 2027 and had an effective rate during 2024 of 5.9%.

US$700m of the US$1,250m 5.125% bond, repayable 2029, has been converted to a dollar floating-rate bond by utilising interest rate swaps that mature in March 2029 and had an effective rate during 2024 of 6.3%.

US$1,237m of the US$1,300m 3.4% bond, repayable 2030, was converted at issue to a sterling fixed-rate bond by utilising cross-currency swaps and had an effective rate during 2024 of 3.5%.

Notes to the Consolidated financial statements continued

22. Contract liabilities

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

	2024 £m	2023 £m
Non-current		
Contract liabilities	**1,720**	1,955
Current		
Contract liabilities	**4,504**	3,865
	6,224	5,820

Revenue recognised in the year includes £4,105m (2023 £3,573m) that was included in the opening contract liabilities balance.

Non-current and current contract liabilities as at 1 January 2023 were £945m and £3,882m, respectively.

23. Trade and other payables

Trade and other payables are stated at amortised cost.

US deferred compensation plan liabilities represent the present value of expected future payments required to settle the obligation to employees in accordance with IAS 19 Employee Benefits.

	Note	2024 £m	2023 £m
Non-current			
Accruals		**85**	68
Amounts owed to equity accounted investments	30	**8**	10
Deferred income[1]		**1,287**	1,144
US deferred compensation plan liabilities		**398**	361
Other payables		**81**	11
		1,859	1,594
Current			
Trade payables		**1,084**	866
Amounts owed to equity accounted investments	30	**1,997**	1,534
Other taxes and social security costs		**198**	73
Accruals		**2,710**	2,600
Deferred income[1]		**74**	61
US deferred compensation plan liabilities		**50**	42
Other payables		**270**	260
		6,383	5,436

1. Includes £1,337m (2023 £1,192m) of funding received from the UK Government for property, plant and equipment at Barrow-in-Furness, UK.

24. Post-employment benefits

Pension schemes

Defined contribution

Obligations for contributions are recognised as an expense in the Consolidated income statement as incurred.

Defined benefit

The cost of providing benefits is determined periodically by independent actuaries and charged to the Consolidated income statement in the year in which those benefits are earned by the employees. Remeasurements, including actuarial gains and losses, are recognised in the Consolidated statement of comprehensive income in the year in which they occur. Past service costs resulting from a plan amendment or curtailment are recognised immediately in the Consolidated income statement.

The post-employment benefit surpluses and obligations recognised in the Group's balance sheet represent the fair value of scheme assets, less the present value of the defined benefit obligations calculated using a number of actuarial assumptions as set out on page 187. The bid values of scheme assets are not intended to be realised in the short term and may be subject to significant change before they are realised. The present values of scheme liabilities are derived from cash flow projections over long periods and are, therefore, inherently uncertain.

IAS 19 Employee Benefits limits the measurement of a defined benefit surplus to the lower of the surplus in the defined benefit scheme and the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the scheme or reductions in future contributions to the scheme. IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, issued in 2007, provides an interpretation of the requirements of IAS 19, clarifying that a refund is available if the entity has an unconditional right to a refund in certain circumstances. The Group has applied IFRIC 14 and has determined that there is no limit on the recognition of the surpluses in its defined benefit pension schemes as at 31 December 2024. In the UK the surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Group, which is assumed to be via a refund. These have been recognised after deducting a 25% (2023 35%) withholding tax which would be levied prior to the future refunding of any surplus and have been presented on a net basis as this is not deemed to be an income tax.

The Group operates a number of multi-employer schemes which their equity accounted investments and strategic partners participate in. Where the Group is a participating employer of a multi-employer scheme, the Group has recognised only its share of the IAS 19 pension surpluses and deficits based on liability agreements with those partners and on the relative shares of contributions paid into the schemes. Whilst this methodology is intended to reflect a reasonable estimate of the share of the surplus or deficit, it may not accurately reflect the obligations of the participating employers.

In the event that an employer who participates in the Group's pension schemes fails or cannot be compelled to fulfil its obligations as a participating employer, the remaining participating employers are obliged to collectively take on its obligations. The Group considers the likelihood of this event arising as remote.

The Group's share of the IAS 19 pension surplus or deficit allocated to equity accounted investments is included in the balance sheet within equity accounted investments (see note 13).

Background

Pension schemes

BAE Systems plc operates pension schemes for the Group's qualifying employees in the UK, US and other countries. The UK and US operate a number of funded defined benefit schemes, and the assets are held in separate trustee-administered funds. The largest funded defined benefit scheme is the BAE Systems Pension Scheme – BAE Systems Section (Main Scheme) which represents 92% (2023 93%) of the UK IAS 19 defined benefit obligation at 31 December 2024. The remainder of the UK IAS 19 defined benefit obligation is in respect of three other schemes, the largest being the Royal Ordnance Pension Scheme which represents 5% (2023 5%) of the UK IAS 19 defined benefit obligation. The schemes in other countries are primarily defined contribution schemes.

At 31 December 2024, the weighted average durations of the UK and US defined benefit pension obligations were 12 years (2023 13 years) and 10 years (2023 11 years), respectively.

The split of the defined benefit pension liability on a funding basis between active, deferred and pensioner members for the Main Scheme and US schemes in aggregate is set out below:

	Active %	Deferred %	Pensioner %
Main Scheme[1]	27	19	54
US schemes[2]	38	17	45
Royal Ordnance Pension Scheme[3]	12	16	72

1. Source: 31 March 2024 actuarial valuation report.
2. Source: Annual updates of the US schemes as at 1 January 2024.
3. Source: 31 March 2022 actuarial valuation report.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

Regulatory framework

The funded UK schemes are registered and subject to the statutory scheme-specific funding requirements outlined in UK legislation, including the payment of levies to the Pension Protection Fund as set out in the Pension Act 2004. These schemes were established under trust and the responsibility for their governance lies jointly with the Trustees and the Group.

The funded US schemes are tax-qualified pension schemes regulated by the Pension Protection Act 2006 and insured by the Pension Benefit Guaranty Corporation (PBGC) up to certain limits. These schemes were established under, and are governed by, the US Employee Retirement Income Security Act 1974 and the BAE Systems Administrative Committee is a named fiduciary with the authority to manage their operation. The schemes' assets are held in the BAE Systems Master Pension Investment Trust and the trustee is The Northern Trust Company. The US schemes received a favourable determination letter from the Internal Revenue Service (IRS) dated 6 July 2017, stating that the US schemes and related Master Trust are designed in accordance with applicable sections of the IRS Code and, therefore, are exempt from tax. Once qualified, the US schemes are required to operate in conformity with the Code to maintain qualification.

Benefits

The UK defined benefit schemes provide benefits to members in the form of a set level of pension payable for life based on members' final salaries. The majority of benefits attract inflation-related increases both in deferment and payment. All UK defined benefit schemes are closed to new entrants, with benefits for new employees being provided through a defined contribution scheme. The Normal Retirement Age for the majority of active members of the Main Scheme is 65. Specific benefits applicable to members differ between schemes. Further details on the benefits provided by each scheme are provided on the BAE Systems Pensions website: baesystems.com/en-pensions/home.

The US defined benefit schemes cover eligible employees of BAE Systems, Inc. and certain adopting affiliates providing benefits based on each employee's final salary and service. The majority of the US defined benefit schemes ceased to be final salary schemes in January 2013. Since then an annual accrual of $1,000 is credited to participants' accumulated plan benefits. Vested benefits are payable upon retirement, death, disability, and in certain circumstances upon termination of employment. The Normal Retirement Age for the US pension schemes is 65.

Other post-employment benefits

The Group operates a number of non-pension retirement benefit schemes, under which certain employees are eligible to receive benefits after retirement or on leaving the Group, the majority of which relate to the provision of medical benefits to retired employees of the Group's subsidiaries in the US.

Funding

Introduction

Disclosures in respect of pension funding are provided below. Disclosures in respect of pension accounting under IAS 19 are provided on pages 187 to 194.

The majority of the UK and US defined benefit pension schemes are funded by the Group's subsidiaries and equity accounted investments. The individual pension schemes' funding requirements are based on actuarial measurement frameworks set out in their funding policies.

The funding valuations are performed by professionally qualified independent actuaries and include assumptions which differ from the actuarial assumptions used for IAS 19 accounting purposes shown on page 187. The purpose of the funding valuations is to design funding plans which ensure that the schemes have sufficient funds available to meet future benefit payments.

24. Post-employment benefits continued

Funding continued

UK valuations

Funding valuations of the Group's UK defined benefit pension schemes are performed at least every three years. The most recent triennial funding valuation for the Main Scheme was carried out as at 31 March 2024. This valuation was concluded and signed off on 6 February 2025.

The results of the most recent triennial valuation for the Main Scheme are shown below. This valuation was agreed with the Trustees and certified by the Scheme Actuary after consultation with the Pensions Regulator in the UK.

	Main Scheme as at 31 March 2024 £bn
Market value of assets	19.2
Present value of liabilities	(18.4)
Funding surplus	0.8
Percentage of accrued benefits covered by the assets at the valuation date	104%

The other UK schemes were also in surplus at their most recent triennial valuations.

The valuations were determined using the following mortality assumptions:

Life expectancy of a male currently aged 65 (years)	86 – 89
Life expectancy of a female currently aged 65 (years)	88 – 90
Life expectancy of a male at age 65, currently aged 45 (years)	88 – 91
Life expectancy of a female at age 65, currently aged 45 (years)	90 – 93

As part of the process of the Main Scheme's 2021 valuation, the Trustees and the Group agreed to update the methodology to use a cash flow matching strategy, such that assets are invested with the aim of the expected income directly matching the expected benefit payments of the Main Scheme. The most recent triennial valuation at 31 March 2024 has been carried out using the same principles. The cash flow matching strategy aims to manage risk through a defined amount of risk buffer assets, which equate to the agreed prudence margin in the valuation. The risk buffer assets are measured over time to ensure the Main Scheme is sufficiently funded. The asset portfolio is currently invested in a selection of bonds designed to match the pension payments for current pensioners, as well as a mix of growth-seeking assets aimed to generate returns for the pension payments for future pensioners. Over time, assets from the return-seeking portfolio will be realised to purchase additional, lower-risk assets to match the increasing current pensioner payments.

The valuations for the other schemes use a different method in that discount rates were directly based on prudent levels of expected returns for the assets held by the schemes, reflecting the planned investment strategies and maturity profiles of each scheme. The discount rates are curves which provide a different rate for each year into the future. Under IAS 19, the discount rate for accounting purposes is based on third-party AA corporate bond yields.

The inflation assumptions for each of the valuations were derived based on the difference between the yields on index-linked and fixed-interest long-term government bonds. The inflation assumption is a curve which provides a different rate for each year into the future.

There have been no changes to the contributions or benefits, as set out in the rules of the schemes, for pension scheme members as a result of the new funding valuation.

The results of future triennial valuations and associated funding requirements will be impacted by a number of factors, including the future performance of investment markets and anticipated members' longevity.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

Funding continued

US valuations

The Group's US pension schemes are valued annually, with the latest valuations performed as at 1 January 2024. The actuarial present value of accumulated plan benefits is determined by an independent actuary and uses actuarial assumptions to adjust the accumulated plan benefits earned by participants to reflect the time value of money and the probability of payment between the valuation date and the expected date of payment.

Contributions

Under the terms of the trust deeds of the UK schemes, the Group is required to have a funding plan determined at the conclusion of the triennial funding valuations.

Equity accounted investments make regular contributions to the schemes in which they participate in line with the schedule of contributions and are allocated a share of funding contributions.

In 2024, total employer contributions to the Group's pension schemes were £407m (2023 £274m), including amounts funded by equity accounted investments of £22m (2023 £30m), and included approximately £48m (2023 £68m) of payments associated with the share buyback programme in respect of the Main Scheme and £156m (2023 £9m) of contributions to the US schemes, the significant majority of which were to improve the funding position of the US schemes.

Contributions in 2025 to the Group's pension schemes are expected to be at a lower level than 2024, primarily reflecting the impact of updated market conditions on the cost of benefit accrual and the one-off nature of the majority of the US contributions made in 2024.

Risk management

The defined benefit pension schemes expose the Group to actuarial risks, including market (investment) risk, interest rate risk, inflation risk and longevity risk.

Risk	Mitigation
Market (investment) risk Asset returns may not move in line with the liabilities and may be subject to volatility.	The investment portfolios are highly diversified, investing in a wide range of assets, in order to reduce the exposure of the total portfolio to a materially adverse impact from a single security or type of security. To reduce volatility, certain assets are held in a matching portfolio, which largely consists of index-linked bonds, gilts and swaps, designed to mirror movements in corresponding liabilities. Environmental (including exposure to climate-related risks), social and governance factors are incorporated into the investment analysis and decision-making process carried out by the Trustees of the UK schemes. There is alignment between the UK Main Scheme and the Company's climate change objectives with consistent long-term decarbonisation ambitions.
Interest rate risk Liabilities are sensitive to movements in interest rates, with lower interest rates leading to an increase in the valuation of liabilities.	The Main Scheme has adopted a cash flow matching strategy, whereby contractual income from assets is designed to directly match benefits paid to members each year. A portfolio of assets with contractual income has been structured to match benefits already in payment, representing just over half of the liabilities. This inherently hedges the associated interest rate risk. As members retire and become pensioners, additional matching assets will be purchased to keep pace. Interest rate risk associated with the remaining purchase of matching assets is mitigated via a hedging strategy involving mainly physical assets and derivatives. The overall level of interest rate hedging on the funding basis has increased over the years.
Inflation risk Liabilities are sensitive to movements in inflation, with higher inflation leading to an increase in the valuation of liabilities.	The Main Scheme's cash flow matching strategy includes aligning asset income to the inflation-linked members' benefit payments. Inflation risk is mitigated by the presence of caps on most inflation-linked benefits and via a hedging strategy, executed with several banks to reduce counterparty risk. The overall level of inflation hedging on the funding basis has increased over the years. The Group's US scheme benefits are not indexed with inflation. In 2014, the Main Scheme implemented a pension increase exchange to allow retired members to elect for a higher current pension in exchange for foregoing certain rights to future pension increases.
Longevity risk Liabilities are sensitive to life expectancy, with increases in life expectancies leading to an increase in the valuation of liabilities.	Longevity adjustment factors are used in the majority of the UK pension schemes in order to adjust the pension benefits payable so as to share the cost of people living longer with employees. In 2013, with the agreement of the Company, the Trustees of the 2000 Plan, Royal Ordnance Pension Scheme and Shipbuilding Industries Pension Scheme (SIPS) entered into arrangements with Legal & General to insure against longevity risk for the current pensioner population, covering a total of £4.4bn of pension scheme liabilities at that time. These arrangements reduce the funding volatility relating to increasing life expectancy. This longevity risk cover with Legal & General remains in place following the 2019 merger of the 2000 Plan and SIPS into the Main Scheme.

24. Post-employment benefits continued

Virgin Media case

As noted in the Annual Report 2023, the Group is aware of the 'Virgin Media v NTL Pension Trustees Ltd and others' case and continues to monitor developments in this area of the law with the help of its advisors. Following the Court of Appeal's decision to uphold the ruling of the High Court against Virgin Media, the Group has been considering the extent to which the defined benefit schemes are exposed to the outcomes of this case and any resulting change in pension obligations, if any, is not anticipated to be material to the Company. The Group is therefore satisfied that it remains appropriate to make no adjustment to the financial statements on this basis but will keep the matter under review.

SMS business

In February 2024, the Group completed the acquisition of the US-based Ball Aerospace business from Ball corporation and formed our new SMS business. This transaction included a funded defined benefit pension scheme, now referred to as the SMS Plan, which resulted in the recognition of a net defined benefit obligation on acquisition of £147m. See note 32.

Settlement gain

In June 2024, $145m (£113m) of the US defined benefit obligation liabilities were settled via payment of a lump sum to participants. The premium of $128m (£100m) created a one-off accounting gain of $17m (£13m). This gain has been recognised in the Consolidated income statement and as an adjusting item.

Surplus recognition

A number of schemes are in an accounting surplus position. The surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Group, which is assumed to be via a refund. The surplus has been recognised net of withholding tax of 25% at 31 December 2024 (2023 35%) based on the enacted legislation at that date. This tax would be levied prior to the future refunding of any surplus and therefore the surplus has been presented on a net basis as this is not deemed to be an income tax of the Group.

IAS 19 accounting

We have changed the presentation of our IAS 19 figures to show BAE Systems' share of balances in all tables. Comparatives have also been re-presented. There has been no change to the methodology of allocation or the underlying 2023 figures.

The disclosures below relate to post-retirement benefit schemes in the UK, US and other countries which are accounted for as defined benefit schemes in accordance with IAS 19.

Principal actuarial assumptions

The assumptions used are estimates chosen from a range of possible actuarial assumptions which, due to the long-term nature of the obligation covered, may not necessarily occur in practice.

	UK			US		
	2024	2023	2022	**2024**	2023	2022
Financial assumptions						
Discount rate – past service (%)	**5.5**	4.5	4.8	**5.5**	4.8	5.0
Discount rate – future service (%)	**5.6**	4.6	4.8	**5.5**	4.8	5.0
Retail Prices Index (RPI) inflation (%)	**2.9**	2.8	3.0	**n/a**	n/a	n/a
Rate of increase in salaries (%)	**2.9**	2.8	3.0	**2.8**	n/a	n/a
Rate of increase in deferred pensions (CPI/RPI) (%)	**2.3/2.9**	2.1/2.8	2.3/3.0	**n/a**	n/a	n/a
Rate of increase in pensions in payment (%)	**1.7 – 3.6**	1.6 – 3.6	1.7 – 3.6	**n/a**	n/a	n/a
Demographic assumptions						
Life expectancy of a male currently aged 65 (years)	**85 – 88**	85 – 89	86 – 89	**88**	88	87
Life expectancy of a female currently aged 65 (years)	**88 – 91**	88 – 89	88 – 90	**89**	89	89
Life expectancy of a male currently aged 45 (years)	**86 – 89**	86 – 89	87 – 90	**87**	87	87
Life expectancy of a female currently aged 45 (years)	**89 – 92**	89 – 90	89 – 91	**89**	89	89

Discount rate

The discount rate assumptions are derived through discounting the projected benefit payments using a third-party AA corporate bond yield curve to produce a single equivalent discount rate for the UK and US territories. This inherently captures the maturity profile of the expected benefit payments. For the UK territory, the discount rate used for future service differs from that used for past service as it only uses the cash flows relating to active members, which have a different duration. Further information on the duration of the schemes is detailed on page 183.

Retail Prices Index (RPI) and Consumer Prices Index (CPI) inflation

In the UK, the inflation assumptions are derived by reference to the difference between the yields on index-linked and fixed-interest long-term government bonds. Index-linked government bond prices contain a premium that investors are willing to pay to mitigate the risk that RPI inflation is higher than expected. To account for this, the RPI assumption includes an inflation risk premium deduction.

The inflation risk premium deduction has been set at 0.55% per annum (2023 0.55%) and the CPI assumption has been set at 0.6% per annum (2023 0.7%) lower than RPI. The resulting RPI assumption is 2.9% per annum and the CPI assumption is 2.3% per annum. The 0.6% per annum RPI-CPI differential is a weighted average of a 1% per annum differential pre-2030 and 0.1% per annum differential post-2030; this reflects the anticipated change to the RPI index from 2030. In the US, inflation assumptions are not relevant as the Group's US pension schemes are not indexed with inflation.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

IAS 19 accounting continued

Rate of increase in salaries

The rate of increase in salaries for the UK schemes is assumed to be RPI inflation of 2.9% (2023 RPI inflation of 2.8%), plus a promotional scale. From 1 January 2013, non-SMS Plan employees in the US schemes no longer accrue salary-related benefits. The SMS Plan does have salary linked benefits and the salary growth assumption for these benefits is assumed to be 2.8%.

