

BAE Systems plc
Annual Report
2025



BAE SYSTEMS

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We partner with governments, industry peers and companies large and small to design, build and maintain advanced defence and security solutions. Investing in these partnerships means that, for decades, we have been trusted by governments to develop the next generation of defence and security capabilities.

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Our business at a glance

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

Our financial highlights

Financial performance measures as defined by the Group¹

Sales

£30.7bn

10% growth²

2024 £28.3bn / 2023 £25.3bn

Underlying earnings before interest and tax (EBIT)

£3,322m

12% growth²

2024 £3,015m / 2023 £2,682m

Underlying earnings per share (EPS)

75.2p

12% growth²

2024 68.5p / 2023 63.2p

Free cash flow

£2,158m

£347m lower

2024 £2,505m / 2023 £2,593m

Order intake

£36.8bn

£3.1bn increase

2024 £33.7bn / 2023 £37.7bn

Order backlog

£83.6bn

£5.8bn increase

2024 £77.8bn / 2023 £69.8bn

Financial performance measures as derived from IFRS³

Revenue

£28.3bn

8% growth

2024 £26.3bn / 2023 £23.1bn

Operating profit

£2,925m

9% growth

2024 £2,685m / 2023 £2,573m

Basic EPS

68.8p

6% growth

2024 64.9p / 2023 61.3p

Net cash flow from operating activities

£3,432m

£493m lower

2024 £3,925m / 2023 £3,760m

Order book

£63.1bn

£2.7bn increase

2024 £60.4bn / 2023 £58.0bn

Dividend per share

36.3p

10% growth

2024 33.0p / 2023 30.0p

1. The definition and purpose of all performance measures defined by the Group is provided in the Alternative performance measures section on page 216.
2. Growth rates for Sales, Underlying EBIT and Underlying EPS are on a constant currency basis (i.e. calculated by translating results from entities in functional currencies, other than pounds sterling, for the year ended 31 December 2024 to pounds sterling at the average exchange rate of such currencies for the year ended 31 December 2025). The comparatives have not been restated. All other growth rates and year-on-year movements are on a reported currency basis.
3. International Financial Reporting Standards.

We are a workforce of 111,400¹ highly skilled people in more than 40 countries. Working with our customers and local partners, we develop, engineer, manufacture and support products and systems that deliver military capability, protect national security and keep critical information and infrastructure secure.

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

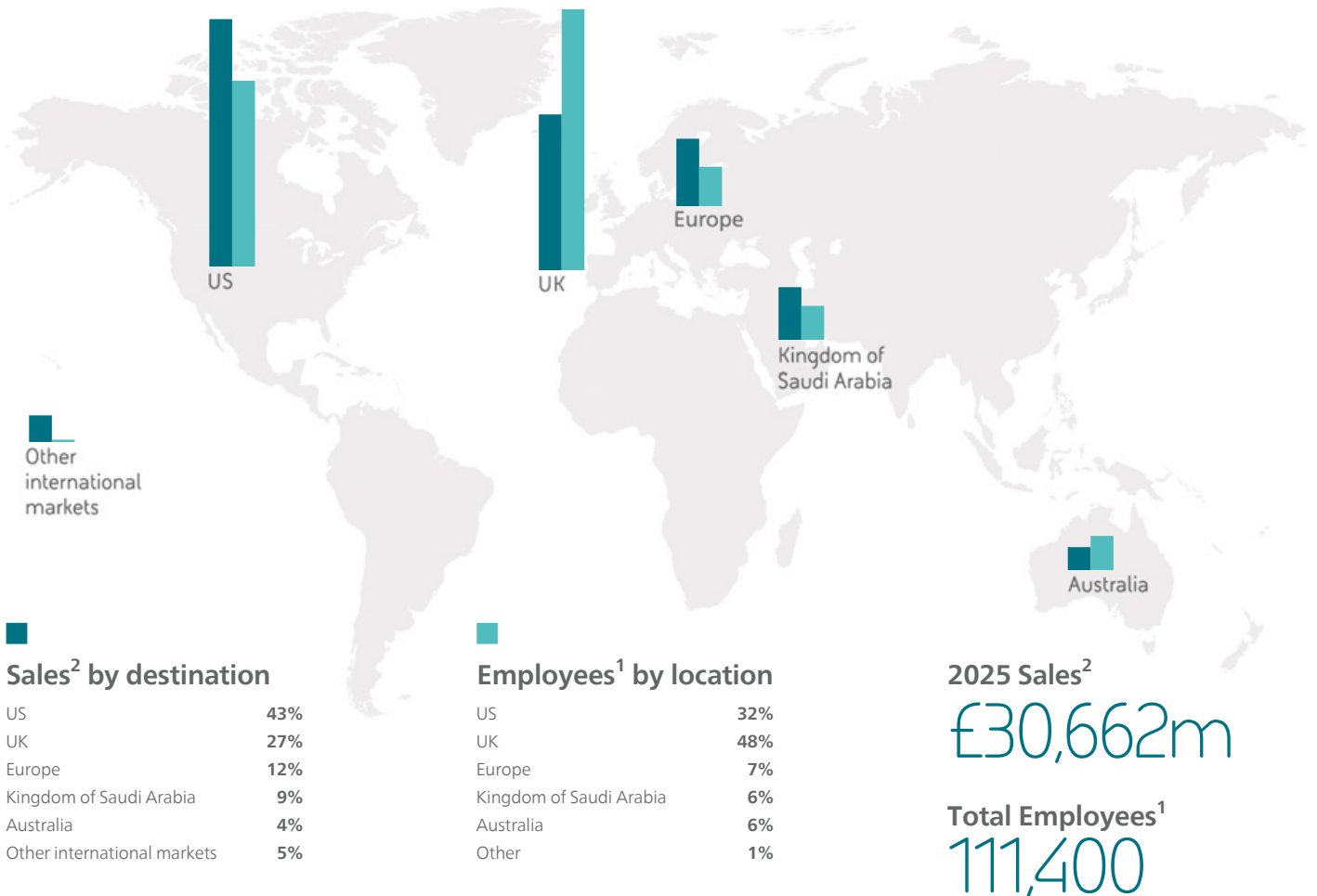
Through careful long-term management and governance of our business, we will continue to create value for our stakeholders.

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

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

At BAE Systems, everything we do is steered by our three core values: **trusted, innovative, bold.**

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



1. As at 31 December 2025 and including share of equity accounted investments.
 2. Sales is defined in the Alternative performance measures section on page 216. Total figure includes HQ and eliminations, see page 37.

Our sectors

We focus our operations in five¹ key sectors:

Electronic Systems

Electronic Systems comprises the Group's US- and UK-based electronics business and the US-based Space & Mission Systems business. Key capabilities span electronic warfare systems, navigation systems, electro-optical sensors, military and commercial avionics, precision guidance solutions and communications systems, as well as space electronics, spacecraft, ground and tactical systems.

[Read more on Page 38](#)

Sales²

£7,528m

Employees³

22,400



Platforms & Services

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

[Read more on Page 40](#)

Sales

£5,039m

Employees

12,100



Air

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

[Read more on Page 42](#)

Sales

£9,299m

Employees

30,600



Maritime

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

[Read more on Page 44](#)

Sales

£6,797m

Employees

31,900



Cyber & Intelligence

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

[Read more on Page 46](#)

Sales

£2,397m

Employees

10,500



1. The Group has five sectors which, together with HQ, make its six operating segments as defined by IFRS 8 Operating Segments.
2. Sales is defined in the Alternative performance measures section on page 216.
3. As at 31 December 2025 and including share of equity accounted investments. Total figure of 111,400 includes HQ employees of 3,900.

Platforms & Services photo credit: US Army

Our key programmes and franchises

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

Aircraft

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

Combat vehicles

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

Space

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

Weapon systems and munitions

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

Submarines

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

Complex warships

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

Intelligence and cyber security

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

Naval ship repair and support

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

Uncrewed and future air system capabilities

Development of future air system capabilities, including joint investment with the UK Government and industry in a next-generation combat air system under the Tempest programme. Comprehensive portfolio of military uncrewed air systems (UAS) and counter-UAS.

Commercial avionics equipment

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

Embedding environmental considerations

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

Air support and training

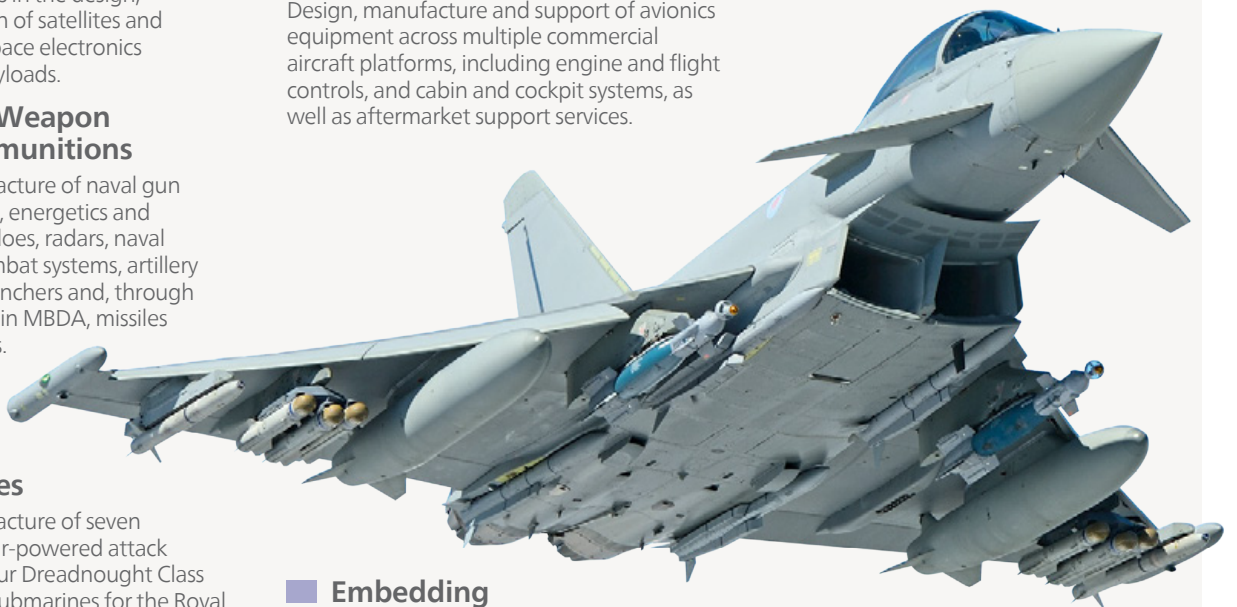
Provision of support to operational capability, including maintenance, upgrade, support and training for Typhoon, Tornado, Hawk and support for the F-35 Lightning II fleet around the globe.

Defence electronics

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

Eurofighter Typhoon

Typhoon is known for being a high-performance advanced fighter jet, in operation with nine air forces across the world, and has a reputation for its performance, reliability, availability and survivability.



Max. Speed:	Mach 2+ (approx. 2,495 km/h)
Max. Altitude:	55,000 ft
Length:	15.96 metres
Wingspan:	10.95 metres
Height:	5.28 metres
Engines:	Two Eurojet EJ200 turbojets
Thrust:	180 kN (with afterburner)

Chair's letter



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On every site visit, we create an opportunity for the Board to meet informally with colleagues at all levels. This is an excellent way for the Board to develop a deeper understanding of corporate culture and how management are addressing issues.

Cressida Hogg CBE
Chair



Dear Shareholders

As you will see from the results presented in this Annual Report, this has been another busy year for your company, with strong operational and financial performance.

During the year, against a backdrop of geopolitical uncertainty, there has been heightened news flow and commentary around national security and defence issues. While governments' plans to increase national spending on defence may create supportive market conditions for our sector looking forward, this year the performance of the Group has largely been underpinned by existing contracts and the long-term programmes that we have with key customers.

The Board has been especially pleased that several major initiatives and international programmes have reached significant milestones. In October, the UK Government announced an agreement with the Government of Türkiye for the purchase of 20 Typhoon aircraft and an associated weapons and integration package. We are proud that Türkiye will become the tenth country to become part of the Eurofighter Typhoon programme.

The decision by Norway to select the Type 26 frigate for its armed forces is an exciting step in our warship programme, underpinning our manufacturing operations in Scotland for years to come. This will add another country to this global programme, following orders from the UK and Australia, while Canada has selected the design for its River Class destroyer programme. In Europe, our Hägglunds business has been increasing capacity to manage production for several orders for CV90 armoured vehicles, which continue to show the durability and popularity of this product.

In the US, BAE Systems, Inc. has secured significant new orders. It was especially pleasing for our Space & Mission Systems business, which we acquired in 2024, to secure a \$1.2bn (£0.9bn) US Space Systems Command contract for the Resilient Missile Warning & Tracking – Medium Earth Orbit Epoch 2 programme. Our US colleagues are working closely with others in the defence industry as momentum continues to build regarding the US Government's plan for the Golden Dome missile defence system.

As Chair, I always enjoy joining our colleagues and customers to celebrate production milestones.

This year, we celebrated important progress in key programmes. In March, we celebrated the keel laying for HMS Dreadnought. In May, we held the naming ceremony for HMS Glasgow, the first in class of the UK's Type 26 programme and, in September, we marked the commissioning of HMS Agamemnon, the UK's newest attack submarine, into the Royal Navy in Barrow-in-Furness. We welcomed many guests and partners to the three ceremonies, who had a chance to engage with the colleagues and community representatives who are so important to the delivery of our key programmes.

Our strategy

Our strategy, to be a leading defence and security company providing products and services to customers in our home markets and internationally, remains unchanged. As a business, we continue to be proud that through our work we protect those who protect us.

A central part of the Board agenda during the year is crafted around discussing the Company's ongoing strategy. For example, the Board has a structured programme for developing its understanding of market and competitor dynamics.



Governance

New reporting requirements included within the 2024 UK Corporate Governance Code prompted a review of the frameworks used to provide the Board with confidence that the governance systems and material controls are effective. As part of its standing annual agenda, the Board reviewed and approved updates to the core policies and processes that underpin these frameworks to ensure that they reflect the requirements outlined within Provision 29 of the Code.

As discussed in more detail in the Governance report on page 103, we are evolving how the Board reviews technology and IT. The fast-moving environment and increasing importance of technology to our business means that we are including the whole Board in key discussions going forward and disbanding our Innovation and Technology Committee, replacing it with deeper full Board discussions on a regular basis.

Board changes

Towards the end of the year, Dame Elizabeth Corley stood down from the Board after nearly ten years as a director. The Board will miss her intellect, deep corporate understanding, common sense and personality. As a member of the Board and many of its committees, she has made a great contribution to the development and governance of your company. We wish her well in future roles.

In September 2025, we announced the appointment of John Pettigrew CBE to the Board. He joins on 23 February 2026. John brings a depth of experience as a recently retired long tenure FTSE 20 chief executive. His understanding of long-term projects and government relationships, and his international experience, will be especially valuable and we look forward to working with him.

In closing, I would like to thank my colleagues across the Group for their work in 2025. This has been a very strong year for your company, underpinned by the focus, commitment and culture of our colleagues. I would like to thank everyone across the business for their contribution.

Cressida Hogg CBE
Chair

Our people and culture

Our early careers programmes continue to be a central part of our skills and workforce planning, ensuring we have the necessary skills required for the future.

Since 2020, we've recruited more than 10,000 apprentices, graduates and undergraduates in the UK and invested over £1bn in education and skills, playing a key role in strengthening the national industrial skills base, while contributing to local and national economic development. Board visits always include the opportunity to meet with some of the new joiners and I am consistently impressed and excited by the quality of people we recruit.

On every site visit, we create an opportunity for the Board to meet informally with colleagues at all levels to discuss topical issues and hear a range of views. This is an excellent way for the Board to develop a deeper understanding of corporate culture and how management are addressing issues. It also helps our colleagues better understand the work of the Board and our governance framework.

Capital allocation

This year the Board has continued its focus on capital allocation. Capital allocation is a key part of the IBP approved by the Board each year, a necessary balance between the amount of re-investment and capital expenditure needed for our programmes, ongoing research and development (R&D) and capital returned to shareholders. Over the last year, we have invested around £1.0bn in capital expenditure and £0.4bn in self-funded R&D. The Board has recommended a final dividend of 22.8p per share, bringing the total dividend for 2025 to 36.3p. This is an increase of 10% on last year, and the 22nd year of dividend growth for your company. During the year, we have also continued our share buyback programme, which has been well received by shareholders.

As the future of defence and security evolves, and the impact of Artificial Intelligence (AI) increases, our product portfolio needs to be fit for the future. The evolution of defence strategy and the pace of product innovation mean that our key markets are evolving. The Group's success has been built on delivering core programmes for customers while, at the same time, being prepared to offer products for future needs. Our deep relationships with our core customers are central to the collaborative development of future capabilities.

This year, we augmented our boardroom sessions on strategy with visits to several of our sites, including a drone manufacturing facility. This gave directors the opportunity to see product innovation in practice. We also conducted two in-depth sessions on cyber security and technology, a key part of the Group's operational resilience. Such sessions are helpful in augmenting the in-depth strategy discussions that the Board holds twice a year, in preparation for approving the Company's Integrated Business Plan (IBP).

Chief Executive's review



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By focusing on operational excellence and innovation, we have consistently delivered cutting-edge technologies, helping our customers stay ahead of evolving threats.

Charles Woodburn CBE
Chief Executive



Overview

Around the world, threats to national security continue to grow. This is driving governments to increase defence spending, as they seek to ensure armed forces are equipped to protect their nations and deter future aggression.

For decades, governments have placed trust in us to deliver their defence and security capabilities. By focusing on operational excellence, innovation and developing our people, we have consistently delivered cutting-edge technologies, helping our customers stay ahead of evolving threats across land, sea, air, cyber and space.

This approach helped us achieve another year of strong operational and financial performance in 2025. Our highly relevant portfolio means we are well positioned to continue supporting our customers.

Higher defence spending commitments across NATO are leading to increased demand across most of our markets and domains. So, we are investing in our business to ensure we have the capacity and capability to meet our customers' evolving needs.

Our achievements in 2025 are a testament to the dedication of our people, whose focus on protecting those who protect us remains at the core of everything we do.

ORDER BACKLOG

£83.6bn

2024 £77.8bn / 2023 £69.8bn

Delivering for our customers

We design, build and maintain cutting-edge defence and security capabilities for our customers.

Our relentless focus on operational excellence supports consistent delivery on critical long-term programmes like submarines, frigates, combat aircraft, combat vehicles and electronic warfare systems, which form the backbone of our customers' defence capabilities.

Notable achievements this year include the keel laying of HMS Dreadnought and supporting the Royal Navy's Carrier Strike Group deployment, as well as delivery of the final two Typhoon aircraft to the Qatar Emiri Air Force and the 500th AMPV to the US Army.



We made good progress on key strategic international collaborations. Together with our industry partners in Italy and Japan, we launched our new joint venture, Edgewing, to design and develop next-generation combat aircraft under the Global Combat Air Programme (GCAP). Working alongside ASC Pty Ltd, we also started initial mobilisation activities to support the delivery of the SSN-AUKUS fleet of conventionally armed, nuclear-powered submarines for the Royal Australian Navy.

Our financial performance

We delivered a strong financial performance, exceeding the upgraded guidance we gave at the half year across our underlying EBIT, underlying EPS and free cash flow targets. Sales came in at the higher end of our guidance range.

On a constant currency basis, we grew sales by 10% to a record £30.7bn, while increasing underlying EBIT by 12%, generating a return on sales of 10.8%. We delivered £2,158m of free cash flow, taking our three-year cumulative free cash flow to more than £7bn, comfortably ahead of our three-year guidance of £6bn for the period from 2023 to 2025.

It was a very active year for discussions with customers to address their evolving defence needs. Order intake momentum was positive, with £36.8bn of work secured, lifting our order backlog to £83.6bn. This reflects strong

demand for the portfolio of cutting-edge technologies and services we offer and enhances the forward visibility of our business.

We ended 2025 with a strong balance sheet, with net debt (excluding lease liabilities) falling 22% to £3,844m, which equates to 0.9x underlying EBITDA.

We continue to invest in our business to support organic growth and capacity expansion for key programmes. Our strong financial position allows us to implement all parts of our capital allocation policy.

RETURNS TO SHAREHOLDERS

£1,529m

2024 £1,492m / 2023 £1,418m

Investing in tomorrow

Investing in our people, technologies and facilities is essential to ensure we maintain the agility needed to anticipate and address the evolving threats our government customers face.

We grew our global workforce by 4,000, including more than 2,500 early careers employees in our key markets to sustain our talent pipeline.



Type 26 frigate

In a significant development for European collaboration, Norway selected our Type 26 frigate in August for its future warship procurement programme.

The £10bn government-to-government agreement paves the way for the UK's largest ever warship export deal by value. Providing a major boost for UK shipbuilding, this landmark achievement will sustain thousands of jobs in Scotland and across the UK supply chain well into the next decade.

The agreement followed the official opening of the Janet Harvey Hall earlier in the year. Enabling the simultaneous construction of two Type 26 vessels side-by-side under cover, this state-of-the-art facility enhances production efficiency and enables us to deliver advanced warships at pace for the UK and its allies.

As announced, under the defence cooperation agreement, Norway will operate at least five Type 26 ships alongside the Royal Navy's eight vessels. Hailing the deepening of a long-term strategic relationship between the UK and Norway, the combined fleet of 13 anti-submarine warfare frigates will detect, classify, track and defeat hostile submarines – significantly reinforcing NATO's northern flank.

Chief Executive's review *continued*

We increased our self-funded R&D to £407m and continue to collaborate with partners and academia to drive innovation that will keep our customers ahead of evolving threats. Key areas of focus include technologies like electronic warfare, uncrewed systems, counter drone systems, laser-guided weapons, synthetic training, electrification applications and space solutions. Highlights include developing a low-cost, drone-based strike capability using precision-guided munitions in just four months and deploying the same platform to transport vital supplies between UK carrier strike group ships, demonstrating its versatility.

After record capital expenditure in 2024, we maintained our high levels of investment and spent around £1.0bn in the year to improve our systems and facilities to enhance efficiency and capacity to meet the elevated global demand. Notable investments included our new shiplift and land-level repair complex at our shipyard in Jacksonville, Florida, our new

ship build assembly hall in Glasgow and a new artillery factory in Sheffield, all of which became operational in the year.

We recognise there is always more that can be done and we are continuing to focus on boosting production capacity, while driving productivity improvements and cost efficiencies, to ensure we deliver for our customers now and into the future.

Our capital distribution

Our disciplined approach to capital allocation, underpinned by the Group's strong performance and positive outlook, has enabled us to continue delivering returns to shareholders. After investments in our people, technologies and capital expenditure, we returned £1,529m to shareholders during the year. The Board has proposed a final dividend of 22.8p, subject to shareholder approval at the 2026 Annual General Meeting (AGM), bringing the total dividend for 2025 to 36.3p — an increase of 10% over the prior year.

Our market differentiation

Our business has a unique combination of highly innovative capabilities, a diverse geographic footprint and a multi-domain portfolio. We believe our advanced technologies, deep domain expertise and global reach position us as an industry leader, enabling us to support customers in addressing the heightened threat environment today and into the future. This breadth remains a core strength and a differentiator for our business.

Looking ahead, our key growth drivers are spread across major markets and include multi-national endeavours, such as GCAP and AUKUS, which highlight the scale, global reach and longevity of our operations. Combined with our focus on faster-paced disruptive technologies and the seamless integration of these systems, we are well positioned for growth for many years to come.



Typhoon

In October, the Typhoon programme reinforced its standing as one of the UK's most successful defence exports when Türkiye announced it would become the aircraft's tenth operator.

The deal, anticipated to be worth £4.6bn to BAE Systems, marks a new chapter in our longstanding relationship with this important NATO ally.

Ensuring UK Typhoon production continues into the 2030s, the contract provides a vital bridge towards production of Tempest, the UK's next-generation fighter jet, which we are developing with our GCAP partners.

Under the agreement with the UK Government, Türkiye will acquire 20 Typhoon aircraft, boosting NATO

interoperability as it joins the UK, Germany, Spain, Italy, Austria, Oman, Qatar, Kuwait and the Kingdom of Saudi Arabia as an operator of this world-class aircraft.

Typhoon production sustains more than 20,000 jobs across the UK and delivers substantial economic returns, with the original £12bn government investment, having already generated more than £30bn for the UK economy.



US missile defence priority

Space superiority has emerged as a critical component in global defence strategies, prompting decision-makers to focus on the rapid development of advanced space-based capabilities to deter and counter evolving threats. The US Government has prioritised the deployment of a next-generation missile defence shield to achieve a strategic advantage in space and maintain national security.

In May, we secured a \$1.2bn (£0.9bn) prime contract for the US Space Forces' Resilient Missile Warning and Tracking Medium Earth Orbit Epoch 2 programme. Under this landmark award, we will deliver a constellation of satellites to provide comprehensive, space-based missile warning and tracking capabilities around the world to empower swift and effective decisions in high-stakes scenarios.

By using the Trek variant of our Elevation™ product line, the satellites can be produced more affordably and at scale with high-performance manoeuvrability and onboard data processing. By developing the spacecraft bus and payloads, and managing ground support, operations and sustainment, we are leveraging our capabilities to deliver end-to-end mission solutions for the military space market.

Responsible business

We support our government customers in their primary responsibility to keep citizens safe, while contributing to the economic and social development of the communities where we operate.

Our people are central to everything we do, making it essential that we attract and retain top talent to meet our customers' needs and support our long-term growth. We invest in the development of our people's skills at every stage of their careers and relentlessly focus on their safety, health and wellbeing.

Across all our operations, maintaining the highest standards of conduct is at the core of how we do business, enabling us to operate in a highly regulated environment with strict regulations and applicable trade controls.

Summary

As you will see throughout this report, we delivered strong operational and financial performance in 2025, achieving significant milestones in advancing cutting-edge defence and security solutions.

Throughout the year, we remained focused on supporting our customers and the communities we serve, while navigating a rapidly changing global landscape.

Our commitment to innovation, collaboration and delivering value to our stakeholders has never been stronger.

I want to thank our talented teams around the world, along with our partners, suppliers and trade unions, for their dedication to delivering for our customers. These efforts ensure we remain at the forefront of technological advancements that protect and empower nations.

I also thank our shareholders for your continued support of the Group. We look forward to another productive year in 2026.

As we reflect on our achievements, we look ahead to 2026 with confidence, ready to embrace future opportunities and challenges, while remaining focused on our mission to protect those who protect us.

Charles Woodburn CBE
Chief Executive

Feature

Merging mobility and might

We designed the CV90 with a clear vision: to create a vehicle that provides high tactical and strategic mobility, air defence, anti-tank capability, high survivability and protection across terrains and tactical environments.

Our CV90120 is an innovation that combines the CV90's mobility and versatility with the firepower of a main battle tank. Designed to enhance combat capability while simplifying logistics through a common platform, it offers a powerful, cost-effective solution with increased firepower, protection and mobility.

Today's militaries need vehicles that combine heavy firepower with tactical mobility for rapid deployment and complex manoeuvres. The CV90 120MkIV rises to the challenge by integrating Rheinmetall's 120mm L44A1 Low Recoil weapon system onto our advanced, agile CV90MkIV chassis.

The 120mm gun delivers exceptional performance and is compatible with all NATO-standard rounds, including programmable high-explosive and enhanced kinetic energy munitions. The CV90 platform features an upgraded engine, heavy-duty transmission, active damping and an Active Protection System, ensuring speed, survivability and firepower. For nations already operating CV90s, the common platform simplifies training, logistics and maintenance, delivering both strategic and economic advantages.



We have 17 contracted variants of the CV90 in service across 10 nations:

Denmark, Estonia, Finland, Norway, Sweden, Switzerland, the Netherlands, Czechia, Slovakia and Ukraine.



Vehicles sold
+1,900

R&D hours invested
8 million

Different CV90 variants currently in service
17



Our business model

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

Our people

A. Identifying customer needs

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

B. Research & development

- Technology and innovation underpin our strategic direction, the evolution of current franchises and the development of new products and services.
- We partner with academic and industry leaders to develop new technologies that differentiate these products and services.
- We invest in the development of new products to meet our customers' current and future operational needs.

C. Bidding and contracting

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

D. Design and developing

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

E. Advanced manufacturing, commissioning and integration

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

F. Services, sustainment and upgrade

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

➤ Read more on Page 50

Our technology

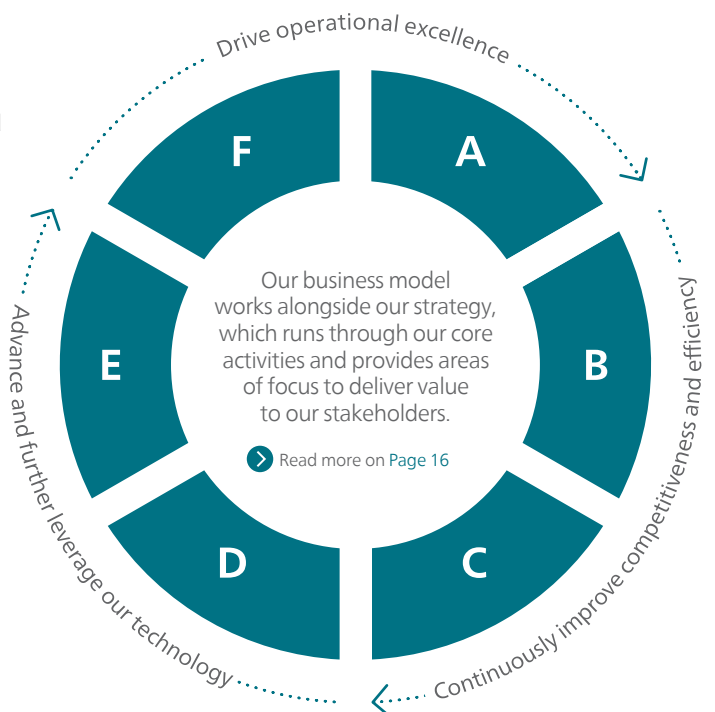
➤ Read more on Page 24

Our partners and key suppliers

➤ Read more on Page 85

Our governance framework

➤ Read more on Page 82



Creating value

Disciplined capital allocation

We operate with a value-enhancing model, undertaking our core business activities with a clear, consistent and careful capital allocation to ensure operational performance and retain balance sheet strength.

