

Directors' remuneration policy

This Directors' remuneration policy (the Policy) will take effect from the conclusion of the 2023 Annual General Meeting (AGM) subject to shareholder approval at the 2023 AGM.

The Remuneration Committee (the Committee) is governed by Terms of Reference which set out its roles and responsibilities including how the Committee will be conducted and operate. These are reviewed at least annually to ensure they remain appropriate and include relevant corporate governance and other guidance. The Terms of Reference are available on the Company's website.

The Committee has appointed independent external advisers to provide material independent assistance and advice. In addition, to avoid any conflicts of interest or appearance thereof, no director is involved in deciding their own remuneration outcome with such items being discussed without their presence in the meeting.

The Committee considers the remuneration policy annually to ensure that it remains aligned with business needs and is appropriately positioned relative to the market. However, in the absence of exceptional or unexpected circumstances which may necessitate a change to the Policy, there is currently no intention to revise the Policy more frequently than every three years.

The Policy is to set base salary with reference to the relevant market-competitive level. We use target performance to estimate and benchmark the total potential reward against reward packages paid by BAE Systems' competitors. Actual total direct reward reflects the performance of the individual and the Company as a whole. The aim is to deliver an overall remuneration package for executive directors which provides an appropriate balance between short-term and long-term reward and between fixed and variable reward as described more fully below.

The Long-Term Incentive Plan provides the Committee with discretion over vesting outcomes that affect the actual level of reward payable to individuals; as explained on page 195, such discretion would only be used in exceptional circumstances and, if exercised, disclosed at the latest in the report on implementation of the Policy (i.e. the Annual remuneration report) for the year in question.

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Note

References in this Policy to 'UK executive directors' are to UK-based executive directors and references to 'US executive directors' are to US-based executive directors.

Revisions compared to the policy approved at the 2020 AGM

The Committee conducted a thorough review of the Policy during 2022 against six agreed core principles of Simplicity, Motivational, Aligned with shareholder interests, Globally competitive, Flexibility, and reflects Environmental, Social and Governance progress. With an overall objective of securing top talent and rewarding sustainable long-term value creation, the Committee focused on the following areas:

- **Alignment to strategy:** The overall Policy and incentive metrics were evaluated against the Company's strategy, purpose and key priorities to ensure that the Policy remains fit for purpose. This included incorporating Environmental, Social and Governance measures into our incentives.
- **Flexibility:** In addition to having a transparent remuneration framework, it was important for the Policy to have flexibility in design construct and choice of metrics, as well as the ability for the Committee to respond to exceptional external factors.
- **Global competitiveness:** The Committee assessed the Policy against relevant markets to ensure the Company can attract and retain the key talented individuals needed to deliver the strategy.
- **Corporate governance best practice:** Throughout the review of the Policy, the Committee considered governance best practice and the views of institutional shareholders. This review considered best practice in the US as well as the UK.
- **Alignment with shareholder interests:** The Committee conducted an extensive shareholder consultation in which views were sought on the key features of the Policy focusing on any revisions. The Committee Chair engaged with our major shareholders and welcomed their feedback in formulating this Policy.

The Committee concluded that the policy approved at the 2020 AGM remains effective and is appropriately aligned to the Company's strategy and shareholders' interests. As such, the 2023 Policy remains broadly unchanged and contains no new components which were not already in the Policy approved at the 2020 AGM. The key changes proposed in the 2023 Policy, which are intended to improve flexibility and competitiveness, are:

- Group Finance Director – Annual bonus opportunity;
- President and Chief Executive Officer, BAE Systems, Inc. – Long-term incentive opportunity; and
- revisions to long-term incentive metrics.

These are referenced below with further context and commentary provided in the Remuneration Committee Chair's report on pages 160 to 163.

Salary

- The overall process for determining salary increases remains unchanged.
- In general, increases will continue to be no greater than the wider workforce.
- Salary levels will continue to consider appropriate market comparisons and for UK executive directors this will include subsets of the FTSE 100 including the FTSE 50 and FTSE 30.

Annual incentive plan (AIP)

- The overall structure of the AIP remains unchanged including the approach to determining performance metrics and the bonus deferral mechanism as the Committee believes these remain fit for purpose.
- The maximum award levels for the Chief Executive, the President and Chief Executive Officer, BAE Systems, Inc. and Chief Operating Officer are unchanged.
- The maximum award level for the Group Finance Director will be 200%, increased from 160% to fairly reflect the expansion of his managerial responsibilities and bring into line with other Group Finance Directors in the FTSE 30.
- Confirmation that non-financial metrics will continue to be based on a combination of personal performance objectives linked to our strategic objectives, safety measures, and diversity and inclusion targets. To support our focus on our sustainability agenda, specific quantifiable and appropriate Environmental, Social and Governance (ESG) metrics will be included within the non-financial key strategic objectives (KSOS) element of the AIP for 2023.

Long-Term Incentives (LTI)

- The structure of our LTI framework will remain unchanged, with UK executive directors continuing to receive Performance Shares only and US executive directors eligible to receive a mix of Performance Shares and Restricted Shares.
- There is no change to the grant levels of Performance Shares for the Chief Executive, the Group Finance Director and the Chief Operating Officer.
- For the President and Chief Executive Officer, BAE Systems, Inc. the Committee proposes to increase the Performance Share award from 298% to 440% of salary and maintain the Restricted Share award at 150% of salary.
- The Committee is acutely aware of the unique context in which our US executive director operates. The Committee has applied careful judgement to delicately balance the strategic importance of our US business, the market practice of relevant US aerospace and defence peers, and the corporate governance and best practice requirements that come with being an executive director of a UK plc.
- Having reflected on the President and Chief Executive Officer, BAE Systems, Inc.'s strong performance and successful leadership of our US business, and following a detailed review of the total remuneration package of relevant US aerospace and defence peers, the Committee determined that it was appropriate to propose an increase in the LTI opportunity.
- The Committee will maintain its ability to determine performance measures, weightings and targets for each LTI award. As part of this, and to provide greater flexibility around the most appropriate metrics and weightings, the minimum weighting of 20% being applicable to the Total Shareholder Return (TSR) metric will be removed.
- Performance Shares granted from 2023 will feature an ESG metric in line with the Committee's previous commitment.
- For 2023, the ESG metric will have a 10% weighting and is based on the reduction of Group greenhouse gas (GHG) emissions (Scope 1 and 2) aligned to a science-based pathway. TSR will have a 15% weighting; Earnings per Share and Cash Flow will each have 30% weighting; with the remaining 15% measured on Return on Capital Employed (replacing the Strategic Progress metric).