Rate of increase in deferred pensions

The rate of increase in deferred pensions for the UK schemes is based on CPI inflation of 2.3% (2023 2.1%), with the exception of the legacy 2000 Plan, which is based on RPI inflation of 2.9% (2023 2.8%). For all UK schemes, the rate of increase in deferred pensions is subject to inflation caps.

Rate of increase in pensions in payment

The rate of increase in pensions in payment differs between UK schemes. Different tranches of the schemes' benefits increase at rates based on either RPI or CPI inflation, and some are subject to an inflation cap.

Life expectancy

For its UK pension schemes, the Group has used the Self-Administered Pension Schemes S3 mortality tables based on year of birth (as published by the Institute and Faculties of Actuaries) for both pensioner and non-pensioner members, in conjunction with the results of an investigation into the actual mortality experience of scheme members and information on the demographic profile of the scheme's membership.

In addition, to allow for future improvements in longevity, the Continuous Mortality Investigation 2023 tables (published by the Institute of Actuaries) have been used (in 2023, the Continuous Mortality Investigation 2022 tables were used), with an assumed long-term rate of mortality improvements of 1.0% per annum (2023 1.0%), an initial rate adjustment parameter ('A') of 0.2% (2023 0.2%), a smoothing parameter ('Sk') of 7 (2023 7) and the following weighting ('W') parameters: W2023 35%, W2022 35% (2023 35%), W2021 0% (2023 0%), W2020 0% (2023 0%).

For the majority of the US schemes, the mortality tables used at 31 December 2024 are a blend of the fully generational PRI-2012 White Collar table and the PRI-2012 Blue Collar table, both projected using November 2024 Aon Endemic Projection Scale MP-2021.

US healthcare schemes

The latest valuations of the principal schemes, covering retiree medical and life insurance schemes in certain US subsidiaries, were performed by independent actuaries as at 1 January 2024. These valuations were rolled forward to reflect the information at 31 December 2024. The method of accounting for these is similar to that used for defined benefit pension schemes.

Long-term healthcare cost is assumed to increase at 5.1% per annum (2023 5.0%). This is based on an assumed increase in 2024 of 7.5% for pre-retirement and 6.0% for post-retirement, with both rates then reducing to 4.5% by 2034 and remaining at 4.5% per annum each year thereafter.

Summary of movements in post-employment benefit obligations

	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Surplus/(deficit) at 1 January 2024	649	(307)	55	(168)	229
Actual return on assets excluding amounts included in net finance costs	(1,628)	(94)	(4)	–	(1,726)
Decrease in liabilities due to changes in financial assumptions	1,745	179	4	14	1,942
Decrease/(increase) in liabilities due to changes in demographic assumptions	46	(19)	12	1	40
Experience gains/(losses)	95	46	2	(5)	138
Contributions in excess of/(below) service cost	138	114	(2)	(11)	239
Settlements	–	13	–	–	13
Business acquisitions	–	(147)	–	–	(147)
Net interest income/(expense)	58	(18)	4	(8)	36
Foreign exchange adjustments	–	3	–	(1)	2
Movement in withholding tax on surpluses[1]	2	–	–	–	2
Surplus/(deficit) at 31 December 2024	**1,105**	**(230)**	**71**	**(178)**	**768**

1. This includes £113m from the increase in the surplus offset by £115m from the change in withholding tax rate from 35% to 25%.

24. Post-employment benefits continued

IAS 19 accounting continued

Amounts recognised on the balance sheet

The table below shows a reconciliation between the Group's share of scheme assets and liabilities of the UK, US and other post-employment benefit schemes and the amounts recognised on the Group's balance sheet.

	2024				
	UK defined benefit pension schemes £m	**US and other pension schemes £m**	**US healthcare schemes £m**	**Kingdom of Saudi Arabia end of service benefit £m**	**Total £m**
Present value of unfunded obligations	**(92)**	**(97)**	**–**	**(178)**	**(367)**
Present value of funded obligations	**(16,128)**	**(2,974)**	**(108)**	**–**	**(19,210)**
Fair value of scheme assets	**17,725**	**2,841**	**179**	**–**	**20,745**
Total gross surplus/(deficit)	**1,505**	**(230)**	**71**	**(178)**	**1,168**
Withholding tax on surpluses	**(400)**	**–**	**–**	**–**	**(400)**
Surplus/(deficit)	**1,105**	**(230)**	**71**	**(178)**	**768**
Represented by:					
Post-employment benefit surpluses	**1,197**	**3**	**71**	**–**	**1,271**
Post-employment benefit obligations	**(92)**	**(233)**	**–**	**(178)**	**(503)**
	1,105	**(230)**	**71**	**(178)**	**768**

The US unfunded pension obligations have associated assets held in deferred compensation schemes with a fair value of £62m (2023 £53m), which are shown in Other Investments. The funds held in these trusts can be used solely for the satisfaction of the unfunded obligations.

	2023				
	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
2023 scheme assets and obligations as previously presented[1]					
Present value of unfunded obligations – total for the schemes	(105)	(98)	–	(168)	(371)
Present value of funded obligations – total for the schemes	(19,913)	(2,838)	(125)	–	(22,876)
Fair value of scheme assets – total for the schemes	21,176	2,629	180	–	23,985
Total surplus/(deficit) – total for the schemes	1,158	(307)	55	(168)	738
Withholding tax on surpluses – total for the schemes	(441)	–	–	–	(441)
Allocated to equity accounted investments	(68)	–	–	–	(68)
Group's share of surplus/(deficit)	649	(307)	55	(168)	229
2023 scheme assets and obligations as re-presented					
Present value of unfunded obligations – Group's share of the schemes	(98)	(98)	–	(168)	(364)
Present value of funded obligations – Group's share of the schemes	(18,105)	(2,838)	(125)	–	(21,068)
Fair value of scheme assets – Group's share of the schemes	19,254	2,629	180	–	22,063
Total gross surplus/(deficit) – Group's share of the schemes	1,051	(307)	55	(168)	631
Withholding tax on surpluses – Group's share of the schemes	(402)	–	–	–	(402)
Group's share of surplus/(deficit)	649	(307)	55	(168)	229
Represented by:					
Post-employment benefit surpluses	747	2	55	–	804
Post-employment benefit obligations	(98)	(309)	–	(168)	(575)
	649	(307)	55	(168)	229

1. 2023 figures have been re-presented to allow for a clearer reconciliation between retirement benefit balances as reported in note 24 and those elsewhere in the Consolidated financial statements.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

IAS 19 accounting continued

Changes in the fair value of scheme assets

	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Value of scheme assets at 1 January 2023	19,614	3,629	190	–	23,433
Interest income	919	170	9	–	1,098
Actual return on assets excluding amounts included in interest income	(603)	124	3	–	(476)
Actual return on assets	316	294	12	–	622
Contributions by employer	245	9	–	13	267
Contributions by employer in respect of employee salary sacrifice arrangements	62	–	–	–	62
Total contributions by employer	307	9	–	13	329
Members' contributions	4	–	–	–	4
Settlements	–	(894)	–	–	(894)
Administrative expenses	(22)	(15)	(1)	–	(38)
Foreign exchange translation	–	(185)	(11)	–	(196)
Benefits paid	(965)	(209)	(10)	(13)	(1,197)
Value of scheme assets at 31 December 2023	19,254	2,629	180	–	22,063
Interest income	853	135	9	–	997
Actual return on assets excluding amounts included in interest income	(1,628)	(94)	(4)	–	(1,726)
Actual return on assets	(775)	41	5	–	(729)
Contributions by employer	229	156	1	13	399
Contributions by employer in respect of employee salary sacrifice arrangements	61	–	–	–	61
Total contributions by employer	290	156	1	13	460
Members' contributions	4	–	–	–	4
Settlements	–	(100)	–	–	(100)
Administrative expenses	(15)	(10)	(1)	–	(26)
Business acquisitions	–	253	–	–	253
Foreign exchange translation	–	45	3	–	48
Benefits paid	(1,033)	(173)	(9)	(13)	(1,228)
Value of scheme assets at 31 December 2024	**17,725**	**2,841**	**179**	**–**	**20,745**

24. Post-employment benefits continued

IAS 19 accounting continued

Assets of defined benefit pension schemes

	2024								
	UK			US and other			Total		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities:									
UK[1]	**1**	**–**	**1**	**–**	**–**	**–**	**1**	**–**	**1**
Overseas	**97**	**–**	**97**	**–**	**–**	**–**	**97**	**–**	**97**
Pooled investment vehicles[2]	**–**	**6,559**	**6,559**	**815**	**–**	**815**	**815**	**6,559**	**7,374**
Fixed-interest securities:									
UK gilts	**2,400**	**–**	**2,400**	**–**	**–**	**–**	**2,400**	**–**	**2,400**
UK corporates	**1,951**	**1,480**	**3,431**	**–**	**–**	**–**	**1,951**	**1,480**	**3,431**
Overseas government	**61**	**–**	**61**	**477**	**–**	**477**	**538**	**–**	**538**
Overseas corporates	**1,891**	**–**	**1,891**	**1,329**	**–**	**1,329**	**3,220**	**–**	**3,220**
Index-linked securities:									
UK gilts	**1,959**	**–**	**1,959**	**–**	**–**	**–**	**1,959**	**–**	**1,959**
UK corporates	**580**	**–**	**580**	**–**	**–**	**–**	**580**	**–**	**580**
Overseas government	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Overseas corporates	**8**	**–**	**8**	**–**	**–**	**–**	**8**	**–**	**8**
Property[3]	**–**	**1,182**	**1,182**	**–**	**70**	**70**	**–**	**1,252**	**1,252**
Derivatives[4]	**–**	**(1,497)**	**(1,497)**	**–**	**11**	**11**	**–**	**(1,486)**	**(1,486)**
Cash:									
Sterling	**904**	**40**	**944**	**–**	**–**	**–**	**904**	**40**	**944**
Foreign currency	**75**	**–**	**75**	**139**	**–**	**139**	**214**	**–**	**214**
Other	**–**	**34**	**34**	**–**	**–**	**–**	**–**	**34**	**34**
Total	**9,927**	**7,798**	**17,725**	**2,760**	**81**	**2,841**	**12,687**	**7,879**	**20,566**

	2023								
	UK			US and other			Total		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities:									
UK[1]	1	–	1	–	–	–	1	–	1
Overseas	202	–	202	–	–	–	202	–	202
Pooled investment vehicles[2]	–	7,009	7,009	655	–	655	655	7,009	7,664
Fixed-interest securities:									
UK gilts	2,144	–	2,144	–	–	–	2,144	–	2,144
UK corporates	2,620	1,600	4,220	–	–	–	2,620	1,600	4,220
Overseas government	32	–	32	595	–	595	627	–	627
Overseas corporates	1,552	–	1,552	1,276	–	1,276	2,828	–	2,828
Index-linked securities:									
UK gilts	1,979	–	1,979	–	–	–	1,979	–	1,979
UK corporates	992	–	992	–	–	–	992	–	992
Overseas government	–	–	–	–	–	–	–	–	–
Overseas corporates	39	–	39	–	–	–	39	–	39
Property[3]	–	1,316	1,316	–	29	29	–	1,345	1,345
Derivatives[4]	–	(1,134)	(1,134)	–	5	5	–	(1,129)	(1,129)
Cash:									
Sterling	526	147	673	–	–	–	526	147	673
Foreign currency	222	–	222	69	–	69	291	–	291
Other	–	7	7	–	–	–	–	7	7
Total	10,309	8,945	19,254	2,595	34	2,629	12,904	8,979	21,883

1. Includes £nil (2023 £nil) of the Company's own ordinary shares.
2. Primarily invested in private markets and exchange traded funds. The amounts classified as unquoted primarily comprise investments in private markets, with the majority held in infrastructure, alternatives and direct funds, valued in accordance with International Private Equity and Venture Capital Valuation Guidelines.
3. Valued on the basis of open market value at the end of the year determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Note contained therein. Includes £203m (2023 £233m) of property occupied by Group companies.
4. Includes forward foreign exchange contracts, futures, and interest rate, inflation and longevity swaps. In addition, the total derivative figures shown are net of £512m (2023 £449m) of repurchase agreements. The valuations are based on valuation techniques using underlying market data and discounted cash flows.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

IAS 19 accounting continued

Longevity swap

The Group holds longevity insurance contracts for some of its UK defined benefit pension schemes. These provide long-term protection and income to the underlying pension scheme in the event that insured members live longer than expected.

The value of the longevity insurance contracts held by the Group are calculated by an actuary. They are measured by discounting the difference between the projected fixed and floating cash flows payable under the contracts, excluding the value of future projected fees. The significant assumptions used for this valuation are the discount rate and mortality assumptions; fair values for these assumptions are advised by an actuary based on external data and characteristics of the insured member population.

At 31 December 2024, the longevity swap valuation leads to a negative adjustment to the assets which reflects that experience to date on the contracts has been higher than expected deaths.

Changes in the present value of the defined benefit obligations

	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Defined benefit obligations at 1 January 2023	(17,825)	(4,032)	(128)	(142)	(22,127)
Current service cost	(85)	(6)	(2)	(20)	(113)
Contributions by employer in respect of employee salary sacrifice arrangements	(62)	–	–	–	(62)
Total current service cost	(147)	(6)	(2)	(20)	(175)
Members' contributions	(4)	–	–	–	(4)
Past service cost – plan amendments	–	–	(2)	–	(2)
Settlements	–	954	–	–	954
Actuarial loss due to changes in financial assumptions	(298)	(52)	(4)	(13)	(367)
Actuarial gain/(loss) due to changes in demographic assumptions	34	(1)	–	–	33
Experience losses	(106)	(22)	(1)	(5)	(134)
Interest expense	(822)	(190)	(6)	(8)	(1,026)
Foreign exchange translation	–	204	8	7	219
Benefits paid	965	209	10	13	1,197
Defined benefit obligations at 31 December 2023	(18,203)	(2,936)	(125)	(168)	(21,432)
Current service cost	(76)	(32)	(2)	(24)	(134)
Contributions by employer in respect of employee salary sacrifice arrangements	(61)	–	–	–	(61)
Total current service cost	(137)	(32)	(2)	(24)	(195)
Members' contributions	(4)	–	–	–	(4)
Settlements	–	113	–	–	113
Actuarial gain due to changes in financial assumptions	1,745	179	4	14	1,942
Actuarial gain/(loss) due to changes in demographic assumptions	46	(19)	12	1	40
Experience gains/(losses)	95	46	2	(5)	138
Interest expense	(795)	(153)	(5)	(8)	(961)
Business acquisitions	–	(400)	–	–	(400)
Foreign exchange translation	–	(42)	(3)	(1)	(46)
Benefits paid	1,033	173	9	13	1,228
Defined benefit obligations at 31 December 2024	**(16,220)**	**(3,071)**	**(108)**	**(178)**	**(19,577)**

24. Post-employment benefits continued

IAS 19 accounting continued

Amounts recognised in the Consolidated income statement

	2024				
	UK defined benefit pension schemes £m	**US and other pension schemes £m**	**US healthcare schemes £m**	**Kingdom of Saudi Arabia end of service benefit £m**	**Total £m**
Included in operating costs:					
Current service cost	**(76)**	**(32)**	**(2)**	**(24)**	**(134)**
Administrative expenses	**(15)**	**(10)**	**(1)**	**–**	**(26)**
	(91)	**(42)**	**(3)**	**(24)**	**(160)**
Included in other income:					
Pensions settlement gain	**–**	**13**	**–**	**–**	**13**
Included in net finance costs:					
Gross interest income/(expense) on post-employment benefit obligations	**58**	**(18)**	**4**	**(8)**	**36**
Impact of withholding tax	**(18)**	**–**	**–**	**–**	**(18)**
Net interest income/(expense) on post-employment benefit obligations	**40**	**(18)**	**4**	**(8)**	**18**
Included within statement of comprehensive income:					
Gross actuarial gain on post-employment benefit schemes	**258**	**112**	**14**	**10**	**394**
Impact of withholding tax	**20**	**–**	**–**	**–**	**20**
Net actuarial gain on post-employment benefit obligations	**278**	**112**	**14**	**10**	**414**

	2023				
	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Included in operating costs:					
Current service cost	(85)	(6)	(2)	(20)	(113)
Past service cost – plan amendments	–	–	(2)	–	(2)
Administrative expenses	(22)	(15)	(1)	–	(38)
	(107)	(21)	(5)	(20)	(153)
Included in other income:					
Pensions settlement gain	–	60	–	–	60
Included in net finance costs:					
Net interest income/(expense) on post-employment benefit obligations	66	(20)	3	(8)	41
Included within Statement of comprehensive income					
Net actuarial gain on post-employment benefit obligations	(687)	49	(2)	(18)	(658)

Defined contribution schemes

The Group incurred a charge of £334m (2023 £309m) in relation to defined contribution schemes for employees.

Notes to the Consolidated financial statements continued

24. Post-employment benefits continued

IAS 19 accounting continued

Sensitivity analysis

The sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 December 2024 and keeping all other assumptions as set out on page 187.

The pension schemes hold a number of unquoted pooled investment vehicles, which are investments in private markets. These are valued based on latest available valuation reports, and as noted on page 150, these valuations are subject to estimation uncertainty as their valuation techniques incorporate a number of assumptions, including those associated with the impact of climate change. Should these funds' actual valuations at 31 December 2024 be on average 2% different to those assumed, this would result in a £0.1bn (2023 £0.2bn) change in the valuation of the assets.

Financial assumptions

The estimated impact of changes in the discount rate and inflation assumptions on the defined benefit pension obligation, together with the estimated impact on scheme assets, is shown in the table below. The sensitivity analysis on the defined benefit obligation is measured on an IAS 19 accounting basis.

	Decrease/(increase) in pension obligation[1] £bn	(Decrease)/increase in scheme assets[1] £bn
Discount rate:		
0.5 percentage point increase/decrease	1.0/(1.1)	(1.0)/1.1
1.0 percentage point increase/decrease	1.9/(2.3)	(2.0)/2.3
2.0 percentage point increase/decrease	3.5/(5.2)	(3.6)/5.0
	(Increase)/decrease in pension obligation[1] £bn	**Increase/(decrease) in scheme assets[1] £bn**
Inflation:		
0.1 percentage point increase/decrease	(0.1)/0.1	0.1/(0.1)
0.5 percentage point increase/decrease	(0.5)/0.5	0.6/(0.5)
1.0 percentage point increase/decrease	(1.0)/1.0	1.2/(1.0)

Demographic assumptions

Changes in the life expectancy assumption, including the benefit of longevity swap arrangements (see longevity risk on page 186), would have the following effect on the total net IAS 19 surplus:

	(Decrease)/increase in net surplus[1] £bn
Life expectancy:	
One-year increase/decrease	(0.6)/0.6

1. Before deduction of withholding tax.

25. Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax risk-free discount rate.

Legal, contractual and environmental

The Group holds provisions for expected legal, contractual and environmental costs that it expects to incur over an extended period. Management exercises judgement to determine the amount of these provisions. Provision is made for known issues based on past experience of similar items and other known factors. Each provision is considered separately and the amount provided reflects the best estimate of the most likely amount, being the single most likely amount in a range of possible outcomes.

Warranties and after-sales services

Where warranties and after-sales services are provided in the normal course of business, provisions for associated costs are made based on an assessment of future claims with reference to past experience. A provision for warranties is recognised when the underlying products and services are sold. The provision is based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

Reorganisations

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected. The costs associated with the reorganisation programmes are supported by detailed plans and based on previous experience as well as other known factors. Future operating costs are not provided for.

	Legal, contractual and environmental £m	Warranties and after-sales services £m	Reorganisations £m	Other £m	Total £m
Non-current	236	55	7	34	332
Current	126	50	11	49	236
At 1 January 2024	362	105	18	83	568
Created	145	49	7	25	226
Utilised	(69)	(29)	(9)	(10)	(117)
Business acquisitions	12	–	–	–	12
Released	(51)	(12)	(2)	(19)	(84)
Net present value adjustments	8	–	–	1	9
Foreign exchange adjustments	3	(1)	–	1	3
At 31 December 2024	**410**	**112**	**14**	**81**	**617**
Represented by:					
Non-current	260	67	4	32	363
Current	150	45	10	49	254
	410	**112**	**14**	**81**	**617**

Legal, contractual and environmental

Reflecting the inherent uncertainty within many legal proceedings, the amount of the outflows could differ significantly from the amount provided. While the timing of the outflows is also uncertain, the Group expects these provisions to be utilised over a period of approximately 25 years.