Investment in our business is critical to our success

As a responsible business, we prioritise investments in our technology, people, partners and facilities. We seek successful outcomes for our customers, while fuelling technological innovation and creating value for all our stakeholders, including within the communities and environment in which we operate.

Research, design and development activities

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

R&D spend¹

£3.2bn

2024 £2.7bn²

Capital investment

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

Capital Expenditure

£1.0bn

2024 £1.0bn

Investment in our people

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

Apprentices, undergraduates and graduates in the UK

6,800

2024 6,500

Leading to consistent and solid cash conversion

Free cash flow

£2,158m

2024 £2,505m

Dividends

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

Total dividend per share

36.3p

2024 33.0p

Mergers and acquisitions

In the period from 2020 to 2025, we invested over £6.0bn in M&A, including the £4.4bn acquisition of Ball Aerospace in 2024.

M&A investment

£6.0bn

Share buybacks

We have continued with the up to £1.5bn share buyback programme, which was announced in August 2023, with 9% of share capital acquired.

Value of shares purchased

£502m

2024 £555m

1. Customer and company-funded.

2. 2024 value restated. See note 3 of the Financial Statements on page 154.

Our strategic framework



Our strategy in action

Accelerating possibilities

FalconWorks® is our advanced research and technology hub leading the Group's UAS strategy within our Air sector. As one of the leading designers, developers and suppliers of military UAS in Europe, our FalconWorks division has developed a comprehensive and fast-evolving range of cutting-edge uncrewed capabilities.

Our UAS portfolio is a testament to the power of collaboration and innovation. Leveraging our expertise, R&D investment and strategic acquisitions, along with academic, SME (small and medium-sized enterprise) and specialist supplier collaborations, we have created a range of core vehicle categories designed to offer customers cost-effective choice and variable payloads.

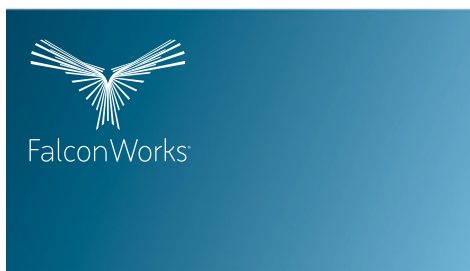
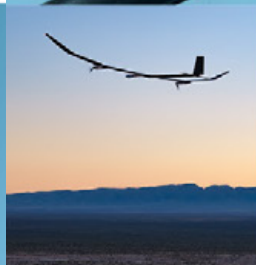
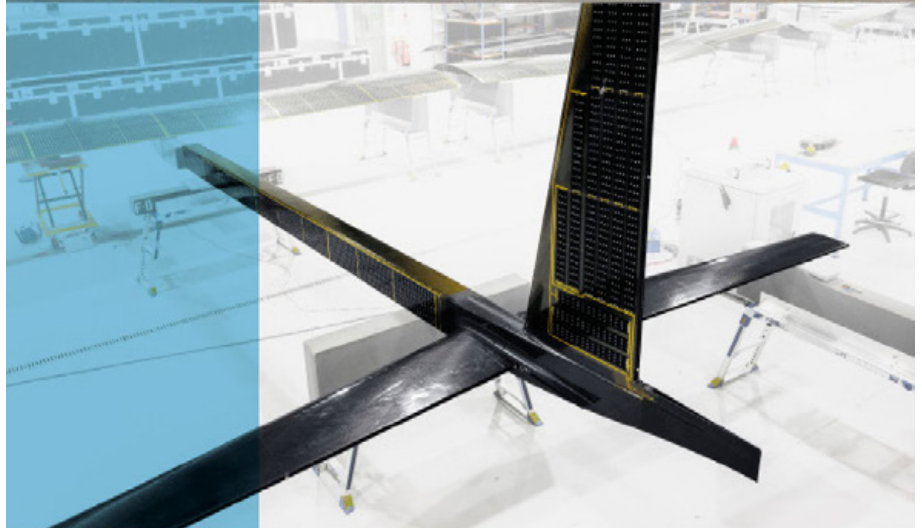
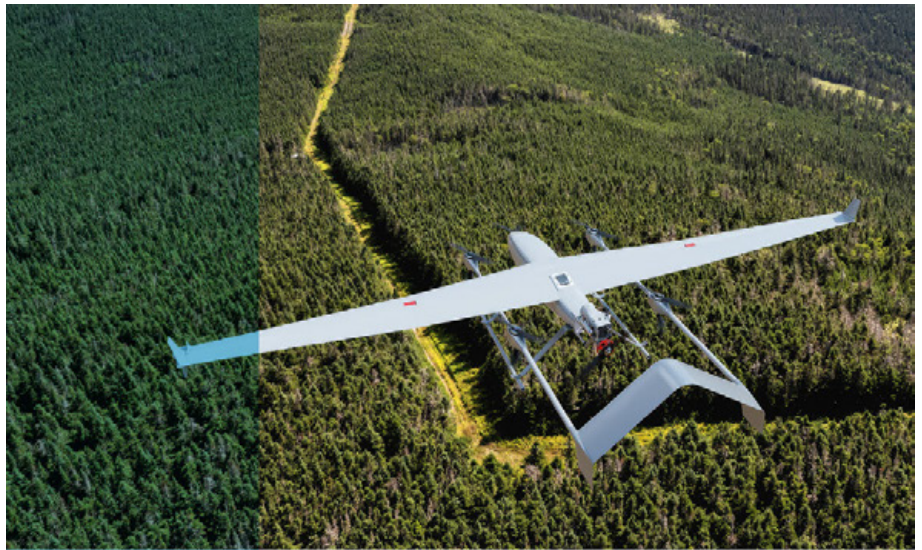
By bringing specialist companies like Malloy Aeronautics, Prismatic and Callen-Lenz into our portfolio, we are accelerating the development of next-generation capabilities that will help shape the future of air power. We seek to retain their agility and creativity, while unlocking access to our engineering expertise, manufacturing know-how and funding support to help them achieve their full growth potential.

Prismatic specialises in solar-electric High Altitude Pseudo Satellite UAS, offering a cost-effective and persistent alternative to conventional satellite, airborne sensing and communication systems.

Callen-Lenz designs, develops and manufactures novel UAS. Drawing on over 18 years of extensive experience across military and civil domains, Callen-Lenz delivers innovative technical solutions and plays a leading role in advancing autonomous technology.

Malloy Aeronautics is a leading developer and manufacturer of all-electric Vertical Take-Off and Landing heavy-lift UAS, including demonstrated strike capability.

FalconWorks is delivering innovative, agile and cost-effective solutions that meet the evolving needs of our customers.



Our key performance indicators

Our key performance indicators (KPIs) are aligned to business strategy and are used to actively monitor performance.

Links to executive remuneration

Executive directors' annual and long-term incentives are assessed using a combination of the Group's KPIs and other objectives designed to meet the Group's strategy. Metrics, which are both financial and non-financial, are determined and weighted

according to business priorities and may be structured as targets to be achieved, or underpins to targets which, if not achieved, would reduce payouts. 75% of annual incentive targets relate to financial metrics aligned with long-term earnings and cash targets.

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

[Remuneration report Page 112](#)

Financial¹

Sales	Underlying EBIT	Underlying EPS	Free cash flow																																
<p>1 2 3 4 5 6</p> <p>Purpose Enables management to monitor the revenue of both the Group's own subsidiaries as well as recognising the strategic importance in its industry of its equity accounted investments, to ensure programme performance is understood and in line with expectations.</p> <table border="1"> <tr><th>Year</th><th>Sales (£m)</th></tr> <tr><td>2023</td><td>25,284</td></tr> <tr><td>2024</td><td>28,335</td></tr> <tr><td>2025</td><td>30,662</td></tr> </table> <p>Progress in 2025 Sales increased 10%, on a constant currency basis, with all our operating segments seeing growth in the year. Both our Platforms & Services and Maritime segments recorded double-digit growth at 17% and 11%, respectively. Our Air segment rose by 9% and Electronic Systems grew by 8%. Finally, our Cyber & Intelligence segment recorded growth of 2%.</p>	Year	Sales (£m)	2023	25,284	2024	28,335	2025	30,662	<p>1 2 3 4 5 6</p> <p>Purpose Provides a measure of operating profitability, excluding one-off events or adjusting items that are not considered to be part of the ongoing operational transactions of the business, to enable management to monitor the performance of recurring operations over time and which is comparable across the Group.</p> <table border="1"> <tr><th>Year</th><th>Underlying EBIT (£m)</th></tr> <tr><td>2023</td><td>2,682</td></tr> <tr><td>2024</td><td>3,015</td></tr> <tr><td>2025</td><td>3,322</td></tr> </table> <p>Progress in 2025 Underlying EBIT increased 12%, on a constant currency basis, and our return on sales of 10.8% represented 20bps of expansion. The largest gains in underlying EBIT came from our Platforms & Services segment, with 30% growth. Electronic Systems, Air and Cyber & Intelligence all recorded double-digit growth in underlying EBIT. The decrease of 3% in underlying EBIT in our Maritime segment reflected the early-stage maturity of the portfolio.</p>	Year	Underlying EBIT (£m)	2023	2,682	2024	3,015	2025	3,322	<p>1 2 3 4 5 6</p> <p>Purpose Provides a measure of the Group's underlying performance, which enables management to compare the profitability of the Group's recurring operations over time.</p> <table border="1"> <tr><th>Year</th><th>Underlying EPS (p)</th></tr> <tr><td>2023</td><td>63.2</td></tr> <tr><td>2024</td><td>68.5</td></tr> <tr><td>2025</td><td>75.2</td></tr> </table> <p>Progress in 2025 Underlying EPS increased 12%, on a constant currency basis, after accounting for the Group's underlying net finance costs and tax.</p>	Year	Underlying EPS (p)	2023	63.2	2024	68.5	2025	75.2	<p>1 2 3 4 5 6</p> <p>Purpose Provides a measure of cash generated by the Group's operations after servicing debt and tax obligations, available for use in line with the Group's capital allocation policy.</p> <table border="1"> <tr><th>Year</th><th>Free cash flow (£m)</th></tr> <tr><td>2023</td><td>2,593</td></tr> <tr><td>2024</td><td>2,505</td></tr> <tr><td>2025</td><td>2,158</td></tr> </table> <p>Progress in 2025 Free cash flow of £2,158m reflected strong operational cash conversion combined with material cash advances being received late in the year, offset by high investment in capital expenditure and R&D.</p>	Year	Free cash flow (£m)	2023	2,593	2024	2,505	2025	2,158
Year	Sales (£m)																																		
2023	25,284																																		
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2024	2,505																																		
2025	2,158																																		

[Our financial review Page 30](#)

[For more detail on the movement in underlying EPS in the year see Page 33](#)

1. The definition and purpose of all performance measures defined by the Group are provided in the Alternative performance measures section on page 216.

Links to strategy

- 1 Sustain and grow our defence business
 - 2 Continue to grow our business in adjacent markets
 - 3 Develop and expand our international business
 - 4 Inspire and develop our workforce to drive success
 - 5 Enhance financial performance and deliver sustainable growth in shareholder value
 - 6 Advance and integrate our sustainability agenda
- > Our strategic framework Page 16

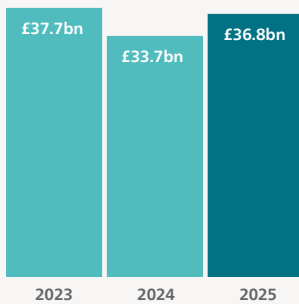
Non-financial

Order intake

- 1
- 2
- 3
- 4
- 5
- 6

Purpose

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



Progress in 2025

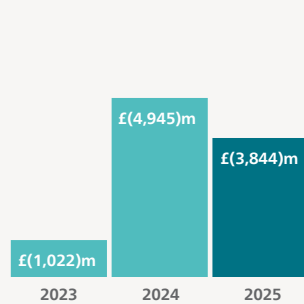
Order intake was strong in 2025, maintaining the positive performance of recent years and reflects the continued relevance of our diverse geographic footprint and multi-domain capabilities.

Net debt (excluding lease liabilities)

- 1
- 2
- 3
- 4
- 5
- 6

Purpose

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



Progress in 2025

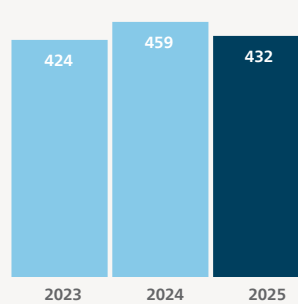
During the year, net debt (excluding lease liabilities) decreased by £1,101m to £3,844m, with the key drivers being free cash generated of £2,158m, offset by £1,529m of shareholder returns. The significant increase in 2024 primarily reflected the \$5.5bn (£4.4bn) acquisition of Ball Aerospace, which was funded through debt finance and existing cash reserves.

Recordable accident rate (per 100,000 employees)

- 1
- 2
- 3
- 4
- 5
- 6

Purpose

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



Progress in 2025

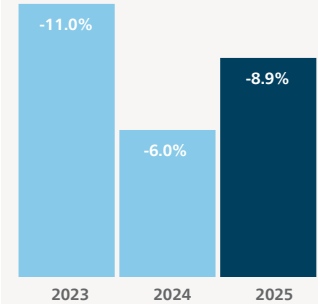
The overall safety performance of our operations improved with our recordable accident rate decreasing by 6%.

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

- 1
- 2
- 3
- 4
- 5
- 6

Purpose

Our decarbonisation strategy supports our near-term absolute GHG reduction target across our operations (Scopes 1 and 2) by 2030 and is underpinned by an annual target to reduce operational GHG emissions by 4.2%.



Progress in 2025

In 2025, we achieved a GHG emissions reduction of 8.9%.

> For details of significant orders in the year see Page 33

> For further details of the movement in net debt (excluding lease liabilities) see Page 34

> Safety, health and wellbeing Page 52

> Climate and the environment Page 56

Our investment proposition

We focus on careful long-term management and governance of our business to deliver value for all our stakeholders. We have a strong track record of delivering financial returns for investors. We are poised for long-term growth in sales and profitability based on robust end markets, our operating model and the strategic actions we are taking, presenting a compelling investment case for current and prospective investors.

Our seven key advantages

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

[Read more Page 22](#)
- 2**
We undertake **multi-decade programmes** with long-term embedded value. Our **contract order backlog** provides a high level of sales visibility, driven by multi-year programmes.

[Read more Page 21](#)
- 3**
We have a **growing global opportunity pipeline**. Our **diverse geographic footprint** supports us in pursuing excellent opportunities across all sectors as countries around the world face up to the multi-faceted threat environment.

[Read more Page 21](#)
- 4**
We foster a high-performance innovative culture and consistently invest in R&D to build on existing world-leading capabilities and generate **new innovative and disruptive technologies**.

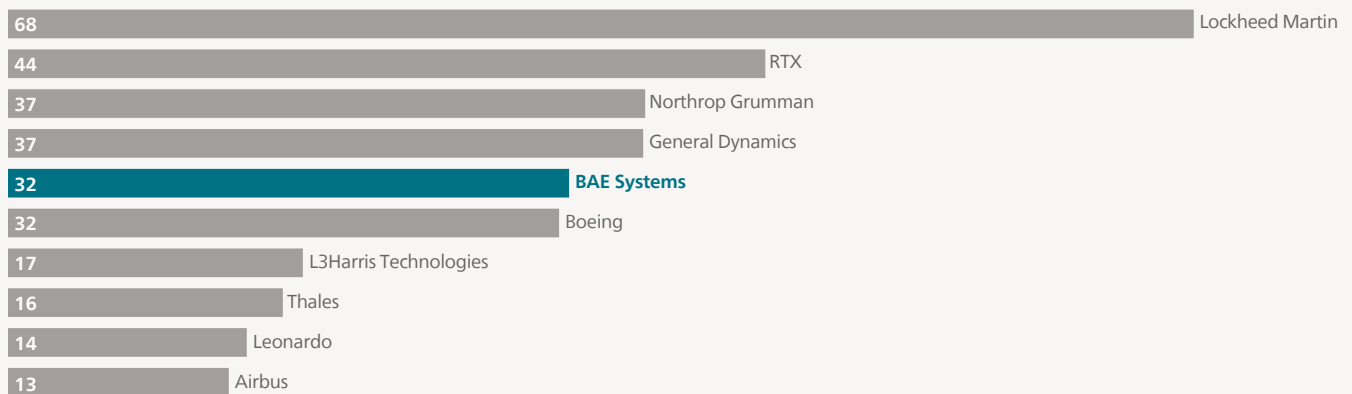
[Read more Page 24](#)
- 5**
We have an intense focus on **operational excellence**, with strong, consistent programme performance. We are focused on **creating value** for our investors and customers.

[Read more Page 14](#)
- 6**
Sustainability is embedded in our business. It forms part of our strategic framework and underpins our purpose.

[Read more Page 16](#)
- 7**
We operate a value-enhancing operating model, undertaking our core business activities with **clear, consistent and careful capital allocation**.

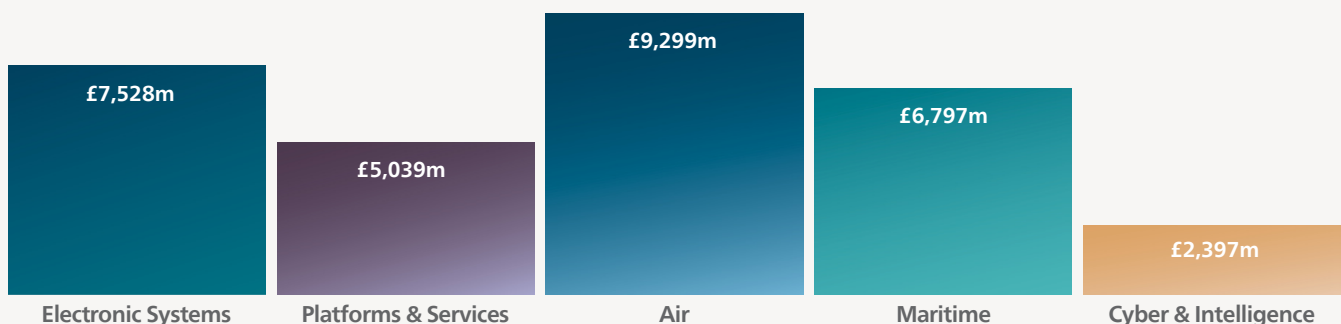
[Read more Page 14](#)

Top global defence contractors' revenue (\$bn)



Source: Defense News Top 100 for 2025 (based on 2024 numbers). Excludes defence contractors in markets not accessible to BAE Systems. Exchange rate applied to BAE Systems is \$1.29/£1.

We provide defence products and capabilities across multiple sectors (2025 Sales¹)



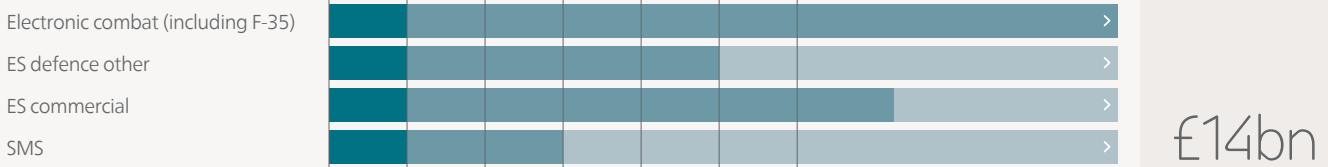
1. Sales is defined in the Alternative performance measures section on page 216.

Our contract order backlog and growing global opportunity pipeline provide a high level of sales visibility^{1,2}

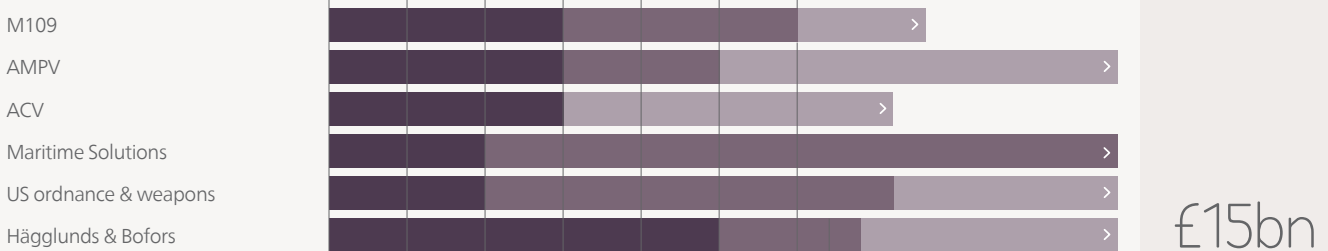
Our diversity of capabilities, products and programmes means we are not heavily reliant on a small number of key programmes or franchises. Our order backlog provides high revenue visibility as it includes only orders received from customers that have agreed funding. In addition, many of our programmes are well positioned to extend for many years beyond their current funded backlog and, in some cases, multiple decades.

Total order backlog
£84bn

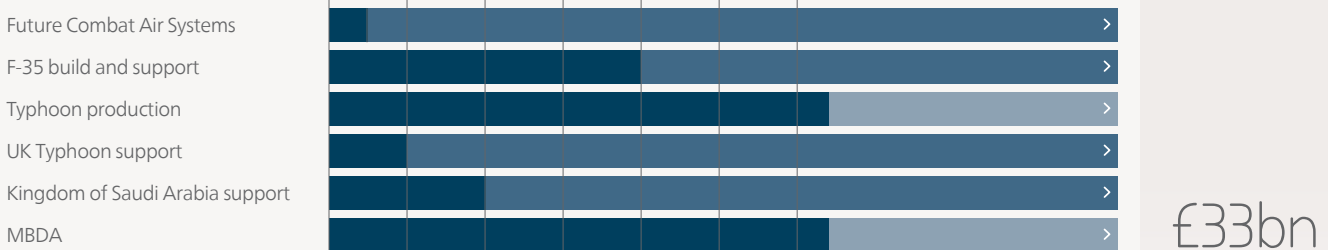
Electronic Systems (ES)



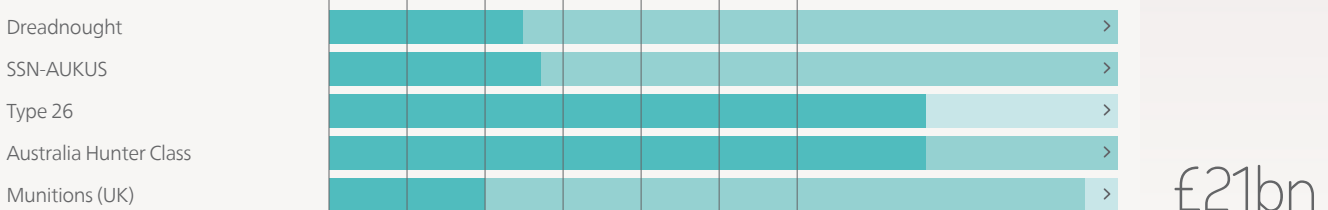
Platforms & Services



Air



Maritime



Dates reflect position at 1 January each year



Order backlog Pipeline/incumbent position Opportunity

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

Our markets

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



Background on our markets and market position

Across the Group, our portfolio aligns well with the national defence strategies of our customers, and the recently announced spending increases across NATO provide a very supportive backdrop for growth over the medium term. We expect significant opportunities across our business, including space systems, missile and air defence systems, electronic warfare, combat aircraft, combat vehicles, frigates, submarines, UAS and counter-UAS, among others.

Factors likely to impact future business performance

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

US and Canada

\$895bn

defence market

44%

2025 Sales¹

The US is the single largest defence market in the world. We are a top ten defence prime contractor in the US. In Canada, we have a long history of supporting the Canadian Armed Forces.

Proven BAE Systems expertise

- Electronic warfare
- Precision strike
- C4ISR
- Space
- Ship repair
- Combat vehicles
- Munitions

Defence priorities and future opportunities

- Space
- Missile defence
- Missiles and munitions
- UAS and counter-UAS
- Naval modernisation and expansion

UK

\$84bn

defence market

27%

2025 Sales

We are the largest defence company in the UK, which is the sixth largest defence market in the world. We have strong and enduring relationships with the UK Ministry of Defence and our domestic supply chains.

Proven BAE Systems expertise

- Submarine design and build
- Naval ship build and support
- Combat aircraft build and support
- UAS and counter-UAS
- Munitions
- Cyber intelligence

Defence priorities and future opportunities

- Space
- Cyber intelligence
- Missiles and missile defence systems
- Current and next-generation combat aircraft
- UAS and counter-UAS

Europe²

\$479bn

defence market

12%

2025 Sales

Many European countries have committed to significantly increasing their spending on defence. We have a strong, established position in Europe and our range of products and services aligns well to the capability requirements of these nations.

Proven BAE Systems expertise

- Combat aircraft
- Missiles and missile defence systems
- Combat vehicles/artillery
- UAS and counter-UAS
- US foreign military sales

Defence priorities and future opportunities

- Combat vehicles/artillery
- Missiles and missile defence systems
- Current and next-generation combat aircraft

Asia Pacific³

\$266bn

defence market

2%

2025 Sales

In the Asia Pacific region, we are a supplier to a number of armed forces, both directly and through joint ventures. During the year we strengthened our links with Japan following the incorporation of Edgewing.

Proven BAE Systems expertise

- US foreign military sales

Defence priorities and future opportunities

- GCAP
- US foreign military sales – Electronic Systems
- US foreign military sales – combat vehicles/artillery/precision weapons
- Cyber intelligence
- MBDA exports

Middle East⁴

\$127bn

defence market

10%

2025 Sales

The Kingdom of Saudi Arabia is the seventh largest defence market in the world and a leading military power in the Middle East. We also support other customers in Oman and Qatar.

Proven BAE Systems expertise

- Kingdom of Saudi Arabia support
- Qatar Typhoon and Hawk

Defence priorities and future opportunities

- Typhoon
- Support and training
- Upgrades and defence infrastructure programmes
- Cyber intelligence
- UAS and counter-UAS

Australia

\$40bn

defence market

4%

2025 Sales

Australia has committed to increase its spending on defence in the coming years. We are the largest defence company in Australia, with a strong presence across all domains.

Proven BAE Systems expertise

- Hunter Class frigate
- US foreign military sales
- Combat aircraft support
- Naval ship support
- Combat vehicles
- C4ISR

Defence priorities and future opportunities

- SSN-AUKUS
- MBDA exports
- Cyber intelligence
- Australian defence exports
- US foreign military sales – Electronic Systems
- US foreign military sales – combat vehicles, artillery, precision weapons

1. Sales is defined in the Alternative performance measures section on page 216.
 2. Includes NATO countries and Ukraine, but excludes the UK as shown separately.
 3. Includes Japan, India, Indonesia, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, Thailand and Vietnam.
 4. Includes Egypt, Kuwait, Oman, Qatar, the Kingdom of Saudi Arabia and United Arab Emirates.

Source: Jane's GPS defence budgets (based on 2025 total defence budgets).



Our investment in technology

As the threat environment becomes more dynamic and military budgets need to work harder, we are continuing to invest in key technology areas to support the complex requirements of our customers.

Our key technology areas of focus include electronic warfare, autonomy and uncrewed systems, counter drone, laser-guided weapons, synthetic training, electrification applications and space solutions. We also continue to develop the digital technologies that can help our customers manage large complex platforms more efficiently, maximising uptime and reducing maintenance costs.

We drive innovation through a multi-faceted approach, which includes evolving our portfolio through technology-focused acquisitions, increasing our self-funded R&D and leveraging collaborations with partners and academia. This strategy enables us to rapidly develop and deliver new technology to our customers today. We also invest in research that could provide step-changes in future capability and identify technology that can help us become more efficient.

These are our core areas:



Technology to protect today



Pioneering future innovation



Technology for efficiency



Technology to protect today

Our customers have an urgent need for advanced military equipment, driven by rapidly evolving threats and technological advancements, which is why we are focused on making this technology available at pace. In 2025, we made advances in key areas and deployed our technology at the heart of customer operations around the world.

Uncrewed systems – drones – are increasingly vital, but becoming harder to operate due to electronic warfare disrupting communications. We are addressing this challenge, providing enhanced autonomy, enabling systems to continue missions without maintaining constant communication, while also making communications more resistant to interference. AI also plays an integral role in both autonomy and electronic warfare advancements.

We made significant progress in autonomy. For example, in our Maritime sector, we demonstrated the P38 autonomous boat in a pursuit role and a human-approved live firing. Using our platform-agnostic Nautomate™ autonomy system, the third-party boat pursued a target vessel autonomously and required human operator input only to authorise firing at a target. This reduced the reliance on human operator resource needed for controlling of the vehicle, while maintaining human oversight of force deployment.

We bolstered our electronic warfare capabilities, which are critical to maintain communications between our customers' assets and allies, especially for autonomous assets operating at range.

With more than 100,000 radios deployed globally, we installed our latest software-defined radios on the US Army's rotary-wing fleet. These radios dynamically adapt their waveforms to resist jamming and maintain battlefield communications.

Additionally, we developed a new command and control system to automate intelligence gathering on enemy communications, integrate radar and other sensor data and then detect and classify drones. Next, we plan to integrate it with both electronic and kinetic countermeasures for rapid deployment.