Benefits

- Modest changes to benefits including limited financial and tax advice support, executive medical for the US executive director and, for UK executive directors, the introduction of medical benefits and an increase to the car allowance.

Pension

- As previously stated, the Committee recognises the requirements of institutional investors and the UK Corporate Governance Code to align executive director pension contributions with the wider workforce level. As such, the Chief Executive's employer pension contribution rate has been reduced to the weighted average employer contribution rate of UK active members.

Recruitment

- Maximum opportunities on recruitment for incentives (excluding buyouts of existing incentives) will be subject to the maxima stated in the policy table.

Remuneration policy for other employees

- Confirmation that LTI grants below executive director level will continue to be made in line with 2023 policy, reflecting the relevant geographies and with the following differences:
 - Performance Shares will vest after three years subject to meeting the required performance conditions; and
 - share options will no longer be granted.

Non-executive directors' fees

- Subject to election as Chair at the 2023 AGM, the current Chair designate's fee will be initially set at £700,000 (consistent with the fee for the current Chair).
- Non-executive directors receive a basic fee. An additional fee is paid for committee membership (with the exception of the Nominations Committee), for those who chair a committee and/or undertake the role of Senior Independent Director.
- From April 2023, the travel allowance has been discontinued.

Consideration of employment conditions elsewhere in the Company

Further details provided in relation to building the Committee's understanding of reward arrangements applicable to the wider workforce.

Stakeholder considerations

Further details provided in relation to the Committee's engagement with shareholders on the topic of executive remuneration.

Executive directors' policy table

Base salary

Purpose and link to strategy

Recognise market value of role and individual's skills, experience and performance to ensure the business can attract and retain talent.

Operation

Salaries are reviewed annually. Business and individual performance, skills, the scope of the role and the individual's time in the role are taken into account when setting and assessing salaries, as is market data for similar roles in the relevant market comparator group.

The comparator groups for UK executive directors are comprised of subsets of the FTSE 100 including the FTSE 30 and FTSE 50. For the President and Chief Executive Officer, BAE Systems, Inc., the comparators are drawn from companies in the US aerospace and defence sectors, together with similar organisations in the general industry sector reflecting the size and geography of BAE Systems, Inc.

Maximum opportunity

When considering salary increases for the executive directors in their current roles, the Committee considers the general level of salary increase across the Group and in the relevant external market.

Actual increases for the executive directors in their current roles will generally not exceed the average percentage increase for employees as a whole, taking account of the level of movement within the relevant UK/US comparator group.

As a maximum, in exceptional circumstances (such as a material increase in job size or complexity while performing the same role, or a recently appointed executive director where the salary is positioned low against the market), the increase is not expected to exceed 10% in any single year for executive directors performing the same role. If an individual's role changes then a salary increase above 10% may be awarded in any single year to position their salary appropriately in accordance with the base salary principles described under 'Operation' above. No new executive director role will have a salary greater than the Chief Executive at that time.

Performance metrics, weighting and time period applicable

None.

Executive directors' policy table continued

Annual incentive

Purpose and link to strategy

Drive and reward annual performance of individuals and teams on both financial and non-financial metrics, including leadership behaviours in order to deliver sustainable growth in shareholder value.

Compulsory deferral into shares increases alignment with long-term shareholder interests.

Operation

The annual incentive is driven off in-year financial performance, corporate responsibility and other non-financial objectives measured at the Group and individual level.

One-third of the total net annual incentive amount is subject to compulsory deferral for three years in BAE Systems shares without any matching.

Cash dividends are payable to the participants on the shares held during this three-year deferral period.

A malus/clawback mechanism may be applied to any bonus, and a malus mechanism may be applied to the deferred bonus shares until up to the end of the three-year deferral period, 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 actual performance of the Company over the performance period.

Maximum opportunity

Chief Executive: 225% of salary.

Chief Operating Officer: 200% of salary.

Group Finance Director: 200% of salary.

President and Chief Executive Officer, BAE Systems, Inc.: 225% of salary.

The payout for on-target performance is 50% of the payout for maximum performance (which is shown as the respective maximum opportunity percentages above). In respect of the financial metrics, the payout for achieving threshold performance is 20% of the payout for maximum performance, with no payout for performance less than threshold. Payout for performance between threshold, target and maximum is calculated on a straight-line basis.

Performance metrics, weighting and time period applicable

Performance is assessed on an annual basis, using a combination of the Group's main performance indicators for the year and other objectives designed to support the Group's strategy. Metrics, which will include financial and non-financial metrics as well as the achievement of personal objectives, will be determined and weighted each year according to business priorities and may be structured as targets to be achieved, or underpins which, if not achieved, will reduce payouts. 75–80% of targets will relate to financial metrics aligned with long-term earnings and cash targets. The non-financial element will be 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, social and governance (ESG), safety measures, and diversity and inclusion (D&I)*.

Metrics, targets and weightings to be determined annually.

Metrics and weightings applicable in 2023:

For UK executive directors:

Group EPS – 45%.