Warranties and after-sales services

Warranty and after-sales services provisions are generally utilised within three years post-delivery. Whilst actual events could result in potentially significant differences to the value, but not the timing, of the outflows in relation to the provisions, management has reflected current knowledge in assessing the provision levels.

Reorganisations

Reorganisation provisions are generally utilised within one to three years. There is limited volatility around the timing and amount of the ultimate outflows related to these provisions.

Other

There are no individually significant provisions included within other provisions.

Notes to the Consolidated financial statements continued

26. Share capital and other reserves

Share capital

	Equity		Non-equity		Total
	Ordinary shares of 2.5p each		Special Share of £1		
	Number of shares m	Nominal value £m	Number of shares	Nominal value £	Nominal value £m
Issued and fully paid					
At 1 January 2023	3,297	82	1	1	82
Shares cancelled	(58)	(1)	–	–	(1)
At 31 December 2023	3,239	81	1	1	81
Shares cancelled	(44)	(1)	–	–	(1)
At 31 December 2024	**3,195**	**80**	**1**	**1**	**80**

Special Share

One Special Share of £1 in the Company is held on behalf of the Secretary of State for Business and Trade (the Special Shareholder). Certain provisions of the Company's Articles of Association cannot be amended without the consent of the Special Shareholder. These provisions include the requirement that no foreign person, or foreign persons acting in concert, can have more than a 15% voting interest in the Company, the requirement that the majority of the directors are British, and the requirement that the Chief Executive or any executive Chair are British. The effect of these requirements can also be amended by regulations made by the directors and approved by the Special Shareholder.

The Special Shareholder may require the Company at any time to redeem the Special Share at par or to convert the Special Share into one ordinary voting share. The Special Shareholder is entitled to attend a general meeting, but has no right to vote or any other rights at such meeting, other than to speak in relation to any business in respect of the Special Share.

Treasury shares

As at 31 December 2024, 183,673,739 (2023 204,041,705) ordinary shares of 2.5p each with an aggregate nominal value of £4,591,843 (2023 £5,101,043) and a market value of £2,109m (2023 £2,266m) were held in treasury. During 2024, 20,367,966 (2023 16,045,254) treasury shares were used to satisfy awards and options under the Share Incentive Plan, International Share Incentive Plan, Performance Share Plan, the Performance Shares and Restricted Shares elements of the Long-Term Incentive Plan, the Executive Share Option Plan, the Group Free Shares Plan and the International Profit Sharing Scheme.

Shares held in trusts

The Group has an Employee Share Option (ESOP) discretionary trust to administer the share plans and to acquire Company shares, using funds loaned by the Group, to meet commitments to Group employees. At 31 December 2024, the ESOP Trust held 8,172,124 (2023 8,665,966) ordinary shares of 2.5p each, with an aggregate nominal value of £204,303 (2023 £216,649) and a market value of £94m (2023 £96m).

The Group also has a Share Incentive Plan (SIP) trust. Participating employees are able to purchase Partnership shares, funded via salary sacrifice, and also benefit from Free Shares and Matching Partnership Shares. At 31 December 2024, the SIP trust held 74,600,040 (2023 78,757,512) ordinary shares of 2.5p each with an aggregate nominal value of £1,865,001 (2023 £1,968,938) and a market value of £857m (2023 £875m).

A dividend waiver was also in operation for the dividends paid in the year over shares within the trusts, other than those shares owned beneficially by the participants or where the dividend payment is used to purchase dividend shares.

Shares which are unconditionally available to employees, but are retained within these trusts, are considered outstanding shares for the purposes of the basic earnings per share calculation. Contingently issuable shares are included within the calculation of diluted earnings per share (see note 8).

Own shares held

Own shares held, including treasury shares and shares held by BAE Systems ESOP and SIP Trusts, are recognised as a deduction from retained earnings.

26. Share capital and other reserves continued

Equity dividends

Equity dividends on ordinary share capital are recognised as a liability on the date that the shareholder's right to receive payment is established.

	2024 £m	2023 £m
Final 18.5p dividend per ordinary share paid in the year (2023 16.6p)	**562**	508
Interim 12.4p dividend per ordinary share paid in the year (2023 11.5p)	**375**	349
	937	857

After the balance sheet date, the directors proposed a final dividend of 20.6p per ordinary share. The dividend proposed amounts to approximately £622m, although the final payment is likely to be lower as a result of the impact of share repurchases. Subject to shareholder approval, the dividend will be paid on 2 June 2025 to shareholders registered on 22 April 2025. The provisional ex-dividend date is 17 April 2025. The payment of this dividend will not have any tax expense consequences for the Group.

Other reserves

	Merger reserve £m	Statutory reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2023	4,589	202	10	8	(11)	2,153	6,951
Subsidiaries:							
Currency translation on foreign currency net investments	–	–	–	–	–	(502)	(502)
Net amounts recognised in hedging reserve	–	–	–	–	(58)	–	(58)
Equity accounted investments (net of tax)	–	–	–	–	5	6	11
Purchase of own shares	–	–	–	1	–	–	1
At 31 December 2023	4,589	202	10	9	(64)	1,657	6,403
Subsidiaries:							
Currency translation on foreign currency net investments	–	–	–	–	–	5	5
Reclassification of cumulative currency translation reserve on divestment of interest in equity accounted investments and other business disposals	–	–	–	–	–	3	3
Net amounts recognised in hedging reserve	–	–	–	–	31	–	31
Equity accounted investments (net of tax)	–	–	–	–	1	3	4
Purchase of own shares	–	–	–	1	–	–	1
At 31 December 2024	**4,589**	**202**	**10**	**10**	**(32)**	**1,668**	**6,447**

Notes to the Consolidated financial statements continued

26. Share capital and other reserves continued

Other reserves continued

Merger reserve

The merger reserve arose on the acquisition of the Marconi Electronic Systems (MES) business by British Aerospace in 1999 to form BAE Systems, and represents the amount by which the fair value of the shares issued by British Aerospace as consideration exceeded their nominal value.

Statutory reserve

Under Section 4 of the British Aerospace Act 1980, this reserve may only be applied in paying up unissued shares of the Company to be allotted to members of the Company as fully paid bonus shares.

Revaluation reserve

The revaluation reserve relates to the revaluation at fair value of the net assets of the BVT joint venture previously held as an equity accounted investment on the acquisition of the remaining 45% interest in 2009.

Capital redemption reserve

The capital redemption reserve represents the cumulative nominal value of the Company's ordinary shares repurchased and subsequently cancelled.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Capital

The Group funds its operations through a mixture of equity funding and debt financing, including bank and capital market borrowings.

At 31 December 2024, the Group's capital was £11,809m (2023 £10,787m), which comprised total equity of £11,777m (2023 £10,723m), excluding amounts accumulated in equity relating to cash flow hedges of £(32)m (2023 £(64)m). Net debt (excluding lease liabilities) was £4,945m (2023 £1,022m).

The capital structure of the Group reflects the judgement of the directors of an appropriate balance of funding required. The Group's policy is to maintain an investment grade credit rating and ensure operating flexibility, whilst:

- meeting its pension obligations;
- investing in research and technology and pursuing other organic investment opportunities;
- paying dividends in line with the Group's policy of long-term sustainable cover of around two times underlying earnings (see page 221);
- making accelerated returns of capital to shareholders when the balance sheet allows and when the return from doing so is in excess of the Group's Weighted Average Cost of Capital; and
- investing in value-enhancing acquisitions, where market conditions are right and where they deliver on the Group's strategy.

Purchase of own shares

In July 2022, the directors approved a share buyback programme of up to £1.5bn (the 2022 share buyback programme). The 2022 share buyback programme was completed on 24 July 2024. In total, 163,907,003 ordinary shares were repurchased under the 2022 share buyback programme for a total cost (including transaction costs) of £1,508m.

In August 2023, the directors approved a further share buyback programme of up to £1.5bn (the 2023 share buyback programme). The 2023 share buyback programme commenced on 25 July 2024. The 2023 share buyback programme is expected to complete within three years of its commencement.

In the year ended 31 December 2023, 58,689,756 ordinary shares were repurchased under the 2022 share buyback programme for a total cost (including transaction costs) of £558m.

In the year ended 31 December 2024, 22,220,182 ordinary shares were repurchased under the 2022 share buyback programme at a total cost (including transaction costs) of £287m. A further 20,901,154 ordinary shares were repurchased under the 2023 share buyback programme at a total cost (including transaction costs) of £264m.

All ordinary shares acquired have been subsequently cancelled, with the nominal value of ordinary shares cancelled deducted from share capital against the capital redemption reserve.

As part of the 2022 and 2023 buyback programmes, it was agreed that should a better alternative use for the Company's cash reserves be identified, the share buyback programmes would be ceased and the money instead used for the alternative purpose. Therefore, when the Company issued a mandate to the brokers to purchase shares on its behalf, the mandate was structured such that it could be revoked at any point. As such, no financial liability has been recognised for shares not yet purchased under the programmes at 31 December.

27. Movement in assets and liabilities arising from financing activities

	As at 1 January 2024 £m	Cash flow[1] £m	Non-cash movements: Foreign exchange movements £m	Leases £m	Fair value adjustments £m	Net finance costs £m	Business acquisitions £m	As at 31 December 2024 £m
Assets								
Other financial assets[2]	**143**	**(143)**	**–**	**–**	**155**	**7**	**–**	**162**
	143	**(143)**	**–**	**–**	**155**	**7**	**–**	**162**
Liabilities								
Loans	**(5,111)**	**(2,828)**	**(106)**	**–**	**–**	**(367)**	**–**	**(8,412)**
Lease liabilities	**(1,420)**	**262**	**(17)**	**(532)**	**–**	**(73)**	**(61)**	**(1,841)**
Other financial liabilities[2]	**(168)**	**292**	**–**	**–**	**(161)**	**(26)**	**–**	**(63)**
	(6,699)	**(2,274)**	**(123)**	**(532)**	**(161)**	**(466)**	**(61)**	**(10,316)**
		(2,417)						
Other interest paid		**141**						
Purchase of own shares		**555**						
Equity dividends paid		**937**						
Dividends paid to non-controlling interests		**89**						
Net cash flow from financing activities		**(695)**						

	As at 1 January 2023 £m	Cash flow[1] £m	Non-cash movements: Foreign exchange movements £m	Leases £m	Fair value adjustments £m	Net finance costs £m	Business acquisitions £m	As at 31 December 2023 £m
Assets								
Other financial assets[2]	170	(200)	–	–	166	7	–	143
	170	(200)	–	–	166	7	–	143
Liabilities								
Loans	(5,242)	35	299	–	–	(203)	–	(5,111)
Lease liabilities	(1,616)	346	60	(157)	–	(53)	–	(1,420)
Other financial liabilities[2]	(114)	406	–	–	(441)	(19)	–	(168)
	(6,972)	787	359	(157)	(441)	(275)	–	(6,699)
		587						
Other interest paid		95						
Purchase of own shares		561						
Equity dividends paid		857						
Dividends paid to non-controlling interests		88						
Net cash flow from financing activities		2,188						

1. Cash flow movements represent both payments or receipts of principal and payments of interest, which are presented separately in the Consolidated cash flow statement.
2. Excluding cash flow hedges, for which the cash flow is reported in line with the underlying transaction. See note 15 for an analysis of other financial assets and liabilities.

Notes to the Consolidated financial statements continued

28. Fair value measurement

Fair value of financial instruments

Certain of the Group's financial instruments are held at fair value.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date.

The fair values of financial instruments held at fair value have been determined based on available market information at the balance sheet date, and the valuation methodologies listed below:

- the fair values of forward foreign exchange contracts are calculated by discounting the contracted forward values and translating at the appropriate balance sheet rates;
- the fair values of both interest rate and cross-currency swaps are calculated by discounting expected future principal and interest cash flows and translating at the appropriate balance sheet rates; and
- the fair values of money market funds are calculated by multiplying the net asset value per share by the investment held at the balance sheet date.

The derivative fair values are based on reputable third-party forecast data, and then adjusted for credit risk, including the Group's own credit risk, and market risk.

Due to the variability of the valuation factors, the fair values presented at 31 December may not be indicative of the amounts the Group will realise in the future.

Fair value hierarchy

The fair value measurement hierarchy is as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

Carrying amounts and fair values of certain financial instruments

		2024		2023	
	Note	**Carrying amount £m**	**Fair value £m**	Carrying amount £m	Fair value £m
Financial instruments measured at fair value:					
Non-current					
Other investments at fair value through other comprehensive income		**83**	**83**	84	84
Other financial assets	15	**265**	**265**	227	227
Contingent consideration arising from business combinations		**(65)**	**(65)**	–	–
Other financial liabilities	15	**(193)**	**(193)**	(227)	(227)
Current					
Other financial assets	15	**212**	**212**	205	205
Money market funds	19	**1,227**	**1,227**	1,375	1,375
Contingent consideration arising from business combinations		**(6)**	**(6)**	–	–
Other financial liabilities	15	**(264)**	**(264)**	(295)	(295)
Financial instruments not measured at fair value:					
Non-current					
Loans	21	**(7,713)**	**(7,261)**	(4,432)	(4,045)
Current					
Loans	21	**(699)**	**(695)**	(679)	(672)

All of the financial assets and liabilities measured at fair value are classified as level 2 using the fair value hierarchy, except for money market funds, which are classified as level 1; other investments, which are at a combination of level 1 and level 3; and the contingent consideration liability which is measured at level 3. The fair value of the contingent consideration has been valued based on the discounted expected cash flows. The total value of investments classified as level 3 is immaterial. There were no transfers between levels during the period. Alternative valuation techniques would not materially change the valuations presented.

Financial assets and liabilities in the Group's Consolidated balance sheet are either held at fair value or at amortised cost. With the exception of loans, the carrying value of financial instruments measured at amortised cost approximates their fair value. For the bonds included within loans the fair value of loans presented in the table above is derived from market prices as of 31 December, classified as level 1 using the fair value hierarchy. The fair value of the private placement included within loans has been valued based on the interest yield on an equivalent observable bond, applied to the private placement cash flows, and has been classified as level 2 using the fair value hierarchy.

29. Share-based payments

The Group has granted equity-settled share options and Long-Term Incentive Plan arrangements which are measured at fair value at the date of grant using an option pricing model. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will actually vest.

Details of the terms and conditions of each share-based payment plan are given in the Annual remuneration report on pages 109 to 125.

Expense in year

	2024 £m	2023 £m
Executive Share Option Plan	**4**	8
Performance Share Plan	**75**	43
Restricted Share Plan	**14**	12
	93	63

The Group also incurred a charge of £51m (2023 £47m) in respect of the equity-settled all-employee Free Shares and Matching Partnership Shares elements of the Share Incentive Plan.

Executive Share Option Plan

	2024		2023	
	Number of shares '000	**Weighted average exercise price £**	Number of shares '000	Weighted average exercise price £
Outstanding at 1 January	**24,422**	**5.78**	34,814	5.58
Exercised during the year	**(10,262)**	**5.07**	(9,380)	5.01
Expired during the year	**(722)**	**6.81**	(1,012)	6.10
Outstanding at 31 December	**13,438**	**6.27**	24,422	5.78
Exercisable at 31 December	**6,767**	**5.18**	8,284	5.21

	2024	2023
Range of exercise price of outstanding options (£)	**4.38 – 7.83**	4.12 – 7.83
Weighted average remaining contracted life (years)	**6**	7

Performance Share Plan and Restricted Share Plan

	Performance Share Plan		Restricted Share Plan	
	2024 Number of shares '000	2023 Number of shares '000	**2024 Number of shares '000**	2023 Number of shares '000
Outstanding at 1 January	**33,005**	27,343	**5,581**	5,805
Granted during the year	**8,475**	10,897	**1,214**	1,705
Exercised during the year	**(7,132)**	(4,293)	**(1,789)**	(1,688)
Expired during the year	**(1,965)**	(942)	**(231)**	(241)
Outstanding at 31 December	**32,383**	33,005	**4,775**	5,581
Exercisable at 31 December	**953**	1,508	**271**	108

	2024	2023	**2024**	2023
Weighted average remaining contracted life (years)	**5**	5	**5**	5
Weighted average fair value of awards granted (£)	**13.27**	9.73	**13.31**	9.78

The exercise price for the Performance Share Plan and Restricted Share Plan is £nil (2023 £nil).

Notes to the Consolidated financial statements continued

29. Share-based payments continued

Details of options/awards granted in the year

The fair value of equity-settled options/awards granted in the year has been measured using the weighted average inputs below and the following valuation models:

Executive Share Option Plan – Binomial
Performance Share Plan – Monte Carlo
Restricted Share Plan – Dividend valuation

	2024	2023
Range of share price at date of grant (£)	**9.75 – 13.36**	9.75 – 10.14
Expected option/award life (years)	**3 – 7**	3 – 7
Volatility (%)	**22**	31
Risk-free interest rate (%)	**4**	3 – 4

Volatility was calculated with reference to the Group's weekly share price volatility, after allowing for dividends, for the greater of 30 weeks or for the period until vest date.

The average share price in the year was £12.85 (2023 £9.77).

30. Related party transactions

The Group has a related party relationship with its directors and key management personnel (see below), equity accounted investments (note 13) and pension schemes (note 24).

Transactions with related parties occur in the normal course of business, are priced on an arm's-length basis and settled on normal trade terms. The more significant transactions are disclosed below:

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties[1]		Management recharges[1]	
Related party	**2024 £m**	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Eurofighter Jagdflugzeug GmbH	**1,383**	1,377	**291**	303	**22**	32	**163**	116	**–**	–
FADEC International LLC	**131**	118	**–**	–	**19**	26	**–**	–	**–**	–
MBDA SAS	**23**	15	**127**	258	**2**	2	**1,807**	1,390	**3**	8
Panavia Aircraft GmbH	**34**	33	**35**	38	**3**	1	**–**	1	**–**	–
BAE Systems Pension Schemes	**–**	–	**18**	24	**–**	–	**187**	202	**–**	–
Other	**135**	143	**41**	35	**8**	18	**35**	37	**–**	–
	1,706	1,686	**512**	658	**54**	79	**2,192**	1,746	**3**	8

1. Also relates to disclosures under IAS 24 Related Party Disclosures, for the parent company, BAE Systems plc. At 31 December 2024, £1,975m (2023 £1,509m) was owed by BAE Systems plc and £217m (2023 £237m) by other Group subsidiaries.

The Group also manages certain treasury functions on behalf of some of their equity accounted investments. This includes entering into foreign exchange derivatives on their behalf. In 2024, we entered into forward contracts to purchase €551m, purchase $123m and purchase £29m worth of other currencies (2023 purchase €297m, purchase $47m and purchase £12m worth of other currencies) on their behalf. No service fee is charged for these arrangements. In addition, £8m of finance lease receivables in note 15 relates to amounts owed from MBDA.

The Group considers key management personnel, as defined under IAS 24 Related Party Disclosures, to be the members of the Group's Executive Committee and the Company's non-executive directors. Fuller disclosures on directors' remuneration are set out in the Annual remuneration report on pages 109 to 125. Total emoluments for directors and key management personnel charged to the Consolidated income statement were:

	2024 £'000	2023 £'000
Short-term employee benefits	**21,155**	22,146
Post-employment benefits	**1,279**	1,534
Share-based payments	**15,724**	15,655
Termination benefits	**596**	–
	38,754	39,335

31. Contingent liabilities

Contingent liabilities are potential future cash outflows which are either not probable or cannot be measured reliably.