Integrating intelligence and control across land, sea, air and space domains is central to our strategy. Our INTeACT™ Combat Management System helps the Royal Navy defend against drone and missile threats by connecting ship sensors, including radars, and external sensors, like data from F-35 and Typhoon aircraft, then identifying and prioritising threats before directing countermeasures to respond. The latest INTeACT™ version provides a more collaborative way of working with third-party developers – we are exploring possible new AI-based enhancements with UK-based SMEs.



Upgraded firepower with digital capability

The conflict in Ukraine has demonstrated the critical importance of digitally enabled conventional military equipment. For instance, where drones are used to spot targets and share data across a network, digitally enabled artillery like our ARCHER platform can receive this intelligence then fire within moments. Once ARCHER receives a fire mission, it automatically generates a firing solution and can fire with no further input than the push of a button.

We are also increasing the range and precision of artillery, like the 155mm Scorpio-XR rounds developed by our US business in partnership with the US Army. A key technological innovation at the round itself allows the Scorpio-XR to achieve precision strikes at ranges that dramatically exceed those of existing munitions.

Unlocking new UAS capability

A major step was achieved through the launch of a precision-guided munition from a multi-rotor drone to shoot down another drone. This brought together a modified version of our T-150 UAS with munitions upgraded with our Electronic Systems APKWS® laser-guidance kit. In just four months, we moved from the idea stage to successful live firing trials, as we aim to provide our customers the ability to deploy a range of options for strike capability, including precision-guided weapons, closer to the front line without putting crewed vehicles closer to danger.

The T-150 UAS also supported the Royal Navy Carrier Strike Group, carrying supplies between ships, a role typically conducted by crewed helicopters that are significantly less cost effective.

Beyond building drones, we are innovating to make them easier for our customers to deploy as an integral part of combat teams.

This year, we demonstrated the use of Large Language Models (LLMs) and generative AI to operate drones. This delivers two key benefits. For the operators, this means that non-expert users can command the drones using natural language, which drastically reduces training and operator workload. For the drone, it increases flexibility, as the drone can understand the intent of the operator and use generative AI to reconfigure itself to perform unexpected tasks like search and rescue or identifying specific enemy activities. Throughout these activities, the system ensures that appropriate operator oversight is maintained.

As part of our drive to understand how drones can best integrate into combat teams, we are developing a synthetic environment, OdySSEy™, that goes beyond



training to allow teams to rehearse missions with collaborative autonomous platforms. This will help us rapidly refine drone control interfaces, understand how they function as part of the team and feed insights back into their design.

Intelligence directly to the front line

We launched our Azalea satellite cluster, comprising three BAE Systems-built radio-based satellites and a synthetic aperture radar-focused satellite from Finnish firm, ICEYE. We have been working closely with ICEYE to develop co-sense capability.

Unlike conventional intelligence satellites, Azalea uses on-board edge processors that will analyse radio and radar data in orbit, delivering global insights and intelligence faster by reducing the gap between data gathering and actionable intelligence.



Our investment in technology *continued*



Pioneering future innovation

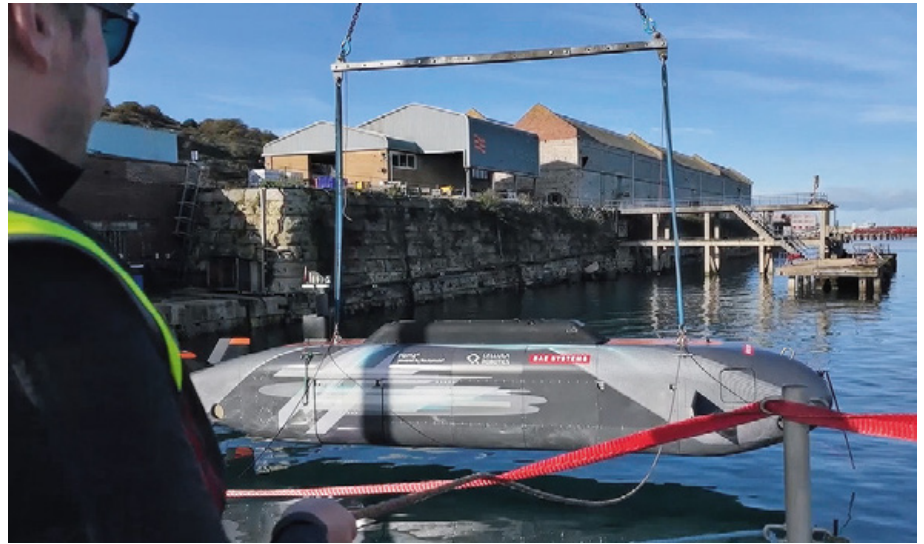
Many of our customers want affordable, attritable uncrewed products to complement their force mix, working seamlessly with both crewed and more advanced uncrewed assets while requiring minimal logistical effort.

We have long been developing systems that can share data, intelligently plan and execute missions with minimal human control. Having already demonstrated autonomous vehicles on land, sea and air, we continue to innovate, aiming to deliver powerful, easy-to-operate platforms that integrate with both our own and third-party systems. We have established a common autonomy and control architecture to underpin this goal.

We have joined forces with Forterra in the US to develop an autonomous AMPV prototype, integrating disruptive technologies onto proven platforms without compromising speed or survivability. Using a modular design approach supports compatibility across the US Army's Armored Brigade Combat Team platforms, including the Bradley A4 and the M109A7 Paladin Self-Propelled Howitzer.

In the maritime domain, we unveiled concepts for future vessels, including an air warfare command ship and a family of deployed sensor effector platforms. These designs aim to deliver combat mass with minimal crew, optimise military budgets and carry large missile payloads to counter growing threats.

We continue to advance our Herne extra-large autonomous underwater vessel through a 10-year exclusive agreement with Canada's Cellula Robotics, targeting a highly capable product offering to customers by the end of 2026. Herne is designed to support anti-submarine warfare, covert surveillance missions and seabed infrastructure protection.



Integrating disruptive technologies into the overall force mix is critical to our customers' success.

We are testing a new underwater communications network using optical and acoustic transmission to maintain high bandwidths over longer distances, enabling surface vessels to receive information from underwater fleets and command them.

As hypersonic missile threats grow, we enhanced our simulation capabilities to model attacks involving multiple missile types and drones – a tactic expected to become more common. These simulations, underpinned by our deep understanding of the operational context, will enable us to deliver differentiated performance from our future maritime vessel concepts.

Our FAST Labs™ team signed a three-year Cooperative Research and Development Agreement with the US Air Force Research Laboratory to advance quantum sensing and networking. This collaboration aims to refine and integrate cutting-edge technologies into quantum sensors and networks to enhance future security for defence and civilian applications.





Technology for efficiency

While global defence budgets are increasing in response to growing threats, so are the demands. So, it is incumbent on industry to maximise efficiency in development, production and operational costs, while innovating faster, delivering more quickly and strengthening supply chain resilience. We work with a range of partners, including the Digital Catapult and Advanced Manufacturing Research Centre in the UK, so that improvements in our own processes can also benefit others.

Some efficiencies could also result in performance improvements, offering greater product endurance or even speed. In collaboration with Strathclyde University and the University of Southampton, we harnessed AI-assisted design tools to develop more efficient naval hulls. Testing physical models of these cutting-edge hull forms suggested that a 130m-length ship could travel an extra 1,000 miles on the same amount of fuel, representing more than a 10% boost in range.

Our Australian research and development centre is focused on cutting build times for Hunter Class frigates by embracing new technologies like flying quality inspection drones that can navigate confined or elevated spaces, robotic welding to support our skilled production workforce and trialling digital tracking of production parts in the shipyard.

With decades of experience managing every stage of the lifecycle for complex military assets, we transformed this experience into our own asset management application, PropheSEA®. Already trusted by the Royal Navy and NATO allies, PropheSEA® generates insights to help make informed, quick decisions on maintenance, upgrades and mission readiness. We are now working with Czech systems integrator, PragoData, to bring this game-changing technology to the Czech defence sector.

➤ See our feature on Global Combat Ships on [Page 28](#)



Feature

Building the future

Our Global Combat Ship is designed to be a highly capable and versatile multi-mission warship, equipped with cutting edge-technology, including advanced anti-submarine warfare and sophisticated air defence systems. The fleet will support defence operations anywhere on the world's oceans.

Working with international customers and partners, we are developing a ship that is bringing nations together with future opportunities to share training, operational experience and skills.

Versatility is embedded into the Global Combat Ship's philosophy, with each ship capable of undertaking a wide range of roles from high-intensity conflict to humanitarian assistance, operating independently or as a key asset within a task group. All variants will share a common acoustically quiet hull and will take full advantage of modular design and open systems architecture to facilitate through-life support and upgrades as new technology develops. This aims to ensure that the Global Combat Ship remains relevant to future maritime demands and delivers an adaptable design with the ability to accommodate sub-systems to meet individual country needs.

Programmes

City Class frigate - The UK programme to develop the Type 26 ship for the Royal Navy is well underway, with construction of the first five of eight ships in progress at our Glasgow shipyards.

Hunter Class frigate - Our Australia business is leading the largest ever surface ship project in Australia's defence history, by value, with more than half of the units on the first of six Hunter Class frigates for the Royal Australian Navy now in production.

River Class destroyer - Canada selected our Global Combat Ship design for its 15-ship River Class destroyer programme, the first of which is now in production at the Prime Contractor's facilities in Halifax, Nova Scotia.

Norway - announced in August that it has selected our UK-designed Type 26 frigate for its future anti-submarine warfare platform, with at least five to be built at our Glasgow shipyards.



City Class frigate

Length

151.4 metres

Displacement

~8,200 tonnes

Top speed

+26 knots

Range

>7,000 nmi



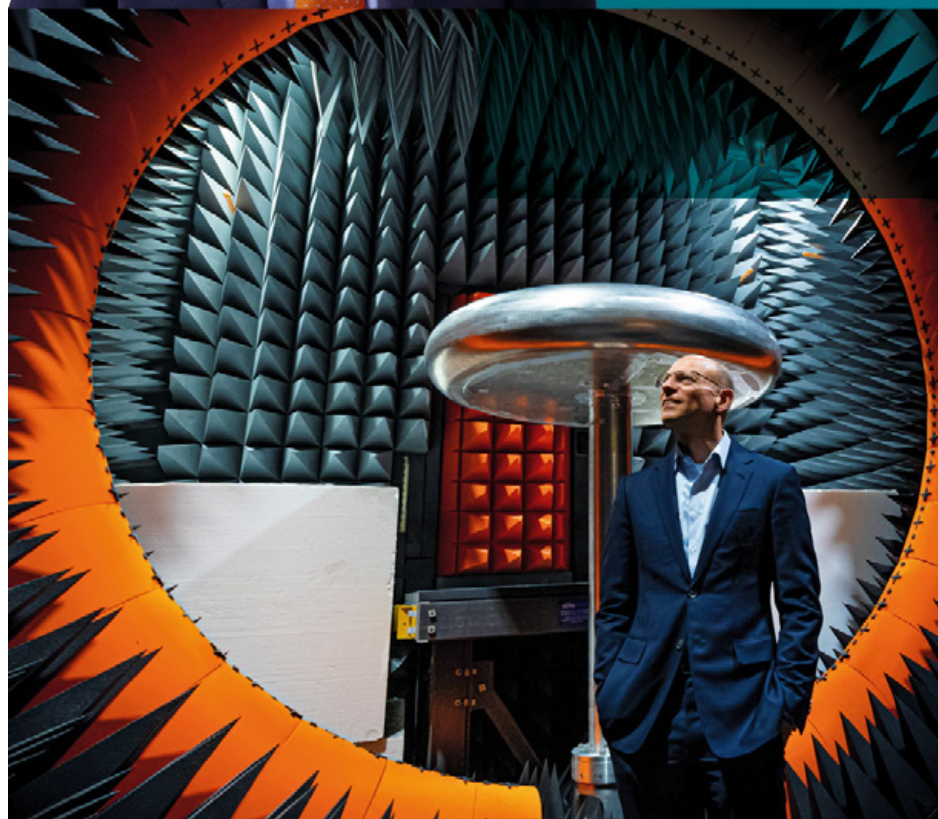
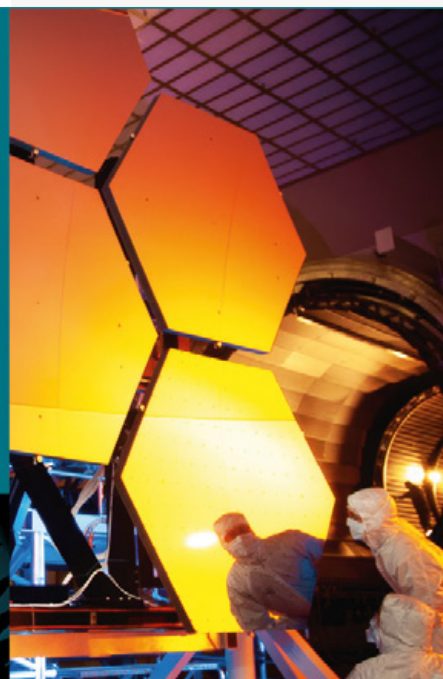


Our financial review



“ We hold a record order backlog of £84bn and our strong order intake for the year demonstrates the continued relevance of our diverse geographic footprint and multi-domain capabilities.

Brad Greve
Chief Financial Officer



2025 full-year performance summary

We have delivered record sales of £30.7bn, a 10% increase, on a constant currency basis, while building our order backlog to an all-time high of £84bn.

Our focus on efficient delivery contributed to the 12% growth in underlying EBIT, on a constant currency basis, and we posted a double-digit increase in underlying EPS of 12%.

Return on sales was up at 10.8%, meaning we have delivered 100bps of margin expansion since 2020.

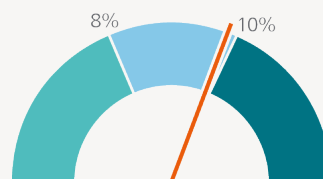
Free cash flow delivered was well above our estimate for the year, at nearly £2.2bn, with the benefit of customer advances coming late in the year. This free cash flow was after double-digit increases in R&D and continued high levels of capital expenditure.

After our increased internal investments, we returned £1.5bn to shareholders in line with our disciplined capital allocation policy.

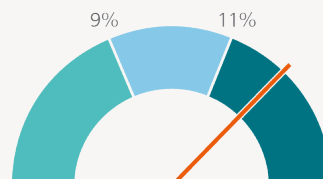
All these numbers highlight the health and effectiveness of our value compounding model (read more on page 14).

2025 full-year performance against guidance

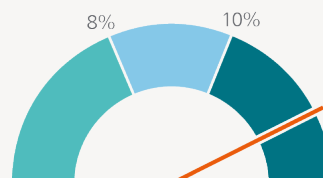
Sales



Underlying EBIT



Underlying EPS



Free cash flow



— Actual 2025 financial results
 — 2025 guidance range based on guidance provided at the Half-yearly results in July 2025, at an exchange rate of \$1.28:£1

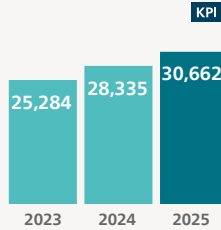
Financial highlights

Financial performance measures as defined by the Group¹

Sales

£30,662m

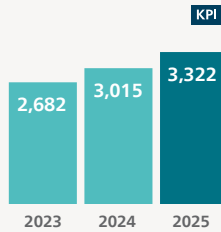
10% growth²



Underlying EBIT

£3,322m

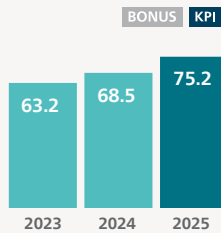
12% growth²



Underlying EPS

75.2p

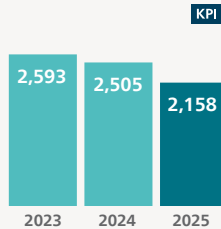
12% growth²



Free cash flow

£2,158m

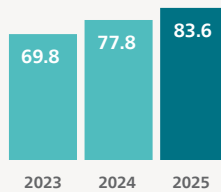
£347m lower



Order backlog

£83.6bn

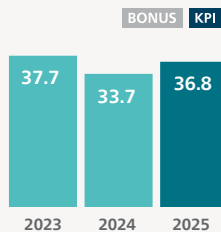
£5.8bn increase



Order intake

£36.8bn

£3.1bn increase

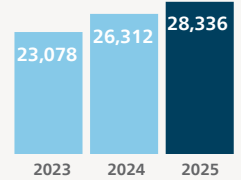


Financial performance measures as derived from IFRS

Revenue

£28,336m

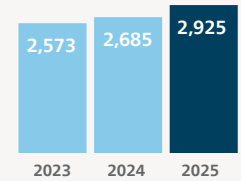
8% growth



Operating profit

£2,925m

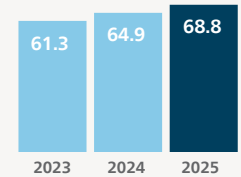
9% growth



Basic EPS

68.8p

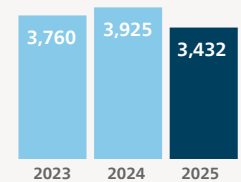
6% growth



Net cash flow from operating activities

£3,432m

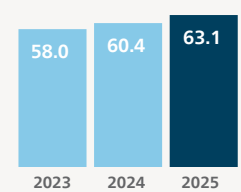
£493m lower



Order book

£63.1bn

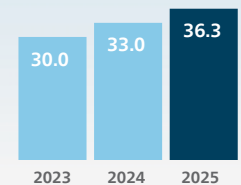
£2.7bn increase



Dividend per share

36.3p

10% growth



BONUS 75% of the UK executive directors' annual bonuses are based on the achievement of financial KPIs (see page 18).

KPI References to KPIs throughout the Annual Report.

1. The definition and purpose of all performance measures defined by the Group are provided in the Alternative performance measures section on page 216.
2. Growth rates for Sales, Underlying EBIT and Underlying EPS are on a constant currency basis (i.e. current year compared with prior year translated at current year exchange rates). The comparatives have not been restated. All other growth rates and year-on-year movements are on a reported currency basis.

Our financial review *continued*

Group income statement

		Underlying – as defined by the Group		Statutory – as derived from IFRS	
		2025 £m	2024 £m	2025 £m	2024 £m
Sales/Revenue	KPI	30,662	28,335	28,336	26,312
Underlying EBIT/Operating profit	KPI	3,322	3,015	2,925	2,685
Finance income		81	117	135	135
Finance costs		(465)	(513)	(488)	(488)
Net finance costs		(384)	(396)	(353)	(353)
Profit before tax		2,938	2,619	2,572	2,332
Tax expense		(596)	(469)	(421)	(291)
Profit for the year ¹		2,342	2,150	2,151	2,041
Return on Sales/Revenue		10.8%	10.6%	10.3%	10.2%
Reconciliation of underlying EBIT to operating profit				2025 £m	2024 £m
Underlying EBIT	KPI			3,322	3,015
Adjusting items				40	23
Amortisation of programme, customer-related and other intangible assets, and impairment of equity accounted investments and intangible assets				(414)	(344)
Net finance income and tax of equity accounted investments				(23)	(9)
Operating profit				2,925	2,685

As defined by the Group

Sales for the year were £30.7bn (2024 £28.3bn) representing growth, on a constant currency basis, of 10% (2024 14%). On an organic basis sales grew by 9% on a constant currency basis.

Electronic Systems recorded sales of £7.5bn (2024 £7.2bn), equating to growth of 8% (2024 35%) on a constant currency basis, which included the full 12-month benefit of our SMS business and reflects increased demand in the Electronic Combat and Countermeasure & Electromagnetic Attack solutions businesses.

Platforms & Services posted sales of £5.0bn (2024 £4.4bn), with growth of 17% (2024 15%) on a constant currency basis, as the sector works to deliver on the recent increased demand for combat vehicles both in the US, through our Combat Mission Systems business which was up 15%, and in Europe, through our Hägglunds and Bofors businesses where growth was 32%.

Our Air sector recorded sales of £9.3bn (2024 £8.5bn), representing growth of 9% (2024 7%) on a constant currency basis. We continued to see increased activities on the design and development of our Future Combat Air Programme, as well as 17% growth in MBDA, through the year.

Maritime recorded sales of £6.8bn (2024 £6.2bn), with growth of 11% (2024 12%) on a constant currency basis, with increased activities across the sector. Construction has continued across major programmes including Dreadnought, Type 26 and Hunter Class frigates, and design work for SSN-AUKUS is progressing.

Sales in the Cyber & Intelligence sector were £2.4bn (2024 £2.4bn), an increase of 2% (2024 6%) on a constant currency basis, predominantly from counter-UAS sales.

Underlying EBIT was up 12% (2024 14%), on a constant currency basis, to £3,322m (2024 £3,015m), resulting in an increased return on sales for the year of 10.8% (2024 10.6%). On an organic basis underlying EBIT grew 11% on a constant currency basis.

Our Electronic Systems sector grew underlying EBIT to £1,162m (2024 £1,071m), an increase of 12% (2024 25%) on a constant currency basis, and generated a return on sales of 15.4% (2024 14.9%). The growth in underlying EBIT benefitted both from an increase in sales and a full 12-month contribution from SMS.

Platforms & Services reported underlying EBIT of £576m (2024 £448m), an increase of 30% (2024 29%) on a constant currency basis, with return on sales increasing to 11.4% (2024 10.2%). The growth reflected the demand for combat vehicles in the US and Europe as production ramped up across Bradley, CV90 and AMPV.

Our Air sector reported underlying EBIT of £1,108m (2024 £1,007m), an increase of 10% (2024 7%) on a constant currency basis, maintaining a strong return on sales of 11.9% (2024 11.8%), which reflected good operational performance.

Maritime reported underlying EBIT of £457m (2024 £474m), a decrease of 3% (2024 increase of 12%) on a constant currency basis. The return on sales of 6.7% (2024 7.7%) reflected the early-stage maturity of the portfolio with several first-in-class programmes trading at relatively low margins as we invest in additional capacity and capability both within our shipyards and the supply chain to support programme delivery.

Finally, Cyber & Intelligence reported underlying EBIT of £223m (2024 £199m), with a return on sales of 9.3% (2024 8.3%), with a full-year contribution from Kirintec.

Adjusting items totalled a net gain of £40m (2024 £23m). During the year, the Group realised a net profit of £51m for pension-related gains, largely in relation to a review of US pension arrangements (£58m), and a £12m profit on the disposal of a portion of our remaining shareholding in Air Astana. This was partially offset by £22m of integration-related costs, primarily in relation to SMS, and £1m of costs related to historic transactions. The prior year gain reflected a net profit of £94m on a number of non-core businesses disposals and a settlement gain of £13m on a US pension buyout, offset by £72m of acquisition and integration-related costs and £12m of other costs related to historic transactions.

As derived from IFRS

Revenue was £28.3bn (2024 £26.3bn), with growth during the year of 8% (2024 14%) on a reported currency basis, which reflected the same drivers behind the increase in sales, excluding the impact of MBDA and our other equity accounted investments.

Operating profit increased 9% (2024 4%) to £2,925m (2024 £2,685m) on a reported currency basis. On an operating sector basis, this reflected the same drivers as underlying EBIT, however, operating profit was impacted by additional costs from the amortisation of acquired intangibles and impairment of equity accounted investments and intangibles, which increased by £70m to £414m in 2025 (2024 £344m), primarily due to the impact of a full 12-months amortisation of intangibles acquired with SMS.

1. On a Group basis, £89m (2024 £85m) of profit for the year is attributable to non-controlling interests, with £2,253m (2024 £2,065m) attributable to equity shareholders. On an IFRS basis, £89m (2024 £85m) of profit for the year is attributable to non-controlling interests, with £2,062m (2024 £1,956m) attributable to equity shareholders.

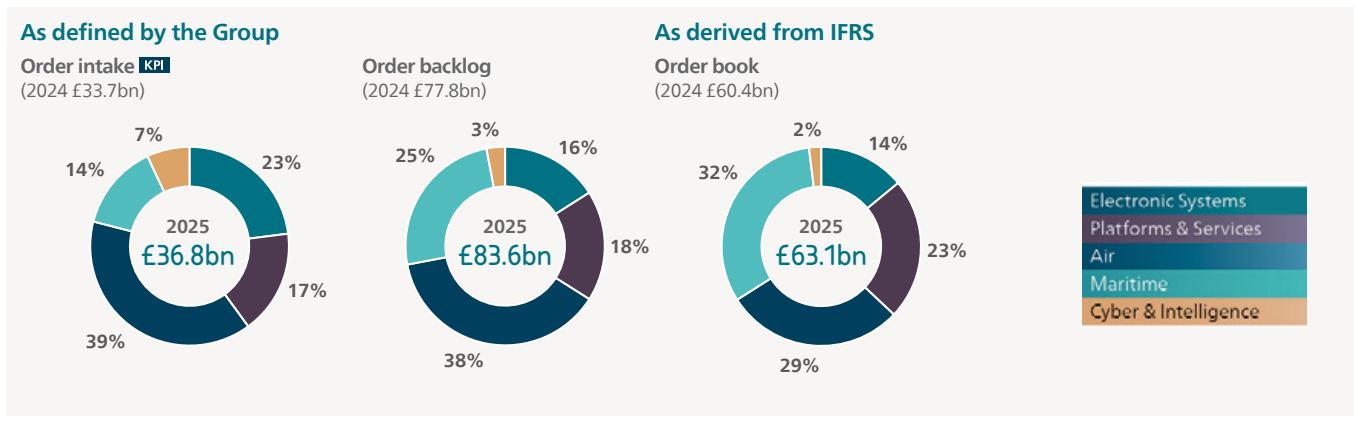
Orders

As defined by the Group

Order intake was £36.8bn, which has lifted order backlog to a record of £83.6bn. Our book to bill ratio was 1.2 and reflected the continued relevance of our diverse geographic footprint and multi-domain capabilities, with all operating sectors recording strong order intake for the year.

Details of awards in the year are covered in the segmental reviews on pages 37 to 47 with significant orders in the year including:

- In Electronic Systems, the £8.7bn of order intake featured c.£2bn from SMS, including orders for missile warning and tracking systems for the US Space Force.
- In Platforms & Services, the £6.2bn of order intake featured strong contract awards for our US combat vehicle programmes of c.£2bn, as well as continued European orders in our Bofors and Hägglunds businesses.
- The Air sector recorded orders totalling £14.6bn. The agreement with Türkiye, to acquire 20 Typhoon aircraft and weapons, amounted to £4.6bn alongside increased orders in US Programmes and Future Combat Air Systems. Our share of orders through MBDA was in excess of £4bn.
- The Maritime sector recognised orders of £5.0bn predominantly for the Submarines business, as well as the next major phase of Canada’s River Class destroyer programme and Australia’s Hobart Class combat system upgrade.



Earnings per share (EPS)

As defined by the Group

	2025	2024
Underlying earnings for the year attributable to equity shareholders	£2,253m	£2,065m
Underlying EPS	75.2p	68.5p

As derived from IFRS

Profit for the year attributable to equity shareholders	£2,062m	£1,956m
Basic EPS	68.8p	64.9p

As defined by the Group

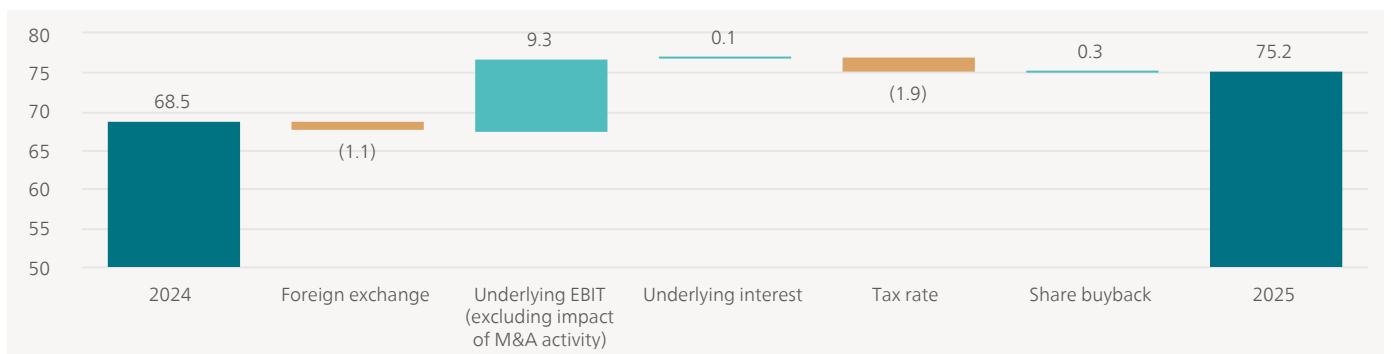
Underlying EPS increased to 75.2p (2024 68.5p), 12% on a constant currency basis, largely driven by the improved underlying profit for the year, with detailed movements set out in the table below.

As derived from IFRS

Basic EPS increased 6% to 68.8p (2024 64.9p) with the gain in underlying EBIT being offset by the amortisation of programme, customer-related and other intangible assets,

and impairment of equity accounted investments and intangible assets, as well as an increase in the Group’s effective tax rate.

