

# Annual Report 2022 BAE Systems plc

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# Our purpose

At BAE Systems, **our purpose** is 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 sustainable management and governance of our business we will continue to create value for our stakeholders.

## We have an important role in society because we:

- help our customers to **provide security and safety**;
- **contribute to the economic prosperity** of the places where our people live and work;
- **support high-value jobs** in our business and in our supply chains;
- **value our people and their diversity** so they can fulfil their potential in an inclusive and supportive working environment;
- seek to **identify opportunities** for individuals from disadvantaged backgrounds;
- **support employees' rights** in relation to freedom of association;
- **inspire and excel** in the work we do – the technologies we develop and the talent we build;
- **develop cutting-edge technologies** to sustain the competitive strength of the Company in global markets;
- **create best-in-class products** and services by forging strong relationships with our suppliers and partners;
- care for and **support our local communities**; and
- use our knowledge and technologies to reduce the environmental impacts of our activities. We have set ourselves the target of achieving **net zero greenhouse gas emissions** across our operations (Scope 1 and 2) by 2030.

## How our purpose connects to our strategy

- We never lose sight of who are the users of our products and services – often members of the armed forces and security services – and the critical work they do to keep us safe.
- Our strategy sets out our actions for investing in the long-term future of the Group based on driving operational excellence, continuously improving our competitiveness and efficiency, and advancing and further leveraging our technology. By doing this we will fulfil the needs of customers and build a sustainable future for our business for the benefit of our stakeholders.

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Our strategic framework

## How our purpose connects to our culture

- We are proud of the work we do to serve and supply those who protect us. We know our customers rely on us so we constantly innovate and go the extra mile in the products that we make, the quality we deliver and the services we offer.
- We recognise we are entitled to nothing and must earn everything.
- We are accountable for all that we do and seek to do the right thing at all times.
- Our culture values diversity and rewards integrity and merit so that everyone can fulfil their potential.
- The safety and wellbeing of our employees is paramount.
- We have a deep commitment to supporting the communities in which we work and to reducing the environmental impacts of our activities.
- At the heart of our business we are performance driven and values led.

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Our stakeholders

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The work of the Board



Throughout our history we have been committed to supporting young people, recruiting more than 1,000 apprentices in the UK this year alone, and making some significant headway in recruiting more women to make our Group more diverse.

We provide considerable in-kind support working with Local Enterprise Partnerships across the UK to develop communities and mentoring small businesses to help improve those that are far behind in productivity.

As a result, we have a direct impact in the communities in which we operate and because, for strategic reasons, military equipment sites were located outside of cities and major towns, some 40% of our employees reside in some of the UK's most deprived regions.

We are committed to making important economic and social contributions wherever we are active – in the US, the Gulf and Australia. Added to this, we are making progress against a 2030 net zero (Scope 1 and 2) carbon target across our operations and developing exciting sustainable technologies to support our route to net zero.

So, as a Board, our focus is not simply how much money we make, but how we make money.

During the last 12 months, the Board has continued to be refreshed as those who have made a major contribution to the development of the Company conclude their nine-year tenure and are replaced by a new generation of talented businesses leaders.

Against this background, Ian Tyler stepped down from the Board at last year's Annual General Meeting (AGM) having chaired both our Remuneration and ESG Committees and having been a material contributor to the strategic direction of the Company.

In November, we were fortunate to be joined by Cressida Hogg, who will replace me as Chair when I step down at the AGM, and Lord Mark Sedwill as non-executive directors. Both will add to the substance and breadth of the Board with Cressida bringing a wealth of experience as both a chair and business leader and Lord Sedwill having served as Cabinet Secretary and Head of UK National Security. Finally, I would like to thank Philip Bramwell, who retired last year after serving 15 years as Group General Counsel. He was a trusted adviser to the Board and a highly respected member of our executive leadership team.

Finally, I am pleased to report that when I step down as Chairman at the AGM, I will leave the Company in good health and safe hands led by a Board and executive team with impeccable credentials and invaluable skills, who are united by a passion and pride in what we do and a commitment to the principles of being both performance driven and values led.

I wish the Company and all of its stakeholders continued success and a prosperous future.



**Sir Roger Carr**  
Chairman



Apprentices at the Academy for Skills & Knowledge in Samlesbury and our Warton site in Lancashire, UK.



Our **Maritime** sector posted good sales growth in 2022, and maintained steady margins, as major submarine and ship programmes continued to ramp up. Margin performance reflected the high volume of Dreadnought sales and increased Company-funded R&D expenditure. The Dreadnought nuclear deterrent submarine and the Global Combat Ship programmes (UK's Type 26, Australia's Hunter Class and Canada's licensed frigate) all grew year-over-year.

The **Cyber & Intelligence** sector recorded good sales growth and margin performance. The sector benefited from better workforce utilisation and efficiency following the worst of the pandemic. In the US, the Intelligence & Security business continued to demonstrate the value of its differentiated systems integration expertise, providing leading engineering, modelling and simulation capabilities to its customers, expanding in this area through the acquisition of Bohemia Interactive Simulations. In the UK, we established the Digital Intelligence business, bringing together capabilities in cyber, space, intelligence, security and data into one organisation to improve our customer alignment.



I am proud to report that the fundamentals of the business are solid, the outlook is bright and our team is focused on our purpose.



## Our ESG agenda

We operate our business for the long term and place incorporating sustainable business practices in all aspects of our operations at the core of our approach. This includes, for example, our focus on employee safety and wellbeing, creating a diverse and inclusive workspace, supporting and engaging with the communities in which we operate and delivering leading apprentice and graduate programmes to prepare the next generation of workers for the future. It also includes our focus on responsible environmental stewardship in our operations. We underpin everything with a robust governance structure that applies to all aspects and required adherence to our Code of Conduct.

I am exceptionally proud of what the Group accomplished in 2022. We hired a record number of UK apprentices and graduates and I am particularly pleased that we increased the number of women to 30% of that intake. We progressed our climate resilience programmes and each of our sectors developed decarbonisation roadmaps to outline short-, medium- and long-term activities to support the Group's net zero ambition by 2030 (Scope 1 and 2). Our employees continue to be engaged in our sustainability programmes, actively participating across many elements. We have made substantial progress in our sustainability agenda over the past several years, and we recognise there is more work to do in the years ahead. I am convinced these efforts will make us a better, higher-performing company in the future.

## New Chair

This year's Annual General Meeting of shareholders will mark the conclusion of Sir Roger Carr's remarkable tenure as Chair. We have named Cressida Hogg as Sir Roger's successor, completing an intensive search for the most qualified candidate to fill the role. We all look forward to benefiting from her experience, wisdom and energy in the coming years.

## Executive Committee changes

In the second half of 2022, we welcomed two new members to our Executive Committee (EC). Caitlin Hayden has joined as Group Communications Director following her role as Senior Vice President of Communications at BAE Systems, Inc. in the US. Ed Gelsthorpe also joined the EC as Group General Counsel. Ed has enjoyed a long and varied career in the Group and has served in several senior legal leadership positions.

## Summary

As we close the book on 2022, on behalf of all of my BAE Systems colleagues, I am proud to report that the fundamentals of the business are strong, the outlook is bright, and our team is focused on our purpose – "to serve, supply and protect those who serve and protect us". While it is tragic that it took a war in Europe to raise the awareness of the importance of defence around the globe, BAE Systems is well positioned to help national governments keep their citizens safe and secure in an elevated threat environment.

For shareholders, the record order intake and increased order backlog, our position on major and enduring programmes, the pension accounting surplus, and management's continued attention to operational excellence and financial discipline together provide a high level of visibility for sales growth, margin expansion, cash generation and capital returns over the coming years.

Thank you for your support of the Group and our strategy for value creation. We look forward to another productive and rewarding year in 2023 for all stakeholders.




**Charles Woodburn**  
Chief Executive

## Task Force on Climate-related Financial Disclosures (TCFD)

The following tables summarise our disclosures relating to the four TCFD Recommendations and the 11 Recommended Disclosures pursuant to Listing Rule 9.8.6(R)(8). We have made considerable progress in our net zero programme. We have established a roadmap based on phases of activity and level of investment, to monitor our progress to decarbonise our operations by 2030 (Scope 1 and 2). Our sectors have each developed decarbonisation roadmaps that outline short-, medium- and long-term activities to support the Group's decarbonisation ambition. We have aligned our Scope 1 and 2 carbon reduction roadmaps to a science-based pathway of 1.5°C and set progress against this in both our in-year and long-term incentives.

We believe our approach is consistent with nine of the 11 TCFD Recommendations. The areas we will continue to work on during 2023 are: Metrics and Targets, part b and c, and we expect to be able to make a recommended disclosure in respect of these items in our 2023 Annual Report.