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business. Various Group undertakings are parties to legal actions and claims which arise in the normal course of business. Provision is made for any amounts that the directors consider may become payable (see note 25).

The Group believes that the likelihood of any significant liability arising in respect of its guarantees and performance bond arrangements, and legal actions and claims not already provided for, is remote.

32. Acquisition of businesses

The results and financial position of the acquired business are consolidated from the date of acquisition under the requirements of IFRS 3 Business Combinations. The Group recognises and measures the acquiree's identifiable assets acquired and liabilities assumed at their acquisition-date fair values. Where the consideration paid exceeds the fair value of the assets purchased then goodwill arises and will be disclosed in the Consolidated balance sheet.

Businesses acquired during 2024

Ball Aerospace

On 16 February 2024, the Group acquired 100% of the share capital of the Ball Aerospace division (now BAE Systems Space & Mission Systems) for consideration of $5.5bn (£4.4bn), of which c.$0.8bn is expected to be recoverable under a tax benefit associated with the acquisition. Upon completion, the Group drew down $4.0bn (£3.2bn) under a bridge loan facility and paid $1.5bn (£1.2bn) in cash from the Group's existing cash resources, in settlement of the transaction. In March 2024, the Group raised $4.8bn (£3.8bn) by way of bond issuance and subsequently repaid the bridge loan facility.

Space & Mission Systems is a leading provider of spacecraft, mission payloads, optical systems and antenna systems. Headquartered in Colorado, with more than 5,200 employees, it has existing customer relationships among the Intelligence Community, US Department of Defense and civilian space agencies. It is well positioned across several markets: military and civil space, C4ISR, and missile and munitions. The space market exposure extends across positions in defence, intelligence and scientific missions. The Tactical Solutions business is well positioned to capture expected increases in demand for missiles and munitions.

The acquisition enhances our portfolio of advanced defence electronic solutions and is reported as part of our Electronic Systems segment.

Kirintec

On 3 September 2024, the Group acquired 100% of the share capital of Kirintec Ltd for total consideration of £282m, including £30m of contingent consideration. Kirintec undertakes cyber and electromagnetic activities alongside the production of counter-improvised explosive devices and counter-unmanned aerial vehicle products for military customers. The acquisition of Kirintec enhances our electronic warfare capabilities and forms part of the Digital Intelligence business within the Cyber & Intelligence segment.

Other acquisitions

On 31 January 2024, the Group acquired 100% of the share capital of Malloy Aeronautics Ltd and, on 2 May 2024, the Group acquired 100% of the share capital of Callen-Lenz Associates Ltd. Both entities operate in the UAS technology market and form part of FalconWorks®, the research and development business within the Air segment.

Total consideration of £292m includes £61m of contingent consideration. The value of contingent consideration is dependent on a number of factors, including the financial and operational performance of the acquired businesses.

Acquisition consideration and provisional fair value of net assets acquired

	Ball Aerospace[1] £m	Kirintec[2] £m	Other[1] £m	Total £m
Intangible assets	2,270	127	104	2,501
Property, plant and equipment	690	3	1	694
Right-of-use assets	77	–	–	77
Receivables	310	5	13	328
Deferred tax assets	44	–	–	44
Inventories	17	10	4	31
Lease liabilities	(61)	–	–	(61)
Post-employment benefit obligations	(147)	–	–	(147)
Contract liabilities	(186)	–	(17)	(203)
Payables	(164)	(9)	(10)	(183)
Deferred tax liabilities	–	(17)	(26)	(43)
Provisions	(12)	–	–	(12)
Current tax	–	2	–	2
Cash and cash equivalents	7	40	39	86
Net identifiable assets acquired	2,845	161	108	3,114
Goodwill	1,507	121	184	1,812
Net assets acquired	**4,352**	**282**	**292**	**4,926**
Satisfied by:				
Cash consideration	4,352	252	231	4,835
Contingent consideration	–	30	61	91
Total consideration	**4,352**	**282**	**292**	**4,926**

1. Final fair values.
2. Provisional fair values being the best estimate currently available.

Notes to the Consolidated financial statements continued

32. Acquisition of businesses continued

The net outflows of cash in respect of the acquisitions are as follows:

	Ball Aerospace £m	Kirintec £m	Other £m	Total £m
Cash consideration	4,352	252	231	4,835
Contingent consideration paid in the year in respect of acquisitions	–	–	27	27
Less: Cash and cash equivalents acquired	(7)	(40)	(39)	(86)
Net cash outflow in respect of acquisitions	**4,345**	**212**	**219**	**4,776**

The goodwill recognised is primarily attributable to expected synergies from the products and services being provided and the enhancement of capabilities in new and emerging areas of technology. Goodwill of £1,507m is expected to be deductible for tax purposes. No impairment losses have been recognised in respect of goodwill in the year ended 31 December 2024.

The acquisitions contributed £1,537m to the Group's revenue and £195m to the Group's underlying EBIT[1] between the date of acquisition and 31 December 2024. If the acquisitions had completed on 1 January 2024, the Group's revenue would have been £26,588m and the Group's underlying EBIT[1] would have been £3,050m for the year ended 31 December 2024.

Contractual cash flows on trade, other and contract receivables are recognised net of expected credit losses. The amount of gross receivables acquired was £340m. Management's best estimate at the acquisition date of contractual cash flows not expected to be collected was £1m in relation to trade receivables and £11m related to other receivables, both in relation to Ball Aerospace. The fair value of receivables at acquisition date is shown in the table above.

No contingent liabilities have been recognised or require disclosure in respect of these acquisitions.

Acquisition-related costs of £51m have been included as an adjusting item in operating costs in the Consolidated income statement for the year ended 31 December 2024.

1. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 220. It is presented here as our internal measure of segmental performance, to provide additional information on performance to the user.

Businesses acquired during 2023

Eurostep acquisition

On 31 October 2023, the Group acquired 100% of the share capital of Eurostep, a secure data sharing company headquartered in Sweden, for consideration of £9m. The company forms part of the Cyber & Intelligence segment, within the Digital Intelligence business.

The results and financial position of the acquired businesses have been consolidated from the date of acquisition.

33. Business disposals

Business disposals during 2024

On 31 October 2024, the Group completed the sale of BAE Systems Imaging Solutions Inc., previously reported within the Electronic Systems segment, and, on 31 December 2024, the Group completed the sale of its forge facilities and related services which formed the Anniston business within the Platforms & Services segment. Total net cash proceeds from the disposals were £8m and, after accounting for disposal costs and cumulative currency translation, the loss on the disposals before tax totalled £4m.

Disposal of interests in equity accounted investments in 2024

Air Astana

On 12 January 2024, Air Astana announced its intention to proceed with a joint initial public offering (IPO) on the London Stock Exchange, the Astana International Exchange in Kazakhstan, and the Kazakhstan Stock Exchange. On 9 February 2024, the IPO was launched. As a result of the IPO, the total shareholding held by BAE Systems in Air Astana reduced from 49% to 17%. The Group's 49% shareholding in Air Astana had a carrying value of £84m at 31 December 2023. The profit on disposal of the share of the Group's equity accounted investment is shown below. The Group has continued to equity account for the remaining investment within the HQ segment.

FNSS

On 10 December 2024, the Group sold its 49% shareholding in FNSS Savunma Sistemleri A.Ş. FNSS was included in the Platforms & Services segment. The profit recognised on disposal of the Group's equity accounted investment is shown below:

	Air Astana £m	FNSS £m	Total £m
Total cash proceeds on divestment of interest in equity accounted investments	166	20	186
Less: Carrying amount of share of equity accounted investment disposed	(56)	–	(56)
Profit on disposal before tax and reclassification of foreign currency translation reserve	110	20	130
Reclassification of foreign currency reserve	(35)	3	(32)
Profit on disposal before tax	**75**	**23**	**98**

Business disposals during 2023

There were no business disposals in 2023. The Group incurred cash outflows of £8m in 2023 relating to the 2022 disposal of the financial crime detection business from Digital Intelligence, which had been fully provided for in 2022.

34. Events after the reporting period

There were no events after the reporting period which would materially impact the balances reported in this Report.

Notes to the Consolidated financial statements continued

35. Information about related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries, joint ventures, associated undertakings, and significant holdings in undertakings other than subsidiary undertakings of the Group at 31 December 2024 is disclosed below. All subsidiary undertakings are subsidiary undertakings of their immediate parent undertaking(s) pursuant to section 1162 (2) (a) of the Companies Act 2006 unless otherwise indicated. Unless otherwise stated, the aggregate percentage of capital held by the Group is 100%, the Group's shareholding represents ordinary shares of equal value and voting rights held indirectly by BAE Systems plc, the year end is 31 December, the country of incorporation is the United Kingdom and the address of the registered office is Victory Point, Lyon Way, Frimley, Camberley, Surrey GU16 7EX, United Kingdom. For companies incorporated outside of the United Kingdom, the country of incorporation is shown in the address. No subsidiary undertakings have been excluded from the consolidation.

Subsidiary undertakings – wholly-owned

Aircraft Research Association Limited[1]
Manton Lane, Bedford MK41 7PF, United Kingdom

Alvis Limited

Alvis Pension Scheme Trustees Limited[2]

Alvis Vickers Limited

Armstrong Whitworth Aircraft Limited[2]

ASC Shipbuilding Pty Limited
Bldg 01, Level 2, 640 Mersey Road North, Osborne SA 5017, Australia

Australian Marine Engineering Corporation (Finance) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Avro International Aerospace Limited[2]

BAE Systems (Al Diriyah C4i) Limited[2]

BAE Systems (Canada) Inc.
220 Laurier Avenue West, Suite 1200, Ottawa ON K1P 5Z9, Canada

BAE Systems (Corporate Air Travel) Limited

BAE Systems (Defence Systems) Limited

BAE Systems (Dynamics) Limited

BAE Systems (Farnborough 3) Limited

BAE Systems (Finance) Limited

BAE Systems (Funding Four) Unlimited Company[3]
Riverside One, Sir John Rogerson's Quay, Dublin D02 X576, Ireland

BAE Systems (Funding Three) Limited

BAE Systems (Funding Two) Limited

BAE Systems (Gripen Overseas) Limited

BAE Systems (Holdings) Limited[2]

BAE Systems (International) Limited

BAE Systems (Kazakhstan) Limited

BAE Systems (Land and Sea Systems) Limited[4]

BAE Systems (Malaysia) Sdn Bhd
Level 25 Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia

BAE Systems (MEH) Limited

BAE Systems (Military Air) Overseas Limited

BAE Systems (Nominees) Limited[2]

BAE Systems (Oman) Limited

BAE Systems (Operations) Limited[5]

BAE Systems (Operations) Singapore Pte Limited
One Marina Boulevard #28-00, Singapore, 018989

BAE Systems (Overseas Holdings) Limited

BAE Systems (Poland) Sp. z o.o.
ul. Abp. A. Baraniaka 88, 61-131 Poznan, Poland

BAE Systems (Projects) Limited

BAE Systems (Property Investments) Limited

BAE Systems 2000 Pension Plan Trustees Limited[2]

BAE Systems AB[6]
Box 5676, SE-114 86 Stockholm, Sweden

BAE Systems Air Japan KK
1-1 Katamachi, Shinjuku-ku, Tokyo, Japan

BAE Systems Applied Intelligence (Asia Pacific) Pte Limited
101 Thomson Road, # 07–03/07, United Square, Singapore, 307591

BAE Systems Applied Intelligence (Connect) A/S
c/o Intertrust, (Denmark) Aps, Sundkrogsgade 21, 2100 Kobenhavn O., Denmark

BAE Systems Applied Intelligence (International) Limited
Priestley Road, Surrey Research Park, Guildford, Surrey GU2 7RQ, United Kingdom

BAE Systems Applied Intelligence (Integration) Limited[7]

BAE Systems Applied Intelligence (Japan) KK
24/F Ark Mori Building, 12-32 Akasaka, 1 Chome, Minato-Ku Tokyo, Japan

BAE Systems Applied Intelligence A/S
c/o Intertrust, (Denmark) Aps, Sundkrogsgade 21, 2100 Kobenhavn O., Denmark

BAE Systems Applied Intelligence GCS Inc.
800 Towers Crescent Drive, 13th Floor #1382, Vienna, VA 22182, United States

BAE Systems Applied Intelligence Integrated Computer Solutions (Kuwait) (S.P.C.)
Al Hamra Tower, Office Number 3503, 35th Floor, East Maqwa, Kuwait City, Kuwait

BAE Systems Applied Intelligence Limited
Surrey Research Park, Guildford, Surrey GU2 7RQ, United Kingdom

BAE Systems Applied Intelligence LLC[8]
8000 Towers Crescent Blvd, 13th Floor, Vienna, VA 22182, United States

BAE Systems Applied Intelligence Malaysia Sdn Bhd
Level 25, Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia

BAE Systems Australia (Electronic Systems) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia (NSW) Holdings Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia (NSW) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Datagate Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Defence Holdings Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Defence Pty Limited[9]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Holdings Limited[2]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Logistics Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Australia Sea Sentinel Project Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Avionics Singapore Pte Limited
One Marina Boulevard, #28-00, Singapore, 018989, Singapore

BAE Systems Bofors AB
SE-691 80 Karlskoga, Sweden

BAE Systems Bofors Holdings Sdn Bhd
Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia

BAE Systems C-ITS AB
Repslagaregatan 25, Linkoping SE-58222, Sweden

BAE Systems Communications Solutions LLC[8]
Knowledge Oasis, Building 4, Second Floor, 0402-Z427, Knowledge Oasis Muscat, PO Box 16, Postal Code 135, Muscat, Oman

BAE Systems Controls Inc.
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BAE Systems Creole Inc.[10]
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BAE Systems Deployed Systems Limited[11]

BAE Systems Digital Intelligence (Spain) S.A.
Paseo de la Castellana, 141, Cuzco IV, 28046 Madrid, Spain

BAE Systems Digital Intelligence Pty Limited
Level 26, 459 Collins Street, Melbourne VIC 3000, Australia

BAE Systems do Brasil Ltda
SCN Quadra 5 Bloco A, Ed. Brasilia Shopping, Torre Norte, Sala 426, Brasilia, DF CEP:70715-900, Brazil

BAE Systems Electronic Systems (Overseas) Limited

BAE Systems Electronics Limited

BAE Systems Enterprises Limited

BAE Systems Executive Pension Scheme Trustees Limited[2]

BAE Systems Finance Inc.
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BAE Systems Flight Training (Australia) Pty Limited[12]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

BAE Systems Funds Management[2,3,7]

BAE Systems GCS International Limited

BAE Systems Global Combat Systems Munitions Limited

BAE Systems Global LLC[8]
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BAE Systems Hägglunds AB
Bjornavagen 2, Ornskoldsvik SE-89182, Sweden

BAE Systems Hawaii Shipyards Inc.
3049 Ualena Street, Suite 915, Honolulu, HI 96819, United States

35. Information about related undertakings continued

Subsidiary undertakings – wholly-owned continued

BAE Systems Holding GmbH
Hauptstrasse 48, 82433 Bad Kohlgrub, Germany

BAE Systems Holdings (South Africa) (Pty) Limited[13]
Central Office Park No. 5, 257 Jean Avenue, Centurion, Gauteng, 0157, South Africa

BAE Systems Holdings B.V.[13]
c/o IQ-EQ, Hoogoorddreef 15, 1101 BA Amsterdam, Netherlands

BAE Systems Holdings Inc.
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BAE Systems Holdings International LLC[8]
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BAE Systems India (Homeland Security) Private Limited[14]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems India (Services) Private Limited[14]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems India (Technology) Private Limited[14]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems India (Ventures) Private Limited[14]
#201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India

BAE Systems Information and Electronic Systems Integration Inc.
65 Spit Brook Road, Nashua, NH 03061, United States

BAE Systems Insurance (Isle of Man) Limited
Tower House, Loch Promenade, Douglas, IM1 2LZ, Isle of Man

BAE Systems Integrated System Technologies (KSA) Limited

BAE Systems Integrated System Technologies (Overseas) Limited

BAE Systems Integrated System Technologies Limited

BAE Systems International Inc.
65 Spit Brook Road, Nashua, NH 03061, United States

BAE Systems Jacksonville Ship Repair LLC[8]
8500 Heckscher Drive, Jacksonville, FL 32226, United States

BAE Systems Japan GK
Ark Mori Building, 1-12-32 Akasaka, Minato-Ku, Tokyo, Japan

BAE Systems Land & Armaments Holdings LLC[8]
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BAE Systems Land & Armaments Inc.
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BAE Systems Land & Armaments L.P.[8]
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BAE Systems Land Systems (Finance) Limited

BAE Systems Land Systems ATF Limited

BAE Systems Land Systems FMTV International Inc.[10]
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BAE Systems Land Systems Pinzgauer (Holdings) Limited

BAE Systems Land Systems Pinzgauer Limited

BAE Systems MAI Turkey Hava Sistemleri A.Ş.
Üniversiteler Mahallesi, Beytepe Lodumlu Köy Yolu Cad. No: 5/348 Çankaya, Ankara, Turkey

BAE Systems Marine (Holdings) Limited

BAE Systems Marine (YSL) Limited

BAE Systems Marine Limited

BAE Systems Netherlands B.V.
c/o IQ-EQ, Hoogoorddreef 15, 1101 BA Amsterdam, Netherlands

BAE Systems Norfolk Ship Repair Inc.
750 West Berkley Avenue, Norfolk, VA 23523, United States

BAE Systems Norway AS
C. J. Hambros plass 2C, 0164 Oslo, Norway

BAE Systems Oman LLC[8]
PO Box 74, Postal Code 111, Seeb, Oman

BAE Systems Ordnance Systems Inc.
4509 West Stone Drive, Kingsport, TN 37660-9982, United States

BAE Systems Pension Funds CIF Trustees Limited[2]

BAE Systems Pension Funds Investment Management Limited[2]

BAE Systems Pension Funds Trustees Limited[2]

BAE Systems Project Services Limited

BAE Systems Projects (Canada) Limited

BAE Systems Properties Limited

BAE Systems Regional Aircraft Colombia SAS[13]
c/o Brigard & Urrutia, Calle 70 A No. 4-41, Bogotá, Colombia

BAE Systems Resolution Inc.
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BAE Systems S&S Operations Inc.
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BAE Systems San Diego Ship Repair Inc.
2205 East Belt Street, Foot of Sampson Street, San Diego, CA 92113, United States

BAE Systems Saudi America Limited
Riyadh Kingdom Centre 28th Floor (REGUS), PO Box 23088, Riyadh 11321, Central Province, Riyadh, Kingdom of Saudi Arabia

BAE Systems Saudi Arabia (Maintenance and Equipment Services) Limited
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

BAE Systems Saudi Arabia (Vehicles and Equipment Holdings) Limited[2]

BAE Systems Saudi Arabia (Vehicles and Equipment Nominees) Limited[2]

BAE Systems Saudi Limited
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

BAE Systems Serviços de Aviônicos Ltda.
Rua Ambrósio Molina, No. 1090. Bloco F, Eugênio de Melo, São José dos Campos, São Paulo 12.247-000, Brazil

BAE Systems Services Limited

BAE Systems Shared Services Inc.
11215 Rushmore Drive, Charlotte, NC 28277, United States

BAE Systems Ship Repair Inc.
750 West Berkley Ave., Norfolk, VA 23523, United States

BAE Systems Southeast Shipyards AMHC Inc.
8500 Heckscher Drive, Jacksonville, FL 32226, United States

BAE Systems Space & Mission Systems Holdings Inc.
10 Longs Peak Drive, Broomfield, CO 80021, United States

BAE Systems Space & Mission Systems Inc.
10 Longs Peak Drive, Broomfield, CO 80021, United States

BAE Systems Surface Ships (Holdings) Limited

BAE Systems Surface Ships (Overseas) Limited

BAE Systems Surface Ships (Projects) Limited

BAE Systems Surface Ships Integrated Support Limited

BAE Systems Surface Ships International Limited

BAE Systems Surface Ships Limited

BAE Systems Surface Ships Maritime Limited

BAE Systems Surface Ships Projects (Malaysia) Sdn Bhd
Level 29 Menara Binjai, No 2 Jalan Binjai, Off Jalan Ampang, 50450 Kuala Lumpur, Malaysia