Movement in underlying EPS (pence)



Our financial review *continued*

Net debt (excluding lease liabilities)

Components of net debt	2025 £m	2024 £m
Cash and cash equivalents	3,438	3,378
Debt-related derivative financial instruments (net)	3	89
Loans – non-current	(7,190)	(7,713)
Loans – current	(95)	(699)
Net debt (excluding lease liabilities)	(3,844)	(4,945)

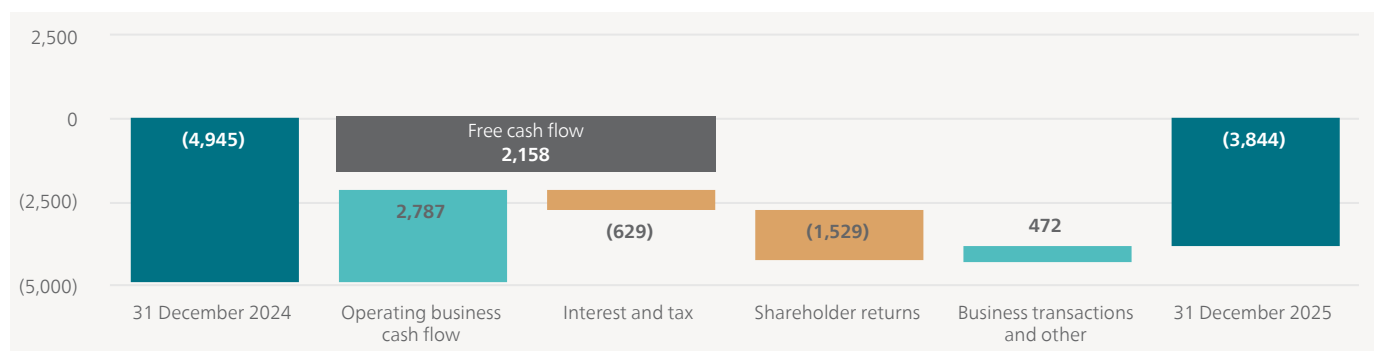
Cash and cash equivalents of £3,438m (2024 £3,378m) are held primarily for management of working capital as well as the repayment of debt securities, pension funding when required and committed shareholder returns.

The Group's net debt (excluding lease liabilities) at 31 December 2025 was £3,844m (2024 £4,945m), a net decrease of £1,101m (2024 increase of £3,923m) from the position at the start of the year, with detailed movements set out in the table below.

For details of maturity of the Group borrowings see note 21 on page 180.

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

Movement in net debt (excluding lease liabilities) (£m)



Balance sheet

	2025 £m	2024 £m
Goodwill	12,732	13,297
Other intangible assets	2,513	2,965
Property, plant and equipment, right-of-use assets and investment property	6,835	6,636
Equity accounted investments and other investments	822	906
Working capital	(6,499)	(6,386)
Lease liabilities net of finance lease receivables	(1,742)	(1,817)
Group's share of net IAS 19 post-employment benefits surplus	844	768
Net tax assets	285	422
Net other financial liabilities	(9)	(69)
Net debt (excluding lease liabilities)	(3,844)	(4,945)
Net assets	11,937	11,777

Goodwill of £12.7bn (2024 £13.3bn) was a decrease of £0.6bn on the prior year, driven by foreign exchange translation of the Group's US dollar-denominated goodwill.

Other intangible assets of £2.5bn (2024 £3.0bn) was a decrease of £0.5bn on the prior year, driven by amortisation of acquired intangibles of £0.3bn, predominantly due to the assets acquired from Ball Aerospace in 2024, combined with foreign exchange movements.

Property, plant and equipment, right-of-use assets and investment property was £6.8bn (2024 £6.6bn), an increase of £0.2bn as significant investment in both facilities and expansion of capacity across the Group was offset by the impact of depreciation and foreign exchange.

Equity accounted investments and other investments was £822m (2024 £906m) as the Group's share of profit from its equity accounted investments of £219m was more than offset by dividends received in the year of £304m.

The Group's share of the net IAS 19 post-employment benefits surplus was £0.8bn (2024 £0.8bn), net of a 25% (2024 25%) withholding tax of £0.4bn (2024 £0.4bn). Details of the Group's post-employment benefit schemes are provided in note 23 to the Consolidated financial statements on page 182.

Cash flow

As defined by the Group	2025 £m	2024 £m
Free cash flow	2,158	2,505
Operating business cash flow	2,787	3,093
As derived from IFRS		
Net cash flow from operating activities	3,432	3,925
Net cash flow from investing activities	(541)	(5,269)
Net cash flow from financing activities	(2,774)	695
Net increase/(decrease) in cash and cash equivalents	117	(649)
Cash and cash equivalents at 1 January	3,378	4,067
Effect of foreign exchange rate changes on cash and cash equivalents	(57)	(40)
Cash and cash equivalents at 31 December	3,438	3,378

As defined by the Group

Free cash flow of £2,158m (2024 £2,505m) reflected higher than anticipated customer advances towards the end of the year together with good operational cash conversion.

Operating business cash flow of £2,787m (2024 £3,093m) was a decrease of £306m (2024 £125m). Although the Group received significant net customer advances, these were lower than the prior year. The net customer advances were offset by a high level of capital expenditure of £957m (2024 £987m) as we invested in our facilities to increase capacity and efficiency across the Group.

As derived from IFRS

Net cash flow from operating activities was £3,432m (2024 £3,925m), a decrease of £493m (2024 increase of £165m) primarily resulting from lower net customer advances received during the year.

Net cash flow from investing activities was an outflow of £541m (2024 £5,269m). Capital expenditure remained high in the year at £957m (2024 £987m) as we continued to invest in our facilities across the Group. This was offset by dividends from our equity accounted investments, interest and cash proceeds on the partial disposal of our shareholding in Air Astana. The prior year reflected significant M&A investment across a number of acquisitions, including Ball Aerospace, which accounted for a net cash outflow of £4.8bn, as well as capital expenditure of £1.0bn. This was offset by cash proceeds of £194m from non-core business disposals.

Net cash flow from financing activities

was an outflow of £2,774m (2024 inflow of £695m), a decrease of £3,469m (2024 increase of £2,883m). Cash returns to shareholders, through dividend and share repurchases amounted to £1,529m (2024 £1,492m). Although dividends increased to £1,027m (2024 £937m), the value of share repurchases was lower at £502m (2024 £555m). During 2025, we repurchased 30m shares under the 2023 share buyback programme (2024 43m shares under the 2022 and 2023 share buyback programmes). The Group repaid debt finance of £562m, compared to a net cash inflow from debt finance of £3,139m in the prior year.

Exchange rates

Average	2025	2024
£/\$	1.319	1.278
£/€	1.167	1.181
£/A\$	2.045	1.938
Year end		
£/\$	1.345	1.253
£/€	1.145	1.210
£/A\$	2.017	2.023

Guidance for 2026¹

After a strong financial year for 2025, we look forward to continued top-line growth with increased return on sales and good free cash delivery against our rolling targets. Guidance is provided on the basis of an exchange rate of \$1.32:£1, which is in line with the actual 2025 exchange rate.

Sales Expected to increase in the range of 7% to 9% 2025 £30.7bn	Underlying EBIT Expected to increase in the range of 9% to 11% 2025 £3,322m	Underlying EPS Expected to increase in the range of 9% to 11% 2025 75.2p	Free cash flow for 2026 >£1.3bn 2025 £2.2bn
Underlying net finance costs c.£370m	Effective tax rate c.22%	Non-controlling interests c.£80m	

Sensitivity to foreign exchange rates: the Group operates in a number of currencies, the most significant of which is the US dollar. As a guide, a 5 cent movement in the £/\$ exchange rate will impact sales by c.£500m, underlying EBIT by c.£70m and underlying EPS by c.1.4p.

Segmental guidance

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

Year ended 31 December 2026	Expected sales	Expected return on sales ²
Electronic Systems	Up 6% to 8%	c.15%
Platforms & Services	Up 9% to 11%	11% to 12%
Air	Up 9% to 11%	c.12%
Maritime	Up 5% to 7%	7% to 8%
Cyber & Intelligence	Up 5% to 7%	8% to 9%

In 2026, the HQ reporting segment is expected to be an expense of c.£225m (2025 £204m).

Three-year cumulative free cash flow guidance

	Actual		Forecast		
	2024	2025	2026	2027	2028
2024–2026 in excess of £6.0bn (previously in excess of £5.5bn)	£2.5bn	£2.2bn	>£1.3bn		
2025–2027 in excess of £5.5bn		£2.2bn	>£1.3bn		
2026–2028 in excess of £6.0bn			>£1.3bn		

- While the Group is subject to geopolitical and other uncertainties, the following guidance is provided on current expected operational performance. The guidance is based on the measures used to monitor the underlying financial performance of the Group. See the Alternative performance measures section on page 216.
- Underlying EBIT as percentage of sales.

Segmental review

Year ended 31 December 2025	Financial performance measures as defined by the Group ¹						Financial performance measures as derived from IFRS				
	Sales	Underlying EBIT	Return on sales	Operating business cash flow	Order intake	Order backlog	Revenue	Operating profit	Return on revenue	Net cash flow from operating activities	Order book
	£m	£m	%	£m	£bn	£bn	£m	£m	%	£m	£bn
	KPI	KPI			KPI						
Electronic Systems	7,528	1,162	15.4	1,337	8.7	13.6	7,507	863	11.5	1,571	9.1
Read more Page 38											
Platforms & Services	5,039	576	11.4	166	6.2	15.0	5,021	576	11.5	392	14.6
Read more Page 40											
Air	9,299	1,108	11.9	904	14.6	32.6	7,372	1,078	14.6	873	18.5
Read more Page 42											
Maritime	6,797	457	6.7	373	5.0	21.3	6,579	431	6.6	673	20.5
Read more Page 44											
Cyber & Intelligence	2,397	223	9.3	59	2.7	2.1	2,397	182	7.6	115	1.4
Read more Page 46											
HQ ²	232	(204)	—	(52)	0.2	—	52	(205)	—	4	—
Deduct: Intra-group	(630)	—	—	—	(0.6)	(1.0)	(592)	—	—	—	(1.0)
Deduct: Tax ³	—	—	—	—	—	—	—	—	—	(196)	—
Total	30,662	3,322	10.8	2,787⁴	36.8	83.6	28,336	2,925	10.3	3,432	63.1

We use financial performance measures as defined by the Group to monitor the underlying financial performance of the Group's reporting segments. The definitions and purposes of these alternative performance measures, and the reconciliations from these measures to the financial performance measures derived from IFRS, are provided in our alternative performance measures section on page 216.

1. The definition and purpose of all performance measures defined by the Group are provided in the Alternative performance measures section on page 216.
2. HQ comprises the Group's head office activities, together with a 17% interest in Air Astana up to the date of disposal of a portion of the shareholding. The remaining 7% share is no longer equity accounted by the Group. See note 32 on page 203.
3. Tax is managed on a Group-wide basis.
4. At a Group level, the key cash flow metric is free cash flow (see Alternative performance measures on page 216). In 2025, free cash flow was £2,158m (2024 £2,505m).

Our business segments

Electronic Systems

Electronic Systems, with 22,400¹ employees, comprises our US- and UK-based Electronic Systems business and our US-based Space & Mission Systems business.

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

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

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

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

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

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

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

Financial performance

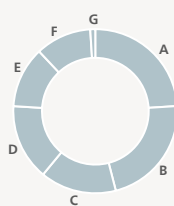
As defined by the Group²

		2025	2024	Variance ³
Sales	KPI	£7,528m	£7,189m	+8%
Underlying EBIT	KPI	£1,162m	£1,071m	+12%
Return on sales		15.4%	14.9%	+50bps
Operating business cash flow		£1,337m	£801m	£536m
Order intake	KPI	£8.7bn	£7.3bn	£1.4bn
Order backlog		£13.6bn	£12.7bn	£0.9bn

As derived from IFRS

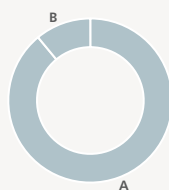
		2025	2024	Variance ³
Revenue		£7,507m	£7,186m	+4%
Operating profit		£863m	£708m	+22%
Return on revenue		11.5%	9.9%	+160bps
Cash flow from operating activities		£1,571m	£1,044m	£527m
Order book		£9.1bn	£8.6bn	£0.5bn

Sales by line of business



A	Electronic Combat Solutions	24%
B	Space & Mission Systems	22%
C	C4ISR Systems	15%
D	Precision Strike & Sensing Solutions	15%
E	Controls & Avionics Solutions	12%
F	Countermeasure & Electromagnetic	11%
G	Power & Propulsion Solutions	1%

Sales analysis: Defence and commercial



A	Defence	89%
B	Commercial	11%



- The Electronic Systems sector booked orders of £8.7bn, featuring c.£2bn from our SMS business including missile warning and tracking satellite systems for the US Space Force.
- Sales increased by 8%, benefitting from a full year of SMS sales, alongside increased demand across the sector.
- Growth in underlying EBIT of 12% reflected an increased return on sales of 15.4%, including a strong contribution from SMS.
- Operating cash flow was £1,337m, reflecting strong operational cash conversion and cash advances from customers.

➤ More information: Our financial review Page 30

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Operational performance

Demand was strong across our Electronic Systems customer base in 2025, as evidenced by our order intake. We supported customers on key electronic warfare and precision-guided munition programmes, while pursuing and maturing innovative capabilities. In commercial avionics, airline traffic continues to grow globally, resulting in stronger demand for our OEM products and aftermarket services.

Our SMS business is delivering strong programme performance centred on customer relationships and growth, particularly in military space. Core defence programmes remain aligned with US Government priorities and we are leveraging our proven capabilities in tactical space systems in response to increasing demand.

Key operational points for the year

- Our SMS team supported the launch of NASA’s Carruthers Geocorona Observatory and NOAA’s Space Weather Follow On L-1 spacecraft. We leveraged commercial best practices to design and build both satellites and are supporting mission operations to study and monitor space weather.
- We celebrated the launch of NASA’s SPHEREx Observatory, equipped with the BAE Systems-built spacecraft bus, telescope and RAD750® single-board computer, subsequently seeing “first light” images from the mission.
- We introduced our new Elevation™ spacecraft product line, featuring common system components and defined configurations for enhanced affordability and rapid deployment. The Trek bus variant was selected to support our recent contract to build the next-generation Resilient Missile Warning & Tracking (RMWT) satellite system.
- The US Space Force formally accepted the Weather System Follow-on-Microwave satellite into operations. As the mission prime, we built the spacecraft bus and microwave imager and are performing mission operations supporting critical, time-sensitive data to enhance weather forecasting for military operations.

- The Air Force Research Laboratory awarded our SMS team the FORGE-IT contract to continue development and deployment of the Battlefield Assisted Trauma Distributed Operations Kit to enhance time-sensitive medical care on the battlefield.
- Our EA-37B programme team is executing contracts, including for international support, valued at more than \$1.45bn (£1.1bn). Under Baseline 3, we are focused on cross-decking the prime mission equipment and have delivered five aircraft for formal testing and training. Future baselines are in development to evolve the electro-magnetic attack capability.
- Our Eagle Passive Active Warning Survivability System was successfully fielded, with two F-15Es delivered to RAF Lakenheath in the UK, and we are under contract for full-rate production.
- The F-35 Lightning II programme delivered approximately 180 electronic warfare suites to Lockheed Martin, including 100 of the Block 4 configuration.
- We delivered the 1,000th infrared seeker to Lockheed Martin for integration on the Terminal High Altitude Area Defense (THAAD) interceptor missile. In response to increased demand, the THAAD 2-Color Infrared Seeker development programme is underway to field next-generation capabilities to defeat evolving threats.
- The AN/ARC-231A Multi-mode Aviation Radio Set has completed initial installation and is operationally ready for use on select US Army rotary-wing aircraft. This milestone marks a major step forward in equipping warfighters with an advanced, secure and fast-operating communications solution to inform key decisions in the field.

Strategic and order highlights

- Our SMS team secured a \$1.2bn (£0.9bn) US Space Systems Command contract for the RMWT – Medium Earth Orbit Epoch 2 programme to build the next-generation RMWT satellite system. As the mission prime, we will develop and integrate multiple satellite buses and payloads and provide ground command, control and mission operation capabilities.

- We are building the spacecraft bus for NOAA’s upcoming Space Weather Next L1 Series mission under a \$230m (£174m) contract to continue providing valuable data to NOAA’s Space Weather Prediction Center.
- Under the FORGE C2 contract, worth \$151m (£114m), we are developing a next-generation ground system for US Space Force missile-warning satellites.
- We secured a \$322m (£244m) order for APKWS® laser-guidance kits under the follow-on, five-year \$1.7bn (£1.3bn) Indefinite Delivery, Indefinite Quantity contract awarded in August. We continue to demonstrate APKWS counter-UAS capability, recently in conjunction with the Group’s Malloy platforms.
- We secured a low rate initial production contract from the US Navy to produce three units of the Advanced Survivability Pods for P-8 Poseidon aircraft.
- The Common Missile Warning System programme is executing on \$250m (£190m) of foreign military sales contracts, with a further \$138m (£105m) received in December.
- The Long-Range Anti-Ship Missile programme continues production deliveries for Lots 7 and 8 and has been awarded a \$360m (£273m) contract for the large lot procurement effort, which includes the C1 baseline configuration.
- We secured a \$129m (£98m) follow-on production order from Data Link Solutions, our joint venture with Collins Aerospace, Inc., under its US Navy contract to deliver the Multifunctional Information Distribution System Joint Tactical Radio System on production Lot 14.

Looking forward

- Our Electronic Systems sector remains positioned for growth in the medium term through its diverse portfolio of defence and commercial products and innovative capabilities for US and international customers.
- Over the long term, we are poised to benefit from our technology strengths spanning precision weaponry, space resilience, hyper-velocity projectiles, autonomous platforms and the development of multi-domain capabilities. We are also expanding our engineering and manufacturing capacity to grow our position in the emerging market for energy storage and power management solutions to support aircraft electrification.
- In SMS, we continue to drive growth by expanding product lines from spacecraft and payloads to ground systems. We are collaborating across segments to identify and deliver combined capabilities to address customers’ mission needs and capture new and adjacent opportunities, such as those of the US Golden Dome missile defence initiative.

Our business segments continued

Platforms & Services

Platforms & Services, with 12,100¹ employees and operations in the US, Sweden and the UK, manufactures and upgrades combat vehicles, weapons and munitions, and delivers services and sustainment activities, including US naval ship repair and the management and operation of two government-owned, contractor-operated ammunition plants.

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

Maritime Solutions is a major provider of non-nuclear ship repair, modernisation, overhaul and conversions to the US Navy and other government and commercial maritime customers, and a fabricator of submarine and surface combatant components.

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

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

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

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

Financial performance

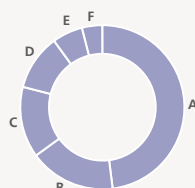
As defined by the Group²

		2025	2024	Variance ³
Sales	KPI	£5,039m	£4,390m	+17%
Underlying EBIT	KPI	£576m	£448m	+30%
Return on sales		11.4%	10.2%	+120bps
Operating business cash flow		£166m	£732m	£(566)m
Order intake	KPI	£6.2bn	£7.4bn	£(1.2)bn
Order backlog		£15.0bn	£14.3bn	£0.7bn

As derived from IFRS

		2025	2024	Variance ³
Revenue		£5,021m	£4,344m	+16%
Operating profit		£576m	£456m	+26%
Return on revenue		11.5%	10.5%	+100bps
Cash flow from operating activities		£392m	£976m	£(584)m
Order book		£14.6bn	£13.6bn	£1.0bn

Sales by line of business



A Combat Mission Systems	48%
B BAE Systems Hägglunds	17%
C Maritime Solutions	14%
D Ordnance Systems	11%
E BAE Systems Bofors	6%
F Weapon Systems UK	4%

➤ More information: Our financial review Page 30

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3. Growth rates for sales and underlying EBIT are on a constant currency basis. All other growth rates and year-on-year movements are on a reported currency basis.

- Order intake of £6.2bn included significant orders in Europe for our Hägglunds and Bofors businesses and c.£2bn of US combat vehicle orders. The segment closed the year with order backlog of £15.0bn, which has resulted from the significant demand in Europe for both CV90 and BVS10 over the last few years.
- Sales recorded the highest growth across the Group in the year, at 17%, with European growth from Hägglunds and Bofors at 32%, while the US combat vehicle business grew 15%.
- Underlying EBIT grew 30% which reflected an increased return on sales of 11.4% as production volumes increased.
- The reduction in operating business cash flow reflected the timing of customer advances, with those received in the prior year unwinding into the supply chain.



Operational performance

With a strong order backlog across our diverse portfolio of innovative products and services, we remain dedicated to delivering on our customer commitments, driving operational excellence and investing in infrastructure to maintain a solid foundation for sustained growth. We continue to scale our Combat Mission Systems and Maritime Solutions (formerly US Ship Repair) divisions to support the US maritime industrial base, enhancing our manufacturing capabilities by upgrading welding, machining and heavy-lift capacity to support submarine construction and component fabrication.

We marked multiple milestones to expand our production capacity, spanning facilities in Sheffield, UK; Jacksonville, Florida; Minneapolis, Minnesota; and across our Swedish sites. Our Hägglunds business continues to ramp up efforts to meet customer expectations and transition current programmes from development to delivery in line with agreed schedules.

Key operational points for the year

- Our AMPV programme celebrated its 500th delivery milestone during the year and is executing under full-rate production toward meeting the US Army's plan to field approximately 3,000 AMPVs in its Armored Brigade Combat Team formations.
- We directed R&D efforts into developing a series of AMPV capability kits to advance future combat innovations, including counter-UAS detection and targeting, ground autonomy and uncrewed turrets.
- We partnered with the US Army to advance our capabilities through successful tests of the Scorpio-XR extended range projectile that more than doubled the precision range of existing cannon artillery munitions.
- Our Hägglunds team marked key milestones with the first CV9030 MkIV infantry fighting vehicle unveiled for the Czech Republic and the first three BvS10 vehicles presented to Sweden, Germany and the UK.

- We announced a license agreement with Wojskowe Zakłady Motoryzacyjne SA for in-country fleet support of Poland's M88A2s and signed a Memorandum of Understanding with Champion Auto to pursue sustainment opportunities in Taiwan. We also continued to deliver Bradleys to Croatia and M88A2s to Poland.
- We renamed our Maritime Solutions business to reflect its broader mission to serve a wide range of military and commercial customers. Our Jacksonville, Florida, shipyard continued fabrication work for Virginia- and Columbia-class submarines and Arleigh Burke-class destroyers. Our Jacksonville team commenced operations in June of its new shiplift and land-level repair facility that expanded capacity beyond its existing operational drydock and increased support of submarine construction.
- Our Ordnance Systems Inc. team continues to progress the new Nitrocellulose Facility at the Radford Army Ammunition Plant. The endurance run was successfully completed.
- In the UK, we opened our Sheffield facility where we will initially deliver M777 howitzers, with plans to evolve to develop and produce a range of combat systems to support the UK Government's ambitions to revitalise and sustain UK artillery capacity.
- Our Combat Mission Systems team secured a number of orders across its vehicle portfolio, including contracts for more than \$360m (£273m) from the US Marine Corps for ACVs, two long-lead awards worth approximately \$550m (£417m) to produce additional AMPVs, and a \$396m (£300m) contract from the US Army to produce additional upgraded Bradley A4 vehicles.
- We also received two multi-year contracts from the US Army totalling more than \$973m (£738m) for M109A7 Paladin Self-Propelled Howitzer sets.
- Across our US shipyards, we won approximately \$1.0bn (£0.8bn) in US Navy contracts featuring awards for the USS Somerset, USS Oak Hill, USS Forrest Sherman and USS The Sullivans.

Strategic and order highlights

- Our Bofors business signed a framework agreement with Latvia to supply 18 ARCHER Mobile Howitzers and Sweden procured another 18 ARCHERs as part of a military support package.
- Our Bofors business secured its first order from Sweden for TRIDON Mk2 systems, a highly adaptable, cost-effective solution designed to provide rapid counter-UAS capabilities that are currently operational in Europe.
- Our Hägglunds business won a \$450m (£341m) contract to deliver 44 additional CV90MkIIIC vehicles to Denmark.

Looking forward

- We continue to shape our business to deliver on increased demand from US and international customers for production and sustainment of combat vehicles and artillery systems. The AMPV, M109A7, M88, Bradley and ACVs in our US vehicle portfolio are gaining increased international interest due to their proven capabilities.
- In our maritime businesses, we are focused on sustaining our naval gun, missile launch and submarine positions, as well as US Navy ship repair, modernisation and growing fabrication activities.
- Across our Swedish businesses, we continue to build a growing pipeline of opportunities for the CV90, BvS10 and Beowulf from Hägglunds, as well as for artillery, naval and air defence systems and munitions from Bofors.

Our business segments continued

Air

Air, with 30,600¹ employees, comprises our UK-based aircraft build and support activities for European and international markets, US programmes, development of our Future Combat Air System and FalconWorks®, alongside our business in the Kingdom of Saudi Arabia and interests in our joint ventures: Edgewing, Eurofighter and MBDA.

Our Europe and International Markets

business includes the production of Typhoon combat aircraft, support, training and upgrades for Typhoon and Hawk, and support and upgrades for Tornado.

Our **US Programmes** business is a key partner to Lockheed Martin in the delivery of the world's largest defence programme and is focused on UK-based F-35 Lightning II manufacture, engineering development and support activities.

Our **Future Combat Air Systems** team is working in close partnership with the UK Ministry of Defence to deliver commitments across GCAP and UK Future Combat Air System programme including a portfolio of future combat air technologies and demonstrators. During the year, we formed a new joint venture, Edgewing, with Leonardo and Japan Aircraft Industrial Enhancement Co. Ltd. (JAIEC), to deliver next-generation combat aircraft under GCAP.

FalconWorks® is our centre for advanced research and technology development within the Air sector.

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

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

Eurofighter Typhoon is Europe's largest collaborative defence capability programme.

Financial performance

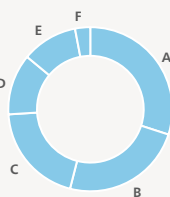
As defined by the Group²

		2025	2024	Variance ³
Sales	KPI	£9,299m	£8,519m	+9%
Underlying EBIT	KPI	£1,108m	£1,007m	+10%
Return on sales		11.9%	11.8%	+10bps
Operating business cash flow		£904m	£1,243m	£(339)m
Order intake	KPI	£14.6bn	£8.3bn	£6.3bn
Order backlog		£32.6bn	£26.8bn	£5.8bn

As derived from IFRS

		2025	2024	Variance ³
Revenue		£7,372m	£6,880m	+7%
Operating profit		£1,078m	£1,009m	+7%
Return on revenue		14.6%	14.7%	-10bps
Cash flow from operating activities		£873m	£1,359m	£(486)m
Order book		£18.5bn	£15.6bn	£2.9bn

Sales by line of business



A	Kingdom of Saudi Arabia	30%
B	European and International Markets	24%
C	MBDA	20%
D	US Programmes	12%
E	Future Combat Air System	11%
F	FalconWorks®	3%

- The Air sector had a strong year with good growth in sales and underlying EBIT, high order intake and a material step up in our order backlog.
- Sales increased by 9%, mainly driven by our Future Combat Air System programme, MBDA and European & International Markets, which flowed through to underlying EBIT, generating a return on sales of 11.9%.
- Operating cash flow was £904m. The lower level compared to 2024 reflected advance payments in the prior year, which were flowed to our supply chain in 2025.
- Order intake was £14.6bn, a 76% increase, which reflected high demand for our capabilities and services. This increased our order backlog by 22% to £32.6bn.

➤ More information: Our financial review Page 30

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Operational performance

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

Key operational points for the year

- We delivered the final two Typhoon aircraft to Qatar during the year, bringing the Qatari Emiri Air Force fleet total to 24. We also continue to deliver Typhoon major units in support of core European customer orders, with 13 completed during the year.
- Our US Programmes business completed 153 AFTs in 2025. The current Production Lots 18/19 support the continuation of production deliveries at Samlesbury, UK, through to 2027.
- The Royal Navy selected our all-electric Malloy T-150 UAS to transport vital supplies between UK Carrier Strike Group ships for the first time during their deployment to the Indo-Pacific.
- We continue to progress construction of the UK's Flying Combat Air Demonstrator, which will test next-generation skills, tools, processes and techniques needed to underpin GCAP and the entry into service of the core aircraft platform, which will be called Tempest in the UK. In July, alongside our industry partners and the Ministry of Defence, we revealed the design as the aircraft reached a major milestone, with two-thirds of its structural weight in manufacturing.

Strategic and order highlights

- In October, the Republic of Türkiye and the UK Government signed a c.£5.4bn agreement which included the purchase of 20 Typhoon aircraft along with an associated weapons package. We will be the prime contractor and will manufacture

major airframe components, undertake final assembly of the aircraft and lead the weapons integration. We continue to work with the two governments to secure a contract for future support of the aircraft.

- We also secured further European Typhoon major units orders for Germany (20) and Italy (8), totalling c.£0.8bn.
- We were awarded a contract for the full production of the new European Common Radar System Mk2 advanced radar for the Royal Air Force's Typhoon aircraft from the UK Ministry of Defence worth £454m.
- We launched Edgewing, a joint venture with our international partners, Leonardo (Italy) and JAIEC (Japan), on GCAP. The new company, based in Reading, UK, will be accountable for the design and development of the next-generation combat aircraft and will remain the design authority for the life of the product, which is expected to go out beyond 2070.
- Concept and assessment work on GCAP continues with our international industry partners in all three nations under their respective national contracts. We received a further £1.0bn of funding on the UK assessment phase contract in the first half of the year.
- We created BAE Systems Arabian Industries Ltd by merging two of our existing portfolio companies, enhancing our visibility and participation within the military industry sector, while creating further opportunity in accordance with our long-term strategy to support the Kingdom of Saudi Arabia.
- MBDA continued to secure significant orders through 2025, including further production orders with the French Air Force, Italian Air Force and Army, German Armed Forces and the UK Royal Navy for ASTER 15 & 30 Block 1 missile; Indian Navy Rafale weapon package order for the METEOR Beyond Visual Range Air-to-Air Missile (BVRAAM), MICA, SCALP and EXOCET AM39; and a South Korean production order for the METEOR BVRAAM, which will enable the Air Force to benefit from a common stockpile for both KF-21 and F-35. The Lancaster House 2.0 Declaration at the 37th Franco-British Summit in July 2025 saw both the UK and French Armed Forces confirm their

continued support for Future Cruise/Anti-Ship Weapon development, now re-named as STRATUS Low Observable & Rapid Strike.