### Governance

Pillar/recommendation	Key points	Further detail
<b>Disclose the organisation's governance around climate-related risks and opportunities</b>		
a) Describe the Board's oversight of climate-related risks and opportunities.	<p>Our Board oversees, through the Environmental, Social and Governance (ESG) Committee, our approach to sustainability, including climate change. The 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. Other elements of our approach to sustainability have oversight via other Board committees.</p> <p>During 2022, the Board and ESG Committee received updates on the progress towards our 2030 target, and the work undertaken to increase usage of green energy sources and improve the Group's ability to monitor and measure carbon emissions. With regards to our net zero ambition, the Integrated Business Plan (IBP) reviewed and approved by the Board in November, underpins how the Group plans to achieve its Scope 1 and 2 ambitions, including the work undertaken in our business sectors to identify areas to reduce energy consumption and increase efficiency of energy use. The Board recognises that in order to meet our net zero ambitions for our value chain (Scope 3), we will need to work closely with customers and suppliers to advance green technology solutions and align how we are working to define and achieve common objectives.</p> <p>As part of its annual Strategy Review, the Board considered how climate change considerations are increasingly impacting defence and commercial markets. The strategy adopted by the Board in 2022 identifies business solutions in defence and adjacent markets.</p> <p>During 2022, the ESG Committee also received training on climate risk.</p> <p>Progress of our decarbonisation strategy is embedded within our senior executives' remuneration.</p>	<p> <a href="#">Page 34</a> <a href="#">The work of the Board</a></p> <p> <a href="#">Page 131</a> <a href="#">Board of directors</a></p> <p> <a href="#">Page 134</a> <a href="#">Governance framework</a></p> <p> <a href="#">Page 139</a> <a href="#">Board information</a></p> <p> <a href="#">Page 140</a> <a href="#">Nominations Committee report</a></p> <p> <a href="#">Page 151</a> <a href="#">Environmental, Social and Governance Committee report</a></p> <p> <a href="#">Page 160</a> <a href="#">Remuneration Committee report</a></p>
b) Describe management's role in assessing and managing climate-related risks and opportunities.	<p>Climate-related risks and opportunities are embedded across our Operational Framework, including roles and responsibilities, key policies and processes.</p> <p>Our Executive Committee is responsible for managing climate-related risks and opportunities and for delivering the decarbonisation programme through our business and value chain.</p>	<p> <a href="#">Page 134</a> <a href="#">Governance framework</a></p>

## How we manage climate-related risk and opportunity

### Oversight of climate-related risk and opportunity

#### BAE Systems Board

##### Nominations Committee

**The Board** – has oversight of climate-related risks and opportunities impacting the Group and incorporates climate-related matters when setting overall strategy, including climate-related expenditure and investments as part of our IBP process. Some elements of responsibilities are delegated to committees of the Board. Directors' skills and experience are on page 139, including the details of those who have experience in environmental and social matters.

##### Audit Committee

**Nominations Committee** – is responsible for succession planning and ensuring the future skills and experience required for both executive and non-executive members of the Board, including on climate-related matters.

**Audit Committee** – is responsible for reviewing and approving the content of our TCFD recommendations for disclosure within our Annual Report, including auditor requirements. The Committee also ensures that, where material, climate change is factored into the financial statements and disclosed appropriately.

##### Environmental, Social and Governance Committee

**Environmental, Social and Governance Committee** – is responsible for overseeing the Group's ESG performance, including overseeing the progress of the executive team in ensuring that the Group takes an integrated, strategic approach to addressing climate transition risks and opportunities and monitors progress in this area, including progress against objectives and targets.

**Innovation and Technology Committee** – is responsible for overseeing efforts by the executive team to stimulate and maintain an innovative culture, which facilitates the Group's ability to make technological advancements through the introduction of low or zero emission technologies for existing or new products and services. Additionally, the Committee oversees the Group's progress in identifying potential longer-term revenue opportunities in these technologies, in accordance with the Group's strategy.

**Remuneration Committee** – is responsible for determining our remuneration policy, including the introduction of Long-Term Incentive Plan (LTIP) performance conditions on climate change and other ESG-related matters.

### Management's role in climate-related risk and opportunity

#### Executive Committee

**Executive Committee (EC)** – responsible for managing climate-related risks and opportunities and for delivering the decarbonisation strategy to decarbonise our business and value chain, including climate-related expenditure and investments as part of our IBP process.

**Group ESG, Culture & Business Transformation Director** – has day-to-day responsibility for environmental issues, including those related to climate, and our decarbonisation strategy. She is part of the EC and gives regular updates on our environmental and net zero programme.

#### Sustainability Council

She is also the owner of our Environmental Policy, which details our commitment to addressing environmental impacts related to our products and activities including climate-related issues. The net zero working group and Safety, Health and Environment (SHE) team report to her and she monitors and receives regular reports on progress.

**Sustainability Council** – reporting to the Group ESG, Culture & Business Transformation Director, supports the Group's strategy, recommending to the EC areas of sustainability to be given priority and focus for the forthcoming year and supporting Line and Functional leaders in the implementation of the Group's sustainability agenda.

#### Functional Councils

#### Net Zero Working Group

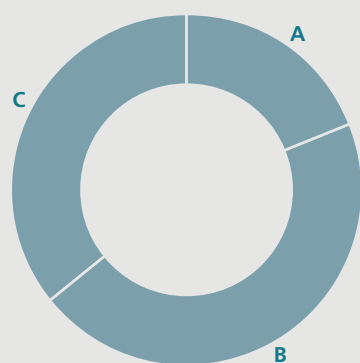
**Net Zero Working Group** – co-ordinates the progression of our decarbonisation ambitions. The group is made up of functional representatives, business leads and environmental specialists. This group reports to the Group ESG, Culture & Business Transformation Director.

**Sector net zero leads** – progress decarbonisation ambitions of each sector.

#### Sectors

## Gender diversity

	Male	Female
Board	9	5
	64%	36%
Senior managers <sup>1,2</sup>	237	81
	75%	25%
Total employees <sup>3,4</sup>	65,000	19,000
	77%	23%

Age diversity<sup>3,4,5</sup>

<b>A</b> Under 30 years	<b>16,000</b>	<b>19%</b>
<b>B</b> 30–50 years	<b>38,000</b>	<b>45%</b>
<b>C</b> Over 50 years	<b>30,000</b>	<b>36%</b>

1. 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.
2. Executive Committee (excluding executive directors) and their direct reports.
3. Excluding share of equity accounted investments and rounded to the nearest thousand employees.
4. BAE Systems Internal Audit has reviewed and confirmed effective systems, processes, and controls are 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.
5. The age diversity split has been amended this year to align with external reporting requirements.

In BAE Systems, Inc. we have continued our support through the broader Multicultural Network and its eight US ERGs. In addition, an executive-level Diversity, Equity and Inclusion (DEI) Council was formed to drive execution of Inc.-wide actions.

Stand-out UK initiatives delivered in 2022 have included:

- A nationwide engineering roadshow for schools with themes specifically for girls. This is supported by 800 employee STEM Learning Ambassadors.
- An engineering badge partnership with Girl Guiding North West which has been completed by more than 23,000 girls.
- Career sponsorship programmes for women at all levels.
- Leadership development opportunities in inclusive recruitment guidelines and senior leadership specific inclusion workshops.
- Making free sanitary products available across the majority of sites, with the remaining being actioned in 2023.

- Achieving Menopause Friendly Employer accreditation.

Across BAE Systems, Inc., accountability for diversity, equity and inclusion continues to be driven through the Inclusive Leader Goal assigned to all people managers across the organisation. Building on the prior success, the 2022 goal included requirements for leaders to check in on the wellbeing of their employees, demonstrate inclusive behaviours to enable a safe and productive team environment, conduct team dialogues about DEI themes, and discuss career aspirations and development opportunities with all of their employees. As a result, employees' sense of belonging improved – as reported through the Inc.-wide Inclusion Index survey – and representation of women and people of colour in leadership roles continued to increase in 2022 as well.

## Gender pay gap

We have published our sixth annual gender pay gap report in line with UK regulations. For 2022, the average gender pay gap for our UK workforce was 8.6% (2021 8.7%) which is 6.3 percentage points lower than the current UK national average of 14.9%. We rely on employing large numbers of employees with STEM qualifications and we, like other companies, face challenges recruiting women with these qualifications because there are significantly fewer women who study and work in these fields. As a result, a greater proportion of our workforce and our senior leadership population are men and this is a major factor in our gender pay gap. We continue to work hard to improve our gender balance and remain steadfast in our commitment to delivering the plans we have in place to increase the number of women in BAE Systems and support the progression of women into senior executive positions.

## Our priorities for the year ahead

As we move into 2023, we will increase our focus on inclusion and belonging which will in turn contribute to a more diverse workforce. Our Accelerating Our Inclusion action plan describes targeted activity to drive this.

- Mandated Inclusion training will be assigned to managers and leaders with in-depth topic area knowledge, as well as leadership content on meaningful conversations and creating inclusive team cultures and Leadership toolkits.
- Inclusion training will be assigned to all UK employees and a refreshed approach to employee engagement through recognisable content across all of our sites and digital platforms.
- We will continue to empower our ERGs and expand the awareness of them, and the role they play, in our Inclusion workstreams, through targeted, measurable and impactful activity.
- We will look to gain a deeper understanding of employee sentiment through various methods – enhancing our qualitative and quantitative data to drive our agenda for 2023 and beyond.