BAE Systems Surface Ships Support Limited[5]

BAE Systems SWS Defence AB
SE-691 80 Karlskoga, Sweden

BAE Systems Tactical Vehicle Systems LP[8]
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BAE Systems Technology LLC
Office No. 458, Building No. 47, 90th North Street, Section 1, New Cairo, 5th Settlement, Cairo, Egypt

BAE Systems Technology Solutions & Services Inc.
520 Gaither Road, Rockville, MD 20850, United States

BAE Systems TVS Holdings LLC[8]
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BAE Systems Ukraine LLC
23-A Building, Yaroslaviv Val Street, Kyiv City, 01054, Ukraine

BAE Systems Zephyr Corporation
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE 19810, United States

BAE Systems Zephyr Fifth Corporation
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE 19810, United States

BAE Systems Zephyr Fourth Corporation
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE 19810, United States

BAE Systems Zephyr Second Corporation
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE 19810, United States

BAE Systems Zephyr Third Corporation
United Agent Group, Inc. 3411 Silverside Rd. Tatnall, Bldg. #104, Wilmington, DE 19810, United States

BAE Systems, Inc.
2941 Fairview Park Drive, Suite 100, Falls Church, VA 22042, United States

BIS Invest S.à.r.l.
2, Place de Strasbourg, L-2562, Luxembourg, Grand Duchy of Luxembourg

Bohemia Interactive Australia Pty Ltd[15]
Unit 2, Building A, 2 Technology Place, Williamtown NSW 2318, Australia

Bohemia Interactive Simulations GK
c/o ARK OUTSOURCING KK, 4-3-5-704 Ebisu, Shibuya-ku, Tokyo, 150-0013, Japan

Notes to the Consolidated financial statements continued

35. Information about related undertakings continued

Subsidiary undertakings – wholly-owned continued

Bohemia Interactive Simulations GmbH
Vistra Corporate Services, Westendstraße 28, 60325, Frankfurt am Main, Germany

Bohemia Interactive Simulations, Inc.
3050 Technology Pkwy, Suite 110, Orlando, FL 32746, United States

Bohemia Interactive Simulations K.S.[8]
Karolinská, 654/2, Karin, 186 00 Prague 8, Czech Republic

Bohemia Interactive Simulations Korea Ltd
c/o ARK OUTSOURCING KK, 4-3-5-704 Ebisu, Shibuya-ku, Tokyo, 150-0013, Japan

Bohemia Interactive Simulations sp z.o.o.
Ul. Ostrobramska 101, 04-041, Warsaw, Poland

Bohemia Interactive Simulations (UK) Limited
31 Hercules Way, Farnborough Aerospace Centre, Farnborough, Hampshire GU14 6UU, United Kingdom

Bohemia Invest One Ltd

Bohemia Invest Two Ltd

British Aerospace (Far East) Limited[16]
Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

British Aerospace (Malaysia) Sdn Bhd[16]
Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia

British Aircraft Corporation (Pension Fund Trustees) Limited[2]

British Aircraft Corporation Limited[2]

Callen-Lenz Associates Limited
3 The Old Barns Manor Farm, Chilmark, Salisbury, Wiltshire SP3 5AF, United Kingdom

CPS International, Inc.[10]
Benedetti & Benedetti, Comosa Building, 21st Floor, PO Box 850120, Panama 5, Panama

Creole (Nigeria) Limited[5,7]
9th Floor, St. Nicholas House, 26 Catholic Mission Street, Lagos, Nigeria

Detica Group Limited

Detica Mexico S. de R.L. de C.V.
Torre Esmeralda II, Blvd Manuel Avila Camacho No. 36 Piso 18, Lomas de Chapultepec, 11000 D.F., Mexico

Detica Services, Inc.
5th Floor, Suite 1920, 256 Franklin Street, Boston, MA 02110, United States

Dividend Training Limited

Elliott Brothers (London) Limited

ETI Engineering, Inc.
1676 International Drive, 10th Floor, Suite 1000, McLean, VA 22102, United States

Eurostep AB
Gustavslundsvägen 137, SE-167 51 Bromma, Sweden

Eurostep Limited
Unit 16 Ffordd Richard Davies, St. Asaph Business Park, St. Asaph, Denbighshire LL17 0LJ, United Kingdom

Eurostep Oy
Metsänneidonkuja 12 02130 Espoo, Finland

Eurostep S.à.r.l.
8 rue Germain Soufflot 78180 Montigny-le-Bretonneux, France

EVU Czech, S.R.O.
Pernerova 691/42, Karlin, 186 00 Prague 8, Czech Republic

Gloster Aircraft Limited[2]

H-B Utveckling, H-B Development AB
Nybrogatan 7, SE-114 34 Stockholm, Sweden

Hadrian Holdings, Inc.
521 Fifth Avenue, New York, NY 101075, United States

Hadrian Trustees Limited[1]

Hägglunds Vehicle GmbH
Ernst-Grote Strasse 13, 30916 Isernhagen, Germany

Hawker Siddeley Aviation Limited[2]

Hawker Siddeley Dynamics Limited[2]

High Aerospace Ltd.
Suite 204 Warner House, 123 Castle Street, Salisbury, Wiltshire SP1 3TB, United Kingdom

HSA/HSD Pension Fund Trustees Limited[2]

Hunter Aerospace Corporation Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

In-Space Missions Limited
8 Oriel Court, Omega Park, Alton GU34 2YT, United Kingdom

International Military Sales Limited

Jetstream Aircraft Limited[2]
Prestwick International Airport, Prestwick, Ayrshire KA9 2RW, United Kingdom

Kirintec B.V.
Prins Hendrikkade 21 E, 1012 TL, Amsterdam, Netherlands

Kirintec International DMCC
Unit 2707, Indigo Icon Tower, Plot No JLT-PH1-F3A, Jumeirah Lakes Towers, Dubai, United Arab Emirates

Kirintec Limited
Walter Scott House, 10, Old Gloucester Road, Ross-On-Wye, Herefordshire HR9 5PB, United Kingdom

Kirintec Sp.Zo.o
210, 86, Hoza, Warsaw, 00-682, Poland

Malloy Aeronautics Defense LLC
10th Floor, 100 Light Street, Baltimore, MD 21202, United States

Malloy Aeronautics Limited

MES Holdco Limited
Charter Place, 23/27 Seaton Place, St. Helier, Jersey JE1 1JY

MES Interco[3]

Meslink Limited

Newcombe Properties Limited

Nexus Defence Limited

Pitch Technologies AB
Repslagaregatan 25, SE-582 22 Linköping, Sweden

Pitch Technologies Ltd.
Sweden House, 5 Upper Montagu Street, London W1H 2AG, United Kingdom

Prismatic Ltd.[5]
2 Omega Park, Alton GU34 2QE, United Kingdom

PT. BAE Systems Services
Wisma 46, Kota BNI, 34th Floor, Suite 34.01.A, Jl. Jenderal Sudirman Kavling 71, Jakarta 10220, Indonesia

Pulse Power and Measurement Inc.
1717 Pennsylvania Avenue, NW Suite, 1025, Washington, DC 20006, United States

Pulse Power and Measurement Limited[17]
65 Shrivenham Hundred Business Park, Watchfield, Swindon, Wiltshire SN6 8TY, United Kingdom

Representaciones SSTS, CA[10]
Ave Francisco de Miranda, Centro Lido El Rosal Oficina 71B, Caracas, Venezuela

Royal Ordnance (Crown Service) Pension Scheme Trustees Limited

Royal Ordnance Senior Staff Pension Scheme Trustees Limited

Scottish Aviation Limited[2]
Prestwick International Airport, Prestwick, Ayrshire KA9 2RW, United Kingdom

Shipbuilding (MSF) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Shipbuilding (VIC) Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Simulation Technologies S.A.S.
8 rue de La Michodière, Paris, 75002, France

SkyCircuits Ltd
9 The Old Barns Manor Farm, Chilmark, Salisbury, Wiltshire SP3 5AF, United Kingdom

Stewart & Stevenson TVS UK Limited

Stratsec.net Sdn Bhd
Unit F-3-1, Blok F, Third Floor, CBD Perdana 3, Jalan Perdana, Cyber 12, 63000 Cyberjaya, Selangor Darul Ehsan, Malaysia

Support Solutions General Services and Contracting Company/Limited Liability Company[8,13]
House No. 145, Street No. 1, Qtr. 611, Al Andulous Area, Al Mansour, Baghdad, Iraq

TDS International Holdings Pty Limited[15]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

TDS International Pty Limited
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Techmodal Limited

Techmodal Ventures Limited[18]

The Blackburn Aeroplane & Motor Co Limited[2]

The Bristol Aviation Company Limited[2]

The British & Colonial Aeroplane Co. Limited[2]

The Supermarine Aviation Works Limited[2,4]

Thomas Sopwith Aviation Company Limited[2]

VSEL Birkenhead Limited

Westover Controls Incorporated
1098 Clark Street, Endicott, NY 13760, United States

35. Information about related undertakings continued

Subsidiary undertakings – not wholly-owned

Advanced National Company for Aircraft Maintenance Limited (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

BAE Systems Saudi Development and Training Company Limited (51%)
PO Box 67775, Riyadh 11517, Kingdom of Saudi Arabia

BAE Systems SDT (UK) Limited (51%)

Flight Control System Management GmbH (66.6%)[19]
PO Box 801109, 81663 Munich, Germany

Granada Enterprises Limited (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

Hadrian Properties, Inc. (95%)
521 Fifth Avenue, New York, NY 101075, United States

International Systems Engineering Company Limited (46.2%)[20]
PO Box 54002, Riyadh 11514, Kingdom of Saudi Arabia

Overhaul and Maintenance Company Holding (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

Saudi Maintenance & Supply Chain Management Company Limited (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

Saudi Technology & Logistics Services Limited (65%)[2]
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

SMSCMC (UK) Limited (51%)

TMB International Logistics Limited (51%)

Equity accounted investments

Abercromby Property International (20.42%)
521 Fifth Avenue, New York, NY 101075, United States

Air Astana (16.95%)
4A Zakarpatskaya Street, Turksib District, Almaty, 050039, Republic of Kazakhstan

AMSH B.V. (50%)[21]
De Lairessestraat 145 E, Amsterdam, 1075 HJ, Netherlands

BAE Systems Strategic Aerospace Services WLL (49%)
Building 58, Street 850, Area 23, Qatari Bin Al Fajaa, Doha, Qatar

BAeHAL Software Limited (40%)[2,14]
Airport Lane, HAL Estate, Bangalore 560010, India

BHIC Bofors Defense Asia Sdn Bhd (49%)
Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia

Canadian Naval Support Limited (50%)[22]
3099 Barrington Street, Halifax NS B3K 5M7, Canada

Corsair Pty Ltd (51%)[23]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

CTA International SAS (50%)
13 Route De La Miniere, 78034 Versailles Cedex, France

Data Link Solutions L.L.C. (50%)[8,16]
350 Collins Road, Northeast Cedar Rapids, IA 52498, United States

Eurofighter Jagdflugzeug GmbH (33.33%)[2]
Am Soldnermoos 17, 85399 Hallbergmoos, Germany

FADEC International LLC (50%)[8]
1098 Clark Street, Endicott, NY 13760, United States

FAST Holdings Limited (50%)[14,15]

FAST Training Services Limited (50%)[14]

Innovaero Holdings Pty Ltd (51%)[23]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Innovaero Operations Pty Ltd (51%)[23]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Innovaero Pty Ltd (51%)[23]
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

KBS Maritime Limited (50%)[24]
Victory Building (Pp 72), Rm. 233, The Parade, HM Naval Base, Portsmouth PO1 3LS, United Kingdom

MBDA B.V. (37.5%)
De Lairessestraat 145 E, Amsterdam, 1075 HJ, Netherlands

MBDA Holdings S.A.S. (25%)
1 Avenue Réaumur, 92350 Le Plessis-Robinson, France

MBDA S.A.S. (37.5%)
1 Avenue Réaumur, 92350 Le Plessis-Robinson, France

Nobeli Business Support AB (34%)
SE-691 80 Karlskoga, Sweden

Panavia Aircraft GmbH (42.5%)[2]
Am Soldnermoos 17, 85399 Hallbergmoos, Germany

Promoveo Solutions JV LLC (49%)
260 Peachtree Street NW, #2200, Atlanta, GA 30303, United States

Reaction Engines Limited (15.3%)[25]
Building F5, Culham Campus, Abingdon OX14 3DB, United Kingdom

Rheinmetall BAE Systems Land Limited (45%)
Hadley Castle Works, PO Box 106, Telford TF1 6QW, United Kingdom

Saab Bofors Test Center AB (30%)
Box 418, SE-691 27 Karlskoga, Sweden

Sealand Support Services Limited (33.3%)[7,26]
45 Gresham Street, London, EC2V 7BG, United Kingdom

Winner Developments Limited (33.3%)

Notes

1. Company limited by guarantee.
2. Directly owned by BAE Systems plc.
3. Unlimited company.
4. Ownership held in class of A shares, B shares and preference shares.
5. Ownership held in class of A shares and B shares.
6. Ownership held in ordinary shares and preference shares.
7. In members' voluntary liquidation (MVL).
8. Unincorporated entity for which the address given is the principal place of business.
9. Ownership held in ordinary shares and redeemable preference shares.
10. Ownership held in authorized shares.
11. 40% directly owned by BAE Systems plc.
12. Ownership held in ordinary shares, ordinary A and ordinary B shares.
13. In liquidation.
14. Year end 31 March.
15. Ownership held in ordinary A shares.
16. Year end 30 September.
17. Ownership held in class of A, B, C, D, E, F and G ordinary shares.
18. In strike off.
19. 33.3% directly owned by BAE Systems plc.
20. Subsidiary due to unilateral controlling rights.
21. Ownership held in class of B shares.
22. Ownership held in common shares (50%) and B Preferred shares (100%).
23. Not deemed a subsidiary due to rights of other shareholder.
24. Ownership held in ordinary shares (50%) and preference shares (75%).
25. In administration.
26. Ownership held in ordinary shares (33.3%) and A Cumulative Preference Shares (75%).

Company statement of changes in equity for the year ended 31 December

	Note	Issued share capital £m	Share premium £m	Other reserves £m	Retained earnings[1] £m	Total equity £m
At 1 January 2023		82	1,252	218	3,160	4,712
Profit for the year		–	–	–	1,264	1,264
Total other comprehensive expense for the year		–	–	(5)	(89)	(94)
Total comprehensive (expense)/income for the year		–	–	(5)	1,175	1,170
Share-based payments	10	–	–	–	110	110
Purchase of own shares	9	(1)	–	1	(558)	(558)
Ordinary share dividends[2]		–	–	–	(857)	(857)
Proceeds from unclaimed asset programme		–	1	–	–	1
At 31 December 2023		81	1,253	214	3,030	4,578
Profit for the year		–	–	–	1,560	1,560
Total other comprehensive income for the year		–	–	1	32	33
Total comprehensive income for the year		–	–	1	1,592	1,593
Share-based payments	10	–	–	–	144	144
Purchase of own shares	9	(1)	–	1	(551)	(551)
Ordinary share dividends[2]		–	–	–	(937)	(937)
At 31 December 2024		**80**	**1,253**	**216**	**3,278**	**4,827**

1. The non-distributable portion of retained earnings is £1,148m (2023 £1,037m).
2. Details of ordinary share dividends are provided in note 26 to the Consolidated financial statements.

Company balance sheet as at 31 December

	Note	2024 £m	2023 £m
Non-current assets			
Intangible assets		**9**	10
Property, plant and equipment		**–**	1
Right-of-use assets		**13**	16
Investments in subsidiary undertakings and participating interests	2	**10,258**	9,272
Amounts owed by subsidiary undertakings	3	**9,440**	4,781
Other receivables	3	**39**	9
Post-employment benefit surpluses	8	**150**	105
Other financial assets	4	**383**	377
		20,292	14,571
Current assets			
Trade and other receivables	3	**167**	126
Current tax		**13**	13
Other financial assets	4	**380**	356
Cash and cash equivalents		**2,584**	3,303
		3,144	3,798
Total assets		**23,436**	18,369
Non-current liabilities			
Loans	5	**(6,724)**	(2,872)
Lease liabilities		**(12)**	(16)
Other payables	6	**(4)**	(2)
Post-employment benefit obligations	8	**(74)**	(79)
Other financial liabilities	4	**(293)**	(332)
Provisions	7	**(132)**	(127)
		(7,239)	(3,428)
Current liabilities			
Loans	5	**(77)**	(24)
Lease liabilities		**(4)**	(4)
Trade and other payables	6	**(10,920)**	(9,908)
Other financial liabilities	4	**(368)**	(423)
Provisions	7	**(1)**	(4)
		(11,370)	(10,363)
Total liabilities		**(18,609)**	(13,791)
Net assets		**4,827**	4,578
Capital and reserves			
Issued share capital	9	**80**	81
Share premium		**1,253**	1,253
Other reserves	9	**216**	214
Retained earnings[1]		**3,278**	3,030
Total equity		**4,827**	4,578

1. The Company's profit for the year was £1,560m (2023 £1,264m).

Approved by the Board of directors of BAE Systems plc on 18 February 2025 and signed on its behalf by:

C N Woodburn
Chief Executive

B M Greve
Chief Financial Officer

Registered number: 01470151

Notes to the Company financial statements

1. Preparation of the Company financial statements

Basis of preparation

The directors have a reasonable expectation that the Company has adequate resources to continue its operational existence for at least 12 months from the signing of the accounts, notwithstanding the net current liabilities of £8,226m. Therefore, the financial statements of BAE Systems plc have been prepared on a going concern basis, as disclosed in the Strategic report on page 67, and in accordance with Financial Reporting Standard (FRS) 101, Reduced Disclosure Framework.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted International Financial Reporting Standards (IFRS), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions have been taken:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the requirements of paragraph 33(c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases and the requirements of paragraph 58 of IFRS 16 Leases;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements, to present comparative information in respect of: paragraph 53(a), (h) and (j) of IFRS 16 Leases; paragraph 79(a)(iv) of IAS 1; paragraph 73(e) of IAS 16 Property, Plant and Equipment; paragraph 118(e) of IAS 38 Intangible Assets; and paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 1 to 44E, 44H(b)(ii) and 45 to 63 of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures, to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly-owned by such a member;
- the requirements of paragraph 74A(b) of IAS 16 Property, Plant and Equipment;
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets; and
- the requirements of paragraphs 88C and 88D of IAS 12 Income Taxes.

The Company intends to continue to prepare its financial statements in accordance with FRS 101.

In accordance with Section 408(3) of the Companies Act 2006, the Company is exempt from the requirement to present its own income statement. The amount of profit for the year of the Company is disclosed in the Company balance sheet.

The Company financial statements are presented in pounds sterling and, unless stated otherwise, rounded to the nearest million. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments).

1. Preparation of the Company financial statements continued

Material accounting policies

The material accounting policies applied in the preparation of these individual financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Investments in subsidiary undertakings and participating interests

Fixed asset investments in shares in subsidiary undertakings and participating interests are stated at cost less provision for impairment.

The Company recognises an increase in its investments in subsidiary undertakings in respect of the cost of share-based payment awards issued by the Company to employees of the Company's operating subsidiaries, with a corresponding entry to equity.

Amounts owed by subsidiary undertakings

Amounts owed by subsidiary undertakings are stated at amortised cost including a provision for expected credit losses. For the purposes of impairment assessment, amounts to subsidiary undertakings are considered low credit risk and, therefore, the Company measures the provision at an amount equal to 12-month expected credit losses.

Other material accounting policies

Other material accounting policies are consistent with the Consolidated financial statements.

Judgements and sources of estimation uncertainty

In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the Company financial statements.