Group net cash/(debt) – 22.5%.

Group order intake – 7.5%.

For US executive director:

Group EPS – 15%.

Group net cash/(debt) – 7.5%.

Group order intake – 2.5%.

BAE Systems, Inc. EBIT – 30%.

BAE Systems, Inc. net cash/(debt) – 15%.

BAE Systems, Inc. order intake – 5%.

Key strategic objectives (KSOs) designed to support the Group's strategy and with safety and D&I applying as a downward underpin on this element – 25%.

*See notes 4 and 5 on page 199 regarding the selection and weighting of performance metrics.

All bonus payments are at the discretion of the Committee, which will be based on an assessment of the individual's personal contribution to business performance over the relevant year and leadership behaviours demonstrated in making that contribution, relative to others. See note 6 on page 199 regarding the application of the reasonableness discretion.

Long-Term Incentives (LTI)

Operation

Long-term incentives will operate under the BAE Systems Long-Term Incentive Plan which is subject to approval by shareholders at the 2023 AGM.

The size of awards granted is based on a percentage of salary, which is divided by the share price around the time of the grant to determine the number of shares subject to the award.

Dividend equivalents in respect of vested shares may be paid at the time of vesting (or exercise, in the case of options) and are not taken into account when determining individual limits.

A malus and clawback mechanism may be applied, until two years after vesting, or if sooner, the fifth anniversary of grant, or the occurrence of certain corporate events to all awards granted on or after 25 March 2015 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 actual performance of the Company over the performance period.

Awards and performance conditions can be adjusted to take account of variations of share capital and other transactions or events.

On a change of control or similar transaction, awards generally will vest to the extent performance conditions are then satisfied (if applicable) and then be pro-rated to reflect the acceleration of vesting unless the Committee decides otherwise. Alternatively, awards may be exchanged for equivalent awards over shares in the acquiring company.

The share plan rules may be amended from time to time by the Committee in certain circumstances including minor changes for administrative, tax or other regulatory purposes.

Subject to this Policy, performance conditions of awards already granted may be amended in accordance with their terms or if anything happens which causes the Committee reasonably to consider it appropriate to do so.

Maximum opportunity

Over the lifetime of this Policy, the Committee will have discretion to vary the weighting of different types of awards within the framework set out below, but the overall LTI Expected Value (EV) will remain the same (assuming the LTI EV is calculated as 50% of face value for Performance Shares and 100% of face value for Restricted Shares):

- UK executive directors' awards will consist of Performance Shares only.
- US executive directors' awards will consist of a mix of Performance Shares and Restricted Shares (with the annual grant of Restricted Shares comprising no more than 150% of salary), ensuring competitiveness of overall LTI opportunity in line with US market practice.

Performance metrics, weighting and time period applicable

The Committee will establish the targets for each measure at the start of each performance period based on Group projections and market expectations for the business. The performance conditions for previous awards are described in the Annual remuneration report.

See below in relation to Performance Shares.

In addition to the primary performance tests set out below, the Committee confirms and recognises its obligation to judge the overall reasonableness of the rewards received relative to the overall business actions and results achieved. When determining the final performance condition outcome under Performance Share awards, the Committee will have discretion over the number of awards vesting in light of other important factors in the business (reasonableness discretion). The discretion may result in vesting of awards going upwards (subject to maximum 100% vesting of awards) as well as downwards. Any factors will be properly considered as they arise and any discretion to the calculated results will be applied in a highly disciplined manner and the rationale and impact will be reported transparently.

See notes 4 and 5 on page 199 regarding the selection and weighting of performance metrics.

Executive directors' policy table continued

Long-Term Incentives – Performance Shares

Purpose and link to strategy

Direct financial measures based on the Key Performance Indicators (KPIs) that drive our financial ambitions for the Company, and measures linked to our key long-term strategic priorities including our sustainability agenda, aligned to the interests of our shareholders.

Operation

For UK executive directors, awards, typically in the form of nil-cost options, will vest subject to performance and service conditions on the fifth anniversary of grant. These will be exercisable between the fifth and tenth anniversary of grant or such shorter period as may be specified by the Committee.

For US executive directors, awards are delivered as conditional share awards. To maintain the competitiveness of the LTI offering in the US, awards will vest automatically in three equal tranches on the third, fourth and fifth anniversary of grant, subject to three-year performance conditions.

No additional holding periods apply.

Policy maximum opportunity

Award levels applicable to UK executive directors for normal annual grants are as follows:

Chief Executive: 370% of salary.

Chief Operating Officer: 350% of salary.

Group Finance Director: 335% of salary.

Award levels applicable to US executive directors for normal annual grants (assuming the current LTI EV weightings in Performance Shares and Restricted Shares) are as follows:

President and Chief Executive Officer, BAE Systems, Inc.: 440% of salary.

The minimum value that an executive director can receive is zero on the basis of nil vesting, for example either due to the performance conditions not being achieved, or as a result of the application of reasonableness discretion that determines nil vesting of the awards.

Threshold performance under the financial performance measures is 25% of the maximum for that measure.