Looking forward

- GCAP is a strategically important partnership that will not only drive innovation and technological advancement but also promote significant economic activity in the UK, Japan and Italy, with the aim of securing the future of their respective combat air industries for decades.
- We will continue to focus on ensuring that Typhoon major units and support deliverables are made in line with customer expectations. Future Typhoon production and support sales are underpinned by existing contracts. We continue to pursue future sales of Typhoon.
- We expect to sustain production of the rear fuselage assemblies for the F-35 at current levels of approximately 150 aft fuselages per year. Negotiations continue with Lockheed Martin to secure the full value of Lots 20-22, which will continue production to 2030.
- In the Kingdom of Saudi Arabia, the In-Kingdom Industrial Participation programme continues to make good progress consistent with our long-term strategy, while supporting the Kingdom's National Transformation Plan and Vision 2030. This includes a further package of industrialisation agreed in 2025 on our Saudi British Defence Co-operation Programme. We expect our Saudi in-Kingdom support business to remain stable, underpinned by long-standing contracts, while we continue to address the Kingdom's current and future combat air requirements.
- MBDA is well placed to benefit from increased defence spending in Europe and internationally and is investing in critical resources accordingly. The business has a strong order backlog, and development programmes continue to enhance the long-term capabilities of the business in air, land, sea and space domains.

Our business segments continued

Maritime

Maritime, with 31,900¹ employees, comprises our UK-based maritime and land activities, including ship build and support activities, major submarine build programmes, as well as our Australian business and interest in our RBSL joint venture.

Our **Submarines** business is focused on completing the seven boat Astute Class programme and the design and production of four Dreadnought Class submarines for the Royal Navy, as well as the delivery of the new generation of SSN-AUKUS submarines to both the UK and Australia.

Naval Ships is delivering the design and manufacture of eight Type 26 frigates for the Royal Navy as well as the warship design for Canada's River Class destroyer programme.

Maritime & Land Defence Solutions offers in-service support, including the delivery of training services and worldwide engineering support to the Royal Navy's Portsmouth-based surface flotilla on behalf of the UK Ministry of Defence, as well as the design and manufacture of torpedoes and radars. The portfolio also comprises the munitions business, which designs, develops and manufactures a comprehensive range of munitions products. Within our Maritime & Land Defence Solutions business, our French Joint Venture, CTA International, has developed and manufactures the 40mm cased-telescoped weapon system.

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

Rheinmetall BAE Systems Land (RBSL) – our UK-based joint venture with Rheinmetall – specialises in the design, manufacture and support of military vehicles used by the British Army and international customers.



Financial performance

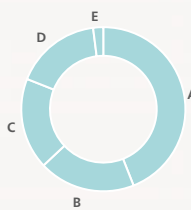
As defined by the Group²

		2025	2024	Variance ³
Sales	KPI	£6,797m	£6,187m	+11%
Underlying EBIT	KPI	£457m	£474m	-3%
Return on sales		6.7%	7.7%	-100bps
Operating business cash flow		£373m	£436m	£(63)m
Order intake	KPI	£5.0bn	£8.7bn	£(3.7)bn
Order backlog		£21.3bn	£23.2bn	£(1.9)bn

As derived from IFRS

		2025	2024	Variance ³
Revenue		£6,579m	£6,002m	+10%
Operating profit		£431m	£465m	-7%
Return on revenue		6.6%	7.7%	-110bps
Cash flow from operating activities		£673m	£734m	£(61)m
Order book		£20.5bn	£22.3bn	£(1.8)bn

Sales by line of business



A	Submarines	44%
B	Australia	19%
C	Defence Solutions	18%
D	Naval Ships	17%
E	RBSL	2%

➤ More information: Our financial review [Page 30](#)

1. Including share of equity accounted investments.
2. The definition and purpose of all performance measures defined by the Group are provided in the Alternative performance measures section on page 216.
3. Growth rates for sales and underlying EBIT are on a constant currency basis. All other growth rates and year-on-year movements are on a reported currency basis.

- Order intake of £5.0bn included increased funding for our Submarines business as well as the next major phase of Canada's River Class destroyer programme. The prior year included £4.6bn for Batch 1 of the Hunter Class frigates which are now under construction.
- The Maritime segment recorded double-digit sales growth of 11% as construction continued across major programmes including Dreadnought, Type 26 and Hunter Class frigates, and design work for SSN-AUKUS.
- The lower return on sales of 6.7% reflects the early stage maturity of the Maritime portfolio with several first-in-class programmes trading at relatively low margins as we invest in additional capacity and capability both within our shipyards and the supply chain to support programme delivery.



Operational performance

Our major Maritime platforms continue to progress through their long-term programmes. With five of the seven Astute Class submarines delivered to the Royal Navy, work continues on the remaining two boats and on the construction of the four Dreadnought Class submarines. We also continue to deliver in accordance with our SSN-AUKUS contracts. Construction of the initial five UK Type 26 frigates continues and more than half of the units on the first Australian Hunter Class frigate are in production. We also continue to deliver on customer requirements in both munitions and services.

Key operational points for the year

- In September, His Majesty King Charles III commissioned the sixth Astute Class submarine, Agamemnon, into service with the Royal Navy. Agamemnon continues to progress through its in-water phase, while we also continue construction on the final vessel in the class.
- We continue to make progress on the four Dreadnought Class submarines, with advancing levels of construction underway on the first three boats. In September, we cut steel on Boat 4 at our site in Barrow-in-Furness, UK, and commenced early stage construction activities.
- We are progressing the Type 26 frigate programme of eight ships for the Royal Navy. Investment in additional capacity and capability continues both within our shipyards and the supply chain to support programme delivery. Focus remains on the achievement of key milestones in advance of sea trials for the first of class.
- During the year, Her Royal Highness The Princess of Wales officially named HMS Glasgow at a ceremony in the UK. HMS Glasgow and HMS Cardiff, the first two ships in class, are docked at our Scotstoun shipyard and are progressing through final outfit. HMS Belfast and HMS Birmingham are both under construction in our new Janet Harvey Hall. Units for the fifth ship are also being constructed at our shipyard in Govan.

- October 2025 marked the first full year of RECODE, an eight-year availability support programme signed in 2024. RECODE continues to adapt to the changing operational needs of the Royal Navy, achieving 99% combat systems equipment availability across the fleet against a target of 95%. Modernisation of our Combat Management System is using new development principles to deliver capability into operation quickly.
- In Australia, construction of the Hunter Class frigate is progressing with 45 of the 78 units of the first ship in production.
- Significant upgrade work is underway at our Osborne shipyard on the first Air Warfare destroyer, HMAS Hobart. HMAS Parramatta, the final Anzac Class frigate, undergoing the Midlife Capability Assurance Programme, is in the final stages of production and commissioning, with full handover to the Royal Australian Navy scheduled in 2026.
- The upgrade programme for the Royal Australian Air Force's Hawk aircraft is approaching conclusion with installation of 32 of the 33 engines completed.
- Over the past 12 months, our teams based at Portsmouth Naval Base continued to work side by side with the Royal Navy to support the nation's defence ambitions at home and abroad. From the Carriers, the Type 23 frigates and Type 45 destroyers, to the batch 1 offshore patrol vessels and the Hunt Class mine countermeasure ships – we continue to service and maintain the critical assets that keep the UK safe.
- Our teams ensured HMS Prince of Wales and HMS Dauntless were prepared and ready to deploy as part of the Royal Navy's UK Carrier Strike Group in April.
- In RBSL, vehicle deliveries continue under the Boxer programme, with 15 UK-built vehicles to date. On the Challenger 3 programme, focus remains on design maturity to facilitate the transition to full production. A total of six prototype tanks have been delivered with another two in build.

Strategic and order highlights

- The Canadian Government announced that it will work with Australia to establish an

Arctic Over The Horizon Radar capability. As the enterprise partner for Australia's over the horizon radar system, JORN, we will support the Government in this important agreement.

- The initial mobilisation phase of the SSN-AUKUS programme in Australia has commenced to support the future build of the SSN-AUKUS fleet of conventionally armed, nuclear-powered submarines for the Royal Australian Navy.
- We signed a contract with Canada's Irving Shipbuilding Inc., marking the start of the next major phase on the River Class destroyer programme. The ship is based on the Type 26 platform with specified design changes to meet the Royal Canadian Navy's requirements. Under this new contract, we will provide support and consultancy services throughout the build phase.
- We signed a new strategic partnership with PGZ to establish a new ammunition factory in Poland to produce 155mm artillery ammunition. This is aimed at increasing the nation's production of ammunition.

Looking forward

- Our Submarines business is executing across three long-term programmes: Astute; Dreadnought; and SSNA. Our focus remains on strengthening our workforce, supply chain and infrastructure to provide the capability, capacity and resilience required to deliver these long-term programmes.
- Preparations to start construction of the sixth Type 26 frigate, HMS Newcastle, are well underway with long-lead equipment items already in progress.
- In Australia, we are a key partner to the Commonwealth in the delivery of its National Defence Strategy, which seeks a strategy of denial and an integrated, focused force. AUKUS nuclear-powered submarines, an enhanced lethality surface fleet, strategic surveillance and long-range strike are prioritised in the Integrated Investment Plan which supports this.
- We will continue to work alongside ASC Pty Ltd to deliver initial mobilisation activities to support Australia's SSN-AUKUS submarines programme.

Our business segments continued

Cyber & Intelligence

Cyber & Intelligence, with 10,500¹ employees, comprises our US-based Intelligence & Security business and UK-headquartered Digital Intelligence business and covers the Group's cyber security activities for national security, central government and government enterprises.

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

- Our **Air & Space Force Solutions** business provides the US Air Force, US Space Force and combatant commands with innovative systems engineering and integration solutions to modernise, maintain, test and cyber-harden aircraft, radars, strategic missile systems, mission applications and information systems that detect, deter and dissuade national security threats.
- Our **Integrated Defense Solutions** business provides the US Army and Navy with systems engineering, integration and sustainment services for critical weapon systems, C5ISR (Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance and Reconnaissance) and cyber security that enhance mission effectiveness. Our solutions are deployed across platforms and networks in the air, maritime, land and cyber domains.
- Our **Intelligence Solutions** business provides innovative mission-enabling solutions and services to intelligence and federal/civilian agencies, as well as the provision of cost-effective synthetic training and simulation software products and components for global defence applications.

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



Financial performance

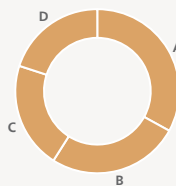
As defined by the Group²

		2025	2024	Variance ³
Sales	KPI	£2,397m	£2,411m	+2%
Underlying EBIT	KPI	£223m	£199m	+15%
Return on sales		9.3%	8.3%	+100bps
Operating business cash flow		£59m	£139m	£(80)m
Order intake ¹	KPI	£2.7bn	£2.4bn	£0.3bn
Order backlog ¹		£2.1bn	£1.8bn	£0.3bn

As derived from IFRS

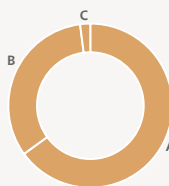
		2025	2024	Variance ³
Revenue		£2,397m	£2,411m	-1%
Operating profit		£182m	£182m	—%
Return on revenue		7.6%	7.5%	+10bps
Cash flow from operating activities		£115m	£194m	£(79)m
Order book		£1.4bn	£1.3bn	£0.1bn

Sales by business



A Digital Intelligence	33%
Intelligence & Security:	
B Intelligence Solutions	26%
C Air & Space Force Solutions	21%
D Integrated Defence Solutions	20%

Sales by customer



A US Government	65%
B UK and other governments	33%
C Other	2%

- The Cyber & Intelligence segment recorded £2.7bn of new orders.
- Sales grew by 2%³, predominantly related to counter-UAS sales in our Digital Intelligence business following the acquisition of Kirintec in the prior year.
- Underlying EBIT of £223m reflected an increased return on sales of 9.3%.

➤ More information: Our financial review [Page 30](#)

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Operational performance

Our US-based Intelligence & Security business delivered solid performance amid shifting US Government priorities, an increasingly competitive defence technology landscape, as well as furloughs on some programmes due to the US Government shutdown. Despite these headwinds, we continued to align closely with evolving customer requirements and national security priorities to drive faster, more cost-effective and resilient outcomes for our customers.

In our UK-based Digital Intelligence business, we continue to work collaboratively to collect, connect and understand complex data for governments, nation states, armed forces and commercial businesses in both the UK and international markets.

Key operational points for the year

- Our Intelligence & Security business brought together Bohemia Interactive Simulations, TerraSim and Pitch Technologies to launch BAE Systems OneArc, a commercial defence technology business focused on delivering synthetic environments to transform modern battlespace simulation.
- We are using OneArc’s VBS4 platform to develop an AI-enabled embedded training capability for the Bradley Fighting Vehicle that integrates virtual and real-world systems to improve readiness, reduce costs and advance the US armed forces’ digital modernisation goals.
- Our Intelligence & Security business also launched its Velhawk zero-trust cyber security solution to provide customers cyber resilience, accelerated cyber response and optimised working efficiency.
- We continue to expand our presence on the Instrumentation Range Support Program, providing support to dozens of ranges for the US Army, Navy, Air Force, Space Force, Department of Energy, NASA and various international ranges.

- In our Digital Intelligence business, we achieved the successful launch of our first low earth orbit satellite cluster, Azalea, at the end of November. This capability will provide defence, national security and civil sectors with sovereign space-based intelligence, surveillance and reconnaissance to enhance decision-making around today’s threats.
- In our National Security & Government division, we focused on mobilising new frameworks secured in 2024. Our Defence division continues to progress campaigns for key programmes and secured an important international order for assessment of core C4 capability for a sovereign client.
- Following the acquisition of Kirintec in 2024, we continued to identify opportunities to exploit our electronic warfare and counter-UAS products alongside other complementary capabilities within our Digital Intelligence business and the wider Group. Kirintec specialises in cyber and electromagnetic activities, counter-improvised explosive devices and counter-UAS products for military customers.

Strategic and order highlights

- Our Air and Space Force Solutions business was awarded a \$238m (£180m) Systems Engineering and Evaluation, Systems Analysis Worldwide VIII contract, continuing our 28-year legacy on the programme.
- Our Integrated Defense Solutions team grew the Strategic Systems Program by more than 20% year-on-year in support of the submarine nuclear deterrence mission. The team was selected to provide weapon systems engineering and integration services for the nuclear armed Sea-Launched Cruise Missile programme and completed weapon system integration activities on the Columbia and Dreadnought submarine construction programmes.

Looking forward

- Our Intelligence & Security business maintains a pipeline of qualified business opportunities aligned to current US Government priorities.
- We seek to accelerate growth by using AI, automation and autonomy to modernise offerings in digital labour, counter-UAS and UAS, decision advantage and platform digitisation.
- In our UK Digital Intelligence business, we continue to progress our transformation roadmap to ensure we are well placed to take advantage of more favourable conditions in the medium to long term resulting from anticipated increases in defence spending across our existing and target markets. We are continuing to drive operational efficiencies through system integration and the simplified organisational structure embedded at the beginning of the year.
- In our UK Digital Intelligence business, investment in our product portfolio continues with good progress made on developing cross-domain products for the US and other international markets, low earth orbit satellites and multi-domain network solutions for the defence market.
- Through Kirintec, we will continue to identify opportunities for our counter-UAS products and complimentary capabilities for military customers.

Our skills and training academies

We have invested in a number of academies across the UK which provide education and training opportunities for our employees.

Our investments have enabled the creation of multi-million-pound skills academies to upskill thousands of employees each year to maintain the advanced science, technology, engineering and mathematics (STEM) capabilities critical to the UK's sovereign defence.

Applied Shipbuilding Academy, Scotstoun

The academy is a key training facility for apprentices and graduates in our Naval Ships business and provides life-long learning and skills development activities for around 4,500 employees across the workforce, from new starters to senior leaders.

It measures over **5,500 square metres** and comprises a modern trade hall and a flexible learning hub. The hall offers a high-quality, hands-on training environment where learners are fully immersed in realistic ship mock-ups. The adjacent hub houses over **30 teaching spaces**, a cutting-edge STEM innovation lab, an exhibition area and conference space.



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

The state-of-the-art training academy was built to develop the world-class engineering skills required to design, build and deliver complex submarine programmes for the Royal Navy.

The academy covers **8,300 square metres** and features **20 classrooms**, **10 workshops**, a virtual reality suite and scale-model-sized submarine units to support the provision of bespoke training to around **12,300 employees** including nearly **800 apprentices, undergraduates** and **graduates**.





Academy for Skills and Knowledge, Samlesbury

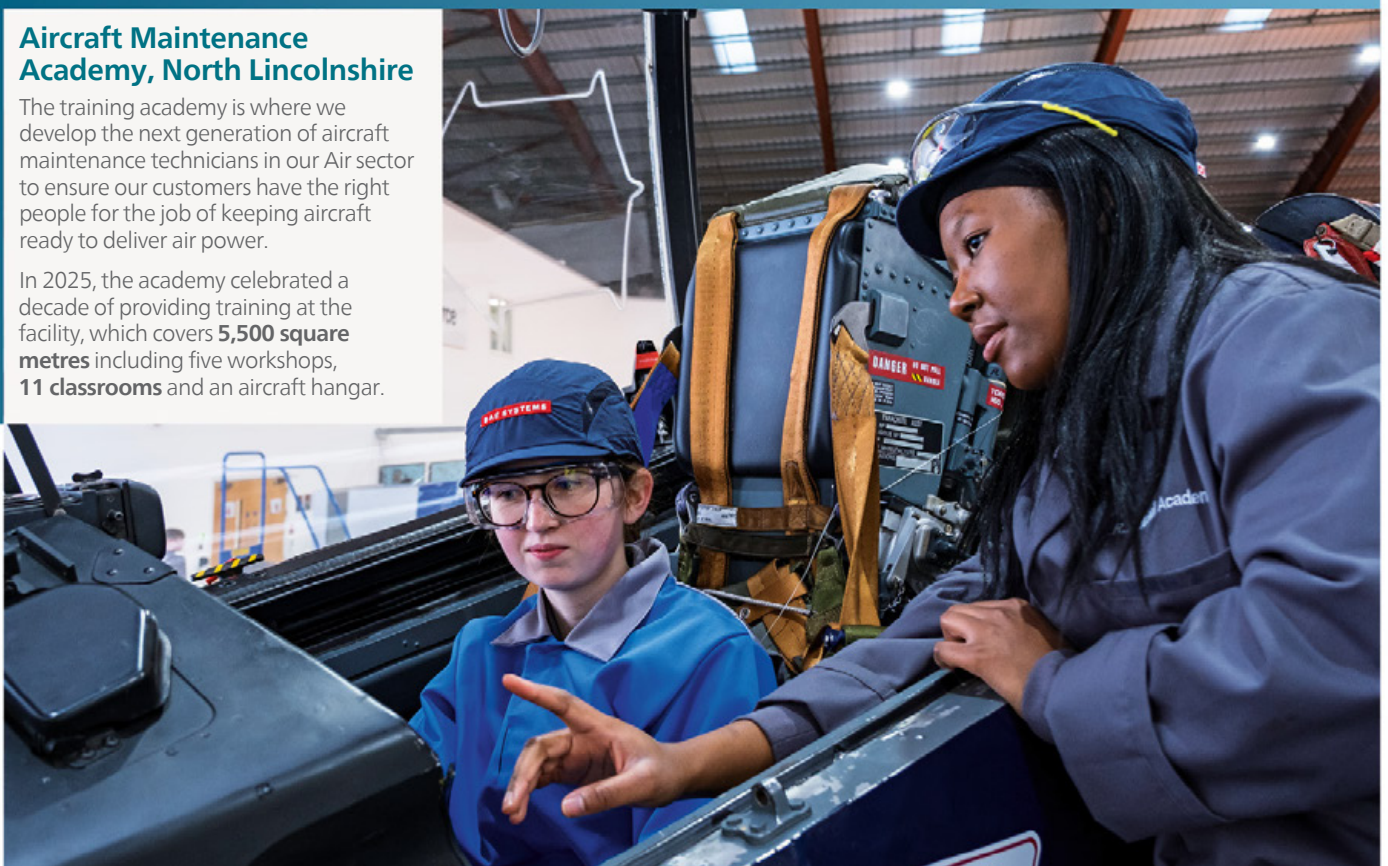
The academy is the learning hub for continuing development of all employees in our Air sector. We have invested more than £20m in the academy to ensure our people have the skills ready to continue engineering and manufacturing military aircraft of the future, and more than 300,000 people have walked through its doors since opening in 2016.

The academy covers **7,400 square metres** and includes **43 learning spaces** across laboratories, training rooms, practical workshops and a virtual reality cave. The academy's education station offers an exciting learning area to inspire visiting school children to consider STEM careers.

Aircraft Maintenance Academy, North Lincolnshire

The training academy is where we develop the next generation of aircraft maintenance technicians in our Air sector to ensure our customers have the right people for the job of keeping aircraft ready to deliver air power.

In 2025, the academy celebrated a decade of providing training at the facility, which covers **5,500 square metres** including five workshops, **11 classrooms** and an aircraft hangar.



Our investment in our people and communities

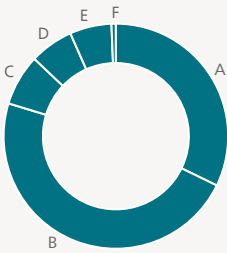
We are committed to investing in our people and having a positive impact on the communities where we operate.

Total employees¹

111,400

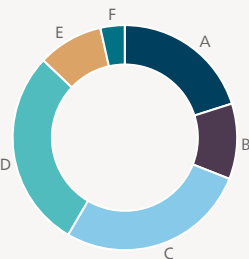
In 2025, we increased our workforce by 4%.

Employees¹ by location



A US	35,900	32%
B UK	52,900	48%
C Europe	8,200	7%
D Kingdom of Saudi Arabia	7,000	6%
E Australia	6,700	6%
F Other	700	1%

Employees¹ by sector



A Electronic System	22,400	20%
B Platforms & Services	12,100	11%
C Air	30,600	27%
D Maritime	31,900	29%
E Cyber & Intelligence	10,500	9%
F HQ/Other	3,900	4%

Investing in our people

Our people are at the heart of everything we do, from advancing the next generation of defence and security solutions to making a difference in the communities where we operate. That is why we are committed to investing in the skills of both our current and future workforce and to creating inclusive workplaces that attract, develop and retain the very best talent.

We aim to deliver this through:

- a competitive employee value proposition that rewards merit;
- strategic recruitment initiatives;
- targeted talent development;
- a positive, learning-focused workplace;
- strong succession planning; and
- creating an inclusive and respectful culture where everyone can belong and thrive.

>£1bn

Spent on education and skills in the UK since 2020

Strategic workforce planning

In 2025, we invested in education, training and skills to strengthen the ability of our workforce to drive innovation, business performance and growth. We recruited across all career stages, with a commitment to attracting and retaining talent from a range of backgrounds, to ensure that we have the right skills in the right places at the right time.

We worked to recruit people with skills essential to delivering complex national security and defence programmes and prioritised building digital capabilities across our workforce, recognising their growing importance.



Record number of young people in training

In 2025, we had more than 6,800 young people in training across our UK operations. This includes around 5,100 apprentices and 1,700 graduates and undergraduates in training and marks a significant milestone in our commitment to developing the next generation of British talent.

In 2026, we are planning to recruit more than 1,100 apprentices and around 1,200 graduates and undergraduates in the UK, offering opportunities to work on some of the world's most advanced defence and security programmes. These early careers employees will contribute to projects of significant international importance, including the Global Combat Air Programme, the UK's next-generation SSN-AUKUS submarines and Type 26 frigates, alongside emerging technologies such as cyber, space and drone capabilities.

1. As at 31 December 2025 and including share of equity accounted investments.

In the US, as part of our efforts to identify, acquire, measure and develop the skills needed to execute our business plan, we rolled out “My Career Profile”. This gathers employees’ work experience, skills and education and maps them on to an enterprise skills database, providing insight as to where their next role within BAE Systems may lie. This is an integral part of our new “Career Connect” virtual career centre, which is designed to support internal mobility through coaching, networking and other resources.

Further key initiatives included:

- the launch of a new employer brand campaign, “Pioneer + Protect” in the UK and international markets, to complement the “Where Purpose Connects” campaign launched in the US in 2024;
- the development of a new learning and development strategy to ensure the delivery of high-quality training and development pathways for employees at every career stage; and
- strengthened development programmes aiming to build leadership capability and ensure long-term workforce resilience.

Looking ahead to 2026, our priorities include enabling greater opportunities for development and long-term career paths for our people, while continuing to build the critical capabilities needed to support defence and security programmes.

Learning and development

We invested in education and skills, creating opportunities for our people to keep learning and developing throughout their careers and enabling us to meet customers’ needs, today and into the future. Our Global Digital Academy continued to evolve and scale its digital skills provision, engaging over 8,000 employees. We prioritised the introduction of learning packages focused on cyber awareness, AI and digital effectiveness, as well as a variety of digital specialist technical training.

Since 2020 in the UK, we have spent over £1bn on education and skills. This includes training delivered at our dedicated academies at Samlesbury, North Lincolnshire, Barrow-in-Furness and Scotstoun, which officially opened this year.

Our comprehensive leadership development portfolio has equipped over 10,000 leaders and managers across the UK, Australia, Kingdom of Saudi Arabia and Qatar with the skills needed to meet both current and future leadership challenges. In the UK, this included opening our Submarines Leadership Academy in Barrow-in-Furness. The new academy will deliver over 4,000 learning places per year and is designed to equip delegates with a comprehensive range of skills to improve their leadership abilities to support the design and build of Royal Navy submarines.



In the Kingdom of Saudi Arabia, our AGDR strategic leadership programme saw the graduation of its second cohort and the commencement of its third cohort. The programme focuses on empowering women, growing their capabilities and supporting their progression to leadership roles within the Group. We also delivered 20 Leadership Development centres for around 140 managers in the Kingdom.

In the US, the number of executive and leadership coaching engagements with external resources more than doubled. These investments in leadership capability are highly customised and designed to accelerate the development of new skills and behaviours necessary for leading the workforce of today and the future.

In addition, we developed a new long-term learning and development strategy that we will start to implement in 2026, with a focus on promoting a culture of learning and growth, building an efficient global skills ecosystem and further enabling the transfer of expertise and experience between markets.

Early careers

We continued to invest in our award-winning early careers programmes, designed to attract, recruit and develop future talent for our business.

In the UK, 2,274 people joined our early careers programmes, including 1,162 apprentices and 1,112 graduates and undergraduates. In 2025, we had a total of 5,146 apprentices in training across the UK (4,653 in 2024). We were proud to be ranked second in the Department for Education’s 2025 Top 100 Apprentice Employers (up from sixth in 2024).

We continue to grow our Australian apprenticeship programme and welcomed our largest ever cohort of apprentices into our South Australian Operations.

In the US, we continued our Learn, Engage, Apply and Progress (LEAP) intern programme with nearly 470 participants in 2025. Many students who take part in LEAP choose to join BAE Systems on graduation. LEAP also garnered national attention with our ranking as a “top internship program” for Engineering, Data Analytics, Information Technology and Finance on the 2025 Vault Internship Survey.

Pathways into STEM careers

In partnership with government, educational institutions and other stakeholders, we are working to broaden and strengthen pathways into STEM careers, both within BAE Systems and the wider defence industry. In the UK this includes work with UCAS, Skills England, the Department for Work and Pensions and Movement to Work (see page 54) to improve access and opportunity to join the defence industry.

We delivered 918 in-person UK work experience placements and 228 virtual work experience placements. We are proud to have entered into a strategic partnership with the University of Cumbria to support the establishment of its new campus in Barrow-in-Furness. The campus was completed in 2025 and aims to be a catalyst for growing higher education participation in the local area. In Australia, we partnered with the South Australian Government to become an employment partner for the Heights Technical College. Through this partnership, we are working collaboratively with the government to create new pathways into the defence industry.

Details of our education roadshow and STEM outreach are below on page 54. Our partnership with FIRST® (For Inspiration and Recognition of Science and Technology) in the US is also featured on page 54.

Our investment in our people and communities continued

Safety, health and wellbeing

Our people’s safety, health and wellbeing are an enduring priority. Throughout 2025, keeping our people safe at work and supporting them to manage their health and wellbeing remained our priority. This included ongoing mandatory safety training and embedding our BAE Systems Life Saving Rules (or US equivalent Life Saving Commitments) across the business. Our senior leaders continue to provide visible leadership on health, safety and wellbeing, led by our Executive Committee.

Safety

We have multiple programmes in place to support the safety of our people and reinforce a strong safety culture. Our focus is on preventative safety management, aiming to identify, remove and mitigate the most significant health and safety hazards that could potentially lead to a Significant Injury or Fatality (SIF). Among several tools across our UK and international sites, we use our safety data platform, Shield, to access data to advance our efforts on SIF prevention. We will deploy an equivalent platform in the US in 2026.



Safety data

In 2025, the recordable injury rate decreased by 6% from 2024. The primary root causes for recordable injuries sustained during 2025 were related to slips, trips and falls (24%), and handling, lifting and carrying (23%).

Major injuries decreased by 9%. The occurrence of serious injury and fatality non-fatal actual events continues to decrease from the data baseline set in 2021.

Looking ahead, we will continue to focus on the capacity and capability of our leaders to manage high-hazard exposure work areas, learning from wider industry best practices to keep driving the evolution of our safety, health and environment programmes and emphasis on SIF prevention.

Health and wellbeing

We offer a wide range of resources and programmes to support the health and wellbeing of our people. In 2025, we created a new digital hub called ‘My Wellbeing’ for our UK employees, making it easy to find resources. ‘My Wellbeing’ is aligned to life moments, from starting a family, to retiring, to dealing with a health or financial issue.

In the UK, our employee assistance programme is available 24/7, offering health support and confidential counselling, as well as legal and financial information.