Key sources of estimation uncertainty

Post-employment benefits

A number of actuarial assumptions are made in assessing the value of post-employment benefit obligations, including discount rate, inflation rate and mortality assumptions. For each of the actuarial assumptions used there is a wide range of possible values and management estimates a point within that range that most appropriately reflects the Group's circumstances.

If estimates relating to these actuarial assumptions are no longer valid or change due to changing economic and social conditions, then the potential obligations due under these schemes could change significantly.

Discount and inflation rates could change significantly as a result of a prolonged economic downturn, monetary policy decisions and interventions or other macroeconomic issues. The impact of estimates made with regard to mortality projections may also change.

Similarly, the values of many assets are subject to estimates and assumptions, in particular those which are held in unquoted pooled investment vehicles. The associated fair value of these unquoted pooled investments is estimated with consideration of the most recently available valuations provided by the investment or fund managers. These valuations inherently incorporate a number of assumptions including the impact of climate change on the underlying investments. The overall level of estimation uncertainty in valuing these assets could therefore give rise to a material change in valuation within the next 12 months.

Furthermore, estimates are required around the Group's ability to access its defined benefit surpluses, and on what basis, which then determines the associated rate of tax to apply. Depending on the outcome, judgement is then required to determine the presentation of any tax payable in recovering a surplus.

Note 24 of the Consolidated financial statements provides information on the key assumptions and analysis of their sensitivities.

Changes in accounting policies

Several standards, interpretations and amendments to existing standards became effective on 1 January 2024, as detailed on page 151 of the Consolidated financial statements, none of which had a material impact on the Company.

Notes to the Company financial statements continued

2. Investments in subsidiary undertakings and participating interests

	£m
Cost	
At 1 January 2024	9,278
Additions	1,286
Disposal	(300)
At 31 December 2024	**10,264**
Impairment provisions	
At 1 January 2024 and 31 December 2024	**6**
Net carrying value	
At 31 December 2024	**10,258**
At 31 December 2023	9,272

3. Trade and other receivables

	2024 £m	2023 £m
Non-current		
Amounts owed by subsidiary undertakings[1]	**9,440**	4,781
Other receivables	**39**	9
	9,479	4,790
Current		
Prepayments	**12**	13
Accrued income	**14**	34
Other receivables	**141**	79
	167	126

1. Amounts owed by subsidiary undertakings are repayable on demand. Whilst the majority of these receivables are interest free, certain balances bear interest priced on an arm's-length basis. Provision for expected credit losses is immaterial.

4. Other financial assets and liabilities

	2024		2023	
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Non-current				
Cash flow hedges – foreign exchange contracts	**2**	**–**	2	–
Other foreign exchange/interest rate contracts	**271**	**(272)**	275	(275)
Debt-related derivative financial instruments	**110**	**(21)**	100	(57)
	383	**(293)**	377	(332)
Current				
Cash flow hedges – foreign exchange contracts	**2**	**–**	1	–
Other foreign exchange/interest rate contracts	**378**	**(368)**	355	(402)
Debt-related derivative financial instruments	**–**	**–**	–	(21)
	380	**(368)**	356	(423)

Included within other foreign exchange contracts are derivatives entered into on behalf of subsidiaries. These derivatives were passed down to the hedging subsidiary using an internal derivative with equal but opposite terms to the external derivatives, and valued using the same methodology as the external derivatives. The majority of such derivatives were designated in cash flow hedges in the Consolidated financial statements. Disclosures in respect of the maturity profile and fair value of other financial assets and liabilities are provided in notes 15 and 28 to the Consolidated financial statements.

5. Loans

	2024 £m	2023 £m
Non-current		
US$800m 5% bond, repayable 2027	**636**	–
US$1,250m 5.125% bond, repayable 2029	**993**	–
US$1,300m 3.4% bond, repayable 2030	**1,032**	1,013
US$1,000m 1.9% bond, repayable 2031	**793**	778
US$500m 5.25% bond, repayable 2031	**397**	–
US$1,500m 5.3% bond, repayable 2034	**1,187**	–
US$400m 5.8% bond, repayable 2041	**317**	311
US$1,000m 3% bond, repayable 2050	**784**	770
US$750m 5.5% bond, repayable 2054	**585**	–
	6,724	2,872
Current		
Accrued interest	**77**	24
	77	24

6. Trade and other payables

	2024 £m	2023 £m
Non-current		
Other payables	**4**	2
Current		
Amounts owed to subsidiary undertakings[1]	**8,843**	8,263
Amounts owed to equity accounted investments	**1,975**	1,509
Accruals	**64**	98
Deferred income	**12**	10
Other payables	**26**	28
	10,920	9,908

1. Amounts owed to subsidiary undertakings are repayable on demand. Whilst the majority of these payables are interest free, certain balances incur interest priced on an arm's-length basis.

7. Provisions

	Contractual and other £m
Non-current	127
Current	4
At 1 January 2024	131
Created	–
Utilised	(1)
Released	(2)
Net present value adjustments	5
At 31 December 2024	**133**
Represented by:	
Non-current	132
Current	1
	133

The Company holds provisions for contractual costs that it expects to incur over an extended period. These costs are based on past experience of similar items and represent management's best estimate of the likely outcome, but the timing and amount of the outflows could differ significantly from management's estimates.

Notes to the Company financial statements continued

8. Post-employment benefits

The Company participates in all of the Group's UK pension schemes. Regular contributions to the schemes are made in line with the schedule of contributions and a share of deficit funding is allocated to participating employers. The deficit allocation methodology is based on the historical allocation percentages applied for all retired and deferred scheme members, adjusted by the relative payroll contributions of active members. Full disclosures relating to these schemes are given in note 24 to the Consolidated financial statements.

Amounts recognised on the balance sheet

The table below shows the Company's share of the Group's UK pension schemes after allocation to other participating employers.

	2024 £m	2023 £m
Present value of unfunded obligations	**(74)**	(79)
Present value of funded obligations	**(1,554)**	(1,748)
Fair value of scheme assets	**1,754**	1,910
Total gross surplus	**126**	83
Withholding tax on surpluses	**(50)**	(57)
Surplus	**76**	26
Represented by:		
Post-employment benefit surpluses	**150**	105
Post-employment benefit obligations	**(74)**	(79)
	76	26

Surplus recognition

A number of schemes are in an accounting surplus position. The surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Group, which is assumed to be via a refund. The Authorised Surplus Payments Charge (Variation of Rate) Order 2024 became effective from 6 April 2024 and reduced the withholding tax rate from 35% to 25% for authorised surplus payments and therefore the surplus has been recognised net of withholding tax of 25% as at 31 December 2024 (2023 35%). This tax would be levied prior to the future refunding of any surplus and therefore the surplus has been presented on a net basis as this is not deemed to be an income tax of the Group.

9. Share capital and other reserves

Share capital and equity dividends

Disclosures in respect of the Company's share capital and on equity dividends are provided in note 26 to the Consolidated financial statements.

Other reserves

	Statutory reserve £m	Capital redemption reserve £m	Hedging reserve £m	Total £m
At 1 January 2023	202	8	8	218
Amounts recognised in hedging reserve	–	–	(5)	(5)
Shares cancelled	–	1	–	1
At 31 December 2023	202	9	3	214
Amounts recognised in hedging reserve	–	–	1	1
Shares cancelled	–	1	–	1
At 31 December 2024	**202**	**10**	**4**	**216**

Statutory reserve

Under Section 4 of the British Aerospace Act 1980, this reserve may only be applied in paying up unissued shares of the Company to be allotted to members of the Company as fully paid bonus shares.

Capital redemption reserve

The capital redemption reserve represents the cumulative nominal value of the Company's ordinary shares repurchased and subsequently cancelled.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

9. Share capital and other reserves continued

Purchase of own shares

In July 2022, the directors approved a share buyback programme of up to £1.5bn (the 2022 share buyback programme). The 2022 share buyback programme was completed on 24 July 2024. In total, 163,907,003 ordinary shares were repurchased under the 2022 share buyback programme for a total cost (including transaction costs) of £1,508m.

In August 2023, the directors approved a further share buyback programme of up to £1.5bn (the 2023 share buyback programme). The 2023 share buyback programme commenced on 25 July 2024. The 2023 share buyback programme is expected to complete within three years of its commencement.

For the year ended 31 December 2023, 58,689,756 ordinary shares were repurchased under the 2022 share buyback programme for a total cost (including transaction costs) of £558m.

For the year ended 31 December 2024, 22,220,182 ordinary shares were repurchased under the 2022 share buyback programme at a total cost (including transaction costs) of £287m. A further 20,901,154 ordinary shares were repurchased under the 2023 share buyback programme at a total cost (including transaction costs) of £264m.

All ordinary shares acquired have been subsequently cancelled, with the nominal value of ordinary shares cancelled deducted from share capital against the capital redemption reserve.

As part of the buyback programme, it was agreed that should a better alternative use for the Company's cash reserves be identified, the share buyback programmes would be ceased and the money instead used for the alternative purpose. Therefore, when the Company issued a mandate to the brokers to purchase shares on their behalf, the mandate was structured such that it could be revoked at any point. As such, no financial liability has been recognised for shares not yet purchased under the programmes at 31 December.

10. Share-based payments

Options over shares of the Company have been granted to employees of the Company under various plans. Details of the terms and conditions of each share-based payment plan are given in the Annual remuneration report on pages 109 to 125.

	2024		2023	
	Range of exercise price of outstanding options £	**Weighted average remaining contracted life Years**	Range of exercise price of outstanding options £	Weighted average remaining contracted life Years
Executive Share Option Plan (ExSOP)	**4.85 – 7.83**	**6**	4.85 – 7.83	7
Performance Share Plan (PSP)	**–**	**5**	–	5
Restricted Share Plan (RSP)	**–**	**4**	–	5

The average share price in the year was £12.85 (2023 £9.77).

11. Employees

The average and year-end numbers of employees of the Company at 31 December 2024 were 1,363 (2023 1,349) and 1,447 (2023 1,480) respectively. All of the Company's employees work within head office functions.

Total staff costs, excluding charges for share-based payments, were as follows:

	2024 £m	2023 £m
Wages and salaries	**127**	106
Social security costs	**22**	17
Pension costs – defined contribution plans	**9**	8
Pension costs – defined benefit plans	**13**	15
	171	146

Notes to the Company financial statements continued

12. Other information

Company audit fee

Fees payable to the Company's auditor for the audit of the Company's annual accounts totalled £3,145,000 (2023 £3,043,000). Fees payable to Deloitte LLP and its associates for non-audit services to the Company are not required to be disclosed because the Consolidated financial statements disclose such fees on a consolidated basis (see note 3 to the Consolidated financial statements).

Related party transactions

Disclosures in respect of related party transactions are provided in note 30 to the Consolidated financial statements.

Directors' emoluments

Under Schedule 5 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 5), total directors' emoluments, excluding Company pension contributions, were £11,542,570 (2023 £11,064,996); these amounts are calculated on a different basis to emoluments in the Annual remuneration report which are calculated under Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 8). These emoluments were paid for their services on behalf of the BAE Systems Group. No emoluments related specifically to their work for the Company. Under Schedule 5, the aggregate gains made by the directors from the exercise of share options in 2024 as at the date of exercise was £4,439,876 (2023 £1,732,675) and the net aggregate value of assets received by directors in 2024 from Long-Term Incentive Plans as calculated at the date of vesting was £21,067,185 (2023 £6,364,979); these amounts are calculated on a different basis from the valuation of share plan benefits under Schedule 8 in the Annual remuneration report. Retirement benefits are accruing to one director in respect of defined benefit schemes and to three directors in respect of defined contribution schemes.

Subsidiary guarantees

Borrowings by subsidiary undertakings totalling £1,611m (2023 £2,215m), which are included in the Group's borrowings, have been guaranteed by the Company. The probability of these financial guarantees being called is considered to be remote and therefore the fair value is deemed to be negligible.

Information about related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of the Company's subsidiaries and significant holdings is included in note 35 to the Consolidated financial statements.

13. Events after the reporting period

There were no events after the reporting period which would materially impact the balances reported in the Company financial statements.

Additional information

Alternative performance measures

We monitor the underlying financial performance of the Group using APMs. These measures are not defined in IFRS and, therefore, are considered to be non-GAAP (Generally Accepted Accounting Principles) measures. Accordingly, the relevant IFRS measures are also presented where appropriate.

The Group uses these APMs as a mechanism to support year-on-year business performance and cash generation comparisons, and to enhance management's planning and decision-making on the allocation of resources. The APMs are also used to provide information in line with the expectations of investors, and when setting guidance on expected future business performance. The Group presents these measures to the users to enhance their understanding of how the business has performed within the year, and does not consider them to be more important than, or superior to, their equivalent IFRS measures. As each APM is defined by the Group, they may not be directly comparable with equivalently-named measures in other companies.

Purpose, definitions, breakdowns and reconciliations to the relevant statutory measure, where appropriate, are included below.

Sales

Purpose

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

Definition

Revenue plus the Group's share of revenue of equity accounted investments, excluding subsidiaries' revenue from equity accounted investments.

Reconciliation of sales to revenue

	2024 £m	2023 £m
Sales KPI	**28,335**	25,284
Deduct: Group's share of revenue of equity accounted investments	**(3,729)**	(3,892)
Add: Subsidiaries' revenue from equity accounted investments	**1,706**	1,686
Revenue	**26,312**	23,078

Underlying EBIT

Purpose

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

Definition

Operating profit excluding amortisation of programme, customer-related and other intangible assets (see note 10 to the Consolidated financial statements), impairment of equity accounted investments and intangible assets, net finance costs and tax expense of equity accounted investments (EBIT) and adjusting items. The exclusion of amortisation of acquisition-related intangible assets is to allow consistent comparability internally and externally between our businesses, regardless of whether they have been grown organically or via acquisition.

Reconciliation of underlying EBIT to operating profit

	2024 £m	2023 £m
Underlying EBIT KPI	**3,015**	2,682
Adjusting items	**23**	40
Amortisation of programme, customer-related and other intangible assets, and impairment of equity accounted investments and intangible assets	**(344)**	(116)
Net finance income of equity accounted investments	**59**	14
Tax expense of equity accounted investments	**(68)**	(47)
Operating profit	**2,685**	2,573

Return on sales

Purpose

Provides a measure of operating profitability, excluding one-off events, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group.

Definition

Underlying EBIT as a percentage of sales. Also referred to as margin.

	2024 £m	2023 £m
Sales KPI	**28,335**	25,284
Underlying EBIT KPI	**3,015**	2,682
Return on sales	**10.6%**	10.6%

Underlying earnings per share (EPS)

Purpose

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

Definition

Profit for the year attributable to shareholders, excluding post-tax impact of amortisation of programme, customer-related and other intangible assets, impairment of equity accounted investments and intangible assets, non-cash finance movements on pensions and financial derivatives, and adjusting items attributable to shareholders, being underlying earnings, divided by number of shares as defined for Basic EPS in accordance with IAS 33 Earnings per Share.

Reconciliation of underlying earnings to profit attributable to equity shareholders

	2024 £m	2023 £m
Underlying earnings for the year attributable to equity shareholders	**2,065**	1,916
Adjustments:		
Adjusting items	**23**	40
Amortisation of programme, customer-related and other intangible assets, and impairment of equity accounted investments and intangible assets	**(344)**	(116)
Net interest income on post-employment benefit obligations	**20**	44
Fair value and foreign exchange adjustments on financial instruments and investments	**82**	(66)
Tax impact of adjustments	**110**	39
Profit for the year attributable to equity shareholders	**1,956**	1,857

Reconciliation of underlying EBIT to underlying earnings

	2024 £m	2023 £m
Underlying EBIT KPI	**3,015**	2,682
Group and equity accounted investments underlying net finance costs (see reconciliation on page 222)	**(396)**	(211)
Underlying tax expense (see reconciliation on page 222)	**(469)**	(472)
Underlying profit for the year	**2,150**	1,999
Deduct: Non-controlling interests	**(85)**	(83)
Underlying earnings for the year attributable to equity shareholders	**2,065**	1,916

Weighted average number of ordinary shares used in calculating basic EPS (note 8 to the Consolidated financial statements)	**3,013**	3,031
Underlying EPS – basic KPI	**68.5p**	63.2p
Weighted average number of ordinary shares used in calculating diluted EPS (note 8 to the Consolidated financial statements)	**3,053**	3,072
Underlying EPS – diluted	**67.6p**	62.4p

Adjusting items

Purpose

To adjust items of financial performance from the reported underlying results which have been determined by management as being material by their size or incidence and not relevant to an understanding of the Group's underlying business performance.

Definition

Adjusting items include profit or loss on business transactions, the impact of substantively enacted tax rate changes, and costs incurred which are one-off in nature, for example non-routine costs or income relating to post-retirement benefit schemes, and other items which management has determined as not being relevant to an understanding of the Group's underlying business performance.

	2024 £m	2023 £m
Net profit on business disposals	**94**	–
Gain related to settlements on the pension schemes	**13**	60
Acquisition and integration-related costs	**(72)**	(20)
Other	**(12)**	–
Adjusting items	**23**	40

Alternative performance measures continued

Underlying net finance costs

Purpose

Provides a measure of net finance costs associated with the operational borrowings of the Group that is comparable over time.

Definition

Net finance costs for the Group and its share of equity accounted investments, excluding net interest income/expense on post-employment benefit obligations and fair value and foreign exchange adjustments on financial instruments.

	2024 £m	2023 £m
Net finance costs – Group	**(353)**	(247)
(Deduct)/add back:		
Net interest income on post-employment benefit obligations	**(18)**	(41)
Fair value and foreign exchange adjustments on financial instruments	**(84)**	57
Underlying net finance costs – Group	**(455)**	(231)
Net finance income – equity accounted investments	**59**	14
(Deduct)/add back:		
Net interest income on post-employment benefit obligations	**(2)**	(3)
Fair value and foreign exchange adjustments on financial instruments	**2**	9
Underlying net finance income – equity accounted investments	**59**	20
Total of Group and equity accounted investments' underlying net finance costs	**(396)**	(211)

Underlying effective tax rate

Purpose

Provides a measure of tax expense for the Group, excluding one-off items, that is comparable over time.

Definition

Tax expense for the Group and its share of equity accounted investments, excluding any one-off tax benefit/expense related to adjusting items and other items excluded from underlying EBIT, as a percentage of underlying profit before tax.

Calculation of the underlying effective tax rate

	2024 £m	2023 £m
Underlying EBIT KPI (see reconciliation on page 220)	**3,015**	2,682
Group and equity accounted investments' underlying net finance costs (see reconciliation above)	**(396)**	(211)
Underlying profit before tax	**2,619**	2,471
Group tax expense	**(291)**	(386)
Tax expense of equity accounted investments	**(68)**	(47)
Exclude:		
Tax (expense)/income in respect of taxable adjusting items	**(33)**	11
Tax expense in respect of other items excluded from underlying profit	**(77)**	(49)
Tax rate adjustment	**–**	(1)
Underlying tax expense	**(469)**	(472)
Underlying effective tax rate	**18%**	19%

Free cash flow

Purpose

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

Definition

Net cash flow from operating activities, including dividends received from equity accounted investments, interest paid, net of interest received, net capital expenditure and financial investments, and principal elements of lease payments and receipts.

Reconciliation from free cash flow to net cash flow from operating activities

	2024 £m	2023 £m
Free cash flow KPI	**2,505**	2,593
Add back:		
Interest paid, net of interest received	**413**	230
Net capital expenditure and financial investment	**987**	789
Principal element of lease payments and receipts	**178**	282
Deduct: Dividends received from equity accounted investments	**(158)**	(134)
Net cash flow from operating activities	**3,925**	3,760

Operating business cash flow

Purpose

Provides a measure of cash generated by the Group's operations, which is comparable across the Group, to service debt and meet tax obligations, and in turn available for use in line with the Group's capital allocation policy.