Performance metrics, weighting and time period applicable

Metrics and weightings for the 2023 award will be as follows (subject to the Committee's ability to adjust as set out below):

- 15% of award based on Total Shareholder Return (TSR) relative to one or more appropriate comparator groups over the three-year performance period as selected by the Committee at the time of grant:
 - Vesting for each comparator group is determined as: nil vesting if TSR ranked below median in the comparator group; 25% vesting if TSR ranked at the median; 100% vesting if TSR ranked in the upper quintile; pro-rata vesting for performance between median and upper quintile.
 - If more than one comparator group is used, vesting of the TSR portion of the award will be determined by the average of the vesting outcomes from each comparator group.
 - Award subject to a secondary financial measure as set out on pages 185 and 186.
- 30% of award based on average annual Earnings per Share (EPS) growth over the three financial years starting with that in which the award is granted, with 25% vesting for threshold performance, 50% vesting for target performance and 100% vesting for stretch performance. Pro-rata vesting for intermediate performance between threshold, target and stretch.
- 30% of award based on three-year cumulative cash generation metric over the three financial years starting with that in which the award is granted, with 25% vesting for threshold performance, 50% vesting for target performance and 100% vesting for stretch performance. Pro-rata vesting for intermediate performance between threshold, target and stretch.
- 15% of award based on Return on Capital Employed (ROCE) over the three financial years starting with that in which the award is granted, with 25% vesting for threshold performance, 50% vesting for target performance and 100% vesting for stretch performance. Pro-rata vesting for intermediate performance between threshold, target and stretch.
- 10% of award based on one or more robust and measurable ESG objectives.

Note that awards granted to executive directors are subject to application of reasonableness discretion in light of other important factors in the business as described earlier.

The Committee can adjust the weighting of the performance conditions, and, if considered appropriate, may introduce an alternate performance condition aligned to the Company's strategy, or remove a performance condition set out above.

See notes 4 and 5 on page 199.

Long-Term Incentives – Restricted Shares

Purpose and link to strategy

Provide long-term reward through time-vesting awards principally in the Company's US market.

Operation

The shares are subject only to the condition that the participant remains employed by the Group on the vesting date (three years after the award date). Directors are required to retain their shares for a further two-year period, except for any shares that need to be sold to cover tax liabilities due in respect of the shares. During that time, they are subject to clawback as described above. However, this holding requirement will not apply following a change of control. These awards are not subject to a performance condition as they are designed to address competitive market practice and retention issues principally in the US. Non US-based executive directors are not eligible.

Policy maximum opportunity

Award levels applicable to US executive directors for normal annual grants (assuming the current LTI EV weightings in Performance Shares and Restricted Shares) are as follows:

President and Chief Executive Officer, BAE Systems, Inc.: 150% of salary.

Performance metrics, weighting and time period applicable

None.

See notes 4 and 5 on page 199.

Benefits

Purpose and link to strategy

Provide employment benefits which ensure that the overall package is market competitive when these elements are taken into account.

Operation

Benefits include provision of a company car (or cash equivalent), life assurance and ill-health benefit cover which are provided directly or through membership of the Company's pension schemes, and financial and tax advice support.

The main benefits in the UK include a car allowance (currently £25,000 per annum for the Chief Executive and £20,000 per annum for the Group Finance Director), private use of a chauffeur-driven car and annual medical screening, medical benefits, financial and tax advice support, plus life assurance and ill-health benefit cover provided through membership of the Company's pension schemes.

Opportunity for UK executive directors to participate in the Share Incentive Plan, a tax approved all-employee plan.

In the US, benefits include parking and private use of a chauffeur-driven car and company aircraft, financial and tax advice support, medical, executive medical and dental benefits, and insured life and disability benefits.

Additional benefits, such as relocation assistance, may also be provided in certain circumstances if considered reasonable and appropriate by the Committee. Relocation assistance comprises reimbursement for direct items of expenditure, such as legal, estate agency, removals and temporary accommodation.

Directors' and Officers' insurance cover is also provided for all executive directors.

Maximum opportunity

Benefits are set at a level which the Committee considers to be appropriate against comparable roles in companies of similar size in the relevant market. Benefits are as reported and itemised within the single total figure shown as part of the Annual remuneration report on page 177. The maximum cost of such benefits will reflect the associated market-competitive cost of provision. Relocation assistance is based on actual costs incurred which are linked to the size and value of the property, plus a maximum relocation allowance of £2,500.

Participation limits for the Share Incentive Plan are those set by the UK tax authorities from time to time.

Performance metrics, weighting and time period applicable

None.

Executive directors' policy table continued

Pension

Purpose and link to strategy

Provide competitive post-retirement benefits or cash allowance equivalent.

Operation

The Chief Executive is a member of the Mercer Master Trust – BAE Systems Retirement Savings Plan (BAESRSP) into which the DC section of the BAE Systems Executive Pension Scheme was transferred. Recognising the requirements of institutional investors and the UK Corporate Governance Code, since 1 December 2022, the Chief Executive's employer pension contribution rate has been reduced to the weighted average employer contribution rate of UK active members. In the UK, the Company has a number of defined benefit plans which are closed to new entrants, with new hires being offered membership of the BAESRSP, a defined contribution pension scheme. Employer contribution rates for the different schemes range from 6% to approximately 50% of salary. The level of employer contribution based on a weighted average of UK active members across all schemes is approximately 14% as at 30 September 2022. Since 1 December 2022, the employer contribution to the Chief Executive's pension has been aligned to 14% of salary, being the wider workforce figure.

For any new externally appointed UK executive directors, or internally appointed UK executive directors, membership of the BAESRSP is offered as the default pension vehicle. Employer contributions are currently set at 8% of base salary for those members contributing 6% of salary, in line with that available to the wider UK workforce participating in the Company's UK defined contribution arrangements. In certain circumstances, individuals may elect instead to receive some or all of their employer contributions as a cash allowance.

Consistent with the above, the Group Finance Director is a member of the BAESRSP with employer contributions of 8% salary.

Where the Annual Allowance (AA) is exceeded, as is the case with the Chief Executive and the Group Finance Director, each individual will receive employer contributions up to the AA limit and the remaining employer contributions will be paid as a salary supplement. Where UK executive directors' pension entitlement or accrual is restricted to the Lifetime Allowance (LTA) and/or the AA, the Company may offer a salary supplement to offset the impact of these restrictions.