To see our Basis of Reporting 2022 visit [baesystems.com/annual-report](https://baesystems.com/annual-report)



## Balance sheet

**Intangible assets** of £12.6bn is an increase of £0.9bn on the prior year, driven by the impact of the Group's US dollar-denominated goodwill.

**Property, plant and equipment, right-of-use assets and investment property** is £4.7bn (2021 £4.0bn), an increase of £0.7bn, driven by the Group's US dollar-denominated assets.

**Equity accounted investments and other investments** is £886m (2021 £630m).

The **Group's share of the net IAS 19 post-employment benefits surplus** was £0.6bn (2021 £2.1bn deficit), net of a 35% withholding tax of £0.7bn. The shift to a pension surplus was driven by changes in discount rate and inflation assumptions following completion of the triennial review. The major movements in the net surplus are shown in the bridge chart on this page. Details of the Group's post-employment benefits schemes are provided in note 25 to the Group accounts on page 267.

In aggregate, there was a £0.4bn decrease in **working capital**.

**Lease liabilities** are £1.6bn (2021 £1.3bn).

The Group's **net debt (excluding lease liabilities)** at 31 December 2022 was £2,023m, a net decrease of £137m from the position at the start of the year. This is primarily a result of strong Free cash flow performance, partially offset by increased shareholder returns through dividends and share buybacks. The maturity of the Group's borrowings is shown in the chart on this page.

**Cash and cash equivalents** of £3,107m (2021 £2,917m) are held primarily for the repayment of debt securities, pension funding when required, payment of the 2022 final dividend, funding of further share buybacks under the £1.5bn programme announced in July 2022, and management of working capital.

## Balance sheet

### Summarised balance sheet

	2022 £m	2021 £m
Intangible assets	12,644	11,716
Property, plant and equipment, right-of-use assets and investment property <sup>1</sup>	4,723	4,010
Equity accounted investments and other investments	886	630
Working capital <sup>1</sup>	(4,119)	(3,740)
Lease liabilities	(1,582)	(1,252)
Group's share of net IAS 19 post-employment benefits surplus/(deficit)	646	(2,124)
Net tax assets and liabilities	363	589
Net other financial assets and liabilities	(138)	(1)
Net debt (excluding lease liabilities)	KPI (2,023)	(2,160)
<b>Net assets</b>	<b>11,400</b>	<b>7,668</b>

### Components of net debt (excluding lease liabilities)

	£m	£m
Cash and cash equivalents	3,107	2,917
Debt-related derivative financial instruments (net)	112	(16)
Loans – non-current	(5,189)	(4,604)
Loans and overdrafts – current	(53)	(457)
<b>Net debt (excluding lease liabilities)</b>	<b>KPI (2,023)</b>	<b>(2,160)</b>

## Exchange rates

### Year end

	2022	2021
£/\$	1.203	1.354
£/€	1.127	1.191
£/A\$	1.773	1.863

### Accounting net pension surplus – bridge (£bn)

2021	(2.1)
Add back 2021 allocation <sup>2</sup>	(0.2)
Interest on liabilities	(0.7)
Return on assets	(5.6)
Real discount rate	11.8
Experience losses	(1.7)
Withholding tax on surpluses	(0.7)
Other	(0.1)
Deduct 2022 allocation <sup>2</sup>	(0.1)
2022	0.6

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Note 25 to the Group accounts

### Maturity of the Group's borrowings (£bn)

2022	(5.2)
2023	(5.2)
2024	(4.5)
2025	(3.9)
2026	(3.9)
2027	(3.4)
2028	(3.4)
2029	(3.4)
2030	(2.4)
2031+	(1.6) <sup>3</sup>

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Note 22 to the Group accounts

1. Funding received from the UK government for property, plant and equipment at Barrow-in-Furness, UK, was previously reported against the associated assets in property, plant and equipment, right-of-use assets and investment property. Within the current year, these have been re-presented to match the presentation in the consolidated balance sheet to be presented in working capital. The prior year funding of £806m has been re-presented to reflect this change.
2. Amounts allocated to equity accounted investments.
3. Repayable in 2041 (£0.3bn), 2044 (£0.5bn) and 2050 (£0.8bn).



# Board of directors

**Sir Roger Carr**  
Chairman



N

**Appointed to the Board:** 2013 **Nationality:** UK  
**Skills, competence and experience**

Sir Roger was appointed Chairman in 2014, having joined the Board in 2013 as Chair Designate. He is an experienced company chairman with a wealth of knowledge gained across a number of business sectors. With over two decades of boardroom experience, Sir Roger has a deep understanding of good stewardship, corporate governance and the enablers of board effectiveness.

Sir Roger is a Senior Advisor to KKR, a non-executive director of Wella International Operations S.a.r.l. (a company majority-owned by KKR), Chairman of the English National Ballet and Vice President of the Royal Navy and Royal Marines Charity.

He has previously held a number of senior appointments including Chairman of Centrica plc, Vice Chairman of the BBC Trust, Deputy Chairman and Senior Independent Director of the Court of the Bank of England, President of the Confederation of British Industry, Chairman of Cadbury plc, Chairman of Chubb plc, Chairman of Mitchells & Butlers plc, Chairman of Thames Water plc and Chief Executive of Williams plc.

Throughout his career he has served on a number of external committees including the Prime Minister's Business Advisory Group, the Manufacturing Council of the CBI, The Higgs Committee on Corporate Governance and Business for New Europe. He is a Fellow of the Royal Society for the encouragement of Arts, Manufactures and Commerce, a Companion of the Institute of Management, and an Honorary Fellow of the Chartered Governance Institute. He is also a Visiting Fellow of Said Business School, University of Oxford and holds an Honorary Doctorate in Business from Nottingham Trent University.

He was knighted for Services to Business in the Queen's New Year's Honours list 2011.

**Committee membership**

Chair of Nominations Committee.

**Dr Charles Woodburn**  
Chief Executive



**Appointed to the Board:** 2016 **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 26 years' experience in the defence and aerospace, and oil and gas industries. Prior to joining the Company in 2016, he was Chief Executive Officer of Expro Group, before which he spent 15 years with Schlumberger Limited holding a number of senior management positions in Asia, Australia, Europe and the US. Charles is a trustee and Chair of the charity Movement to Work. He is a Fellow of the Royal Academy of Engineering.

**Brad Greve**  
Group Finance Director



**Appointed to the Board:** 2020 **Nationality:** US  
**Skills, competence and experience**

Brad joined BAE Systems in 2019 as Group Finance Director Designate and joined the Board on 1 April 2020.

He is a highly experienced executive with deep financial and operational management experience, gained during a 30-year career 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.

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



**Appointed to the Board:** 2020 **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 Operating Officer of BAE Systems, Inc., he had a 24-year career in 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.

**Cressida Hogg CBE**  
Chair Designate and  
non-executive director



N.

**Appointed to the Board:** 2022 **Nationality:** UK  
**Skills, competence and experience**

Cressida is currently Chairman of the Board of Land Securities Group PLC (Landsec), a position she has held since 2018, having served as a non-executive of the company since 2014. She will be retiring from the Landsec board on 16 May 2023.

Cressida is also a non-executive director of London Stock Exchange Group plc, where she is the Senior Independent Director and chairs its Remuneration Committee. She has previously enjoyed a long executive career, spent largely with 3i Group, during which she developed 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.

**Committee membership**  
Nominations Committee.

**Nick Anderson**  
Non-executive director



E.I.N.

**Appointed to the Board: 2020 Nationality: UK**  
**Skills, competence and experience**

As Group Chief Executive of a FTSE 100 industrial engineering company, Nick has a strong 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.

Since being appointed Group Chief Executive of Spirax-Sarco Engineering plc in January 2014, Nick has overseen the successful global growth of Spirax-Sarco Engineering, which serves customers in 130 countries worldwide. Prior to his roles at Spirax-Sarco Engineering, he was Vice-President of John Crane Asia Pacific and President of John Crane Latin America.

**Committee membership**

Environmental, Social and Governance Committee, Innovation and Technology Committee and Nominations Committee.

**Crystal E Ashby**  
Non-executive director



E.N.

**Appointed to the Board: 2021 Nationality: US**  
**Skills, competence and experience**

Crystal has held various senior leadership roles within the energy and healthcare sectors and has considerable expertise in government affairs, legal and regulatory matters. She is currently the Executive Vice President and Chief People Officer of the US health insurance company, Independence Health Group.

In her executive career, Crystal held various senior leadership roles during a long career with BP America Inc., culminating with her appointment as Executive Vice President of Government and Public Affairs and Strategic University Partnerships and membership of its Americas Leadership Team. She is an Independent Director on the Board of Texas Reliability Entity, Inc. and serves on the Engineering Dean's Leadership Advisory Board at the University of Michigan. She is a National Association of Corporate Directors Fellow and a member of the International Women's Forum and American Bar Association.

