BAE Systems (Defence Systems) Limited
Extract from the statutory Report & Accounts for y/e 31.12.23

Section 172(1) statement

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

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

Decision making

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

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

The Company's operations are managed in accordance with the strategy set by the Group's Digital Intelligence business within the Cyber & Intelligence sector.

The Board has not during the year been required to make any key decisions which warranted consideration of the Company's stakeholders for the purposes of s.172 of the Companies Act 2006.

Employees

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

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

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

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

These engagement activities form part of the Company's implementation of the BAE Systems group-wide employee engagement processes and policies which are described on pages 24 and 56 of BAE Systems plc's

2023 Annual Report (available at: www.baesystems.com/investors).

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

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

Fostering business relationships with suppliers, customers and others

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

Our sole customer is the UK government. Strong and collaborative relationships with our principle government customer help us to identify customer requirements and to help position the Company as a trusted provider. The Directors are in regular contact with the principal customer of the Company.

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

The community and the environment

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

The Company recognises that its operations have an impact on the environment - from the energy and resources it uses, to the products it manufactures and the waste that it generates. As an organisation, the BAE Systems Group is committed to reducing the environmental impact of its operations and products, minimising its environmental footprint and, in turn, decreasing its operational costs.

Through the Operational Framework the Company implements the requirements of the BAE Systems Group's Environmental Policy, which details our commitment to high standards of environmental management. In particular, the Company is supporting the Group's target of achieving net zero greenhouse gas emissions across the Group's operations (scope 1 and 2) by 2030 and its target of working towards a net zero value chain by 2050.

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

Maintaining a reputation for high standards of business conduct

The BAE Systems Group aims to be a recognised leader in business conduct which helps us to earn and maintain stakeholder trust and sustain business success. The Directors consider it fundamental to maintain a culture focused on embedding responsible business behaviours. All employees of the Company are expected to act in

accordance with the requirements of BAE Systems Group policies, including the Code of Conduct, at all times. As well as being the right thing to do, this reduces the risk of compliance failure and supports the Company in attracting and retaining high-calibre employees.

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