Any new US executive directors, whether externally appointed or internally appointed, would be offered participation in the US Section 401(k) defined contribution plan. The same provisions and features of the plan currently apply to the majority of participating active employees, with the company (i.e. employer) matching contributions up to a maximum of 6% of salary, subject to US regulatory limits. For any internally appointed US executive directors they will be able to maintain any previous pension plan arrangement on the basis that the same provisions and features of the plan align with those available to the relevant workforce.

The President and Chief Executive Officer, BAE Systems, Inc. participates in a Section 401(k) defined contribution arrangement, as detailed above, and is also a participant in the BAE Systems Employees' Retirement Plan (ERP, a qualified pension plan) and the BAE Systems 2007 Benefit Restoration Plan (BRP 2007, a non-qualified pension plan). The ERP and BRP 2007 provide for either a lump sum or annuitised payments based on the accrued values at the time of separation from employment. Annual additional accruals are currently limited to \$1,000 in the ERP and \$500 in the BRP 2007. The same provisions and features of the plans apply to the majority of participating active employees.

Maximum opportunity

Since 1 December 2022, the BAESRSP provides a maximum employer contribution rate for the Chief Executive of 14% of salary (in addition to employee contributions of 6% of salary), which is aligned with the wider workforce figure based on the weighted average employer contribution rate of UK active pension scheme members.

The maximum employer contribution for any new externally appointed UK executive directors, or internally appointed UK executive directors will be in line with the level available to new joiners to the wider UK workforce which is currently 8% (in addition to employee contribution of 6%) of base salary. This is the level set for the Group Finance Director.

Where UK executive directors' pension entitlement or accrual is restricted to the LTA and/or the AA, the Company may offer a salary supplement to offset the impact of these restrictions.

With limited exceptions, the US Section 401(k) defined contribution plan currently provides company (i.e. employer) matching contributions up to a maximum of 6% of base salary, subject to US statutory limits. For US executive directors who are eligible to participate in the ERP and the BRP 2007, these plans provide a cash sum or annuity at retirement equal to the present value of all prior annual accruals and credits from the initial year of service eligibility through to the present. Since the start of 2013, annual additional accruals have been set at \$1,000 from the ERP and \$500 from the BRP 2007.

Notes to the executive directors' policy table

Remuneration policy for other employees

1. The Company's approach to annual salary reviews is consistent across the Group, with consideration given to the scope of the role, level of experience, performance and market data for similar roles in other companies.
2. All leaders may participate in an annual bonus scheme with similar metrics to those used for the executive directors. Other employees may participate in performance-based incentive plans which vary by organisational level and with relevant metrics for the particular area of the business.
3. LTI grants may be made to the most senior managers in the business (approximately 600 individuals globally). The nature of the awards depends on the individual's location, roles and responsibilities, in particular:
 - performance conditions and targets for Performance Share grants made to participants below executive director level are made in line with those applying to executive directors with the exception of the TSR metric which does not apply;
 - for US participants below Executive Committee level, performance conditions and targets for Performance Share grants are tailored to reflect the strategic context and focus of the US business;
 - Performance Shares applicable to participants below executive director level vest on the third anniversary subject to meeting the required performance conditions;
 - Restricted Share grants are currently made to the most senior managers in the US businesses and vest after three years. Targeted awards may also be made to selected executives in UK and Rest of World with Committee approval;
 - one quarter of the total annual incentive amount is subject to compulsory deferral for three years in BAE Systems shares without any matching for the majority of UK and Rest of World participants that receive LTI grants; and
 - Minimum Shareholding Requirements are in place for the majority of individuals globally that receive LTI grants.

Performance measures and targets

4. The Committee selected the performance conditions because these are central to the Company's overall strategy and are the key metrics used by the executive directors to oversee the operation of the business. Any non-financial performance targets are determined by the Committee in consultation with the Environmental, Social and Governance Committee as appropriate.
5. The performance conditions, weightings and targets are determined annually by the Committee (within the parameters set out above), taking account of the Group's strategic objectives, the internal business plan and budgets, as well as external market expectations and general economic conditions. The Committee is of the view that the performance targets for the annual bonus are commercially sensitive and that it would be detrimental to the interests of the Company to disclose them before the start of the financial year. The targets will be disclosed retrospectively after the end of the relevant financial year.
6. Under the various scheme rules and under this Policy for the AIP and LTI, the Committee has discretion to override the formulaic outcome of performance measures if it determines that it is not reflective of underlying performance for that metric or for the business as a whole (reasonableness discretion). This discretion may apply upwards (subject to maximum 100% vesting) or downwards (subject to a minimum 0% vesting). Any factors will be properly considered as they arise and any discretion to the calculated results will be applied in a highly disciplined manner and the rationale and impact will be reported transparently.

Minimum Shareholding Requirement (MSR)

7. The Committee has agreed a policy whereby the executive directors are required to establish and maintain a minimum personal shareholding equal to a set percentage of base salary as set out in the table below. Executive directors are required to achieve their Initial Value as quickly as possible, and achieve their Subsequent Value within a five-year time period. Where an executive director has not achieved their MSR, the consequence is a restriction on the number of shares that can be sold on exercise or release, until their MSR Subsequent Value is met. Where an executive director has met less than the Initial Value (50% of their MSR), they must retain 50% of the net value (i.e. the value after deduction of exercise/sale costs and tax) of shares acquired through the various share schemes; if they have met the Initial Value but not the Subsequent Value (i.e. between 50% and 100% of their MSR), they must retain 25% of the net value. In the event that the executive director has not met the Subsequent Value at the end of the five-year period, the Committee will set out their proposed remedial actions at that time. The Committee has discretion to increase the Initial Value and/or Subsequent Value (see below). Shares owned beneficially by the director and his/her spouse count towards the MSR.

Where an executive director leaves employment for any reason, a post-cessation shareholding policy 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 salary applying for a period of one year. Executive directors will be required to sign a contract on leaving employment to ensure compliance with this policy. Any case of non-compliance would be dealt with by the Committee.