**Committee membership**

Environmental, Social and Governance Committee and Nominations Committee.

**Dame Elizabeth Corley CBE**  
Non-executive director



A.I.N.R.

**Appointed to the Board: 2016 Nationality: UK**  
**Skills, competence and experience**

Dame Elizabeth brings a wealth of investor, governance and boardroom experience to the Board. She is the Chair of Schroders plc and a former non-executive director of Pearson plc and Morgan Stanley Inc. She chairs the board of the Impact Investment Institute, having previously chaired the industry Taskforce on Social Impact Investing for the UK government. She 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 a member of the CFA Future of Finance Advisory Council, the AQR Institute of Asset Management at the London Business School, the Committee of 200 and the 300 Club.

Elizabeth is also an acclaimed writer, a Fellow of the Royal Society for the encouragement of Arts, Manufactures and Commerce and a trustee of the British Museum.

**Committee membership**

Audit Committee, Innovation and Technology Committee, Nominations Committee and Remuneration Committee.

**Dr Jane Griffiths**  
Non-executive director



E.N.

**Appointed to the Board: 2020 Nationality: UK**  
**Skills, competence and experience**

Jane has experience in leading high technology businesses and international corporate leadership. She is Chair of Redx Pharma Plc, an AIM listed company, Chair of Theramex and a non-executive director of Johnson Matthey. 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 previously had been 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.

**Committee membership**

Chair of Environmental, Social and Governance Committee and member of Nominations Committee.

**Chris Grigg CBE**  
Non-executive director  
and Senior  
Independent Director



A.N.R.

**Appointed to the Board: 2013 Nationality: UK**  
**Skills, competence and experience**

Chris is Chair of the UK Infrastructure Bank and Chair of Evelyn Partners. He has held a range of leadership roles including Chief Executive of Barclays Commercial Bank and, most recently, Chief Executive of The British Land Company PLC, a position he held for over 11 years. He brings extensive public company and business leadership experience to the Board.

He has more than 30 years' experience in the banking and real estate industries. Prior to joining British Land, he was Chief Executive of Barclays Commercial Bank. Before that, he was a partner at Goldman Sachs. Chris is a former member of the executive board of the European Public Real Estate Association and the board of the British Property Federation.

**Committee membership**

Audit Committee, Nominations Committee and Remuneration Committee.

**Dr Ewan Kirk**  
Non-executive director



I.N.

**Appointed to the Board: 2021 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, he 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.

He is Chair of the Isaac Newton Institute for Mathematical Sciences, Chairman of DeepTech Labs, a UK-based venture capital fund that invests in deep technology businesses, and Co-Chair of the Turner Kirk Trust. Ewan 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.

**Committee membership**

Chair of Innovation and Technology Committee and member of Nominations Committee.

**Stephen Pearce**  
Non-executive director



A N.

**Appointed to the Board:** 2019 **Nationality:** AU  
**Skills, competence and experience**

Stephen has more than 20 years' experience as a director of public companies and over 30 years of financial and commercial experience in the mining, oil and gas, and utilities industries. He is currently Finance Director of Anglo American plc, a role he has held since April 2017, and a non-executive director of its majority-owned subsidiary, DeBeers.

He previously served as CFO and as an executive director of Fortescue Metals Group Limited from 2010 to 2016. He 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.

**Committee membership**

Chair of Audit Committee and member of Nominations Committee.

**Nicole Piasecki**  
Non-executive director



E.I.N. R

**Appointed to the Board:** 2019 **Nationality:** US  
**Skills, competence and experience**

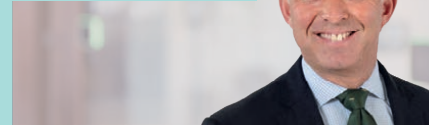
Nicole has extensive experience gained from executive positions within the aerospace industry and leadership of multi-functional teams. She previously held a number of engineering, sales, marketing and business strategy roles during her 25-year career with the Boeing Company, including Vice President 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.

She is Executive Chairman of VEA Aviation Inc., Chair of the Board of Trustees of Seattle University and a director of Howmet Aerospace Inc. and Weyerhaeuser Company. Nicole formerly served on the Federal Aviation Authority's Management Advisory Board, the US Department of Transportation's Future of Aviation Advisory Committee and the Federal Reserve Bank of San Francisco's Seattle branch.

**Committee membership**

Chair of Remuneration Committee and member of Environmental, Social and Governance Committee, Innovation and Technology Committee and Nominations Committee.

**Mark Sedwill**  
**Baron Sedwill of Sherborne**  
GCMG, FRGS  
Non-executive director



E.N.

**Appointed to the Board:** 2022 **Nationality:** UK  
**Skills, competence and experience**

During a long career serving the UK government, Lord Sedwill held a wide range of national security and diplomatic roles in the UK and overseas. In his final decade in public service, he was British Ambassador and NATO Representative in Afghanistan, Foreign Office Political Director and Home Office Permanent Secretary, culminating in his appointments as National Security Adviser (2017 to 2020) and Cabinet Secretary (2018 to 2020). Earlier in his career, he held diplomatic and security posts, serving in Egypt, Syria, Jordan, Cyprus and Pakistan.

He is a senior adviser and Supervisory Board member of Rothschild & Co, and the Senior Independent Director and Senior Deputy Chair of Lloyd's of London. He is also the Chairman of the Atlantic Future Forum and a member of the UK Parliament's House of Lords. Lord Sedwill is a Fellow of the Royal Geographical Society and of the Institute of Directors. He is President of the Special Forces Club.

**Committee membership**

Environmental, Social and Governance Committee and Nominations Committee.

## Membership and attendance

	Board meetings	Committee membership	Audit Committee	Environmental, Social and Governance Committee	Innovation and Technology Committee	Nominations Committee	Remuneration Committee
<b>Sir Roger Carr<sup>1</sup></b>	8/8	N	–	–	–	5/5	–
<b>Nick Anderson</b>	8/8	E.I.N.	–	5/5	2/2	5/5	–
<b>Crystal E Ashby</b>	7/8 <sup>2</sup>	E.N.	–	5/5	–	5/5	–
<b>Dame Elizabeth Corley</b>	8/8	A.I.N.R.	5/5	–	1/1 <sup>3</sup>	5/5	7/7
<b>Dame Carolyn Fairbairn<sup>4</sup></b>	3/3	I.N.R.	–	–	0/1 <sup>2</sup>	1/1	3/3
<b>Jane Griffiths</b>	8/8	E N.	–	5/5	–	5/5	–
<b>Chris Grigg</b>	8/8	A.N.R.	4/4	3/3 <sup>5</sup>	–	5/5	7/7
<b>Cressida Hogg<sup>6</sup></b>	2/2	N.	–	–	–	–	–
<b>Ewan Kirk</b>	5/5	I N.	–	–	2/2	5/5	–
<b>Stephen Pearce</b>	8/8	A N.	5/5	–	–	5/5	–
<b>Nicole Piasecki</b>	8/8	E.I.N. R	–	5/5	2/2	5/5	4/4
<b>Lord Sedwill<sup>6</sup></b>	2/2	E.N.	–	1/1	–	–	–
<b>Ian Tyler<sup>4</sup></b>	3/3	A.N.R.	1/1	–	–	2/2	3/3
<b>Charles Woodburn</b> Chief Executive	7/8 <sup>7</sup>	–	–	–	–	–	–
<b>Brad Greve</b> Group Finance Director	8/8	–	–	–	–	–	–
<b>Tom Arseneault</b> President and Chief Executive Officer of BAE Systems, Inc.	8/8	–	–	–	–	–	–

1. Sir Roger Carr joined the Board in October 2013 and was appointed as Chairman in February 2014.
2. Attendance impacted by personal matters.
3. Appointed to the Committee in May 2022.

4. Retired from the Board on 5 May 2022.
5. Stepped down from the Committee on 1 July 2022.
6. Appointed on 1 November 2022.
7. Could not attend due to customer meeting.

### Chairman

### Executive director

### Non-executive director

- C Committee chair  
A. Audit Committee  
E. Environmental, Social and Governance Committee  
I. Innovation and Technology Committee  
N. Nominations Committee  
R. Remuneration Committee

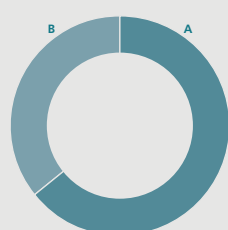
The average length of appointment of non-executive members of the Board (as at 31 December 2022) was three years and nine months.

The average length of appointment of executive members of the Board (as at 31 December 2022) was four years.