In the UK, we have trained more than 400 mental health first aiders, who provide a confidential point of contact for any employee experiencing a mental health issue. Our UK employees and their families also have access to Unmind, a mental health app which provides a range of tools.

In 2025, we launched an additional pilot programme with Unmind, allowing employees to access virtual counselling via a network of qualified counsellors.

In the US, we launched a new, comprehensive portal to provide ease of access to the full range of health, finance and wellbeing benefits we offer to help employees thrive and care for themselves and their families. Key wellbeing resources include free support through our Confide/Employee Assistance Programme to help our employees be their best, at work and at home.

Recordable injury rate (per 100,000 employees)¹

	BONUS	KPI
2025		432
2024		459

Major injury rate (per 100,000 employees)¹

	BONUS
2025	43
2024	47

BONUS

The award of the executive directors’ bonuses is dependent upon achievement of improvements in both safety and workforce culture (see page 115).

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

People and culture

Our ambition is to have a high-performing workforce that enables business performance and growth through a culture of operational excellence where all our employees feel respected and valued and that they can contribute fully to our mission. We do this working in collaboration with employees and external partners, to create a supportive working environment, with access to opportunity for all.

For our Employment of Disabled Persons statement please see page 128.

Engaging our employees

We work with our leadership and employees on a range of initiatives to create an environment where everyone feels empowered to contribute and perform at their best.

We recognise that we have a multi-generational workforce and are working to understand specific needs to be able to work effectively at BAE Systems.

We conduct regular surveys on employee experiences and culture and learn from their findings.

We expect all employees to treat each other with dignity and respect, and we do not tolerate discrimination or harassment in any form. In 2025, in the UK, we delivered focused employee communications campaigns and training around the themes of 'do the right thing' and 'speak up' to help build and maintain a positive culture of respect.

We have been re-accredited as a menopause-friendly workplace by Henpicked in the UK and Menopause Friendly in Australia.

Support for veterans

We are proud to have been awarded joint first place for Top 50 Employers of Veterans at the British Ex-Forces Awards and the Silver Award at the English Veterans Awards, Employer of the Year.

In the US, highlights included a Gold Award as a Military-Friendly Employer, coupled with recognition as a Best for Vets Employer by Military Times Magazine and a Top Veteran-Friendly Employer by US Veterans Magazine.

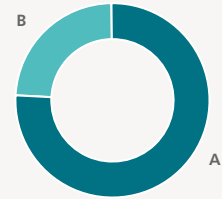


Recognising and celebrating our people

Our global recognition programme, Stars, is our opportunity to recognise and reward colleagues for their achievements and contribution. Stars awards align to our strategic priorities to give everyone a chance to be recognised for delivering exceptional work in support of our mission.

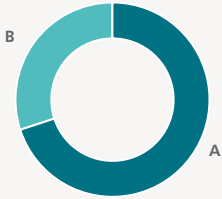
Gender balance¹

All employees²



A	Men	79,000	76%
B	Women	25,000	24%

Senior managers³



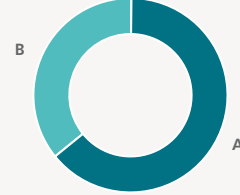
A	Men	257	70%
B	Women	109	30%

Executive Committee



A	Men	8	62%
B	Women	5	38%

Board



A	Men	7	64%
B	Women	4	36%

- As at 31 December 2025 and excluding share of equity accounted investments.
- Rounded to the nearest thousand employees. BAE Systems Internal Audit has reviewed the systems, processes and controls in place to collate, validate and report this data. Based on the procedures and the evidence obtained, nothing has come to its attention that indicates the disclosures have not been properly prepared in accordance with systems, processes and controls.
- Senior managers has the meaning given to that term by section 414C(9) of the Companies Act 2006. Senior managers are defined as employees (excluding executive directors) who have responsibility for planning, directing or controlling the activities of the Group or a strategically significant part of the Group and/or who are directors of subsidiary companies. This includes the Executive Committee (excluding executive directors) and their direct reports.

Our investment in our people and communities *continued*

Supporting our communities

We are dedicated to making a meaningful difference in the communities where we live and work, focusing on areas that align with our values and business priorities. This includes supporting the armed forces and inspiring the next generation through our STEM education outreach programmes.

Community investment

Through donations, fundraising, volunteering and working closely with our charitable partners, our community investment initiatives aim to create lasting impact.

In 2025, we donated £12.2m to community and charitable projects and 36,182 hours of employee volunteering time.

UK highlights included partnering with the Royal British Veterans Enterprise on its Great Tommy Sleep Out campaign, which raised more than £2m to help veterans who are experiencing homelessness. We also supported the Royal British Legion's annual Poppy Appeal.

In the Kingdom of Saudi Arabia, among a range of community investment and educational initiatives across the Kingdom, we donated clothes and books to 20,000 disadvantaged people and provided 1,000 school bags to underprivileged students. In Australia, we launched our inaugural community investment grant programme and our Legacy Week fundraiser raised over AUS\$10,000 in employee giving.

Inspiring young people

Alongside our skills development initiatives, we continued to expand our global STEM education outreach programmes. These efforts are designed to inspire the next generation to pursue careers in science, technology, engineering and mathematics.

Our UK education roadshow, delivered in partnership with the Royal Air Force and the Royal Navy, reached 535 schools and more than 136,500 young people. This programme is in its 20th year and has reached over 1.4m young people in this time. In 2026, the roadshow will be delivered in schools and via live stream, aiming to reach even more young people.

We continued to deliver Coding Success in partnership with the Royal Air Force, which has so far reached 1,000 schools. We provide schools with a full kit including Lego robots and coding training for teachers. STEM Roving Robots, a programme we deliver in the UK and Australia, with roll-out also planned for the Kingdom of Saudi Arabia, has reached over 3,000 young people to date.

In the UK, our education outreach conducted by our STEM ambassadors in local schools reached around 215,000 young people in 2025. We have more than 2,400 registered STEM ambassadors.

36,182 hours

(2024 40,959 hours)

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

In the US, we continued our decades of support for *FIRST*®, both locally and nationally as the presenting sponsor of the 2025 *FIRST* Robotics National Championship, which had more than 50,000 attendees from 66 countries. More than 280 *FIRST* teams received support from BAE Systems during the season and 59 of them advanced to the championship.

In addition, we are partnering with Girls Who Code in the US to support its Pathways Program, which is designed for high school students to explore web development, cyber security, data science and an artificial intelligence curriculum.

Creating opportunity

To help more young people into work in the UK, we helped found Movement to Work in 2014. Working in partnership with The King's Trust and The Launch Group we deliver a three-week programme to support young people in developing their employability, vocational skills, knowledge of the workplace and confidence. This includes work experience at BAE Systems. The programme has proven highly successful, with over 60% of participants advancing to full-time roles, further education or training. A significant number have secured permanent positions at BAE Systems, primarily through apprenticeships.

Working with Movement to Work from 2014 to 2025:

- we welcomed 80 cohorts of young people across six business units;
- 1,028 young people completed placements at BAE Systems;
- more than 640 young people who completed the programme went on to either take up a role with us or another employer or return to education or training;
- 343 young people secured roles in our company, including 246 who joined an apprenticeship programme; and
- our Movement to Work cohorts have a 92% programme retention rate (exceeding our target of 90%).

In 2026, we will increase the number of placements we can offer in our UK business from 100 to 135.



Sparkling innovation and inspiring tomorrow's thinkers at the *FIRST*® Championship



Supporting First Nations communities

In Australia, our commitment to support First Nations communities through long-term practical outcomes across community engagement, employment and supply chain was formalised through our fourth Reconciliation Action Plan. At the Osborne Naval Shipyard, we undertook initiatives to work alongside local First Nations leaders on two main pillars of Building Local First Nation’s Workforce Capability and Connecting Osborne Naval Shipyard to Culture. Our initiatives to support these pillars have included leadership training, targeted employment campaigns and cultural education and understanding workshops.

£12.2m¹

(2024 £12.7m)

Contributed to local, national and international organisations throughout the year

Support for veterans and the armed forces

Our support for the armed forces community includes partnering with charitable organisations to support veterans, serving personnel, their families and heritage institutions through community investment. We are also committed to being a preferred employer for service leavers and reservists. We recognise the exceptional talent within the armed forces and aim to be a top choice for those transitioning to civilian careers.

In the UK, we work closely with the Careers Transition Partnership sponsored by the Ministry of Defence, and we were jointly named ‘Employer of the Year’ at the British Ex-Forces Awards.

Launched in 2020, ForcesNet is our UK employee-led group that brings together and supports colleagues who are veterans, reservists and cadet force adult volunteers. It now has more than 1,200 members and offers camaraderie and coaching for armed forces leavers as they transition into new careers at BAE Systems.

In the US, our teams participated in more than 50 military and veteran hiring events and expanded our engagement with the SkillBridge Program. We are also a corporate partner in support of the US Chamber of Commerce “Hiring Our Heroes” programme and a presenting sponsor of the “Hire Vets Now” statewide initiative in Virginia.

We proudly work with military charities to make a positive impact and preserve national military heritage. Over the past five years, we have committed more than £18m globally to the armed forces community, directly via donations and sponsorships and through employee volunteering and fundraising.

In the UK, we supported many military charities and their work, including making a commitment of £400,000 to the Royal British Legion’s BattleBack Centre and Admiral Nurse Service – a specialist service helping the armed forces community and their families living with dementia.

The Armed Forces Covenant

The UK’s Armed Forces Covenant is a promise by the nation to ensure that those who serve in the armed forces are treated fairly. We were one of the first signatories in 2013, and we hold a Gold Award in the Ministry of Defence’s Employer Recognition Scheme.

We revalidated our commitments in 2022 and refreshed them in 2025 to align with key objectives in the UK Government’s Strategic Defence Review.

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

Climate and the environment

We have made progress in managing our climate-related risks and advancing and integrating our decarbonisation strategy.

Our decarbonisation strategy aims to mitigate the potential impacts of the material transition risks we have identified by underpinning business operations, growth and resilience and delivery of capability to our customers. Our business continuity mitigations respond to climate-related physical risks.

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

Our decarbonisation strategy includes:

- taking action to reduce our operational GHG emissions in support of our Scope 1 and 2 GHG emissions reduction targets;
- supporting our customers on their climate plans by developing energy efficient products and services while maintaining military operational advantage;
- engaging suppliers across markets on their decarbonisation programmes;
- engaging and developing the skills and capabilities of our employees to drive innovative solutions for energy management and resource efficiency across our operations and the product lifecycle;
- seeking to mitigate adverse environmental impacts and being good stewards of the environment in the locations where we operate; and
- partnering and collaborating with defence peers, through industry associations, and with academia and government to address climate and environment matters.

How we manage climate-related risk

We have assessed our material sustainability impacts, risk and opportunities (see our Double Materiality Assessment on page 221) which identified climate adaptation and climate mitigation as being a material sustainability issue and have conducted dedicated climate risk assessments.

Climate and environmental risks are embedded in our approach to risk management (see page 62).

Climate and environmental risk is addressed within the Group's principal risks: climate transition and environmental factors; business interruption; and legal risk (see pages 70 to 72).

Climate scenario planning

We use climate scenarios to assess the resilience of our business, decarbonisation strategy and our approach to managing potential future climate-related risk, including the impact on our financial results.

➤ [Climate Scenario Planning Page 226](#)

Climate-related transition risk

Our decarbonisation strategy addresses our climate-related transition risks. An overview of activities we have undertaken in 2025 to implement our strategy are explained in this section and on page 226.

Climate-related physical risk

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

The higher-impact risks of flood and wind-related storms are our key focus due to the potential interruption to the business these events could cause. We also review data on heat waves, drought, heat and cold stress and seek to understand where these may potentially impact operations. We plan to conduct reviews approximately every three years, but we may conduct them sooner if there is a material change in external climate scenarios or in the quality or availability of climate data.

Of our 510 sites globally, 70¹ have been identified as potentially having high exposure to physical climate-related risks. We have undertaken detailed reviews across prioritised high-risk sites to assess potential impacts and identify mitigations.

Examples include raising floor elevations as required to mitigate impacts of flooding, moving operations to other areas of a site as necessary, increasing ship lift height to mitigate rising sea levels, increasing roof structure tolerances to support additional snow loads and power outage response assessments.

➤ Further information on physical risk can be found on [Page 229](#).

Decarbonising our operations

The decarbonisation of our operations underpins business resilience over the long term.

Our near-term absolute target and KPI, embedded in long-term incentives (see page 106) is to reduce GHG emissions across our operations (Scopes 1 and 2) by 44% by 2030, reducing operational emissions by 4.2% year-on-year.

Following the integration of SMS into our environmental data systems in 2024, we recalculated our 2020 GHG emissions baseline in 2025 to include the emissions from this business, in line with our GHG reporting methodology. Our updated 2020 baseline for scope 1 and 2 GHG emissions is 526,434 tonnes CO₂e. The integration of SMS has added 39,037 tonnes CO₂e and the impact of these emissions is not deemed significant to our targets.

Against our near-term absolute target, based on our recalculated 2020 GHG emissions baseline (explained above), we have reduced our absolute GHG emissions by 35% since 2020.

Our progress towards and ability to meet these targets will be affected by the significant uncertainties around the transition to a low-carbon economy and is likely to be non-linear.

1. Increased from 66 to 70 sites due to the integration of SMS acquisition during 2024

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

In line with our obligation under UK Listing Rule 6.6.6R(8), we can confirm that we have made disclosures consistent with the TCFD Recommendations and

Recommended Disclosures (including the implementing guidance set out in the 2021 TCFD Annex). Please go to page 222 to view a table that summarises our disclosures

relating to the four TCFD Recommendations and 11 Recommended Disclosures as required by UK Listing Rule 6.6.6R(8).

Our progress will also be dependent on a wide range of factors, some of which will be beyond our control including market and policy developments, material scarcity, technological developments and the progress of our customers and suppliers as they seek to decarbonise their own operations, products and services. We will keep our performance and approach under review, taking into account all relevant business considerations.

During 2025, our overall GHG emissions have decreased by 8.9%.

We continued to progress activities to meet our near-term target. We have a strategic energy management programme in place which focuses on resource efficiency and resilience improvements and planning to drive carbon reduction, while factoring in business growth.

As part of our continued our efforts to transition to renewable energy, we have a number of power purchase agreements (PPAs) in place covering wind and solar projects. During 2025, in the UK and Australia, we commenced local to private wire and self-generation renewable supplies at key industrial sites and, in the UK, we also signed a solar corporate PPA.

Our long-term energy strategy includes investment in long-term renewable generation and supply, which supports price certainty and energy security.

In the UK, at the end of 2025, we had renewable energy source contracts in place to meet 60% of our future energy requirements. To support our near-term absolute GHG reduction target, we aim to have 90% of our UK electricity requirement met from renewable sources by 2030, subject to commercially reasonable availability and our business outlook.

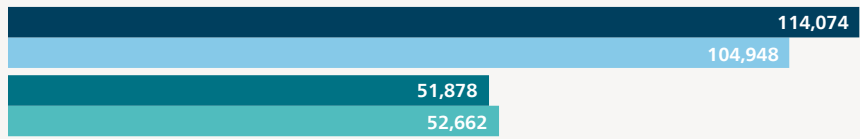
In the UK, we successfully trialled the use of alternative fuels (HVO) for our fleet vehicles and plant operations and sustainable aviation fuel in our flight operations. Following the success of trials we commenced a small-scale transition of fleet vehicles and plant operations to HVO. Our UK sites will continue to assess the most efficient transition plans to support our decarbonisation strategy.

We developed and rolled out a global energy efficient building standard, incorporating energy efficiency and modern building standards into both refurbishments and new building investments, to help us optimise our energy resilience and reduce our energy consumption. We also proactively manage our real estate and have undertaken site consolidation across our markets.

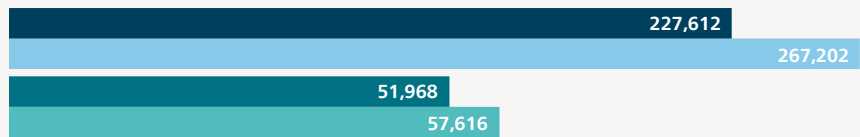
Across all major sites we have implemented energy efficiency measures, reducing like for like consumption. Examples include replacement of lighting to energy efficient LED lights, upgraded heating and cooling systems and continual improvement of real

GHG emissions data^{1,2}

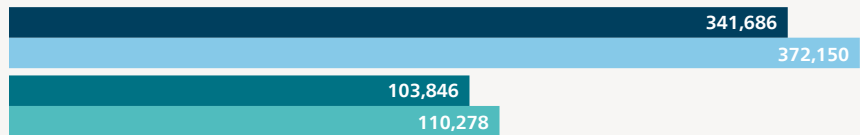
1. Emissions from activities which BAE Systems owns or controls (Scope 1)



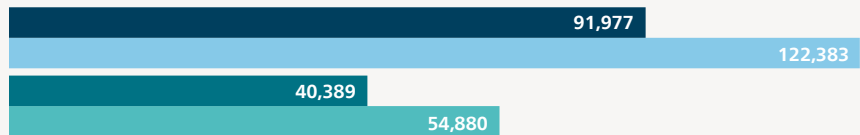
2. Emissions from the electricity, natural gas and steam purchased for BAE Systems' use (Scope 2 – location-based)



Total gross Scope 1 and 2 emissions



3. Emissions from employee business travel included in Scope 3



2025 Global tonnes CO₂e
 2025 UK tonnes CO₂e
 2024 figures
 2024 figures

➤ For our GHG emissions and Streamlined Energy and Carbon Reporting (SECR) data - [Page 230](#)

1. Relevant reporting period 1 January to 31 December.
 2. Deloitte has provided independent limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) and Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the International Auditing and Assurance Standards Board (IAASB) for the year ended 31 December 2025 only. Deloitte's full unqualified assurance opinion, which includes details of the selected metrics assured, can be found at baesystems.com/annual-report.

estate to higher energy efficient standards through refurbishment, retrofit, site rationalisation and transition to electrified heating systems.

Climate and the environment continued

Value chain

We continue to work towards our long-term absolute target of achieving a net zero value chain by 2050.

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

During 2025, we continued to work with our customers to develop and deliver products and services that support their operational efficiency and capability.

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

- energy efficiency;
- alternate fuels and in situ energy production;
- electrification programmes;
- new technology opportunities; and
- identifying opportunities to enhance longer-term capability.

20–30%¹ of defence industry emissions come from upstream activities, so it is key that we collaborate and partner with our suppliers. We estimate, using recognised spend methodology, that 80% of our scope 3 category 1 emissions² come from less than 4% of suppliers. We are prioritising engaging with these suppliers, many of whom already have active decarbonisation programmes in place.

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

We conducted initial analysis of critical raw materials that are essential for the production of advanced military technology (see page 227 for scenario planning), which includes potential climate and environmental impacts. We are researching how we can replace critical minerals with alternative materials and identifying opportunities to recover and recycle materials.

Environmental stewardship

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

- using energy efficiently; and
- improving efficiency of operations to reduce and optimise all types of waste (eg hazardous, non-hazardous, radioactive) where we can.

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

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

We are taking a business-led approach to waste and driving improvement programmes and activities related to reducing consumption of materials used. In the UK, we reviewed waste data to understand business variability to provide process improvement diagnostics. For example, analysing waste aligned to production stages to reduce waste and repurpose materials. Whilst there have been improvements in some areas with specific waste reduction initiatives, overall increases are driven largely by activity levels in the Platforms & Services sector.

In the UK, we have a number of collaborations underway, with academic institutions, focused on energy transition and materials resilience.

We collaborate with customers, trade groups and suppliers on potential business impacts and regulatory changes, for example, relating to perfluoroalkyl and polyfluoroalkyl substances.

Biodiversity and natural capital

We undertake surveys and assessments to better evaluate and understand how our facilities and operations can impact the surrounding natural habitat to enable us to address impacts where appropriate.

In the UK, we are factoring the Biodiversity Net Gain legislation into the significant level of new infrastructure and development across our sites.

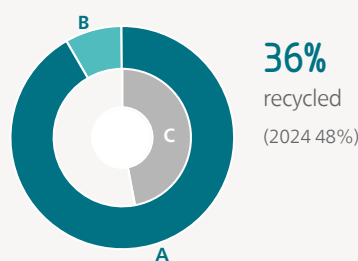
Employee engagement

We recognise that mitigating climate change and protecting the environment are important to many of our employees.

We engage our employees through special interest groups, seminars and awareness sessions. Our Early Careers Sustainability group in the UK organised a series of 'lunch 'n learn' sessions to coincide with COP 30.

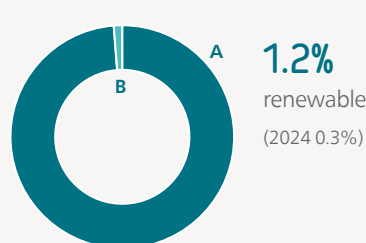
Key environmental data

Waste production (tonnes)³



	2025	2024
A Non-hazardous	68,576	55,305
B Hazardous	7,408	4,952
Total	75,984	60,257
C Recycled	27,417	29,200

Electricity consumption (kWh)⁴



	2025	2024
A Grid	762,699,555	803,847,418
B Renewable	9,437,194	2,505,945
Total	772,136,749	806,353,363

➤ Other sustainability information/
GHG methodology statement [page 231](#)

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

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

2. Category 1 - Purchased goods and services.

Ethics and compliance

Our approach to business includes a robust ethics and compliance programme.

Ethics and compliance

Our industry is among the most highly regulated of any sector. Our global Operational Framework sets out our approach and the mandated policies and processes which apply across all wholly-owned entities.

Anti-corruption programme

Our customers, shareholders, partners and employees expect the highest standards when it comes to anti-corruption. We support our employees in understanding the vital role they have in helping the business to meet those standards and in respect of business conduct compliance more generally. We do not tolerate corruption in any of its forms.

Our anti-corruption programme is designed to identify, manage and mitigate corruption risks and enable the company to adhere to all relevant legal and regulatory requirements recognising the bribery and corruption risks the Group faces (see legal risk on page 71). The programme provides our employees with practical guidance, helps them to understand what is expected of them and creates an

environment where they feel they can confidently and, anonymously if needed, ask questions and raise concerns.

Our ethics programme

Our global Code of Conduct lays out the standards and behaviours that we expect of all employees and outlines the ways in which anyone can seek help and guidance. Our Code is supported by a training and engagement programme. All of our employees are required to complete live, manager-led ethics training annually alongside e-learning programmes of role-specific training, for example on trade controls.

We value openness and strive to create a culture where people feel they can speak up freely and report issues and concerns without fear of retaliation.

Employees can raise a concern through four primary channels: via our Ethics Officers; by email; on the telephone; and online reporting to our externally run Ethics Helpline service. Our Ethics Helpline permits anonymous reporting and is also open to third parties.

Our Ethics Officers receive training to equip them with the skills to provide guidance to employees raising a concern.

During 2025, we received 2,099 reports, reflecting a 22% increase globally from 2024; an increase driven across all businesses. The growth reflects our expanding operations and continued efforts to promote a speak up culture.

During 2025, 56% of reports were resolved and closed through guidance, compared to 49% in 2024. Reporters seeking guidance has increased, with the substantiation rate of allegations at 31%.

Our anonymity rate remained at 27% for the second consecutive year, remaining below the global benchmark rate of 54%³. 35% of reports were made directly to Ethics Officers in 2025 – we encourage this route for raising reports, as it allows for an immediate response by someone familiar with the local situation.

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

Total ethics enquiries¹

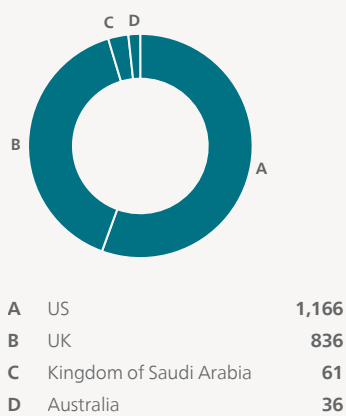


Anonymity rate



(2024 27%)

2025 ethics enquiries by region



Number of ethics officers

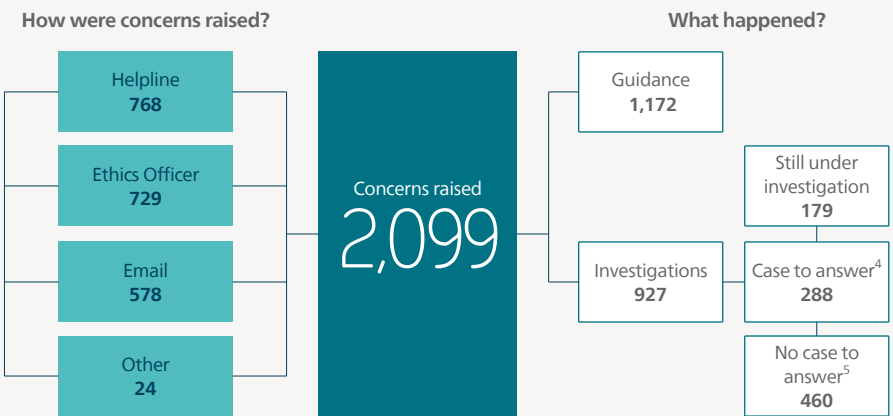


Code of Conduct training



(2024 99%)

How our Ethics Helpline has been used



1. BAE Systems Internal Audit has reviewed the systems, processes and controls in place to collate, validate and report this data. Based on the procedures and the evidence obtained, nothing has come to its attention that indicates the disclosures have not been properly prepared in accordance with such systems, processes and controls.
 2. Represents a dismissal rate of 0.36% based on 2025 headcount (compared to 0.33% in 2024).
 3. Navex 2025 anonymity benchmark.
 4. Case to answer is defined as the investigation has concluded that, based on the information reviewed, the alleged breach of policy or misconduct is credible and supported by evidence.
 5. No case to answer is defined as the investigation found insufficient evidence, or the information does not support that a breach of policy or misconduct occurred.

Ethics and compliance *continued*

Working with our supply chain

It is important that we collaborate and partner with our suppliers and the steps we are taking are detailed below.

In 2025, we spent £16bn with more than 22,000 directly contracted suppliers worldwide. These relationships are often long-lasting due to the complexity of our products and their long lifecycles, so it is critical that our suppliers adhere to our Supplier Code of Conduct.

We communicate our expectations of our supply chain through our Supplier Code of Conduct, which we share with all our directly contracted suppliers.

Our Supplier Code of Conduct covers supplier workplace, labour standards, employee business practices and wider topics of focus.

We are keen to continue to build our networks with companies, particularly small businesses, both within and external to our current supply chain, seeking to strengthen existing relationships, build new and novel ones, where appropriate, and continue to take actions that support businesses both within local communities and the broader defence sector.

During 2025, we undertook an annual risk-based assurance activity to assess our suppliers' adoption of our Supplier Code of Conduct and to identify any areas that required investigation and/or mitigation. We completed this assurance activity with directly contracted suppliers representing more than 31% of our global spend.

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

Conflict minerals

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

UK Fair Payment Code

BAE Systems plc and a number of its UK subsidiaries are awardees of the UK Fair Payment Code and we are committed to paying our suppliers promptly and in accordance with agreed terms. The Fair Payment Code requires a commitment to the principles of being clear, fair and collaborative with suppliers. Adoption of appropriate payment practices is of significant importance to us, and ensuring that we pay invoices on time is a key focus for our UK businesses.

Human rights

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

Our Human Rights Statement outlines our approach to activities that fall under the full, direct control of the Group, including in relation to anti-corruption and the environment, as well as our workplace, supply chain, local communities and products. Our Supplier Code of Conduct sets out the human rights principles we expect of our suppliers.

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

Reporting, disclosure and assurance

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

Double materiality assessment

Sustainability is integrated into our Group strategic framework (see page 16).

To understand the sustainability impacts, risks and opportunities that are relevant for our business we engage internal and external stakeholders, via a materiality assessment (see page 221).

Our sustainability agenda addresses material risks and opportunities identified from this assessment.

For an update on activities that support our sustainability agenda please review the following sections of this report - Our investment in people and communities, Climate and the environment, Ethics and compliance, TCFD statement and Climate Scenario planning.

We plan to run our materiality assessment every three years or sooner in the event of material changes to the business.

In 2024, we conducted our first double materiality assessment to support future compliance with any reporting under the EU Corporate Sustainability Reporting Directive.

➤ Additional information [Page 221](#)

Sustainability reporting boundary

The reporting boundary for sustainability information and data, including our investment in people and communities, climate and environment and the responsible business section, covers wholly- and not wholly-owned subsidiaries, but excludes equity accounted investments. Data includes organisational changes made in 2025.

Our approach to UN Sustainable Development Goals

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

➤ For more information please visit our website www.baesystems.com/en/sustainability

Assurance of data

External assurance of GHG emissions (page 57), energy (page 230) and community investment (page 54) data is provided by Deloitte LLP.