The following table sets out the MSR Initial Values and Subsequent Values for executive directors as a percentage of salary:

	Initial Value	Subsequent Value
Chief Executive	150%	300%
Chief Operating Officer	100%	200%
Group Finance Director	100%	200%
President and Chief Executive Officer, BAE Systems, Inc.	212.5%	425%

Executive directors' policy table continued

Illustration of application of remuneration policy

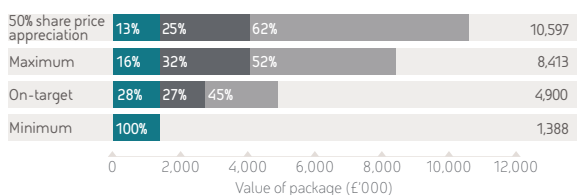
The charts below show the value of the package each of the executive directors would receive in the first year of operation of the Policy. There is currently no Chief Operating Officer in role so no chart is provided.

The values are based on 2023 levels for base salaries, benefits and pension and assume that the office-holders at the date of this Policy coming into effect are employed throughout the first year of operation of the Policy. Annual and long-term incentives are based on awards applying in 2023. The charts assume the following scenarios:

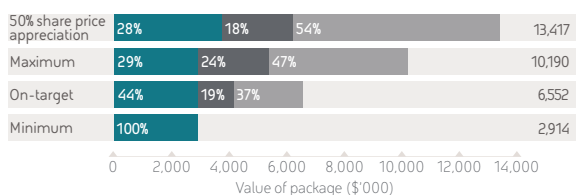
- minimum fixed pay includes salary, benefits and pension as provided in the single figure table on page 177 of the 2022 Annual Report and Restricted Shares award for the US executive director awarded at 150% salary (excluding share price growth);
- on-target pay assumes on-target performance is met in respect of variable elements (annual and long-term incentives);
- maximum pay assumes variable elements pay out in full; and
- 50% share price appreciation assumes all variable elements pay out in full and there is 50% gain in share price over the relevant vesting period in respect of Performance Shares and Restricted Shares awards received, and excludes dividends.

The minimum, on-target and maximum scenarios below exclude any share price appreciation and dividends.

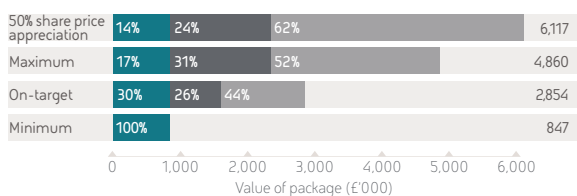
Chief Executive (£'000)



President and Chief Executive Officer, BAE Systems, Inc. (\$'000)



Group Finance Director (£'000)



- Fixed elements of remuneration
- Annual bonus
- Performance Shares

Non-executive directors' (NEDs) policy table

Fees

Purpose and link to strategy

To attract NEDs who have a broad range of experience and skills to provide independent judgement on issues of strategy, performance, resources and standards of conduct.

Operation

NEDs' fees are set by the Non-Executive Directors' Fees Committee.

NEDs receive a basic fee. An additional fee is paid for committee membership (with the exception of the Nominations Committee), for those who chair a committee and/or undertake the role of Senior Independent Director.

Fees are reviewed periodically, taking into account time commitment requirements and responsibility of the individual roles, and after reviewing practice in other comparable companies.

The Chair's fees are set by the Committee and are reviewed periodically, taking into account time commitment requirements and responsibility, and after reviewing practice in other comparable companies.

Maximum opportunity

Actual fee levels are disclosed in the Annual remuneration report for the relevant financial year.

The current Chairman's fee is £700,000 per annum and will not change during his remaining term of office. Sir Roger Carr is due to step down from his role as Chairman at the close of the 2023 AGM and be succeeded by the current Chair designate.

The current Chair designate's fee will be set at the same level and will not be reviewed earlier than the first anniversary of her appointment.

The aggregate cost of fees and benefits paid to NEDs (including the Chair) will not exceed an annual limit of £3.0m and the cost of fees and benefits paid to the Chair will not exceed £1.25m annually.

Performance metrics, weighting and time period applicable

None.

Benefits

Purpose and link to strategy

Reimbursement for reasonable and documented expenses incurred in the performance of duties.

Operation

NEDs are not eligible to participate in any pension benefits provided by the Company, nor do they participate in any performance-related incentives.

The Chairman is provided with a chauffeur-driven car. This may be used for non-Company business, but the cost of the benefit of such usage shall be paid by the Chairman. The current Chair designate will also be provided with a similar benefit on her appointment as Chair.

The Company reimburses travel and subsistence costs (including payment of the associated tax cost) incurred by the director or his/her spouse whilst undertaking duties on behalf of the Company that may be assessed as a benefit for tax purposes. Directors' and Officers' insurance cover is also provided for all directors.

Maximum opportunity

See the aggregate limit under 'Fees' above.

Prior commitments

For the duration of this Policy, the Company will honour any commitments made in respect of executive director 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, even where such commitments are not consistent with the policy set out in this report or prevailing at the time any such commitment was made or is fulfilled.

Recruitment

Approach to recruitment remuneration

The recruitment policy provides an appropriate framework within which to attract individuals of the required calibre to lead a company of BAE Systems' size, scale and complexity. The Committee determines the remuneration package for any appointment to an executive director position, either from within or outside BAE Systems.

Operation

The Committee will take into consideration all relevant factors, including overall total remuneration, the type of remuneration being offered and the jurisdiction from which the candidate was recruited, and will operate in order to ensure that arrangements are in the best interests of the Company and its shareholders without paying more than is necessary to secure the individual of the required calibre.

The fees and benefits applicable to the appointment of any new non-executive directors will be in accordance with the policy table on page 201.