# Board and Executive Committee diversity information

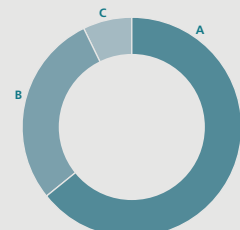
## Board information

### Gender



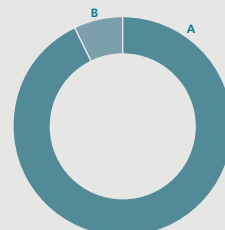
A	Male	9
B	Female	5

### Nationality



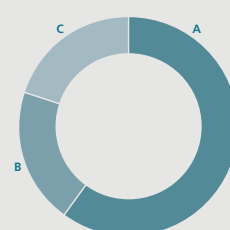
A	UK	9
B	US	4
C	Australia	1

### Ethnicity



A	White	13
B	Black	1

### Tenure (independent non-executive directors)



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

## Skills and experience

Risk management	6	1
Long-term contracting	6	3
Legal and regulatory	5	3
International business/commercial	11	3
Human capital management	3	
Financial/accounting	6	1
Environmental and social	7	
Engineering, science and technology	6	2
Company leadership	7	3
Board experience	9	

Executive  
Non-executive

## Board and Executive Committee diversity

In accordance with Listing Rule 9.8.6(9) of the FCA's Listing Rules, these tables set out details of the diversity of the individuals on the Board and Executive Committee at 31 December 2022.

There are 14 Executive Committee members (including the Chief Executive, President and Chief Executive Officer of BAE Systems, Inc. and the Group Finance Director, who are also executive directors) and 14 directors of the Board. 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 Listing Rule 9.8.6(9), and therefore correspond precisely with the tables.

## 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	9	64%	4	11	73%
Women	5	36%	—	4	27%
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)	13	93%	4	14	93%
Mixed/Multiple Ethnic groups	—	—	—	1	7%
Asian/Asian British	—	—	—	—	—
Black/African/Caribbean/Black British	1	7%	—	—	—
Other ethnic group, including Arab	—	—	—	—	—

In respect of the 2022 financial year, the Board has met the diversity targets in Listing Rule 9.8.6(9) and its Board Diversity and Inclusion Policy in relation to ethnicity. However, the targets in relation to gender diversity have not been met. The Board recognises the work it must undertake to meet those targets. From the Company's AGM in May this year, we anticipate the only target it will not have met will be with regard to Board membership gender diversity. Following the AGM, it is anticipated that women will comprise 38.4% of Board membership, slightly short of the 40% target. There have been no changes in the composition of the Board or Executive Committee in the intervening period between the year end and the signing of this Annual Report.



# Nominations Committee report

**Sir Roger Carr**  
Chair



## Members:

Nick Anderson  
Crystal E Ashby  
Dame Elizabeth Corley  
Jane Griffiths  
Chris Grigg  
Cressida Hogg  
Ewan Kirk  
Stephen Pearce  
Nicole Piasecki  
Lord Sedwill

## Dear Shareholders

At the start of 2022, the Nominations Committee had three key objectives for the year, which were:

- continue to drive the executive succession planning process to ensure that we have visibility of those high potential executives that will be available, in due course, to succeed the three executive directors currently on the Board;
- complete the search for a suitable candidate to succeed me as Chair of the Company when I retire in May this year; and
- identify candidates to succeed the non-executive directors that were approaching the end of their final terms of office.

When dealing with all of the above, the Committee was clear that it would continue to be guided by its policy on diversity and inclusion. We see diversity as a key attribute to Board effectiveness and therefore we aim to maintain a diverse membership, including, among other attributes, an appropriate balance of nationalities, gender, ethnicity, skills, knowledge, experience, cognitive and personal strengths. At the beginning of a selection process for Board appointments, the Committee considers the blend of skills and experience required to maintain an effective Board. Further information on the skills and experience of the Board can be found on page 139.

I will deal with each of our objectives below but first, by way of context, I will provide details of the national security considerations that inevitably have a bearing on much that the Committee does in managing Board succession.

## National security

Government national security requirements are an essential part of being a defence company. They shape our governance and are an important factor in the Committee's deliberation on Board appointments.

For our largest government customers, the Company is an important part of their defence industrial base, providing sovereign defence capability that is a key element of their national security. Consequently, there are certain specific nationality requirements with which we must comply.

Even when there are no specific job-related nationality requirements, we have to consider carefully whether a role could be discharged effectively given the general application of national security restrictions in our businesses.

The UK government holds a Special Share in the Company specifically to ensure that it remains UK controlled. In addition to restricting the percentage of shares that may be held by a non-UK shareholder, the Special Share requires that the Chief Executive must be a UK national (and also places certain restrictions on the nationality of the Chair) and that a majority of all directors must be UK nationals. Operational roles such as those running our UK businesses are effectively restricted, in most part, to individuals with higher-level UK security clearances. Whereas, we are less restricted with Group functional positions, e.g. Finance, HR, Corporate Communications, etc.

With regard to our US business, the regulatory requirements governing its ownership and the level of individual national security clearances required to discharge the role mean that the President and Chief Executive Officer of our principal US operating company, BAE Systems, Inc., has to be a US citizen. That is also the case for members of the senior executive team in the US.

## Executive succession

The decisions made by the Committee on executive director appointments in recent years have been a critical enabler for the strong performance that the executive team, headed by Charles Woodburn, has helped to deliver. Managing future leadership succession has remained a high priority for the Board and the Committee – I am aware from my frequent engagement with our largest shareholders that they too recognise the importance of this.

An Enterprise Talent Review, undertaken by the Board in September last year, helped inform the work the Committee undertook subsequently in reviewing detailed succession plans for the most senior executive roles. That review was facilitated by a data-driven analysis of succession plans for the 14 senior executives (three being executive directors) that currently comprise the membership of the Executive Committee. The plans cover individuals judged to have the potential to be appointed to one of the EC roles at future dates but may be up to two jobs away from being ready for that at present. A total of 66 individuals were identified in the 2022 plans, a slight increase from the previous year. As you would expect, the plans are dynamic and individuals may be added, moved within the plan or removed. Senior executives are required to engage actively in developing and retaining these highly talented individuals, and do so in line with our diversity, equity and inclusion goals.

In summary, the key points from our Enterprise Talent Review were:

## Strengths

- Executive Committee gender balance increased to 29% (from 8% in 2021).
- The emerging talent pipeline almost doubled from 19 individuals to 37.
- 28% of the successor pipeline executives have less than five years' service – evidencing improved awareness of high-potential individuals and agility in career development management.

## Challenges

- Growing the pool of female talent in mid-level management grades.
- Retention of key individuals identified in succession plans.
- Increasing the number of executives voluntarily providing us with information on their ethnicity.

As part of the Enterprise Talent Review, we were pleased to see progress being made in increasing the level of gender diversity within our executive populations. In the executive succession pipeline leading to the Executive Committee and the Board, we have seen a higher level of gender diversity (38%) compared with that of our senior executive population (24.3%). In terms of data analysis, ethnicity reporting remains a challenge and we require more

employees to inform us of their ethnicity, on a self-identified basis, to complement the range of activities underway to realise our diversity, equity and inclusion objectives.

During 2022, the Committee undertook a detailed review of executive succession plans, focused on the three current Board-level roles: Chief Executive, Group Finance Director and the President and Chief Executive Officer of BAE Systems, Inc.

The Committee welcomed the fact that the succession plans for these roles have continued to mature. In particular, we saw good evidence of how we are managing the careers of key individuals to ensure that they have focused development plans, and that their current roles provide ample scope for them to grow as leaders and further demonstrate the potential to take on Board-level positions.

### Chair succession

When I retire at this year's AGM, I will have served as Chairman for just over nine years, the maximum term permitted in accordance with the UK Corporate Governance Code. The search for my successor began in 2021 and was undertaken in strict compliance with Code requirements and governance best practice. Therefore, I did not participate in the Committee's meetings when it was dealing with the matter. The search activity was undertaken by the Committee, led by our Senior Independent Director, Chris Grigg.

The Committee appointed the search consultants Spencer Stuart (who provide other recruitment and executive succession planning services to the Company) to identify suitable candidates for the Chair role. Spencer Stuart undertook a series of interviews with the members of the Committee to develop and agree a profile for the search, including the skills, experience and knowledge required by candidates. As part of the search the Committee also considered diversity (see Board Diversity & Inclusion Policy on page 142) and nationality requirements concerning the composition of the Board (see above).

I am delighted that, at the end of July last year, the Board formally approved the Committee's clear and unanimous nomination of Cressida Hogg, and appointed her a non-executive director and Chair designate with effect from November 2022. She will succeed me with effect from the close of our AGM in May.

Cressida brings a strong combination of business and boardroom experience to our Board. She currently chairs the board of Land Securities Group PLC and is the Senior Non-executive Director of London Stock Exchange Group plc. Previously, she had a long executive career, largely with 3i Group, during which she developed a deep understanding of large, long-term infrastructure projects and businesses, whilst working in various parts of the world, including the US, Canada, India, Australia and the Middle East.

### Chair appointment process



## Board Diversity & Inclusion Policy

This policy sets out the approach to diversity and inclusion in respect of the Board of directors of BAE Systems plc.

### Diversity and Inclusion

We are committed to maintaining a diverse and inclusive Board. As a company, we value diversity and are committed to creating a diverse and inclusive working environment for our employees, in which colleagues from any background can fulfil their potential. This is reflected in our clear purpose, values and the behaviours that guide our culture.