➤ Deloitte's full unqualified assurance opinion, including details of the selected metrics assured www.baesystems.com/annual-report

Non-financial and sustainability information statement

The 'Our investment in our people and communities', 'Climate and the environment' and 'Ethics and compliance' sections constitute the non-financial and sustainability information statement as required by the Companies Act 2006 as amended, together with the 'Our stakeholders and work of the Board', 'Our business model' and 'risk' sections listed in the table below, which are incorporated in this non-financial and sustainability information statement by reference:

Topic	Our principles, policies and standards that govern our approach	Where to find information in this report
Environmental matters and climate-related disclosures	<ul style="list-style-type: none"> – Climate Response and Environmental policy – Decarbonisation strategy – Supplier Code of Conduct 	<ul style="list-style-type: none"> ➤ Climate and the environment Page 56 ➤ Addressing climate risks (TCFD) Page 222 ➤ Climate Scenario Planning Page 226
Employees	<ul style="list-style-type: none"> – People policy – Health and Safety policy – Communications policy – Code of Conduct – Personal Data Protection policy 	<ul style="list-style-type: none"> ➤ Our stakeholders and work of the board Page 85 ➤ Our investment in our people and communities Page 50
Respect for human rights	<ul style="list-style-type: none"> – Code of Conduct – Human Rights Statement – People policy – Product Trading policy – Modern Slavery Statement – Supplier Code of Conduct 	<ul style="list-style-type: none"> ➤ Ethics and compliance Page 59
Social matters	<ul style="list-style-type: none"> – Community Investment policy – Commercial policy – Lobbying, Political Donations and Other Political Activity policy – Dignity and Respect Standards, in support of our global workplace culture vision – Supplier Code of Conduct 	<ul style="list-style-type: none"> ➤ Our stakeholders and work of the board Page 85 ➤ Ethics and compliance Page 59 ➤ Environmental, social and Governance Committee report Page 101 ➤ Our investment in our people and communities Page 50
Anti-bribery and corruption	<ul style="list-style-type: none"> – Gift and Hospitality policy – Finance policy – Conflicts of Interest policy – Facilitation Payments policy – Advisers policy – Fraud Prevention policy – Lobbying, Political Donations and Other Political Activity policy – Procurement policy – Supplier Code of Conduct 	<ul style="list-style-type: none"> ➤ Ethics and compliance Page 59 ➤ Governance framework Page 82
Description of principal risks relating to topics mentioned above	<ul style="list-style-type: none"> – Risk Management policy 	<ul style="list-style-type: none"> ➤ How we manage risk Page 62
Description of business model		<ul style="list-style-type: none"> ➤ Our business model Page 14
Non-financial key performance indicators		<ul style="list-style-type: none"> ➤ Key performance indicators Page 18

All our policy summaries can be found on our website: <https://www.baesystems.com/en/sustainability/sustainability-reporting/operational-framework-and-policy-summaries>

Section 172 statement

For the year ended 31 December 2025, in accordance with the requirements of Section 172(1) of the Companies Act 2006, the directors consider that they have acted in good faith and in a manner most likely to promote the success of the Company for the benefit of its members as a whole, having regard to stakeholders and other certain factors, including standards of business conduct and the impact of its operations on the environment and local communities.

➤ More information in support of this statement, including key matters considered and decisions made by the Board during 2025 [Page 85](#)

How we manage risk

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

Roles & Responsibilities

Board

The Board has overall responsibility for determining the nature and extent of the risks the Group is willing to take to achieve its long-term strategic and financial objectives, and ensuring that risks are managed effectively across the Group.

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

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

Audit and Risk Committee

The Audit and Risk Committee monitors the Group's key risks identified by the risk management processes and reports its findings to the Board twice a year.

To support this activity, it receives insight on particular risk-related matters from the other Board sub-committees, including the Environmental, Social and Governance and Remuneration Committees.

The Audit and Risk Committee is also responsible for reviewing the effectiveness of the Group's risk management and internal control framework and presenting its assessment to the Board.

Environmental, Social and Governance Committee

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

Remuneration Committee

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

Approach

The Group's approach to risk management is set out in the Risk Management policy, a mandated policy under the Operational Framework, and is aimed at the early identification of material risks, mitigating the effect of those risks before they occur and dealing with them effectively if they crystallise.

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

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

The Audit and Risk Committee of the Board has conducted a review of the effectiveness of the Group's risk management and internal control framework, including material financial, operational and compliance controls, in accordance with the 2018 UK Corporate Governance Code. This framework was in place throughout 2025 and to the date of this report.

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

Process

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

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

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

The Executive Committee keeps these significant risks, and their corresponding controls and mitigation actions, under review. They are reported to the Board and form the basis of the Board's assessment of the Group's Principal Risks.

Assurance over the effectiveness of controls and mitigation actions is tailored, commensurate to the corresponding risk. Primary assurance is provided by the Group's Operational Assurance Statement process which is mandated under the Operational Framework and whereby each business and Group function leader undertakes a self-assessment of compliance with Operational Framework policies and processes every six months. Where appropriate, this is supplemented by functional oversight. Finally, Internal Audit or, when appropriate, other independent third parties, provide independent assurance.

Principal and emerging risks

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

Principal risks include those that would threaten the Group's business model, future performance, solvency, liquidity or reputation. Risks have been identified as principal based on the likelihood of occurrence, the potential impact on the Group and the timescale over which they might occur. A description of the principal risks and their potential impact, together with details of how they are being controlled and mitigated, can be found on pages 65 to 72.

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

There have been no substantial changes to the Group's principal risks compared to the 2024 Annual Report.

2024 UK Corporate Governance Code Provision 29

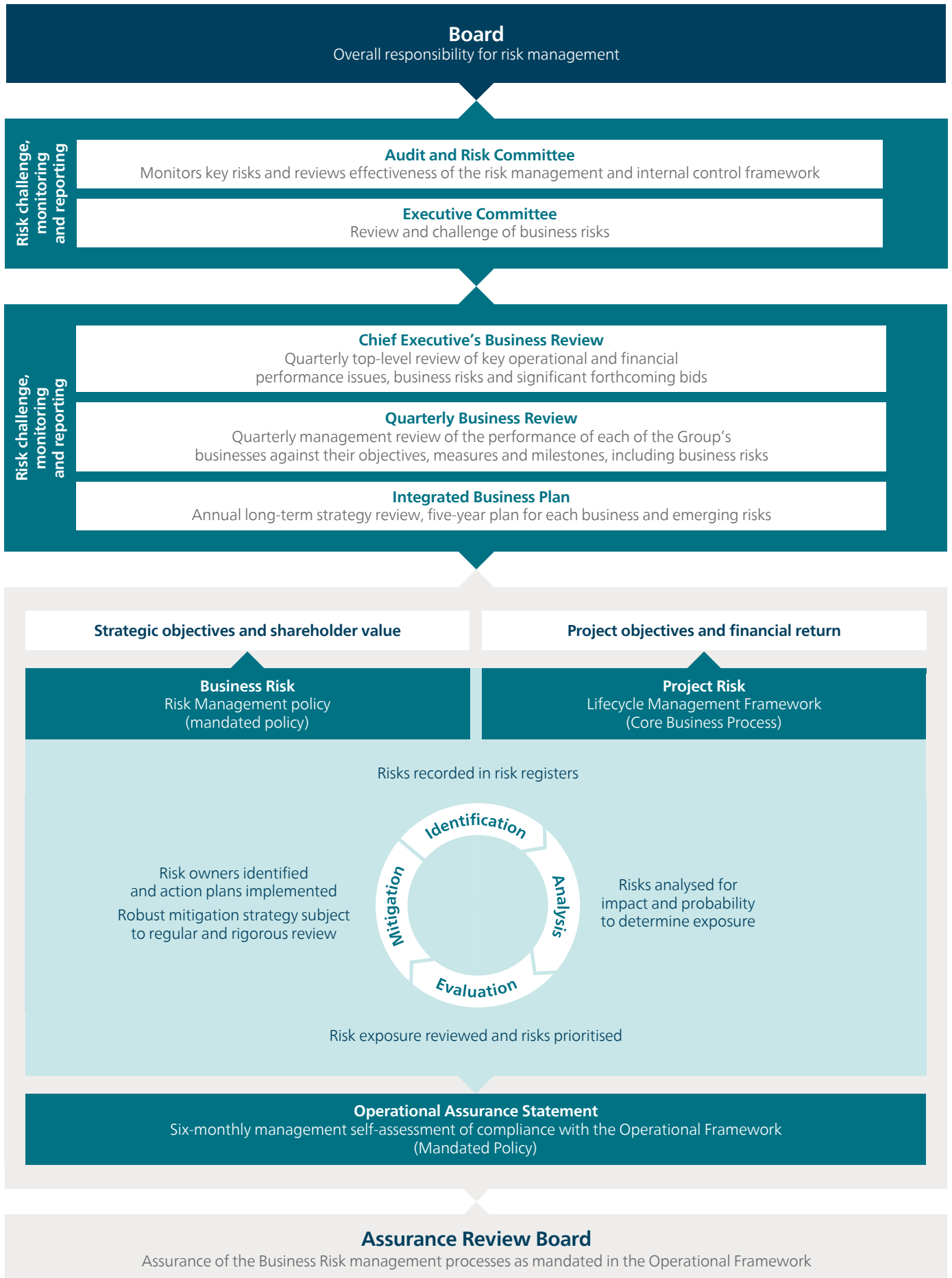
The Financial Reporting Council updated the UK Corporate Governance Code in January 2024 with the changes to Provision 29 of the Code becoming effective for accounting periods beginning on or after 1 January 2026. The amended Provision 29 covers the Board's monitoring and review of the effectiveness of the risk management and internal control framework and introduces a requirement for the Board to make a declaration of the effectiveness of material controls.

In preparation for the implementation of these changes to the Code, the Audit and Risk Committee has formally codified the Group's material controls and the assurance the Board will likely require to support its declaration of material control effectiveness. Assurance activities over the Group's material controls will take place throughout 2026 ahead of the Board's first declaration of material control effectiveness in the 2026 Annual Report.

For further details on the work of the Audit and Risk Committee on this topic, see the Audit and Risk Committee report on page 96.

[Our principal risks Page 65](#)

Our risk management framework



Our principal risks

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

➤ Our Strategic Framework Page 16

Government customers, defence spending and terms of trade Links to strategy 1 2 3 4 5 6

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

Description	Impact	Mitigation
<p>In 2025, 96% of the Group’s sales were defence related.</p> <p>The political landscape in certain of the Group’s principal markets and the current heightened volatility in geo-politics give rise to increased uncertainty over governments’ defence spending priorities and budgets.</p> <p>Defence budget levels are difficult to predict and can fluctuate depending on change of government policy, other political considerations, budgetary constraints, specific threats to national security and macroeconomic conditions. From time to time, there have been constraints on government expenditure in certain of the Group’s principal markets.</p>	<p>Lower defence spending by the Group’s major customers could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.</p>	<p>The Group actively manages its strategic market and product positioning through its established Integrated Business Planning process. The business is geographically spread across the US, UK and international defence markets and the Group’s diverse product and services portfolio is marketed across a range of defence markets.</p> <p>Many of the countries in which the Group operates have announced increases in defence spending to address the elevated threat environment. While governments face global economic and fiscal pressures, the commitment to defence in the Group’s major markets remains robust.</p> <p>In particular, the Group’s principal markets – the UK, US, the Kingdom of Saudi Arabia and Australia – have a significant and sustained commitment to defence and security notwithstanding the volatile political landscape. See ‘Our markets’ on page 22 of this Annual Report.</p> <p>The Group benefits from a large order backlog, with established positions on long-term programmes in its principal markets.</p>
<p>The Group has long-standing relationships and security arrangements with a number of its government customers, including its four largest customers, the governments of the US, UK, Kingdom of Saudi Arabia and Australia, and their agencies (who represented, as at 31 December 2025, 73% of the Group’s revenue). It is important that these relationships and arrangements are maintained.</p> <p>In the defence and security industries, governments can typically modify contracts for their convenience or terminate them at short notice. Furthermore, governments from time to time review their terms of trade and underlying policies and seek to impose such new terms and policies when entering into new or amending existing contracts. Most long-term US Government contracts, for example, are funded annually or incrementally and are subject to cancellation if funding appropriations for subsequent periods are not made.</p> <p>Further, certain of the Group’s contracts with government customers are subject to financial audits and other reviews, which can result in adjustments to prices and costs.</p>	<p>Deterioration in the Group’s principal government relationships resulting in the failure to obtain planned contracts or expected funding appropriations, adverse changes in the terms of its arrangements with those customers or their agencies, or the termination of contracts could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.</p>	<p>The Group has established strong and enduring relationships in its principal markets and is recognised as playing a key role in the industrial capability of each of the countries in which it operates.</p> <p>Government customers have sophisticated procurement and security organisations with which the Group has long-standing relationships with well-established and understood terms of business.</p> <p>In the event of a customer terminating a contract for convenience, the Group would typically be paid for work done and commitments made at the time of termination.</p> <p>Where contracts are subject to financial audits, which may lead to price or cost adjustments, the Group has established processes to ensure costs estimated and/or incurred on contracts are considered allowable under the applicable law and regulation. This approach aims to minimise the risk of detrimental price or cost adjustments.</p>
<p>The Group’s profits and cash flows are dependent, to a significant extent, on the receipt and timing of the award of defence contracts and the profile of cash receipts thereunder.</p>	<p>Amounts receivable under the Group’s defence contracts can be substantial and, therefore, the timing of, or failure to receive, awards and associated cash advances and milestone payments could materially impact the Group’s profits and cash flows for the periods affected, thereby reducing cash available to meet the Group’s capital allocation priorities, potentially resulting in the need to draw on external funding and impacting its investment-grade credit rating. This in turn could have a material adverse effect on the Group’s business, results of operations, financial condition and prospects.</p>	<p>The Group’s balance sheet continues to be managed in line with its policy to retain an investment-grade credit rating and to ensure operational flexibility.</p> <p>The Group monitors a rolling forecast of its liquidity requirements to ensure that there is sufficient access to cash to meet its operational needs and maintain adequate headroom.</p>

Our principal risks *continued***Contract risk, execution and supply chain**Links to strategy **1 2 3 4 5 6**

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

Description	Impact	Mitigation
<p>As a major defence, aerospace and security company, the Group executes long-term high-value contracts for the provision of complex, strategically important products and services for its customers. For example, in 2025, 51% of the Group's sales were generated by its 17 largest programmes and, as at 31 December 2025, the Group had 13 programmes with an order backlog in excess of £1bn.</p> <p>It is important that the Group delivers on its projects within tight tolerances of quality, time and cost performance in a reliable, predictable and repeatable manner.</p> <p>A significant portion of the Group's revenue is derived from fixed-price contracts. Assumptions used to estimate projected costs, including those on future rates of inflation, on which fixed prices are agreed may prove to be inaccurate and, since these contracts can extend over many years, there is a risk that actual costs may significantly exceed projected costs.</p>	<p>A failure by the Group to anticipate technical problems or deliver on its contractual commitments could result in (among other things) the loss, expiration, suspension, cancellation or termination of one or more of its large contracts, which could have a material adverse effect on the Group's business, results of operations, financial condition, prospects or reputation.</p> <p>A failure to estimate accurately and control costs on fixed-price contracts could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.</p>	<p>All of the Group's major programmes are managed under the Group's mandated Lifecycle Management process, the objective of which is to manage contract performance, including contract-related risks, and deliver acceptable contract outcomes.</p> <p>Further, the Group has a well-balanced spread of programmes and a significant defence order backlog, which provides portfolio resiliency and forward visibility.</p> <p>Estimating, bid preparation and approvals processes are well established throughout the Group, with decisions required to be taken at the appropriate level in line with clear delegations of authority.</p> <p>Risks inherent in prospective contracts are considered carefully as part of these processes to ensure that proposed contract terms are commensurate with such risks. In particular, the Group recognises that fixed price design and development contracts are generally more risk intensive than other contract types and, as a result, the Group has limited exposure to such contracts.</p> <p>A significant proportion of the Group's largest and most complex contracts are with the UK Ministry of Defence. In the UK, development programmes are normally contracted with the customer holding appropriate levels of risk initially.</p> <p>It is important that suitably skilled and experienced personnel are appointed to lead complex projects containing significant levels of risk and uncertainty. To support this the Group has an array of learning and development programmes to maintain a pool of competent project leaders and other key project delivery roles.</p>
<p>The Group is dependent on the delivery of services and materials by suppliers and the assembly of components and subsystems by subcontractors used in its products in a timely and satisfactory manner, on appropriate commercial terms and in full compliance with applicable terms and conditions.</p> <p>This can be exacerbated where the Group is dependent on either one or a limited number of suppliers.</p> <p>Some of the Group's suppliers or subcontractors may be impacted by economic factors (such as inflationary pressures, trade restrictions and material shortages (including critical minerals)), bankruptcy or financial difficulties and other business continuity events, which could impair their ability to meet their obligations to the Group and to supply on appropriate commercial terms.</p>	<p>A failure by one or more of the Group's suppliers to provide the agreed-upon materials, components or products or perform the agreed-upon services, on a timely basis, at the agreed price, according to specifications (including compliance with regulatory requirements) or at all may adversely affect the Group's ability to perform its obligations, result in additional costs or delays, require the Group to transition work to other companies (resulting in further additional costs and delay) and/or result in penalties under, or the termination of, customer contracts.</p> <p>This impact is heightened where a supplier is a sole supplier or one of a small number of qualified suppliers.</p> <p>Additionally, the Group could be adversely affected by actions, or issues experienced by, the Group's suppliers which are outside its control (such as misconduct and reputational issues), which could subject the Group to liability or adversely affect its ability to compete for contracts.</p> <p>Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.</p>	<p>The Group's supply chain function establishes and manages supplier relationships and agreements, in partnership with the programmes it supports.</p> <p>Supply chain management starts with the Group's Global Procurement policy, which defines the requirements to be implemented by each of the Group's sectors for the establishment of procurement controls and the management of supplier-related risk to a minimum set of standards.</p> <p>Where the Group has long-term programmes in place, it seeks to leverage the benefit of forward visibility of long-lead requirements to allow the Group to better manage supplier deliverables against programme requirements.</p> <p>Risk-based due diligence, for both new and existing suppliers, is carried out with reference to a range of financial and non-financial factors. Third-party toolsets are used to support compliance and risk assessments as part of these due diligence checks. The Group's supply chain function holds regular regional and global supply chain risk and disruption reviews to ensure that the latest risk data is appropriately shared and to identify emerging risks through horizon scanning.</p> <p>The Group seeks to manage its supplier capacity, and cost inflation risks through contracting arrangements, supplier cost management activity, long-term supplier agreements and leverage of category volumes.</p>

Cyber security and other security risks

Links to strategy **1 2 3 4 5 6**

The Group could be negatively impacted by cyber security threats or personnel, physical or technical security-related disruptions.

Description	Impact	Mitigation
<p>As a major defence, aerospace and security company, the Group faces significant risks in respect of its information security, continuity of operations, integrity of its products and physical security. These threats are continuous and evolving, and are posed by organisations with a broad range of capability, from criminals to nation states, acting independently or with the assistance of an “insider”.</p> <p>Threats include attempts to gain unauthorised access to the Group’s and customers’ sensitive data in order to compromise the integrity, confidentiality and/or availability of that data (in some cases potentially compromising the products to which it relates); attempts to disrupt business operations through the sabotage of the Group facilities, networks and other assets; threats to the safety of employees; theft of assets including potentially hazardous material; and threats to the Group’s supply chain and partners (including joint ventures and joint venture partners).</p> <p>These threats can manifest through cyber, human and/or physical means and directly or indirectly via the supply chain.</p> <p>The continuing war in Ukraine has increased a number of risks to Ukraine’s allies and their defence industries. Further, geo-political instability could give rise to similar threats.</p>	<p>While the impact of any such threats and/or disruption is difficult to predict, it could lead to (among other things): (a) production downtimes; (b) operational delays; (c) reduction in the effectiveness of, and/or introduction of vulnerabilities into, products sold to customers; (d) the compromise, misappropriation, destruction or corruption of the Group’s data or intellectual property and that held or generated by the Group on behalf of its customers, suppliers and partners; (e) other manipulation or improper use of the Group’s or third-party systems, networks or products (eg disabling or denying their use and/or altering their performance characteristics); (f) diversion of management’s attention and resources; (g) harm to staff; and/or (h) financial losses from remedial actions, potential exclusion from key markets, or potential liability, penalties, fines and/or damages.</p> <p>Furthermore, as part of its Cyber & Intelligence sector, the Group provides systems, products and services to various customers who also face cyber threats. These systems, products and services could themselves be compromised, may not be able to detect or deter threats, or effectively mitigate resulting losses, which could adversely affect the Group’s customers and therefore result in financial losses from remedial actions, loss of business, or potential liability and/or damages. In addition, a failure by the Group to prevent or mitigate cyber-attacks that impact the Group could have a detrimental impact on the reputation and/or performance of the Cyber & Intelligence sector.</p> <p>Any of these impacts could have a material adverse effect on the Group’s business, results of operations, financial condition, prospects and reputation.</p>	<p>The Board and senior management regularly consider security risk. These senior level reviews cover evolving threats, the Group’s planned responses and the effectiveness of security controls and security investments in meeting intended objectives. Security risk is also reviewed at a functional and operating business level.</p> <p>A robust security risk management framework identifies risks to the Group’s critical assets and personnel, be they based on digital infrastructure, company sites, attending events or on overseas travel.</p> <p>The Group’s internal Cyber Security Standards are aligned to the National Institute of Standards and Technology framework. A formal, three layers of defence assurance programme, which is reviewed both internally and externally, is operated to check adherence to these standards and to customer requirements. Additionally, resulting from the need to comply with government customer requirements, certain of the Group’s IT networks are formally accredited by those customers.</p> <p>Education and awareness to embed a strong security culture across the Group is a vital part of its preventative activities. Employees are required to complete mandatory training which (depending on role) covers cyber security, physical and personal security, document marking, security of export-controlled information and personal data protection. As many cyber-attacks involve email, the Group runs a programme of phishing exercises for all email users across the enterprise.</p> <p>To increase the Group’s resilience against security threats, including insider risk, the Group performs protective monitoring of activity on the Group’s core networks via the Group’s Security Operations Centres, maintains incident response and crisis management plans with updates following regular test exercises and obtains threat intelligence to the Group, utilising its internal security capabilities and from external partners including governments.</p> <p>To address the risk to the security of the Group’s personnel, communications and advice are provided to all employees on personal safety precautions, with additional tailored communications provided in high-threat cases.</p> <p>To mitigate the cyber security risk posed by working with suppliers, the Group performs risk-based due diligence and assurance and (where relevant) seeks to require suppliers to comply with cyber security-related contractual provisions.</p> <p>In addition to the above, the Group purchases cyber and property insurance; however, as with all insurance, it does not provide full cover against all potential loss scenarios.</p>

Our principal risks *continued*

International markets

Links to strategy **1** **2** **3** **4** **5** **6**

The Group operates in international markets.

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

People

Links to strategy **1** **2** **3** **4** **5** **6**

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

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

Safety

Links to strategy 1 2 3 4 5 6

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

Description	Impact	Mitigation
<p>The nature of the Group’s business means that a number of employees work in challenging locations, perform high-risk activities and handle hazardous materials.</p> <p>Furthermore, many of the activities that the Group undertakes are in high-hazard industries with inherent risk of harm, such as heavy industrial production, including shipbuilding.</p> <p>The risks associated with the Group’s activities and working environments can cause harm to its people and those affected by its operations.</p>	<p>There could be significant impacts if the Group fails to meet the necessary standards to adequately mitigate against health and safety risks, which could potentially lead to injury or death.</p> <p>The Group may face criminal and civil prosecution in connection with health and safety incidents, which could result in substantial penalties and fines. Furthermore, the Group could be prevented from operating, due to employees being unavailable for work, investigations being conducted or a regulatory approval or certification being withdrawn, potentially leading to contractual penalties due to loss of productivity or inability to deliver on contractual commitments. Moreover, a failure to maintain a safe working environment could have a detrimental impact on the Group’s reputation, leading customers, suppliers and employees (both current and potential) to be disinclined to work with/for the Group.</p> <p>Any of these factors could have a material adverse effect on the Group’s business, results of operations, financial condition, prospects and reputation.</p>	<p>Safety of the Group’s personnel, contractor personnel and the wider communities in which the Group operates is a primary concern. The Group proactively monitors its safety performance through leading and lagging indicators and regular operating business reviews.</p> <p>Safety performance is led at an Executive Committee level by the ESG, Culture and Business Transformation Director and is regularly reported to both the Environmental, Social and Governance Committee and the Board. Accountability for safety performance at a business level rests with the relevant Managing Director, who is responsible for ensuring compliance with the Group’s Safety, Health and Environmental management systems and the Operational Framework.</p> <p>At a user level, every employee is required to complete preventative safety training that is both Company-wide and job role-specific, and is supported by dedicated health and safety professionals.</p> <p>The Group has implemented recognised safety risk assessment processes that are task specific and seek to ensure hazards are identified, classified and mitigated against prior to activities taking place. Where appropriate, safety management systems are externally accredited to internationally recognised standards (eg ISO 45001).</p> <p>In addition to the above, the Group continues to evolve and improve its health and safety practices, liaise across industry and learn from safety-related failures in adjacent industries.</p>

The Group designs, develops, manufactures and maintains highly complex and specialised products and services. By their very nature, many of the Group’s products and services are potentially hazardous, where technical, mechanical or other failures may occur from time to time as a result of a manufacturing or design defect, ineffective maintenance, incorrect usage, poorly executed integration with a third party’s products or services or through some other cause. In addition, the safety of the Group’s products could be compromised as a result of cyber-attacks, such as those that seize control and result in misuse or unintended use of the Group’s products, or other intentional acts.

The impact of a catastrophic product, service or system failure or similar safety incident affecting the Group’s, its customers’ or its suppliers’ products or services could be significant and could result in injuries or death, property damage, loss of strategic capabilities, loss of intellectual property, environmental harm, reputational damage or other significant effects.

It could also lead to a loss of equipment, product recalls and product liability and warranty claims, other service, repair and maintenance costs, significant damages and other costs (including fines and other remedies), regulatory and environmental liabilities and a reduction in demand for the Group’s products and services.

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

The Group recognises it is vitally important to work with its customers, suppliers and partners to ensure its products continue to work safely, securely and with integrity, within their intended operational environments.

Each of the Group’s businesses is required to identify suitably qualified and experienced individuals with clear accountabilities for ongoing review of the application and effectiveness of the business’ Product Safety Management System and certification of the products developed or traded by the business.

Businesses work with customers to agree the level of safety that is required for each product, seeking the highest reasonably practicable level of safety.

The Group assures the development and production of safe products through reviews by in-house subject matter experts and external regulatory agencies.

Given the potential impact of sub-standard product security on product safety performance, the Group applies product cyber security standards that meet or exceed contracted customer requirements.

In addition to the above, the Group continues to communicate product safety-related information across the Group via regular bulletins, evolving and improving product safety practices, liaising across industry and its government customers to develop new product safety-related standards, and learning from safety-related failures in adjacent industries.

Our principal risks *continued***Acquisitions (including joint ventures)**Links to strategy **1 2 3 4 5 6**

The anticipated benefits from acquisitions (including joint ventures) may not be achieved.

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

Business interruptionLinks to strategy **1 2 3 4 5 6**

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

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

Legal risk

Links to strategy **1 2 3 4 5 6**

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

Description	Impact	Mitigation
<p>The Group operates in a complex and highly regulated environment, across many jurisdictions and is therefore subject to a variety of legal, regulatory and litigation risks.</p> <p>These risks relate to (among other things) trade controls and sanctions, failure to protect and manage intellectual property and/or assert and defend intellectual property rights, data protection and security, contract-related claims, climate-related and environmental matters, product safety and reliability, health and safety, employment matters, competition laws and laws governing improper business practices (such as anti-money laundering, false accounting, anti-bribery and corruption, and anti-boycott laws). Furthermore, laws, regulations and contractual requirements may be interpreted in different ways, conflict and/or change from time to time (as may any related interpretations and guidance).</p> <p>For example, export restrictions could become more stringent and political factors or changing international circumstances could result in the Group being unable to obtain or maintain necessary export licences.</p>	<p>Changes in laws and regulations (or the interpretation thereof) could result in higher compliance costs and impact customer or supplier contracts. Uncertainty relating to laws and regulations may also affect how the Group conducts its business and could limit its ability to enforce its rights.</p> <p>A breach of applicable legislation and/or regulations by the Group, its employees, sales representatives, marketing advisers or others working on its behalf could result in significant fines, penalties or other damages and/or the suspension or debarment of the Group from government contracts or the suspension of the Group's export privileges.</p> <p>If customers or other third parties were harmed by the conduct of members of the Group, this may also give rise to legal proceedings, including class actions. Other legal disputes may also arise between members of the Group and third parties relating to matters such as breaches or enforcement of legal rights or interpretation or fulfilment of obligations arising under contracts, statutes or common law. Adverse findings in any such matters may result in remedial actions, loss of business, penalties and/or damages or may result in rights not being enforced or not being enforced in the manner intended or desired.</p> <p>Any of the foregoing could have a material adverse effect on the Group's business, results of operations, financial condition, prospects and reputation.</p>	<p>The Group has a well-established legal and regulatory compliance structure aimed at ensuring adherence to regulatory requirements and identifying restrictions that could adversely impact the Group's activities.</p> <p>The Group General Counsel and (in relation to those parts of the business managed by BAE Systems, Inc.) the Senior Vice President and General Counsel for BAE Systems, Inc. have responsibility for developing and maintaining a legal risk management framework across the Group. This includes defining the relevant legal risk policies and oversight of the implementation of controls to manage legal risk including, among other things, policies in relation to appointment of advisers, trade controls and sanctions, and prevention of improper business practices.</p> <p>Where the Group participates in joint ventures, it exerts its influence to encourage the adoption of substantially equivalent policies governing legal and regulatory compliance by the joint venture, or otherwise through appropriate contractual provisions and/or senior director representation on the joint venture boards.</p> <p>The legal function's operating model aligns legal expertise to businesses, functions, products, activities and geographic locations so that the Group's businesses have access to legal expertise and support as required. Legally qualified and trained staff work in partnership with the businesses and functions to identify, manage and escalate legal risks as necessary.</p> <p>As part of this operating model, the legal function supports the businesses and functions in reviewing proposed contracts to ensure terms are appropriate and not unduly onerous.</p> <p>Businesses and functions are responsible for identifying and escalating to the legal function legal and regulatory risk in their areas, as well as adherence to policy and control requirements. To enable this, the legal function provides targeted training to businesses and functions where appropriate. The Group's legal function also reinforces the Group's ethics programme globally through training and other means.</p> <p>The Group's legal function manages litigation and advises on the management of associated impacts. Where appropriate, the legal function will engage external counsel on litigation matters or other contractual or regulatory matters.</p>

Our principal risks *continued***Climate transition and environmental factors**Links to strategy **1 2 3 4 5 6**

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

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

The ranking and evaluation of risks as at the date of this Strategic Report should not be relied on as a guide to their future ranking and evaluation. Additional risks and uncertainties currently unknown to the Group, or which the Group currently deems immaterial, may also have an adverse effect on the business or financial condition of the Group.