Opportunity

The Committee seeks to align the remuneration package offered with the policy set out in the executive directors' policy table above recognising that participation under the policy above varies by geography.

On appointment as executive director, maximum opportunities for participation in the annual incentive plan and long-term incentive awards (excluding buyouts, for which see below) will be subject to the maxima stated in the policy table.

To facilitate recruitment, the Committee may additionally make awards on hiring an external candidate to 'buy out' existing incentives or, in exceptional circumstances, other elements of remuneration forfeited on leaving the previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested. Buy-out awards would be capped to be no higher, on recruitment, than the expected value of those forfeited. Full details will be disclosed in the next Annual remuneration report following recruitment which will include details of the need to grant a buy-out award.

Fixed elements (base salary, retirement and other benefits)

The salary level will be set in accordance with the principles for setting base salary described in the executive directors' policy table above.

The executive director shall be eligible to participate in applicable BAE Systems' employee benefit plans in line with the agreed policy, including coverage under applicable executive and employee pension and benefit programmes in accordance with the terms and conditions of such plans, as may be amended by the Company in its sole discretion from time to time.

In the case of promotion of an existing Group employee to an executive directorship on the Board, commitments made before such promotion will continue to be honoured whether or not they are consistent with the remainder of this Policy. However, in the case of pensions for a UK-based executive director, the individual will be offered provision in line with the agreed policy on page 198 and any previous arrangement will cease (unless it complies with the policy).

Annual Incentive Plan

The appointed executive director will be eligible to earn a discretionary annual bonus in accordance with the annual incentive construct as described in the executive directors' policy table above.

The level of opportunity will be consistent with the policy disclosed in the executive directors' policy table in this report and subject to the maximums referred to therein and under 'Opportunity' above.

Long-Term Incentive Plan

The executive director will be eligible for equity awards in such amounts as the Committee may determine in its sole discretion, subject to this Policy and the rules of the Long-Term Incentive Plan.

The level of opportunity will be subject to the maximums referred to under 'Opportunity' above.

Other

For internal and external appointments, the Committee may agree that the Company will meet certain relocation expenses in accordance with the provisions described under the Benefits section of the policy table on page 197.

Service contracts and letters of appointment

Executive directors

Operation

In accordance with long-established policy, all executive directors have rolling service agreements which may be terminated in accordance with the terms of these agreements.

Dates of appointment for executive directors

Name	Date of appointment	Notice period
Charles Woodburn ¹	1 July 2017	12 months either party
Brad Greve	1 April 2020	12 months either party
Tom Arseneault ²	1 April 2020	60 days either party

1. Appointed to the Board as Chief Operating Officer on 9 May 2016; appointed as Chief Executive with effect from 1 July 2017.

2. 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.

Notice period

The Committee's policy is that the notice periods in the service contracts of executive directors will not exceed 12 months. In exceptional circumstances, in relation to recruiting a new executive director operating in the US, the notice period may be extended to a maximum of 24 months and structured such that it reduces to no more than 12 months by no later than the end of the first complete year of service.

Change of control

No executive director has provisions in his service contract that relate to a change of control of the Company.

Chairman

Sir Roger Carr's appointment is documented in a letter of appointment and he is required to devote no fewer than two days a week to his duties as Chairman. His appointment as Chairman (which commenced on 1 February 2014) will automatically terminate if he ceases to be a director of the Company. The Company announced on 28 July 2022 that Sir Roger would retire as Chairman and director at the conclusion of the Company's 2023 Annual General Meeting (AGM) due to be held on 4 May 2023.

Chair designate

The Company announced on 28 July 2022 that Cressida Hogg would be appointed to the Board as a non-executive director with effect from 1 November 2022, and would succeed Sir Roger Carr as Chair at the conclusion of the Company's 2023 AGM due to be held on 4 May 2023. Cressida Hogg's appointment as Chair is documented in a letter of appointment and she will be required to devote no fewer than two days a week to her duties as Chair. Her appointment as Chair will automatically terminate if she ceases to be a director of the Company. Her appointment is for three years ending on 4 May 2026 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 is to be reviewed by the Nominations Committee prior to the end of the three-year term and the Chair may be invited to serve for an additional period.

Non-executive directors

The non-executive directors do not have service contracts but do have letters of appointment detailing the basis of their appointment. The dates of their original appointment are shown below:

Name	Date of appointment	Expiry of current term
Nick Anderson	01.11.2020	31.10.2023
Crystal E Ashby	01.09.2021	31.08.2024
Dame Elizabeth Corley	01.02.2016	31.01.2024
Jane Griffiths	01.04.2020	31.03.2026
Chris Grigg	01.07.2013	31.12.2023
Cressida Hogg ¹	01.11.2022	04.05.2023
Ewan Kirk	01.06.2021	31.05.2024
Stephen Pearce	01.06.2019	01.06.2025
Nicole Piasecki	01.06.2019	01.06.2025
Lord Sedwill	01.11.2022	31.10.2025

1. Appointed non-executive director and Chair designate on 1 November 2022; as announced on 28 July 2022 she will succeed Sir Roger Carr as Chair at the conclusion of the Company's AGM due to be held on 4 May 2023 when her term as Chair will commence (see paragraph entitled 'Chair designate' above).

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 periods of notice.

In accordance with the UK Corporate Governance Code, all directors are subject to annual election or re-election at the Company's AGM.

Service contracts and letters of appointment continued

Policy on payment for loss of office

Operation

The policy on payment for loss of office provides a clear set of principles that govern the payments that will be made for loss of office, and take account of the need to ensure a smooth transition for leadership roles during times of change. The policy that will apply for a specific executive director's payments for loss of office will be the policy that was in place at the point when the payments for loss of office were agreed for the executive director in question.