The Board understands that diversity is a key attribute to its effectiveness. We aim to maintain a diverse Board, including an appropriate balance of nationalities, gender, ethnicity, skills, knowledge, experience and personal strengths.

### Board Composition

The Nominations Committee (the Committee), on behalf of the Board, undertakes a formal, rigorous and transparent approach to succession planning for director appointments. The Committee oversees the development and implementation of succession plans for directors and senior managers.

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, diverse 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 its 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 are British nationals and the roles of Chairman and Chief Executive are also subject to UK nationality restrictions.

The Committee shall aim to comply with the following targets in respect of Board membership:

- At least 40% of Board members shall be women (including those identifying as women).
- At least one of the four senior Board positions (Chair, Chief Executive Officer, Senior Independent Director, Chief Financial Officer) shall be a woman (or identifying as a woman).

- At least one member of the Board shall be from an ethnic minority background (as referenced in categories recommended by the UK's Office for National Statistics).

In line with UK regulatory requirements, the Committee shall report in the Company's annual report on compliance with the above targets.

The Board and Committee will maintain oversight of the range of activities the Company is pursuing aimed at increasing the diversity of our workforce – including the executive pipeline that is essential for executive directors' succession planning. In addition, when the Committee engages search consultants we will use their services to help identify a diverse range of potential non-executive director candidates and, where necessary, to help with executive directors' succession requirements.

### Reporting

The Committee will ensure that there is continued appropriate and meaningful disclosure in the Company's annual report against the matters set out in this policy.

### Non-executive directors

At the beginning of last year, Ian Tyler retired having served on the Board as a non-executive director for nine years. He made an excellent contribution to the Board, chairing both the Corporate Responsibility and Remuneration committees.

During the year, Dame Carolyn Fairbairn also stood down as a non-executive director. Her decision to stand down after a relatively short period on the Board was taken following her acceptance of a new role as Chair of Mencap, an appointment that was of particular personal importance to her.

I am pleased that, as part of the non-executive succession planning objectives

set by the Committee at the beginning of the year, we were able to appoint Lord Sedwill to the Board at the beginning of November. He enjoyed an outstanding career working for the UK government at the most senior levels, before retiring from public service in September 2020. His career covered a wide range of national security and diplomatic roles in the UK and overseas. With his depth of knowledge and experience, Mark brings a well-informed geopolitical and economic perspective to the Board as well as experience in leading large and complex organisations.

Lord Sedwill's appointment to the Board was made over two years after he had retired from public service in September 2020. As such, he joined after the post-

employment period covered by the UK Government's Business Appointment Rules for Civil Servants. Notwithstanding that, he received written confirmation that the UK government did not have any concerns regarding his appointment.

Generally, the Committee appoints search consultants to assist in identifying candidates for appointment to the Board. However, given the roles he held during his long government career, Lord Sedwill is a well-known public figure. Consequently, the Committee did not employ search consultants or use advertising to assist in identifying him as an individual with the necessary experience, skills and knowledge for appointment to the Board.

### Non-executive director induction

As part of the induction programme, Cressida Hogg and Lord Sedwill met with senior executives to better understand the operating context of the business. The below provides an overview of the conversations and the persons who they met with.

Purpose, strategy, competitive landscape, customer and broader stakeholder context

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

Financial performance, investor insights

Group Finance Director, Group Financial Controller, Group Tax Director, Group Investor Relations Director

Sectoral overviews

Managing Director of each Business

Legal and regulatory environment, Special Security Agreement

Group General Counsel

Risk and Assurance

Internal Audit Director, Group Financial Controller

Employees, Safety, Health and Environment

Group HR Director, Group ESG, Culture & Business Transformation Director

## Board diversity

At the end of last year, I reported that we had met the targets set by the Hampton-Alexander and Parker reviews concerning gender and ethnic diversity respectively. The successor to that review, the FTSE Women Leaders Review, has now adopted new voluntary minimum targets of increasing the level of women on boards and leadership teams to 40%, and also for one of the chair, senior independent director, chief executive or finance director roles to be held by a woman by the end of 2025. These new gender-based targets and the board ethnicity target, set previously by the Parker Review, are consistent with the targets adopted by the Financial Conduct Authority (FCA) in its new regulations on gender and ethnicity reporting.

During the year, the Committee reviewed and updated its policy on Board diversity and inclusion to reflect the progress made over the last few years, and also evolving stakeholder expectation as evidenced by the FTSE Women Leaders Review and the FCA's regulations. Our revised policy is shown opposite. You can see that we have adopted a gender target of 40% and a goal of at least one of the four key board positions being held by a woman.

Whilst we are not required to report against the new FCA regulations until next year, the Board has decided to do so on a voluntary basis, using 31 December 2022 as the reference date for this reporting (see page 139 for our disclosures using the standardised numerical table on diversity).

At present, women comprise 36% of the Board's membership; when I retire in May that will increase to 38%. With the appointment of Cressida Hogg as my successor, a woman will occupy one of the principal Board positions. We also continue to meet our objectives on ethnic diversity.

With regard to diversity, equity and inclusion in our senior leadership population, we have seen the number of women on the Executive Committee increasing to 4, 29% of the membership. Gender diversity is greater in the wider group formed of those executives reporting directly to an Executive Committee member, standing currently at 38%. For the combined Executive Committee, Company Secretary and their direct reports the level of gender diversity is 37%.

As a Company, we have set an ambition to be recognised as the leading employer in defence and security for valuing diversity, equity and inclusion, and to be representative of the localities in which we operate in terms of gender and ethnicity. This ambition and the range of actions being taken to achieve it (see page 73) is shaping the leadership pipeline that ultimately leads to the Board. It is work in progress but the Board is encouraged by the progress to date in increasing the level of gender diversity in our executive succession plans.

We recognise that further work is required in terms of ethnic diversity and the Company continues to evolve its inclusive practices in order to attract and retain diverse talent. To be in a position to report authoritatively on progress in increasing ethnic diversity across the countries we operate, we require voluntary self-identification disclosures from employees. Data privacy regulations differ across the territories in which we operate and, in certain countries, we are limited or unable to solicit, hold or use data regarding protected and personal characteristics. Whilst we continue to work towards creating an inclusive organisation, collecting diversity data and therefore monitoring and reporting on the improvements in ethnic diversity below the level of the Executive Committee is challenging.

## Board evaluation

The performance of the Board, its committees and individual directors was undertaken by an external facilitator, Independent Board Evaluation, at the beginning of last year. A number of actions were identified in the evaluation, and I can report the following in respect of the work we have undertaken this year to address these:

- **Succession planning** – as reported above, we have focused on executive succession planning and continue to make progress on this matter.
- **Culture** – the Board specifically considered culture during the year, including feedback received from employees on a range of matters. This is reported more fully on page 35.
- **Strategy** – the formation of the Innovation and Technology Committee (see page 157) has helped the Board develop its understanding of the key attributes and technologies required for our long-term success. Its approach has been to meet at our sites and engage with employees on how we organised to identify and develop technology in support of our strategic objectives. We are pleased with the contribution that this new committee has made, and after this positive start we look forward to it developing its activities further in future years.

- **Employee engagement** – the Board and ESG Committee were successful in increasing the level of employee engagement they were able to undertake during 2022. Further details of this can be found on pages 151 to 153.
- **Induction** – two new non-executive directors joined at the end of the year and their induction programmes are underway. With travel no longer restricted by COVID-19 regulations, these programmes include visits to the Company's principal sites in the UK and US. In addition, Board members visited a number of sites in 2022, which provided an opportunity for the directors that had joined in the previous two years to meet employees and learn more about the Company.

## Concluding comments

As I shall be retiring from the Board at this year's AGM, this is my last report to shareholders on the activities of the Nominations Committee. When I took on the role of Chairman back in 2014, I expanded the membership of the Nominations Committee to comprise all of the non-executive directors, as I believe that the group of directors charged with managing succession to a board needs to be as wide as possible. Therefore, a large part of the Board's membership has been engaged in identifying and meeting potential candidates for appointment.

I would like to thank members of the Committee, past and present, for the manner in which they engaged in the nomination process – all recognising how critical that is to any successful board and the overall success of the Company. Decisions on the executive leadership are particularly challenging. They require the non-executives on the Committee to exercise critical judgement and be bold in appointing candidates that can lead and take the Company forward. The success of the Company in recent years is, in part, due to the Committee showing those qualities.

Succession planning is an ongoing process. Those that have the good fortune to serve on boards recognise that they have their entrances – and ultimately their exits. I wish the Committee well in its future deliberations.

**Sir Roger Carr**  
Chair of the Nominations Committee



# Environmental, Social and Governance Committee report

**Jane Griffiths**  
Chair



## Members:

Nick Anderson  
Crystal E Ashby  
Nicole Piasecki  
Lord Sedwill

## Dear Shareholders

I am pleased to present the Environmental, Social and Governance (ESG) Committee report for 2022.