Definition

Net cash flow from operating activities excluding tax paid net of research and development expenditure credits received and including net capital expenditure (net of proceeds from funding of assets) and lease principal amounts, financial investment and dividends from equity accounted investments.

Reconciliation from operating business cash flow to net cash flow from operating activities

	2024 £m	2023 £m
Operating business cash flow	**3,093**	3,218
Add back:		
Net capital expenditure and financial investment	**987**	789
Principal element of lease payments and receipts	**178**	282
Deduct:		
Dividends received from equity accounted investments	**(158)**	(134)
Tax paid net of R&D expenditure credits received	**(175)**	(395)
Net cash flow from operating activities	**3,925**	3,760

Reconciliation of operating business cash flow to net cash flow from operating activities by reporting segment

	Operating business cash flow		Deduct: Dividends received from equity accounted investments		Add back: Net capital expenditure, lease principal amounts and financial investment		Net cash flow from operating activities	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Electronic Systems	**801**	811	**(11)**	(8)	**254**	158	**1,044**	961
Platforms & Services	**732**	426	**(1)**	–	**245**	198	**976**	624
Air	**1,243**	1,669	**(138)**	(112)	**254**	251	**1,359**	1,808
Maritime	**436**	291	**(8)**	(7)	**306**	345	**734**	629
Cyber & Intelligence	**139**	204	**–**	–	**55**	57	**194**	261
HQ	**(258)**	(183)	**–**	(7)	**51**	62	**(207)**	(128)
	3,093	3,218	**(158)**	(134)	**1,165**	1,071	**4,100**	4,155
Tax paid net of R&D expenditure credits received							**(175)**	(395)
Net cash flow from operating activities							**3,925**	3,760

Alternative performance measures continued

Net debt (excluding lease liabilities)

Purpose

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

Definition

Cash and cash equivalents, less loans (including debt-related derivative financial instruments). Net debt does not include lease liabilities.

Components of net debt (excluding lease liabilities)

	2024 £m	2023 £m
Cash and cash equivalents	**3,378**	4,067
Debt-related derivative financial instruments (net)	**89**	22
Loans – non-current	**(7,713)**	(4,432)
Loans – current	**(699)**	(679)
Net debt (excluding lease liabilities) KPI	**(4,945)**	(1,022)

Order intake

Purpose

Allows management to monitor the order intake of the Group together with its equity accounted investments, providing insight into future years' sales performance.

Definition

Funded orders received from customers including the Group's share of order intake of equity accounted investments.

	2024 £bn	2023 £bn
Order intake KPI	**33.7**	37.7

Order backlog

Purpose

Supports future years' sales performance of the Group together with its equity accounted investments.

Definition

Funded and unfunded unexecuted customer orders including the Group's share of order backlog of equity accounted investments. Unfunded orders include the elements of US multi-year contracts for which funding has not been authorised by the customer.

Reconciliation of order backlog, as defined by the Group, to order book[1]

	2024 £bn	2023 £bn
Order backlog, as defined by the Group	**77.8**	69.8
Deduct:		
Unfunded order backlog	**(5.3)**	(2.3)
Share of order backlog of equity accounted investments	**(16.6)**	(13.5)
Add back: Order backlog in respect of orders from equity accounted investments	**4.5**	4.0
Order book[1]	**60.4**	58.0

1. Order book represents the transaction price allocated to unsatisfied and partially satisfied performance obligations as defined by IFRS 15 Revenue from Contracts with Customers.

Other information

Double materiality assessment

This year we conducted our first double materiality assessment to support our future compliance with the EU Corporate Sustainability Reporting Directive, required from 2028. As part of this, we conducted interviews with employees, trades unions, suppliers, customers, investors, local interest groups and non-governmental organisations, as well as peer reviews and desktop research.

Output from this assessment is below, including where to find information on material sustainability issues identified within this report. All material issues are consistent with our last materiality assessment and are addressed within our sustainability agenda and risk management framework.

Material issue	Signpost to Principal Risk	Where can information be found in the report
Environment		
1. Climate change adaptation Identifying climate change-related risks and adapting our operations and value chain to address risk	Climate change and environmental factors Business interruption	CLIMATE AND THE ENVIRONMENT PAGE 49 > ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT PAGE 91 >
2. Climate change mitigation Identifying climate change-related risks and mitigating risk in our operations and value chain	Climate change and environmental factors	
3. Biodiversity and ecosystems	Climate change and environmental factors	
4. Waste (hazardous/non-hazardous)	Climate change and environmental factors	
5. Pollution	Climate change and environmental factors	
Social		
6. Health, safety and employee wellbeing	Safety	OUR INVESTMENT IN OUR PEOPLE AND COMMUNITIES PAGE 24 > ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT PAGE 91 >
7. Human capital management	People	OUR INVESTMENT IN OUR PEOPLE AND COMMUNITIES PAGE 24 > ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT PAGE 91 > REMUNERATION COMMITTEE REPORT PAGE 94 >
8. Rights of employees	People	OUR INVESTMENT IN OUR PEOPLE AND COMMUNITIES PAGE 24 > ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT PAGE 91 >
9. Training and skills development	People	OUR INVESTMENT IN OUR PEOPLE AND COMMUNITIES PAGE 24 >
10. Labour rights and working conditions in the supply chain		OUR RESPONSIBLE BUSINESS PAGE 48 >
11. Product and service quality and safety	Safety	ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT PAGE 91 >
12. Information-related impacts for end-users	Safety Security (including cyber)	ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT PAGE 91 > INNOVATION AND TECHNOLOGY COMMITTEE REPORT PAGE 93 >
Governance		
13. Advanced technologies and innovations		INNOVATION AND TECHNOLOGY COMMITTEE REPORT PAGE 93 >
14. Responsible sales	Legal risk	AUDIT AND RISK COMMITTEE REPORT PAGE 86 > ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT PAGE 91 >
15. Data privacy and cyber security	Security (including cyber)	PRINCIPAL RISK – SECURITY PAGE 60 >
16. Corporate culture	Legal risk	AUDIT AND RISK COMMITTEE REPORT PAGE 86 > ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT PAGE 91 >
17. Responsible supply chain	Legal risk	ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT PAGE 91 >
18. Material and resource vulnerability	Contract risk, execution and supply chain	ENVIRONMENTAL, SOCIAL AND GOVERNANCE COMMITTEE REPORT PAGE 91 >

Other information continued

Task Force on Climate-related Financial Disclosures (TCFD)

The following tables summarise our disclosures relating to the four TCFD Recommendations and 11 Recommended Disclosures pursuant to the UK Listing Rule 6.6.6R(8). We have considered our obligations in respect of climate-related disclosure under the UK Listing Rules and confirm that these disclosures are consistent with the relevant Listing Rules and the TCFD Recommendations and Recommended Disclosures (including the implementing guidance set out in the 2021 TCFD Annex), save for – Metrics and Targets, part b. During 2024, we progressed internal workstreams to understand the GHG emissions associated with Scope 3 data, but we are not currently in a position to disclose our total Scope 3 emissions data. During 2025, we will continue to progress internal workstreams to better our understanding of our Scope 3 GHG emissions related to our suppliers and products and we expect to be able to report data by 2026.

Governance

Pillar/recommendation	Overview	Where can information be found?
Disclose the organisation's governance around climate-related risks and opportunities		
a) Describe the Board's oversight of climate-related risks and opportunities.	The Board oversees climate-related risks and opportunities in setting overall strategy, including expenditure and investments as part of the IBP process. It oversees the Nominations Committee, Audit and Risk Committee, Environmental, Social and Governance Committee, Innovation and Technology Committee and Remuneration Committee. The Board, through the Environmental, Social and Governance Committee, ensures that appropriate climate resilience and environmental programmes are in place and remuneration is set as required to drive the reduction in the Group's environmental impact.	OVERSIGHT AND MANAGEMENT OF CLIMATE-RELATED RISK AND OPPORTUNITY PAGE 228 > GOVERNANCE FRAMEWORK PAGE 74 > THE WORK OF THE BOARD PAGE 76 > COMMITTEE REPORTS PAGE 83 >
b) Describe management's role in assessing and managing climate-related risks and opportunities.	Our Executive Committee is responsible for managing climate-related risks and opportunities and for delivering the decarbonisation programme through our business and value chain. Climate-related risks and opportunities are embedded across our Operational Framework, including roles and responsibilities, key policies and processes.	OVERSIGHT AND MANAGEMENT OF CLIMATE-RELATED RISK AND OPPORTUNITY PAGE 228 > GOVERNANCE FRAMEWORK PAGE 74 >

Strategy

Pillar/recommendation	Overview	Where can information be found?
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material		
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term; and b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.	Our decarbonisation strategy supports our purpose and strategic framework in delivering a sustainable business positioned to meet the needs of our customers and our people over the long term. It encompasses how we will decarbonise our operations and product and service portfolio, whilst supporting our customers and suppliers in their transition, as a minimum in line with a Paris-aligned pathway. The decarbonisation strategy encompasses material climate-related risks and opportunities that have the potential to impact our business model and strategy over the short, medium and long term, taking into consideration our assets and infrastructure. In putting together the decarbonisation strategy we have considered the commitments made by the UK Government. We considered the outputs from our scenario planning work and assessed these as part of our decarbonisation strategy. We can confirm that this strategy and our ongoing approach to business continuity encompass the material risks and opportunities we identified through the scenario planning process. These will continue to be monitored, managed and, to the extent necessary, mitigated. These activities will continue to be included within the annual business planning processes. Our current assessment is that the financial risk associated with the impact of climate risk on our operations is appropriately managed and mitigated and will continue to be in the future.	OUR STRATEGIC FRAMEWORK PAGE 12 > OUR BUSINESS MODEL PAGE 10 > CLIMATE AND THE ENVIRONMENT PAGE 49 > HOW WE MANAGE RISK PAGE 55 > OUR PRINCIPAL RISKS PAGE 58 > IMPACT OF CLIMATE ON THE CONSOLIDATED FINANCIAL STATEMENTS PAGE 150 > OTHER SUPPLEMENTARY INFORMATION ONLINE: 2024 CDP – BAESYSTEMS.COM/EN/SUSTAINABILITY/SUSTAINABILITY-REPORTING > OTHER INFORMATION – SCENARIO PLANNING PAGE 229 >
c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	During 2021 and 2022, we progressed qualitative and quantitative scenario planning covering physical risk and transition risk – regulation and technology and transition opportunity – products. Material climate-related risks and opportunities identified during those processes continue to be monitored, managed and, to the extent necessary, mitigated. We will continue to address material climate-related risks and opportunities as part of our decarbonisation strategy. We will be conducting scenario planning as part of our next business review in 2025.	HOW WE MANAGE RISK PAGE 55 > OUR PRINCIPAL RISKS PAGE 58 > IMPACT OF CLIMATE ON THE CONSOLIDATED FINANCIAL STATEMENTS PAGE 150 > OTHER INFORMATION – SCENARIO PLANNING PAGE 229 > DECARBONISING OUR OPERATIONS PAGE 49 >

Risk management

Pillar/recommendation	Overview	Where can information be found?
Disclose how the organisation identifies, assesses and manages climate-related risks		
a) Describe the organisation's processes for identifying and assessing climate-related risks; b) Describe the organisation's processes for managing climate-related risks; and c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.	Our approach to identifying, assessing and managing environmental risks, including climate-related risk, is embedded within our approach to risk management. Climate and environmental risks may present as financial or non-financial risks depending on the extent to which their impacts can be quantified, and how they have been classified. Climate and environmental risk is addressed within the Group's principal risks – climate change and environmental factors; business interruption; and legal risk (see pages 63 to 65). Current and emerging regulations are considered as part of the environmental management system, including energy-related taxes and schemes.	OVERSIGHT AND MANAGEMENT OF CLIMATE-RELATED RISK AND OPPORTUNITY PAGE 228 > HOW WE MANAGE RISK PAGE 55 > OUR PRINCIPAL RISKS PAGE 58 >

Metrics and targets

Pillar/recommendation	Overview	Where can information be found?
Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material		
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	We reviewed the TCFD Guidance on Metrics, Targets and Transition Plans and the cross-industry metric categories included in that document. We report against the following cross-industry metrics: GHG emissions – absolute Scope 1 and 2 emissions and carbon intensity measure. Capital deployment – disclosure within 'impact of climate ambitions on the consolidated financial statements'. Remuneration – 10% ESG weighting for ESG metrics in the Performance Share metric. We disclose revenue from alternative energy-related products within our Annual Report (see Power & Propulsion on page 39) and Sustainability Accountability Standards Board (SASB) disclosure – Resource Transformation: Aerospace & Defence sector disclosure. We disclose our energy consumption within our Annual Report. We also disclose other key environmental metrics – waste production and electricity consumption. We disclose our investment in R&D within our Annual Report (see page 11).	REMUNERATION COMMITTEE REPORT PAGE 94 > IMPACT OF CLIMATE ON THE CONSOLIDATED FINANCIAL STATEMENTS PAGE 150 > OTHER SUPPLEMENTARY INFORMATION ONLINE: SUSTAINABILITY ACCOUNTING STANDARDS BOARD (SASB) DISCLOSURE I SUSTAINABILITY REPORTING I SUSTAINABILITY I BAE SYSTEMS >
b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks.	We report our absolute GHG Scope 1, 2, 3 (employee and business travel only) emissions in line with Streamlined Energy and Carbon Reporting (SECR) regulations. This data is externally assured, to a limited level of assurance, by Deloitte LLP. During 2025, we will continue to progress our internal workstreams to better our understanding of our Scope 3 GHG emissions related to our suppliers and products and we expect to be able to report data by 2026.	KEY PERFORMANCE INDICATORS PAGE 14 > VALUE CHAIN PAGE 50 > GHG EMISSIONS AND METHODOLOGY PAGE 231 >
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	Our near-term target is to reduce GHG emissions across our operations (Scopes 1 and 2) by 2030, reducing operational emissions by 4.2% year-on-year in line with a Paris-aligned pathway. We have achieved a 6.0%[1] GHG emissions reduction in 2024. Post the integration of SMS into our environmental data systems during late 2024, in line with our GHG basis of reporting and methodology statement during 2025 we will be recalculating our 2020 GHG emissions baseline, to include the GHG emissions of this business. Our long-term target is to work towards net zero across our value chain by 2050.	REMUNERATION COMMITTEE REPORT PAGE 94 >

1. SMS business data is excluded.

Other information continued

How we manage climate-related risks and opportunities

BAE Systems Board

Quarterly

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

Nominations Committee

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

READ MORE PAGE 83 >

Audit and Risk Committee

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

READ MORE PAGE 86 >

Environmental, Social and Governance Committee

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

READ MORE PAGE 91 >

Innovation and Technology Committee

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

READ MORE PAGE 93 >

Remuneration Committee

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

READ MORE PAGE 94 >

Executive Committee

Monthly

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

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

Core Business Processes and Policies

Chief Executive's Business Review

Quarterly

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

Business Risk

Annual

The identification, analysis, evaluation and mitigation of business risks, including those relating to the environment and climate change.

Quarterly Business Review

Quarterly

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

Integrated Business Plan (IBP)

Annual

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

Sustainability Council

Monthly

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

Climate and Environment Working Group

Monthly

Reports to the Director Environment, Climate & Infrastructure and coordinates the progression of our decarbonisation ambitions. The Group is made up of functional representatives, business leads and environmental specialists.

Businesses/sectors

Each business/sector has climate and environment leads who progress the decarbonisation ambitions of each business/sector.

Climate scenario planning

We use climate scenarios to assess the resilience of our business, decarbonisation strategy and our approach to managing climate-related risk and opportunities including the impact on our financial results.

Climate scenarios demonstrate different possible futures, based on expert peer reviewed projections, but they are not forecasts. They are designed for companies to test their business resilience against a range of different future states to inform strategic decision-making. Scenario analysis is a necessary exercise to understand what parts of the business are exposed to and impacted by climate change.

Climate change and nature-related risks and opportunities extend beyond normal business strategic planning cycles and have the potential to impact BAE Systems over short- (less than two years), medium- (three to ten years) and long-term (beyond ten years) time horizons.

During 2022, we built upon our qualitative scenario planning work that we commenced during 2021, by progressing material physical risk and transition risks quantification and continuing qualitative analysis on transition opportunities.

Materiality of risk and opportunities was based on the likelihood of occurrence and potential impact on the Group. For each area, we identified sub-risks and opportunities for quantification. Analysis of these risk and opportunity areas has helped BAE Systems to understand the scale of the unmitigated impact, through the development of a methodology and calculation of the possible financial impact.

We anticipate revisiting our scenario planning as part of our next business review in 2025.

Scenario planning – material climate-related risk and opportunity

Physical risk

Materiality of risk or opportunity/ timeframe[1]
Short, medium and long term

Description	Unmitigated potential impact	Business readiness
We have assessed the future physical risk of extreme weather on 140 priority sites globally. We have operations in more than 40 countries, with a focus in the UK, US, the Kingdom of Saudi Arabia and Australia; therefore, our operational exposure to physical risks is diverse and varies by region. Risks have been quantified for seven hazards in future periods to 2100 under three scenarios. Unmitigated damage and disruption losses have been financially quantified for 140 priority sites.	The impact of the physical risks of climate change, such as increasing frequency and severity of extreme weather events, will affect BAE Systems' operations and vary depending on the particular hazard and geography. Overall, extreme weather events are likely to result in repair costs, adaptation investments and reductions in productivity. **Financial impact** Low	We currently assess the physical locations of our global sites against physical risk of extreme weather events. This includes risk engineering reviews at site level and a quantification of current potential financial impacts. Any mitigation actions arising from these assessments are included within the sector IBP. Our mitigation work is also supported by work underway and planned by central and local government departments within the countries and counties/states that we have facilities in.

Transition risk – regulation

Materiality of risk or opportunity/ timeframe[1]
Medium term

Description	Unmitigated potential impact	Business readiness
We have assessed the transition risk of tightening environmental laws and regulations in relation to carbon pricing globally. Carbon pricing is an approach used to reduce carbon emissions through market mechanisms. It passes the societal cost of climate change from the emissions of GHGs back to the organisations responsible for emitting them. As a result, it has the purpose of discouraging the use of GHG-emitting activities in order to protect the environment, address the causes of climate change, and meet national and international climate agreements. Carbon pricing instruments can take many forms, with the most common being carbon taxes, taxes on fuels, and trading schemes/levies. The cost of carbon to 2050 was calculated using Scope 1 and 2 measured emissions. This was performed using prices modelled in three International Energy Agency (IEA) transition scenarios: STEPS, Announced Pledges Scenario (APS) and Net Zero Emissions (NZE) (see page 230). The cost of carbon assumes a 100% passthrough from energy suppliers, and has been analysed under two pathways: (a) static emissions; and (b) decarbonisation to net zero by 2050.	Carbon pricing has the potential to increase operational costs via carbon taxes and levies to the business for energy and fuel use; and indirect taxes which are passed to the Group through purchased energy. **Financial impact** Low	Our decarbonisation strategy and operational low carbon pathway will lower our exposure to carbon taxes. We will continue to monitor environmental laws and regulations in relation to carbon pricing, including any potential financial impacts on the Group.

1. Short- (less than two years), medium- (three to ten years) and long-term (beyond ten years) time horizons. Time horizons are linked to the IBP process.

Other information continued

Transition risk – technology

Materiality of risk or opportunity/ timeframe[1]
Medium to long term

Description	Unmitigated potential impact	Business readiness
In the UK, nearly half of BAE Systems' emissions come from heating buildings. To support the decarbonisation of our heating systems over the long term, we could consider switching to lower-emissions heating technology. The decarbonisation of energy for heating poses a challenge, as most cost-effective solutions are currently expensive and subscale. This could result in increased costs arising from the need to replace existing plant and equipment to incorporate lower-emissions technologies, such as heat pumps. We have reviewed the roll-out of heat pumps as a potential option to replace current gas-fired heating systems and this was assessed under three IEA pricing scenarios to 2050.	Introducing alternative energy sources such as renewable energy-powered heat pumps will lower our emissions, but at this point would require significant capital expenditure to retrofit our sites and install the devices. Due to the difficulties of switching fuels and maintaining legacy systems, installing heat pumps is considered one of the best transition solutions over the long term. This is because heat pumps are more efficient than other heating systems in producing more heat energy than the amount of electricity consumed. Heat pump technology is currently expensive, as the technology and market is still developing. **Financial impact** Low	In the UK, we have considered the feasibility of introducing renewable energy-powered heat pumps over the long term, as part of the decarbonisation strategy. We will continue to monitor the development of lower-emissions heating technology, over the long term, as a way to support reducing the GHG emissions of our operations.