Any termination payment made in connection with the departure of an executive director 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 surrounding the termination, including whether the scenario aligns to an example under the approved leaver criteria, performance, service and health or other circumstances that may be relevant.

In addition to payments described below, the Committee may pay such amounts as are necessary to settle or compromise any claim or by way of damages, where the Committee views it as in the best interests of the Company to do so. In the event of the termination of an executive director's contract, it is the Committee's policy to seek to limit any payment to not more than one year's base salary. Where appropriate the Company may also meet a director's reasonable legal expenses in connection with their termination of their appointment.

Notice and pay in lieu of notice

For executive directors, employment contracts will generally be on terms that allow them to be terminated on up to 12 months' notice from either party or by way of payment of base salary 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 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. If the employment is (a) terminated by the Company (other than for cause as defined in the contract) or (b) the executive director resigns for a 'Good Reason' (as defined in the contract), the executive director is entitled to a termination payment equal to (i) one year's base salary and (ii) a bonus payable at target level pro-rated for service for the relevant financial year. They will also be entitled to a continuation of medical benefits for 18 months (or a cash payment in lieu).

In all cases, the Committee seeks to include provisions in directors' employment contracts to allow the Company to pay any notice or severance payments on a phased basis and apply mitigation if the executive director secures alternative employment, to the extent that this is reasonably practicable taking into account local labour law, tax and other relevant considerations.

Other than notice payments, the Company has no obligation to make any termination payments when the Chairman's appointment terminates. Non-executive directors do not have periods of notice and the Company has no obligation to make any termination payments when their appointment terminates, other than to pay fees in accordance with the appointment letters.

Retirement benefits

As governed by the rules of the relevant pension plan. No enhancement for leavers will be made.

Annual Incentive Plan

Where an executive director's employment is terminated after the end of a performance year but before the payment is made, the executive director will remain eligible for an annual incentive award for that performance year subject to an assessment based on performance achieved over the period. No award will be made in the event of gross misconduct.

The Committee may, as set out below, exercise its discretion to allow an annual incentive payment for the year of cessation as part of the termination package for executive directors. Where it does so, the exercise of the discretion and reason why the Committee considered such action appropriate will be disclosed.

Where an executive director leaves during the relevant performance year by reason of death, ill-health, disability, retirement, a transfer of business, redundancy, or in such circumstances as the Committee determines, the Committee may use its discretion to determine that an executive director will remain entitled to receive a bonus (subject to an assessment based on performance over the performance year and pro-rated for time) in respect of the financial year in which the individual ceased employment.

In all cases, one-third of the bonus will be subject to compulsory deferral as set out previously, unless the Committee decides otherwise.

The Committee's policy is not to award an annual incentive for any portion of the notice period not served.

The treatment set out above does not apply to the President and Chief Executive Officer, BAE Systems, Inc. and the applicable treatment is provided in the section on notice and pay in lieu of notice.

Long-Term Incentive Plans

The treatment of outstanding share awards in the event that an executive director leaves is governed by the relevant share plan rules.

Under the Long-Term Incentive Plan, where an executive director leaves the Group by reason of ill-health, injury, disability, retirement with the agreement of the Company (other than in the case of Restricted Shares held by US executive directors), sale of a business or employing company, redundancy or leaving in such circumstances as the Committee determines (each an 'approved leaver'), unvested awards and options generally continue and vest on the normal vesting date (or, in the case of 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 on cessation. Any performance conditions will be applied at the time of vesting.

On vesting, the number of shares under award 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, in the case of Performance Shares held by US executive directors, as a proportion of the initial three-year vesting period).

In the event of death, awards generally vest at the time of death subject to the satisfaction of any performance conditions at that time. Awards are then pro-rated as set out above.

Where an executive director's employment is terminated for any other reason, his unvested awards and options will lapse. Options normally remain exercisable for six months after cessation (or vesting, if later) and 12 months after death.

If the Committee exercises its discretion to treat a director as an approved leaver as permissible under the leaver provisions of the share plan rules, the exercise of the discretion and reason why the Committee considered such action appropriate will be disclosed.

Where an executive director's employment is terminated or an executive director is under notice of termination for any reason at the date of award of any Long-Term Incentive awards, no Long-Term Incentive awards will be made.

Consideration of employment conditions elsewhere in the Company

The Committee has responsibility for reviewing remuneration and related policies applicable to the wider workforce. To support this, the Committee is provided with periodic in-depth sessions on a range of wider workforce remuneration topics that are designed to provide the Committee with visibility of remuneration practices in the different sectors and geographies in which we operate and for the different populations within the wider workforce across the Company globally. This enables the Committee to take the wider workforce into account when setting the policy for executive remuneration. The Committee also receives insights from the broader employee population using an engagement survey. When considering salary increases for the executive directors, the Committee considers the general level of salary increase across the Group and in the external market.

Whilst the Committee does not consult directly with employees as part of the process for reviewing executive pay, the annual report is the principal means through which we communicate and engage with employees on how executive remuneration aligns with that of the wider workforce. The Company's employees who are shareholders in the Company receive communications with a direct link to the annual report on the Company's website and an invitation to vote on the resolutions being put to the AGM, including those resolutions on executive remuneration. The results of employee shareholder voting on the AGM resolutions, including those relating to executive remuneration, are subsequently reported to the Board for discussion.

Stakeholder considerations

In line with our commitment to full transparency and engagement with our shareholders on the topic of executive remuneration, the Remuneration Committee Chair conducts an annual programme of consultation with our major shareholders and institutional investors. This typically involves setting out the changes planned for the following year, including seeking shareholder input and views on various executive remuneration matters including the development of, or potential changes to, remuneration policy or arrangements. The Remuneration Committee Chair values direct engagement with our shareholders and makes themselves available for such meetings throughout the year to hear shareholders' perspective on remuneration matters.