At the Company's ESG event last October, we provided shareholders with some insight into the work of the Committee and discussed the Group's progress against its ESG ambitions. Our Committee meetings span a breadth of ESG topics but the key areas of focus in 2022, particularly in light of the cost of living challenges facing employees, the communities in which the Group operates and the wider supply chain, were:

- increasing gender and ethnic diversity;
- progress of the Group's environmental ambitions; and
- employee engagement.

## Committee overview

Our individual biographies and summary of our collective experience as a Board can be found on pages 131 to 133.

The composition of the Committee has evolved to reflect changes to the Board membership during the year. Chris Grigg stepped down as a member of the Committee and we welcomed Lord Mark Sedwill to the Committee, following Dame Carolyn Fairbairn's retirement from the Board. I would like to thank Chris for his valuable and much-appreciated contribution during his tenure as a member of the Committee.

Committee meetings are attended by the Chairman of the Board, the Chief Executive, the Group Finance Director, the President and Chief Executive Officer of BAE Systems, Inc., the Group ESG, Culture & Business Transformation Director, the Group General Counsel and the Climate Resilience & Environment Director. Other senior executives are invited to attend meetings to provide the Committee with first-hand subject matter, views and expertise as required. During the year, we welcomed the creation of the Group ESG, Culture & Business Transformation Director, an Executive Committee position, that has further endorsed the commitment to delivering our ESG agenda.

The Committee met five times during the year, and after each Committee meeting I reported to the Board on the Committee's activities, key takeaways from conversations and, where relevant, offered specific recommendations.

Page 156 gives an overview of our key discussions in 2022 and this report is intended to give further context of these conversations. Further information on the role of the Committee and our Terms of Reference can be found on the Company website.

## Diversity, equity and inclusion

In order to fulfil the Group's commitment to create a diverse, equitable and inclusive working environment, we regularly review the progress against various diversity metrics and inclusion indicators. It was good to see the progress made against the Group's ambition to be recognised as a leading employer in the defence and security sectors for valuing diversity and inclusion, particularly in respect of increasing the gender diversity of the Executive Committee to gender parity by 2030. Women now account for 29% of the Executive Committee and, whilst there is further work to be done to meet this ambition, there is clear momentum which sets the 'tone from the top' for the broader organisation in regard to the value of diversity and inclusivity.

During the year, we heard from the Group ESG, Culture & Business Transformation Director and the Chief Diversity, Equity and Inclusion Officer on the progress of the Group's strategy to increase diversity and foster inclusive cultures. There are three main areas of continued focus:

- inclusive and visible leadership;
- refreshed recruitment practices; and
- broader awareness and training materials.

The Group has sought to create more inclusive employment opportunities through changes in how we recruit and define roles, for example ensuring a gender-neutral approach to advertising and, where possible, offering more flexible, shared and hybrid working options. Mandatory diversity, equity and inclusion awareness e-learning training has been created and rolled out to improve managerial awareness and encourage leaders to take proactive and visible steps to foster inclusive and diverse teams. We have also been made aware of how some individual employee narratives were being used to bring the value of diversity to life; the narratives were both powerful and extremely thought provoking.

The Group's performance on diversity, equity and inclusion is a non-financial component of the annual incentive plan for senior executives. These objectives operate as a downward underpin to the incentive, reducing incentive payment if performance is not at the expected levels. We believe this demonstrates that good performance in these areas is the expectation, rather than the exception.

The Committee sets, measures and determines the level of performance achieved against these objectives and makes a recommendation to the Remuneration Committee.

In 2022, the diversity, equity and inclusion objectives were:

- for UK/RoW, increasing gender and ethnic diversity particularly within early-career employees;
- for BAE Systems, Inc., increasing the representation of employees from a minority ethnic background in mid-management roles; and
- driving inclusion through training, leadership and demonstrating inclusive behaviours.

In 2022, there was a 1% increase in the number of women in the organisation.

The executive annual incentive plan includes the following objectives for 2023:

- increase gender diversity in mid-management grades;
- for UK/RoW, increase representation of employees from minority ethnic backgrounds;
- for BAE Systems, Inc., increase representation of employees from minority ethnic backgrounds in mid-management roles; and
- drive inclusion through training, leadership and demonstrating inclusive behaviours.

### Environment and climate transition

As outlined on page 124 of this Annual Report, the Group considers the potential impacts of climate change as one of its principal risks. The Board is responsible for the oversight of climate-related risks and opportunities and, as a Committee, we support the Board in monitoring the progress of the executive team in implementing an integrated, strategic approach to address climate transition risks and opportunities.

Our role is to oversee the Group's response to the impacts of the Group's activities on the environment, and its response to the potential impacts of climate change on the Group's current and future operations. Whereas the role of the Audit Committee, in respect of climate change and other

### Employee engagement framework

Hear from executives on employee matters such as safety, wellbeing, diversity and inclusion and company decisions that could impact employees.

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

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

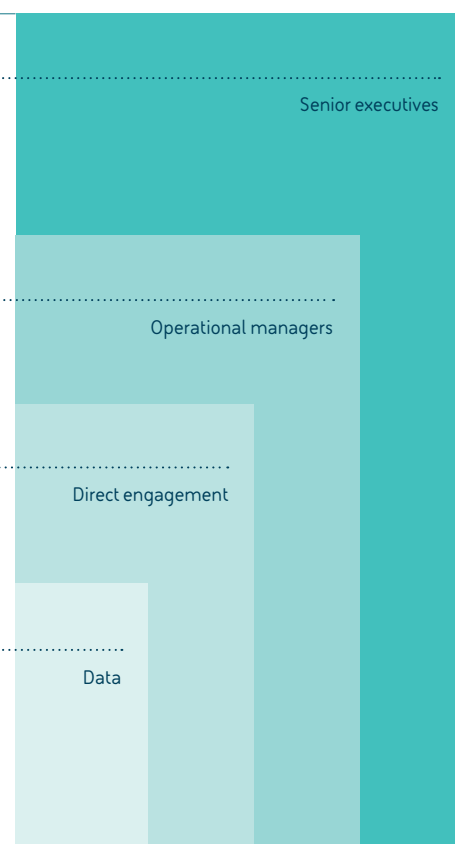
Direct engagement with groups of employees.

ESG matters, is to oversee the assurance framework, internal controls, activities and financial planning that relates to the Group's plans. Accordingly, we work closely with the Audit Committee on these matters, particularly in respect of ESG assurance and reporting in relation to the Task Force on Climate-related Financial Disclosures (TCFD).

Members of the executive team and senior executives (as detailed above) are invited to attend all meetings of the Committee, which helps us to effectively discharge our oversight duties through regular engagement and challenge on climate transition matters. In addition to dialogue with internal colleagues, and to build on the foundations of the prior year's training, the Board received further training from PwC and an update on climate risk.

The rich conversations during the session helped to further bolster our subject command and understanding of climate risk and TCFD, and provided clarity on the next steps for the Group.

Several times during the course of the year, we heard from the Climate Resilience & Environment Director on the progress of the net zero programme, particularly in relation to the Company's own operations (Scopes 1 and 2). We learned that a Group-wide transformation and governance programme had been established and implemented within the sectors. In support of these



programmes, operational models were created to include financial data, support risk assessments and identify renewable energy investment and self-generation opportunities. An exercise to homogenise data and improve the Group's rigour on data reporting had also been undertaken. As part of the Integrated Business Plan process, each sector has created roadmaps in order to make the Group's net zero ambition an integrated part of sector business planning.

We also heard from the Chief Procurement Officer and the Supply Chain Sustainability Director on the progress being undertaken in regard to the Group's supply chain.

In support of the Group's net zero ambitions, specific objectives were included in the senior executive annual incentive plan. As with the objectives regarding diversity, equity and inclusion, and safety, the Committee sets, measures and determines the level of performance achieved against these objectives and makes a recommendation to the Remuneration Committee. The 2022 environmental objectives were in regard to the creation of the net zero framework and roadmaps to achieve a reduction in Scope 1, 2 and 3 emissions in the timeframes committed by the Group. A fuller discussion on the incentive outcomes can be found in the Remuneration Committee report on pages 160 to 164.

Annual average EPS growth of 8.3% exceeded stretch requirement, and TSR of 63.5% was greater than the upper quintile of both the sectoral comparator group and the FTSE 100 group, resulting in the performance shares vesting at 100% of maximum. No adjustments to performance targets were made in respect of the impact of COVID-19.

Before confirming the vesting of any performance shares, the Committee considers the composition of EPS growth to ensure that any windfall profits are excluded, and any other one-off amounts are linked to genuine management endeavour, with the impact of currency exchange rate fluctuations (upwards or downwards) excluded by measuring EPS growth in constant currency.

The 2020 performance shares were granted in March 2020, adopting the standard practice of using the closing share price immediately prior to the date of grant. With volatility in global stock markets at that time due to the COVID-19 pandemic, the Committee considered if this approach may have resulted in a windfall gain for participants, and whether there should be a corresponding reduction in the number of shares vesting. In making their determination, the Committee considered share price movements in the 12-month periods before and after the March 2020 grant, and observed that there was no material difference in the grant prices between the March 2019 awards (485.0p), March 2020 awards (485.1p) and March 2021 awards (499.9p). The Committee was satisfied that the level of vesting and values for the 2020 performance shares remained appropriate in the context of the Company's underlying performance and share price history.