Transition opportunity – products

Materiality of risk or opportunity/ timeframe[1]
Medium

Description	Unmitigated potential impact	Business readiness
The transition to a low carbon economy presents opportunities for BAE Systems, and continued innovation will be required to provide solutions to existing and new customer bases.	Our ability to increase revenues will be dependent on applying advanced engineering capabilities to develop new products that support lower-emissions requirements, creating new business lines and enhancing competitive positions in order to retain and grow market share. Continued investment, both Group- and customer-funded, in R&D will be required.	To decarbonise by 2050, we must ensure that our products and services support a decarbonisation pathway. This will be achieved by advancing the efficiency of our products and services, in the short term, and transitioning to lower- or zero-emissions products and technology longer term. This will require continued investment in our R&D activities. We have been engaging with our customers to understand their decarbonisation pathways including the challenges they face regarding operational effectiveness and availability. Many customers are setting targets and looking for lower-carbon sustainable products. We are working to understand and influence their future requirements to help inform and shape product innovation and development. Sustainable fuels will help facilitate our product and service decarbonisation pathway over the long term. BAE Systems can use the market presence and brand recognition for its electric and hybrid propulsion systems portfolio developed through the well-established urban transit bus products, by leveraging and transitioning this expertise to other, emerging and nascent markets such as aviation, maritime and heavy industrial transport vehicle markets.

For transition risks and opportunities, IEA scenario data has been used, due to its relevance to the Group's decarbonisation strategy, global and regional coverage, timeframes considered and information on drivers and frequency of scenario updates.

1.5°C Net Zero Emissions scenario (NZE)
Source: IEA Net Zero Economy by 2050

Announced Pledges Scenario (APS)
Source: IEA Announced Pledges Scenario

Stated Policies Scenario (STEPS)
Source: IEA Stated Policies Scenario

We have used the following key assumptions within our scenarios:

Assumption	Rationale
No action is taken by BAE Systems to mitigate or limit the impacts of each risk being assessed.	Uncovers what the implications are if climate risks are left unmitigated to help facilitate a response plan. These results can be used by the business to test whether current mitigation is sufficient.
Mutual exclusivity is applied to the scenarios and underlying climate attributes (i.e. impacts are not aggregated or offset).	Ensures that no impacts are cancelled out. We do not assess scenarios where both transitions risks and physical risks take place at the same time (although this is inevitable).
Business activities are static over the future period (revenue streams, operating model, emissions, etc).	Isolates the climate element of the risks to show implications on strategy in a world where business as usual remains.

Climate scenarios and data used

For physical risk, TCFD scenario analysis guidance recommends analysing at least three different climate scenarios to ensure a broad range of outcomes are considered. Each scenario causes different levels of future physical risk, and resulting losses. This enables the user to draw comparisons between the scenarios and the level of risk and subsequent damage and disruption for future periods. We have focused on the worst-case scenario (SSP 5 – RCP 8.5)[1] in the analysis below, as this presents the most risk to our operations.

Physical risk scenario	Intergovernmental Panel on Climate Change trajectory alignment	Scenario policy action
>4°C	SSP 5 – RCP 8.5[1] Temperature rise by 2100: 4.4°C	No additional policy action
2–3°C	SSP 2 – RCP 4.5[1] Temperature rise by 2100: 2.7°C	Late policy action
<2°C	SSP 1 – RCP 2.6[1] Temperature rise by 2100: 1.8°C	Early policy action

1. Shared Socioeconomic Pathway (SSP). Representative Concentration Pathway (RCP).

Greenhouse gas (GHG) emissions data

Absolute energy consumption

	2024[1]		2023	
	Global[2] kWh	**UK kWh**	Global kWh	UK kWh
Energy consumption Scope 1 and 2	**1,378,244,469**	**542,330,247**	1,315,552,368	534,961,834

GHG emissions data[1]

	2024		2023	
Scope definition	**Global[2] tonnes CO_2e**	**UK tonnes CO_2e**	Global tonnes CO_2e	UK tonnes CO_2e
1 Emissions from activities which BAE Systems owns or controls (Scope 1)	**104,948**	**52,662**	107,360	54,204
2 Emissions from the electricity and steam purchased for BAE Systems' use (Scope 2 – location-based)	**267,202**	**57,616**	243,457	54,456
Total gross Scope 1 and 2 emissions	**372,150**	**110,278**	350,817	108,660
3 Emissions from employee business travel (Scope 3)	**122,383**	**54,880**	114,030	44,261

GHG emissions per employee

	2024[1]		2023	
	Global tonnes CO_2e	**UK tonnes CO_2e**	Global tonnes CO_2e	UK tonnes CO_2e
Per each full-time equivalent employee (Scope 1 and 2)	**3**	**2**	4	3

1. Relevant reporting period 1 January 2024 to 31 December 2024. The GHG emissions data includes the SMS business and its associated GHG emissions. Comparative information covers the reporting period from 1 November 2022 to 31 October 2023 and excludes the SMS business and its associated GHG emissions.
2. Deloitte has provided independent limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) and Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the IAASB over the selected metrics identified with a [2]. Deloitte's full unqualified assurance opinion, which includes details of the selected metrics assured, can be found at baesystems.com/annual-report

To see our Basis of Reporting 2024 visit baesystems.com/annual-report

Other information continued

Methodology

Greenhouse gas emissions data is reported in line with an operational control method, we use the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard as guidance to support our approach to reporting. Our reporting boundary for Streamlined Energy and Carbon Reporting (SECR) is the same as our reporting boundary for the purposes of our financial statements. Data covers a 12-month period between the 1 January 2024 to 31 December 2024. Pro-rated methods have been used where data does not cover the full 12 month period. The GHG protocol allows participants to arrange their organisational boundaries using two different methodologies. One using the equity share or two the control approach. The business has chosen to use the control approach. Furthermore, the control approach selected allows for two further methodologies to be applied; to define control either a financial approach or operational approach. The business uses the latter.

As a business we utilise a tool called the Global Property Database (GPD) to record and monitor locations which we either own or lease. Every location listed on the GPD for the purpose of GHG emissions reporting falls within our organisational boundary, we do not report emissions from all these locations as some fall outside of our operational boundary. We assess each location using defined criteria to determine operational control. More information is available in the basis of reporting.

Regional specific emissions factors are utilised where available to convey emission. Where regional emissions factors are not available emissions factors associated with fuel consumption utilise those published by the Department for Business Energy & Industrial Strategy in the United Kingdom.

Emissions factors for electricity consumed by commercial locations in the United States are published by the United States Environmental Protection Agency (US EPA). The most up to date Emissions and Generation Resource Integrated Database (eGRID) factors published by US EPA for the 2024 reporting cycle are from the year 2022. Emissions factors associated with the consumption of fuels in the United States are published by the GHG Protocol.

Emissions factors for both electricity and natural gas consumption in Australia are published by the Department of Climate Change, Energy, the Environment and Water. Emission factors for Sweden's (SWE) natural gas are published at https://unfccc.int/documents/224123 and electricity European Residual Mix | AIB (aib-net.org).

Electricity emission factors for Saudi Arabia (KSA), Sweden, all other international locations and residential locations in the United States and are published at Emissions Factors 2024 – Data product – IEA.

For this reporting cycle, the 2024 UK Government emissions factors published by the Department for Business, Energy and Industrial Strategy (BEIS) have been used for majority of Scope 1 and 3 calculations.

Emissions factors published by both the UK Government department for Business Energy and Industrial Strategy and the US EPA, are presented as CO_2e they cover all six applicable greenhouses gases listed under the Kyoto Protocol. For further information on the inclusion of HFC's in the reported inventory, please refer to the section on fugitive emissions.

The Scope 2 Greenhouse Gas Emissions associated with the GHG Protocol 'Market-Based' method are calculated in line with the GHG Protocol Guidance, using residual-mix emission factors where available for our UK, US and Swedish operations. In our other significant operating regions, residual mix emission factors are either unavailable or the resulting absolute emissions at group level are within the margin of error and therefore country-specific emissions factors have been used in line with the GHG Protocol Guidance. If sites consume grid electricity backed by Renewable Energy Guarantee of Origin (REGOs), this has been taken into consideration within the calculations.

Greenhouse gas emissions related to business travel include air travel data for the majority of the global business, rail data for business units operating in the UK and US, and vehicle (including hire car, company car and personal car) data for business units operating in the UK, US and Australia. These data sets are taken from suppliers' procurement records.

The principal record of the Group's worldwide facilities is its legal department's Global Property Database. The database holds records of all locations which are either wholly owned, leased or licensed sites.

Greenhouse gas emissions are primarily calculated from energy consumption records, eg invoiced data or meter reads. For the UK & International businesses, these are reported via the Group's global environmental database (CR Desktop). Data related to the US business is provided for internal use quarterly along with full annual data submission. Where consumption records are not available estimates may be used and these will be highlighted in the database.

Where actual usage data is not available for facilities and residences within the Global Property Database, an estimated consumption is used this is either based on the type and size of the building, if no information is available on the size of the building a default benchmark factor or alternative estimation method is used. If a business or facility has closed between quarter 4 of the previous year and quarter 3 of the current year, it will not be included within the reporting boundary. Any locations which close in quarter 4 of the reporting year will be removed from reporting boundary in the next full reporting year after the change.

Emissions from non-wholly owned subsidiaries are included in the dataset if BAE Systems have operational control at the location. They are accurate as of 31 December 2024 and reflect locations in operation at that time. For the majority of these locations the joint venture either operates from one of our CR Desktop reporting locations or are included in benchmarked estimates. Some listed companies were previously described as dormant in 2023 and remain dormant in 2024. For the purposes of calculating emissions, we have excluded dormant companies as it has been assumed that they do not consume energy.

Equity accounted investments and other investments detailed in the annual report are not currently included, these investments represent BAE Systems Scope 3 emissions. Emissions from pension scheme properties not occupied by the group are not included. Trading of emissions are not taken into account for the purposes of reporting, for example where the business has a requirement to maintain compliance with trading schemes, eg UK ETS, the total energy consumed is reported regardless of emissions trading.

The Scope 2 Greenhouse Gas Emissions associated with the GHG Protocol 'Market-Based' method have been calculated as 226,107 tCO_2e. In line with the GHG Protocol Guidance, using residual-mix emission factors where available for our UK, US and Swedish operations. In our other significant operating regions, residual mix emission factors are either unavailable or the resulting absolute emissions at group level are within the margin of error and therefore country-specific emissions factors have been used in line with the GHG Protocol Guidance. If sites consume grid electricity backed by Renewable Energy Guarantee of Origin (REGOs), this has been taken into consideration within the calculations.

1. Deloitte has provided independent limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) and Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the IAASB over the selected metrics identified with a [1]. Deloitte's full unqualified assurance opinion, which includes details of the selected metrics assured, can be found at baesystems.com/annual-report.

Glossary

A

ACV	Amphibious Combat Vehicle
ADR	American Depositary Receipts
AGM	Annual General Meeting
AI	Artificial Intelligence
AMPV	Armored Multi-Purpose Vehicle
APKWS	Advanced Precision Kill Weapon System
APM	Alternative Performance Measure
APS	Announced Pledges Scenario
AUKUS	Trilateral agreement between Australia, the UK and the US

B

BAESRSP	BAE Systems Retirement Savings Plan
BEC	Bose-Einstein Condensate
BEIS	Business, Energy and Industrial Strategy

C

C4ISR	Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance
C5ISR	Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance and Reconnaissance
CAMM	Common Anti-Air Module Missiles
Capex	Capital Expenditure
CGU	Cash-Generating Unit
CMI	Continuous Mortality Investigation
CPI	Consumer Prices Index
CRR	Corporate Reporting Review
CSC	Canadian Surface Combatant
CTIO	Chief Technology & Information Officer

D

DEI	Diversity, Equity and Inclusion
DRIP	Dividend Reinvestment Plan
DSEI event	Defence and Security Equipment International Event
DTR	Disclosure Guidance and Transparency Rule

E

EBIT	Earnings before Interest and Tax
eGRID	Emissions and Generation Resource Integrated Database
EPA	Environmental Protection Agency
EPS	Earnings per Share
ERP	Enterprise Resource Planning
ES	Electronic Systems
ESG	Environmental, Social and Governance
ESOP	Employee Share Option Plan
EW	Electronic Warfare
ExSOP	Executive Share Option Plan

F

FCA	Financial Conduct Authority
FCF	Free Cash Flow
FIFO	First in first out
FRC	Financial Reporting Council
FRS	Financial Reporting Standard

Glossary continued

G

GAAP	Generally Accepted Accounting Principles
GCAP	Global Combat Air Programme
GeoXO	Geostationary Extended Observations
GHG	Greenhouse gas
GPD	Global Property Database

H

HCFP	Hunter Class Frigate Programme

I

IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IBP	Integrated Business Plan
IEA	International Energy Agency
IFRS	International Financial Reporting Standard
IPO	Initial Public Offering
IRS	Internal Revenue Service
ISAE	International Standard for Assurance Engagements
ISAs (UK)	International Standards on Auditing (UK)
ISC	Integration Support Contract
IT	Information Technology

J

JORN	Jindalee Operational Radar Network
JOSCAR	Joint Supply Chain Accreditation Register

K

KPI	Key Performance Indicator
KSA	Kingdom of Saudi Arabia

L

LCM	Lifecycle Management
LLM	Large Language Models
LTI	Long-Term Incentive
LTIP	Long-Term Incentive Plan

M

MES	Marconi Electronic Systems
MoD	Ministry of Defence
MSR	Minimum Shareholding Requirement
MVL	Members' Voluntary Liquidation

N

NGAA	Next Generation Adaptable Ammunition
NGMS	Next Generation Munitions Solution
NOAA	National Oceanic and Atmospheric Administration
NZE	Net Zero Emissions Scenario

O

OAS	Operational Assurance Statement
OCF	Operating Cash Flow

P

PBGC	Pension Benefit Guaranty Corporation
PPA	Power Purchase Agreements
PSP	Performance Share Plan

R

R&D	Research and Development
RBSL	Rheinmetall BAE Systems Land
RCF	Revolving Credit Facility
RCP	Representative Concentration Pathway
REGO	Renewable Energy Guarantee of Origin
ROCE	Return on Capital Employed
ROW	Rest of World
RPI	Retail Prices Index
RSP	Restricted Share Plan

S

SASB	Sustainability Accountability Standards Board
SCOD	Sovereign Capability and Option Deed
SDG	Sustainable Development Goal
SECR	Streamlined Energy and Carbon Reporting
SID	Senior Independent Director
SIP	Share Incentive Plan
SIPS	Shipbuilding Industries Pension Scheme
SME	Small and medium-sized enterprise
SMS	Space & Mission Systems
SSA	Special Security Agreement
SSP	Shared Socioeconomic Pathway
STEM	Science, Technology, Engineering and Mathematics
STEPS	Stated Policies Scenario

T

TCFD	Task Force on Climate-related Financial Disclosures
TSR	Total Shareholder Return

U

UAS	Uncrewed Air System

W

WTW	Willis Towers Watson

Shareholder information

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United Kingdom

Telephone: +44 (0)1252 373232

Company website: **baesystems.com**

Registered in England and Wales, No. 01470151

Registrars

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Aspect House
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Lancing
West Sussex
BN99 6DA
United Kingdom

If you have any queries regarding your shareholding or need to notify any changes to your personal details, please contact Equiniti.

Equiniti's website (**help.shareview.co.uk**) includes a comprehensive set of answers to many frequently asked questions relating to managing a shareholding. If you cannot find the answer to your question, there is an online email form, which will help to ensure your question is directed to the most appropriate team for a response. Alternatively, you can call the BAE Systems Helpline on 0371 384 2044 or, from outside the UK, +44 371 384 2044. Lines are open from 8.30am to 5.30pm Monday to Friday, excluding UK bank holidays.

In addition, the following services are offered to shareholders:

- **Shareview** – online access to your shareholding, including balance movements, indicative share prices and information on recent payments.
- **Dividend mandates** – have your dividends paid directly into either your UK bank/building society account or an overseas bank account.
- **Dividend reinvestment plan (DRIP)** – a DRIP is provided by Equiniti Financial Services Limited. The DRIP enables the Company's shareholders to elect to have their cash dividend payments used to purchase the Company's shares. More information can be found at **shareview.co.uk/info/drip**.

More information on all these services can be found on Equiniti's website (**shareview.co.uk**).

American Depositary Receipts

BAE Systems plc American Depositary Receipts (ADRs) are traded on the over-the-counter market under the symbol BAESY. One ADR represents four BAE Systems plc ordinary shares.

JP Morgan Chase Bank N.A. is the depositary. If you should have any queries please contact:

JP Morgan Chase Bank N.A.
PO Box 64504
St Paul
MN 55164-0504, USA

Email: **jpmorgan.adr@eq-us.com**

Telephone (toll free from within US and Canada): +1 800 990 1135

Telephone from outside US and Canada: +1 651 453 2128

ShareGift

ShareGift, the share donation charity (registered charity number 1052686), accepts donations of small parcels of shares which may be uneconomic to sell. Details of the scheme are available from ShareGift at **sharegift.org**, by telephone on 020 7930 3737 or by email: **help@sharegift.org**

Share price information

The middle market price of the Company's ordinary shares on 31 December 2024 was 1,149p and the range during the year was 1,109p to 1,417p.

For more information

Visit the Shareholder information section of our website: **investors.baesystems.com**

Financial calendar[1]

Annual General Meeting	7 May 2025
2024 final ordinary dividend payable	2 June 2025
2025 half-yearly results announcement	31 July 2025
2025 interim ordinary dividend payable	1 December 2025
2025 full-year results: – preliminary announcement – Annual Report	 February 2026 March 2026
2025 final ordinary dividend payable	June 2026

1. These dates are indicative and subject to change.

Beware of share fraud

Investment scams are often sophisticated and difficult to spot.

Spot the warning signs

Fraudsters will often:

- contact you out of the blue;
- apply pressure to invest quickly;
- downplay the risks to your money;
- promise tempting returns that sound too good to be true; and
- say that they're only making the offer available to you or even ask you to not tell anyone else about it.

If you're suspicious, report it

You can report the firm or scam to the FCA by contacting their **Consumer Helpline** on **0800 111 6768** or using the reporting form using the link shown below.

If you've lost money in a scam, contact Action Fraud on **0300 123 2040** or **www.actionfraud.police.uk**

How to avoid investment scams

Reject unexpected offers
Scammers usually cold call, but contact can also come by email, post, word of mouth or at a seminar. If you've been offered an investment out of the blue, chances are it's a high-risk investment or a scam.

Check the FCA Warning List
Use the FCA Warning List to check the risks of a potential investment – you can also search to see if the firm is known to be operating without its authorisation.

Get impartial advice
Get impartial advice before investing – don't use an adviser from the firm that contacted you.

Be ScamSmart and visit
www.fca.org.uk/scamsmart

Cautionary statement

All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and businesses of BAE Systems plc and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. Such forward-looking statements, which reflect management's assumptions made on the basis of information available to it at this time, appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of BAE Systems plc concerning, amongst other things, its results in relation to operations, financial condition, liquidity, prospects, growth, commitments and targets (including environmental, social and governance commitments and targets), strategies and the industry in which it operates. Forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "intends", "will", "will continue", "should", "would be", "seeks", "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

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Website references

None of the websites referred to in this document (including where a link is provided), and none of the information contained on such websites, are incorporated by reference into this document.

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