The share price at close on 31 December 2022 was 856.0p with that share price appreciation mostly attained during 2022. Consequently the total single figures of remuneration for executive directors include the value of the long-term incentive awards vesting in 2022 based on the three-month average year-end share price, notwithstanding that those shares will not be released in full until 2025, five years after grant.

The Committee has the ability to exercise its discretion to reduce formulaic outcomes if appropriate, but the Committee did not consider this necessary in respect of the 2022 pay outcomes. Accordingly, the Directors' remuneration policy, as approved by shareholders in 2020, operated as intended throughout 2022.

## Taking care of our people

Executive management remained active in 2022 in securing our employees' services and protecting their wellbeing in a period of high inflation. In the UK, actions included:

- securing support from our UK collectively bargained employees (c.27,000 UK employees) for a two-year pay deal, comprising a 6.75% salary increase in 2022 and a 6% salary increase with effect from 1 January 2023, with two £1,000 lump sum payments, one in 2022 and one in 2023, to help with the cost of living; and
- awarding salary increases to other employees averaging 6% for 2023, with two £1,000 lump sum payments, one in 2022 and one in 2023, for our mid-level non-collectively bargained employees.

Additionally, UK employees are eligible to receive company pension contributions, life insurance, income protection, health and wellbeing support through a flexible benefits platform, access to shopping discounts, the Employee Assistance Programme, a performance-related bonus, an annual award of free shares based on Group financial performance, and the opportunity to participate in and receive free matching shares.

Actions in the US included:

- awarding average salary increases of 5% for 2023, while addressing critical talent retention with additional off-cycle salary increases; and
- extending short- and long-term incentive plan participation to align with the competitive market practices.

## Remuneration policy review

It will be three years since our Directors' remuneration policy was last approved by shareholders in 2020, and therefore a new policy will be submitted for shareholder approval at the 2023 AGM.

During 2022, the Committee reviewed the approach to remuneration in the context of business strategy, investor guidelines, and the increasingly competitive external environment in which we operate. As part of its review, the Committee sought feedback from institutional investors and other stakeholders, and I am very grateful for all the responses and support received. The Committee considered various alternative approaches, and concluded that the core elements and structure of our current remuneration policy remain appropriate.

Therefore, the proposed new remuneration policy is very similar to the existing policy, except for some adjustments to bring our remuneration policy into line with the

competitive market. The proposed key changes are:

- Annual bonus for the Group Finance Director to increase from 160% to 200% of salary at maximum (from 80% to 100% of salary at target), to be better aligned with the external competitive market and closer to the bonus opportunity for the other executive directors (225% of salary at maximum).
- Long-term incentive performance share awards for the President and Chief Executive Officer of BAE Systems, Inc. to increase from 298% to 440% of salary from 2023, to be brought into line with the fiercely competitive US market in which we compete for talent.

In addition, the Committee has reviewed the performance measures for the performance share awards to ensure they remain aligned to our business goals.

Group EPS, cash flow and return on capital employed (ROCE) are key drivers of share price and shareholder returns, and will have higher weightings. TSR is influenced by external factors, but to ensure the executive team is incentivised to outperform peers regardless of prevailing market conditions, TSR will remain as a performance measure with a reduced weighting. This re-weighting of performance measures enables us to introduce a specific component based on the achievement of our environmental, social and governance (ESG) ambitions in line with our previous commitment.

ESG is important for our long-term financial sustainability, and will help position us for a future in which sources of energy and their associated costs shift rapidly, and where we must demonstrate alignment to key criteria for our customers' procurement decisions. The ESG metrics will be specific and measurable, and aligned where possible to external reporting frameworks. These will focus on goals that are most relevant to our financial sustainability and over which we have the greatest ability to make a near-term and ongoing difference, including the reduction of our environmental footprint.

A graphic illustrating the rebalancing of Long-Term Incentive Plan (LTIP) metrics is shown overleaf.

The proposed 2023 Policy being submitted for approval at the 2023 AGM can be found on pages 190 to 205.

Shareholders will additionally be asked to approve the BAE Systems Long-Term Incentive Plan 2023 at the 2023 AGM, the terms of which remain substantially the same as the existing BAE Systems Long-Term Incentive Plan 2014.

# Statutory and other information

## Company registration

BAE Systems plc is a public company limited by shares registered in England and Wales with the registered number 1470151.

## Directors

The current directors who served during the 2022 financial year are listed on pages 131 to 133. On 1 November 2022 Lord Mark Sedwill was appointed to the Board as a non-executive director and Cressida Hogg was appointed to the Board as a non-executive director and Chair designate. Dame Carolyn Fairbairn and Ian Tyler also served on the Board until 5 May 2022.

On 28 July 2022, the Company announced that Sir Roger Carr would retire from the Board and as Chairman at the conclusion of the Company's Annual General Meeting on 4 May 2023, and that Cressida Hogg would succeed him as Chair at the conclusion of that meeting.

## Dividend

An interim dividend of 10.4p per share was paid on 30 November 2022. The directors propose a final dividend of 16.6p per ordinary share. Subject to shareholder approval, the final dividend will be paid on 1 June 2023 to shareholders on the share register on 21 April 2023.

## Annual General Meeting (AGM)

The Company's AGM will be held on 4 May 2023.

## Certain information in the Strategic report

The following items are set out in the Strategic report on pages 1 to 127:

- disclosures in relation to the use of financial instruments;
- particulars of important events affecting the Group which have occurred since 31 December 2021;
- an indication of likely future developments in the business of the Group;
- an indication of the activities of the Group in the field of research and development;
- actions taken to introduce, maintain or develop arrangements aimed at employees;
- greenhouse gas emissions;
- employee engagement (including regard to employee interests and encouraging employees to be shareholders);
- fostering business relationships with suppliers, customers and others; and
- policy in relation to employment of disabled persons.

## 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, Energy and Industrial Strategy). 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.

## Profit forecast

In its Annual Report issued on 30 March 2022, the Group made the following statement in respect of the year ending 2021, which is regarded as a profit forecast for the purposes of the Financial Conduct Authority's Listing Rule 9.2.18:

"While the Group is subject to geopolitical and other uncertainties, the following guidance is provided on current expected operational performance. Guidance is provided on the basis of an exchange rate of \$1.38:£1, which is in line with the actual 2021 exchange rate, therefore guidance is the same for both reported and constant exchange rates.

For the year ending 31 December 2022, underlying EBIT is expected to increase in the range of 4% to 6%. Underlying earnings per share is expected to increase in the range of 4% to 6%."

Underlying EBIT was £2,479m in 2022. Underlying earnings per share was 55.5p in 2022.

## Political donations

No political donations were made in 2022.

## Issued share capital

As at 31 December 2022, BAE Systems' issued share capital of £82,445,460 comprised 3,297,818,342 ordinary shares of 2.5p each and one Special Share of £1. This figure includes 901,301 ordinary shares purchased under the share buyback programme immediately prior to the year end, but not yet settled at that point, which the Company deems to have been cancelled on purchase.

## Share buyback

During the year:

- 24,253,065 ordinary shares of 2.5p each were repurchased under the buyback programme of up to £500m announced on 29 July 2021 and such repurchased shares have been cancelled. The total consideration for the purchase of these shares, including commission and stamp duty, was £131,814,268; and
- 82,997,065 ordinary shares of 2.5p each were repurchased under the buyback programme of up to £1.5bn announced on 28 July 2022 and such repurchased shares have been cancelled. The total consideration for the purchase of these shares, including commission and stamp duty, was £663,842,889.

The percentage of called up share capital (excluding treasury shares) as at 31 December 2022, which the shares repurchased in 2022 represents, is 3.65%.

## Treasury shares

As at 1 January 2022, the number of shares held in treasury totalled 236,807,031 (having a total nominal value of £5,920,176 and representing 7.0% of the Company's called up share capital at 31 December 2021). During 2022, the Company used 16,720,072 treasury shares (having a total nominal value of £418,002 and representing 0.5% of the Company's called up share capital at 31 December 2022) to satisfy awards under the Free and Matching elements of the Share Incentive Plan (4,944,130 shares in aggregate), awards under the Free and Matching elements of the International Share Incentive Plan (560,098 shares in aggregate), awards vested under the Performance Shares element of the Long-Term Incentive Plan (4,277,781 shares), awards vested under the Restricted Shares element of the Long-Term Incentive Plan (1,560,388 shares) and options exercised under the Share Options element of the Long-Term Incentive Plan and Executive Share Option Plan (5,377,675 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. The 5,377,675 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 £27,207,673. As at 31 December 2022, the number of shares held in treasury totalled 220,086,959 (having a total nominal value of £5,502,174 and representing 6.7% of the Company's called up share capital at 31 December 2022).