Viability statement

As required by the provisions of the UK Corporate Governance Code 2024, the Board has undertaken an assessment of the future prospects of the Group, taking into account the Group's current position and principal risks.

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

The viability assessment period

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

Analysis of business prospects

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

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

Assessment

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

Risk management process

The Group has developed a structured approach to the management of risk (as detailed on pages 62 and 63). The Board notes that the principal risks identified on pages 65 to 72 could impact the future viability of the Group and has undertaken a more detailed scenario analysis in relation to specific risks that are considered most likely to have a more immediate and severe financial impact on the Group as part of the IBP process.

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

Integrated Business Plan

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

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

Liquidity and solvency analysis

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

The Board regularly reviews an analysis looking at the forecast working capital requirements, cash flow and committed borrowing (see note 21 on page 180) and other funding facilities available to the Group over the five-year IBP period.

This analysis includes 'stress testing' of the Group's liquidity and solvency under severe, but plausible, scenarios including:

- the Group being unable to access debt markets to renew term debt facilities;
- the inability of the Group to estimate accurately and control costs on significant fixed price contracts; and
- the loss of significant export awards assumed in the IBP.

Conclusion

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

Going concern statement

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

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

Strategic report

This Strategic report was approved by the Board of directors of BAE Systems plc on 17 February 2026 and signed on its behalf by:

Anthony Clarke
Company Secretary



This section focuses on the Company's governance structures, the work of the Board and its committees and how we comply with the UK Corporate Governance Code 2024 (the Code) and other regulatory requirements.

Governance

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Chair's governance letter



Dear Shareholders

As you would expect from a company that plays such an important role in the UK's national security, and supplies goods and services that support the national security of other nations, high standards of governance and robust governance processes are well embedded across the Group. Clear frameworks and structures are in place to provide the Board with the appropriate level of oversight and assurance to assess the effectiveness of governance controls.

The Company's central role in the national security of the UK, and its important contribution to the national security of other nations, makes good governance a fundamental part of the Board's work. The Board reviews the Company's robust governance standards and processes each year and has regular discussions on certain aspects. Clear standards of behaviour are outlined in our Code of Conduct, which dovetails with our Operational Framework, described elsewhere within this report. Both of these underpin the Company's strong governance and culture.

Our governance structures also respect and uphold the special arrangements that are in place to protect the national security interests of our government customers. These arrangements are core to our success as an international company and our role as a valued and trusted partner working in the security interests of our customers. We have a significant presence in the US, serving our key government customers. There is more detail on the arrangements for managing our US business on page 84.

This year, the Board, as usual, reviewed the frameworks and structures that underpin our processes and the oversight and assurance

used to provide the Board with confidence that the governance systems and controls are effective. As part of this work, we have taken time at both the Board and Audit and Risk Committee to review our preparations for the new disclosures that will be required under Provision 29 of the Code. This will apply to reporting on the 2026 financial year. The Board is satisfied that the Company is well prepared for these reporting changes, with some refinements made to our existing processes to help alignment with the new reporting requirements.

The Board considers an important part of its role is its programme of visits to our operations. This builds connections with local leadership and employees and allows for better understanding of product and technology challenges. During these visits, the Board also gains useful insights into our culture through informal discussion sessions with employees. In 2025, both the full Board and smaller groups of directors made a number of site visits. Further information on these and pictures of the visits are included throughout this report.

This report contains further information on the work of the Board's committees, which begins on page 93. The responsibilities of each committee are clear in its terms of reference which are reviewed each year. The Nominations Committee continues to ensure plans are in place for orderly Board and senior management succession and it leads the process for making Board appointments. At the end of 2025, Dame Elizabeth Corley stood down from the Board, having joined the Board in 2016. In September, we announced that John Pettigrew would be joining the Board as a non-executive director from 23 February 2026. More detail on these changes and on the Board's approach to succession planning can be found on pages 80 and 81.

The Audit and Risk Committee report begins on page 96. In addition to its usual activities this year, I am grateful for the support that this Committee has given to the Board in reviewing and updating our governance processes, in line with the revisions to the Code, and also in the evolution of the Company's risk management processes. More detail can be found in the Audit and Risk Committee report starting on page 96.

This year, the Board has been discussing the role of the Innovation and Technology Committee (ITC) within the Board's wider responsibilities. The pace of change of defence technology, and the criticality of research and product development to our business, means that many technology items are discussed with the full Board during the course of the year. As part of the Board performance review process, the Board decided that many of the responsibilities of the ITC should be covered by the full Board. Going forward, technology "deep dives" and teach-in sessions will be arranged for the Board during the year, co-ordinated and chaired by the current ITC Chair, Dr Ewan Kirk. The Board anticipates that these changes will stimulate wider technology discussions and a greater focus on defence technology and strategy. I would like to thank Ewan for his leadership in this area and his constructive approach in helping to evolve the role of the Board. You can read more about the work of the ITC this year on page 103.

In addition to its wider responsibilities, the Environmental, Social and Governance Committee continues to focus on employee matters. I am grateful to our committee Chair, Dr Jane Griffiths, for the visits she has undertaken to focus on employee matters in our international markets. You can read more about its activities on page 101.

Effective board performance is, of course, a key part of governance. This year, the review of the Board and its Committees was an internally facilitated assessment, led by myself with the assistance of the Company Secretary. Further details on the performance review process, its outcomes and the actions we will be taking as a result are outlined in more detail on page 95. In 2026, we are planning to undertake an in-depth externally facilitated review.

Finally, I would like to thank my colleagues on the Board for their diligence, counsel and support over the last year. I know that they share my pride in work that BAE Systems does protecting those in defence and national security across the world.

Cressida Hogg CBE
Chair

Board of directors



N

Cressida Hogg CBE

Chair

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

Nationality: UK

Skills, competence and experience

Cressida was appointed Chair of BAE Systems plc in May 2023, having joined the Board as a non-executive director and Chair designate in November 2022. In January 2026, Cressida became Chair and President of the Confederation of British Industry. She previously had a successful executive career, spent largely with 3i Group, where she gained a deep understanding of large long-term infrastructure projects and businesses, gaining international experience while working in various countries including the US, Canada, India, Australia and the Middle East. Cressida was awarded a CBE in 2014 for services to infrastructure investment and policy.

Outside commitments on listed companies

Senior Independent Director of London Stock Exchange Group plc.



Dr Charles Woodburn CBE

Chief Executive

Tenure: 9 years and 9 months

Nationality: UK

Skills, competence and experience

Charles joined BAE Systems in May 2016 as Chief Operating Officer and became Chief Executive on 1 July 2017. He is an experienced business leader with over 29 years' experience in the aerospace and defence and oil and gas industries. Prior to joining the Company in 2016, he was Chief Executive Officer of Expro Group and, before that, he spent 15 years with Schlumberger holding a number of senior management positions in Asia, Australia, Europe and the US.

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

Outside commitments on listed companies

None



Brad Greve

Chief Financial Officer

Tenure: 5 years and 10 months

Nationality: UK/US

Skills, competence and experience

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

Outside commitments on listed companies

None



Tom Arseneault

President and Chief Executive Officer of BAE Systems, Inc.

Tenure: 5 years and 10 months

Nationality: US

Skills, competence and experience

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

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

Outside commitments on listed companies

None

N Committee Chair

A Audit and Risk Committee

E Environmental, Social and Governance Committee

I Innovation and Technology Committee⁵

N Nominations Committee

R Remuneration Committee

Board of directors *continued*

E I N

Nick Anderson¹

Non-executive director

Tenure: 5 years and 3 months**Nationality:** UK/US**Skills, competence and experience**

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

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

Other commitments on listed companies

Non-executive director of The Weir Group plc.

Nick will join the Board of Hill and Smith plc from March 2026 as non-executive director and will assume the role of Chair of the company with effect from its AGM in May 2026.



E N

Crystal E Ashby

Non-executive director

Tenure: 4 years and 5 months**Nationality:** US**Skills, competence and experience**

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

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

Other commitments on listed companies

None



A E N R

Angus Cockburn²

Non-executive director

Tenure: 2 years and 3 months**Nationality:** UK**Skills, competence and experience**

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

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

Other commitments on listed companies

Chair of James Fisher & Sons plc.

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



A E N

Dr Jane Griffiths

Non-executive director

Tenure: 5 years and 10 months**Nationality:** UK**Skills, competence and experience**

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

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

Other commitments on listed companies

Non-executive director of Galapagos NV.

● Committee Chair

A Audit and Risk Committee

E Environmental, Social and Governance Committee

I Innovation and Technology Committee⁵

N Nominations Committee

R Remuneration Committee



A I N R

Dr Ewan Kirk³

Non-executive director

Tenure: 4 years and 8 months**Nationality:** UK**Skills, competence and experience**

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

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

Other commitments on listed companies

None



A E N

Stephen Pearce⁴

Non-executive director

Tenure: 6 years and 8 months**Nationality:** Australia**Skills, competence and experience**

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

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

Other commitments on listed companies

Non-executive director of South32 Limited and will assume the role of Chair of the company with effect from 1 March 2026.

Non-executive director of Ampol Limited.



I N R

Nicole Piasecki

Non-executive director and Senior Independent Director

Tenure: 6 years and 8 months**Nationality:** US**Skills, competence and experience**

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

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

Other commitments on listed companies

Non-executive director of BWX Technologies, Inc. and Weyerhaeuser Company.

**John Pettigrew CBE**

Incoming non-executive director

Tenure: Joins the Board on 23 February 2026. John becomes a member of the Audit and Risk Committee from the same date.

Nationality: UK**Skills, competence and experience**

John joins the Board as a non-executive director in February 2026. He brings over 35 years of complex project management and engineering experience in the energy and gas industry and is a highly accomplished FTSE 30 business leader. Previously, John served as Chief Executive Officer of National Grid plc from 2016. During his tenure, he held several senior leadership roles, including UK Director of Engineering, Chief Operating Officer and Executive Vice President for the US Electricity Distribution & Generation business, Chief Operating Officer for UK Gas Distribution, and UK Chief Operating Officer, before joining its board as Executive Director, UK, in 2014.

John holds a BSc in Economics, an MSc in International Economics and Banking and completed the Advanced Management Programme at Harvard Business School.

He is a Fellow of the Energy Institute and of the Institution of Energy and Technology, and a member of the Edison Electric Institute Executive Committee. John was awarded a CBE in 2026 for services to energy.

Other commitments on listed companies

Senior Independent Director of Rentokil Initial plc.

1. Nick Anderson will become a member of the Remuneration Committee with effect from 23 February 2026.
2. Angus Cockburn became a member of the Environmental, Social and Governance Committee from 24 February 2025. Subject to his re-election at the Company's 2026 AGM in May 2026, Angus Cockburn will succeed Stephen Pearce as Chair of the Audit and Risk Committee, with the appointment taking effect from the conclusion of the 2026 AGM.
3. Ewan Kirk became a member of the Audit and Risk Committee from 24 February 2025.
4. Stephen Pearce has informed the Board of his intention to retire from his role as a non-executive director at the end of November 2026 and will step down as Chair of the Audit and Risk Committee at the conclusion of the Company's AGM in May 2026.
5. On 17 February 2026 the Board disbanded the Innovation and Technology Committee. Please see pages 76 and 103 for more information.

Board and executive management diversity information

The Board has adopted a Diversity and Inclusion policy¹ and recognises the importance of the Board's membership representing diversity in its broadest sense.

Board Diversity and Inclusion policy

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

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

Due to the nature of the Group's activities, the UK Government holds a Special Share in the Company, ensuring that the Company remains British controlled. The Special Share also includes provisions requiring that a majority of the directors on the Board and on any Board Committee are British nationals and the roles of Chair and Chief Executive are also subject to UK nationality restrictions. Furthermore, as different diversity and inclusion requirements apply in the jurisdictions in which the Group operates, the Company accordingly adjusts the application of its policies.

As at 31 December 2025 (the reference date adopted by the Company pursuant to the UK Listing Rules), the Company's position against the targets set by the FCA for UK listed companies is as follows:

- at least one senior Board position is held by a woman;
- at least one Board member is from a minority ethnic background; and
- following the retirement of Dame Elizabeth Corley at the end of November 2025, the Company now has less than 40% female representation on the Board.

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

Board and executive diversity data as at 31 December 2025 can be found in the table on the right, and on the following page.

Board and executive management diversity as at 31 December 2025

In compliance with UK Listing Rule 6.6.6R(9), the tables below detail the diversity of the individuals on the Board and executive management as at 31 December 2025.

As at 31 December 2025, there were 13 Executive Committee members (including the Chief Executive, President and Chief Executive Officer of BAE Systems, Inc. and the Chief Financial Officer, who are also executive directors) and 11 Board directors. The Company Secretary is included in the calculation of executive management. There were no changes made to the executive management during the year.

For 11 months of the year, more than 40% of the Board were women, in line with the target set by the UK FCA. From 30 November 2025, following the retirement of Dame Elizabeth Corley, the percentage of women on the Board reduced to 36.4%.

As announced in September 2025, John Pettigrew will join the Board on 23 February 2026. Following his appointment, the Board's male/female balance will change further to 33.3% women, 66.7% men.

The Company has made progress in improving gender diversity across many management levels but recognises that more is now needed to re-align with the "women on the Board" target set by the UK FCA. Although the Nominations Committee remains committed to succession planning and a recruitment process that embeds an appropriate gender balance, along with particular attributes, skills and experience throughout Board appointments, the Board must also adhere to the director nationality obligations embedded within the Company's Articles of Association. These obligations will continue to limit the pool of suitable candidates that the Board is able to consider. See the Nominations Committee report on page 93 for further information and disclosure on diversity.

Sex and gender identity²

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management ³	Percentage of executive management
Men	7	63.64%	2	8	61.54%
Women	4	36.36%	2	5	38.46%
Other categories	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

Ethnic background

	Number of Board members	Percentage of the Board	Number of senior positions on the Board (CEO, CFO, SID and Chair)	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	10	90.91%	4	12	92.31%
Asian/Asian British	–	–	–	–	–
Black/African/Caribbean/Black British	1	9.09%	–	–	–
Other ethnic group	–	–	–	1	7.69%
Not specified/prefer not to say	–	–	–	–	–

1. A copy of the Board Diversity and Inclusion policy can be found at www.baesystems.com.
2. Other than the retirement of Dame Elizabeth Corley as a non-executive director on 30 November 2025, there have been no changes to the Board or executive management of the Company during 2025. Accordingly there was no need to update the sex and gender identity data collected in 2024. Please see Page 73 of the Company's 2024 Annual Report for an explanation of how this data was collected.
3. Members of the Executive Committee and the Company Secretary.

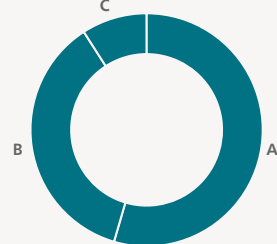
Board information

Gender



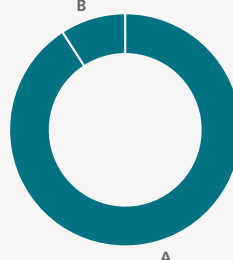
A Male 7
B Female 4

Nationality



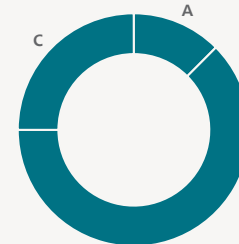
A UK 6
B US 4
C Australia 1

Ethnicity



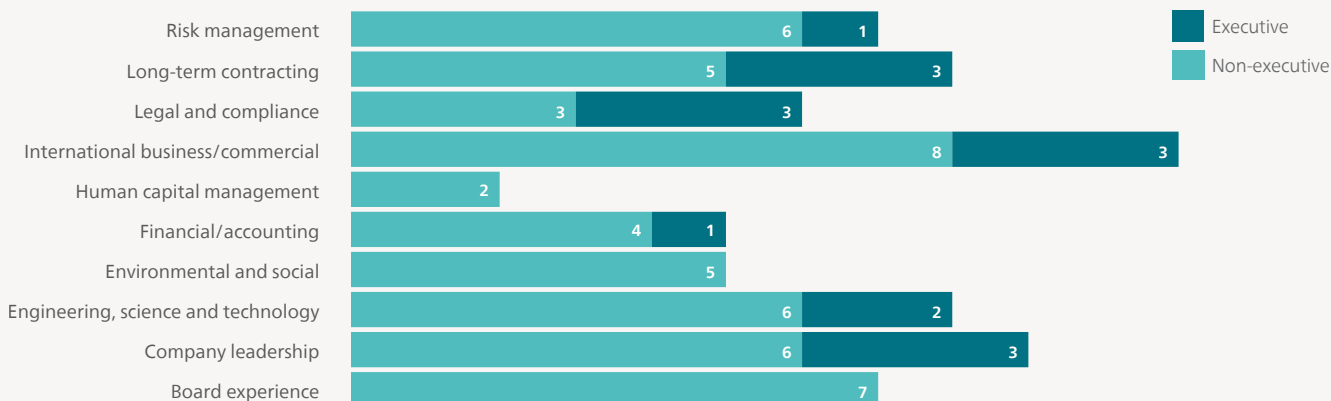
A White British or other white 10
B Black/African/Caribbean 1

Tenure¹



A Up to three years 1
B Over three and up to six years 5
C Over six years 2

Skills and experience



Membership and attendance for the year ended 31 December 2025

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

1. Independent non-executive directors.
2. Angus Cockburn became a member of the Environmental, Social and Governance Committee from 24 February 2025.
3. Dame Elizabeth Corley stepped down as a member of the Audit and Risk Committee and the Environmental, Social and Governance Committee on 24 February 2025. Dame Elizabeth was unable to attend the meetings in July 2025 due to conflicting commitments. She retired as a non-executive director on 30 November 2025.
4. Ewan Kirk became a member of the Audit and Risk Committee from 24 February 2025.

Governance framework

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

The Board

Role of the Board

The Board is responsible for promoting the long-term sustainable success of the Company, generating value for shareholders, while having regard to our stakeholders and the impact of our operations on the environment and the communities in which we operate. See page 85 for more information on the work of the Board.

The Board agrees the Group's purpose, values and standards of behaviour expected of all employees, satisfying itself that these and the culture of the business are aligned, and that action is taken to reinforce and embed culture. The Board also sets the Group's strategy and oversees and monitors risk management and the internal controls framework, and the Group's governance. A major element of the system of governance is the Operational Framework, which is agreed by the Board and sets out how we do business.

Purpose

The Company's purpose (see page 3) recognises that we serve, supply and protect those who serve and protect us, and that we have important wider stakeholder responsibilities that the Board has regard to in its decision-making. The Board monitors our strategy, behaviours and culture and their alignment with our purpose.

Culture

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

Strategy

Our strategy (see page 16) is comprised of six key long-term focus areas aligned with our vision and mission. Agreed annually by the Board, it is an important part of how it promotes the long-term sustainable success of the Group.

Board engagement with stakeholders

In considering and engaging with stakeholders, the directors act in accordance with Section 172 of the Companies Act. The work of the Board during the year is detailed on pages 85 to 89.

Board composition

The Board consists of executive and independent non-executive directors, plus a non-executive Chair who was independent in accordance with the Code on her appointment.

There is a clear division in the roles and responsibilities of the executive and non-executive directors and between the Chair and Chief Executive, which are detailed below.

Chair

The Chair leads the Board and is responsible for its overall effectiveness in directing the Company. The Chair is specifically responsible for the following:

- Promoting the highest standards of corporate governance, including the requirement that all directors act with integrity, lead by example and promote the desired culture.
- Leading the Board by exercising objective judgement, promoting a culture of openness and debate, facilitating constructive Board relations and maximising the effective contribution of all non-executive and executive directors.
- Working with the Chief Executive to ensure that directors receive accurate, timely and clear information on the Group.
- Through the Nominations Committee, leading the process for appointments to the Board, ensuring that plans are in place for orderly succession to both the Board and senior management positions.
- Engaging regularly with shareholders to understand their views on governance and performance against the strategy, ensuring that the Board as a whole has a clear understanding of their views.
- Leading the review of the performance of the Board, its committees and individual directors, and acting on the results.
- Establishing an effective working relationship with the Chief Executive, providing support and advice, while respecting executive responsibility.
- Representing the Group at the highest level and, in conjunction with the Chief Executive, developing strategic relationships with major customers worldwide.

Chief Executive

The Chief Executive is responsible for the leadership and operational management of the Group within the strategy and business plan agreed by the Board. The Chief Executive is specifically responsible for the following in respect of their relationship with the Board:

- Developing and proposing Group strategy and delivering the strategy as agreed by the Board.
- Producing business plans for the Group to be approved by the Board on an annual basis and delivering such plans.
- Keeping the Board informed regularly as to the performance of the Group and promptly bringing to the Board's attention all matters that materially affect, or are capable of materially affecting, the performance of the Group and the achievement of its strategy.
- Overseeing the management of the executive resource and succession planning processes and presenting the output from these as they relate to executive directors and senior management to the Nominations Committee.
- Ensuring a risk management and internal control framework is in place across the Group.
- Developing for the Board's approval, appropriate values and standards to drive the required behaviours and guide all activities the Group undertakes. Leading by personal example in communicating these to all employees and communicating expectations with regard to company culture.
- Owning the Group's commitment to sustainability including the Group's ambition to reduce GHG emissions across its operations (Scopes 1 and 2) by 2030 and to work towards a net zero value chain by 2050.
- On an annual basis, leading the review of the Operational Framework and recommending any proposed changes to the Board for its approval.

Senior Independent Director

The Senior Independent Director provides a sounding board for the Chair and serves as an intermediary for the other directors and shareholders. The Senior Independent Director is responsible for the following:

- Annually, or on other occasions as necessary, leading the non-executive directors in appraising the Chair's performance and providing feedback to them.
- Chairing the Nominations Committee when it is considering the Chair's succession.
- Should the Board or Company be undergoing a period of stress, working with the Chair and other directors, and/or shareholders, to resolve significant issues with a view to maintaining Board and Company stability. Such intervention may be required, for example, if there is a dispute between the Chair and Chief Executive; shareholders or non-executive directors have expressed concerns that are not being addressed by the Chair or Chief Executive; the strategy is not supported by the entire Board; decisions are being made without the approval of the full Board; and Board succession planning is being ignored.

Company Secretary

The Company Secretary is specifically responsible for the following in respect of their relationship with the Board:

- Ensuring that Board procedures are complied with, advising the Board on all governance matters, supporting the Chair and helping the Board and its committees to function effectively.
- Assisting the Chair in establishing the policies and processes the Board needs to function properly.
- Working with the Chair, ensuring good information flows within the Board and its committees and between senior management and non-executive directors, as well as facilitating induction, arranging Board training and assisting with professional development as required.
- Ensuring that directors, especially non-executives, have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as directors of the Company.

Principal committees

The Board has established principal committees which focus on particular areas, as set out below.

The chair of each committee reports to the Board on the committee's activities after each meeting.

Nominations Committee

➤ Page 93

Audit and Risk Committee

➤ Page 96

Environmental, Social and Governance Committee

➤ Page 101

Innovation and Technology Committee

➤ Page 103

Remuneration Committee

➤ Page 104

Executive and other committees

Governance framework continued

Operational Framework

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

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

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

We take pride in managing our operations effectively and responsibly

Business conduct

How we conduct our business is fundamental to the success of the Group. Our Operational Framework sets out our approach to this and the standards we adhere to.

Product Safety policy

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

Workplace and operational environment

Our people management expectations are communicated to all employees and set out within our People policy. We do not tolerate corruption in any of its forms and our employees are made aware of their role in ensuring we maintain high standards of business conduct. Page 59 provides further detail about our anti-corruption programme.

The safety and wellbeing of our employees is paramount and our high standards for health and safety management provide a common framework to guide our workforce. Further information can be found on page 52.

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

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

Decarbonisation

We use our expertise to reduce our global environmental impacts and to develop products and services for our customers which reduce, where possible, the impacts on the environment. Our Environmental, Social and Governance Committee monitors the Group's approach to, and relevant policies on, climate resilience and transition plans and the Group's approach to, and relevant policies on, workplace environment, including health and safety.

Suppliers

We depend on our suppliers to provide fully compliant, cost-effective equipment, goods, services and solutions, which are an integral part of the world-class products our customers require, and also support the effective operations of our businesses and the Group's standards of business conduct.

Our supply chain management and Supplier Code of Conduct are focused on high achievement of our standards. Our standard form supplier contracts contain anti-corruption and anti-bribery provisions which stipulate the expectation that suppliers comply with applicable safety, environment and human rights legislation and also meet our standards on business conduct and Supplier Code of Conduct.

Risk Management policy

We understand that effective management of risks is essential to the delivery of a business's strategic objectives and its financial targets. Our Risk Management policy provides direction to employees and line and functional leaders on how to carry out project and business risk management. We set clear requirements for the management and reporting of risks in support of the delivery of our strategy. See pages 62 to 63 for further details.

Core business processes

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

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

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

Internal controls

Core Business Processes

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

Operational Assurance

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

Internal Audit

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

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

National security arrangements

The Group is subject to various national security requirements, which are an important part of our governance arrangements and how we operate as a defence company, as well as how we meet the needs of our customers. Due to the nature of our activities, the UK Government holds a Special Share in the Company, ensuring that the Company remains British controlled.

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

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

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

Our stakeholders and work of the Board

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

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

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

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

During 2025, matters the Board considered and approved included:

- A proposal for the manufacture of Type 26 ships for Norway. The UK Government announced a government-to-government agreement at the end of August 2025, noting that the deal would support 4,000 UK jobs, including more than 2,000 at BAE Systems Glasgow shipyards, where the frigates will be built.
- A proposal for the purchase of Eurofighter Typhoon aircraft for Türkiye. In October 2025, the UK Government announced a c.£5.4bn agreement with the Republic of Türkiye for the purchase of 20 Typhoon aircraft and an associated weapons and integration package. The UK Government reported that this agreement would help sustain more than 20,000 highly-skilled jobs involved in the Typhoon programme.

Other bids and proposals were considered by the Board, or overseen by other members of senior management, as their scale did not warrant escalation to the Board. Collectively, these activities reflect the continued global demand for our leading defence capabilities and the strategic alignment of our offerings with customer defence strategies. As part of our strategy sessions, the Board reviewed global market and geopolitical trends and approved the 2026 IBP, ensuring alignment with long-term strategy, investment priorities and the interests of our stakeholders.

The Board also received regular updates on the delivery of key programmes worldwide, including progress on the AUKUS partnership, the Edgewing joint venture and programmes delivered through MBDA. These programmes play an important role in strengthening national security for our partners, supporting thousands of skilled jobs across the supply chain and contributing significant export value to the UK economy.

*Companies Act 2006, s.172(1)

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

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

Employee voice

In accordance with Provision 5 of the Code, the Board has established workforce-engagement arrangements, which it considers effective. The Board reviews the effectiveness of this framework regularly, drawing on insights gathered through site visits, meetings and direct interactions with employees. Alongside data on employee sentiment and management reports on the application and impact of workforce policies, these engagement activities give the Board a well-rounded understanding of the matters important to our workforce and how strategic decisions may affect them. The Board keeps its approach to workforce engagement under regular review, to ensure it remains aligned with contemporary workforce-engagement practices and continues to provide an effective overview of the perspectives of our global workforce.

Our stakeholders and work of the Board *continued*

Site visits

The Board, alongside senior management, is committed to a site-led approach to its oversight of the business. Understanding the operations and engaging with employees plays an important part in enabling the Board and its Committees to fulfil their obligations.

The Board adopts an informal approach to site visits and the agile nature of these meetings allows for members of the Board to get a better feel for key technology, culture and alignment with the Group's strategic priorities. The visits provide important opportunities to engage with the workforce and see the development of our operations from the ground.

Top right: Our Innovation and Technology Committee visited our joint venture, MBDA, to discuss technology innovation and engage with early careers employees.



Middle left: Members of the Board visited our munitions business in Glascoed, UK.
Middle right: Our Chair and Environmental, Social and Governance Committee Chair visited our Kingdom of Saudi Arabia business. During the visit, they hosted a Q&A session with senior leaders and undertook a tour of an operational airbase.
Bottom left: Non-executive directors visited Malloy Aeronautics, acquired in 2024, touring the facilities and engaging the employees to assess cultural and strategic alignment.

Our people

[More information page 50](#)

Employees of BAE Systems.

Why we engage

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

What's important to them

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

How we engaged at Board level

- Multiple site visits during the year covering the UK, US, Kingdom of Saudi Arabia and Australia, undertaken in accordance with the national security requirements of the UK and other relevant nations. Whether a site visit is with the full Board, a Board Committee, or individual directors, they will meet with employees and senior leaders to engage on a range of topics. Read more on page 86.
- Updates to the Board on employee engagement, employee safety, recruitment, talent identification, employee pay and inclusion, along with additional work being undertaken to enhance internal 'speak up' awareness programmes and incident reporting.

How we engaged across the Group

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

Key actions taken by the Board in 2025

- The Senior Independent Director visited the Electronic Systems business in Rochester, UK, meeting executives, early career employees and touring the operations facility.
- The Chair and ESG Committee Chair visited operations in the Kingdom of Saudi Arabia, meeting senior leaders and touring an operational airbase.
- Non-executive directors visited Malloy Aeronautics, acquired in 2024, touring the facility and engaging with employees to assess cultural and strategic alignment.
- Informal engagement with a global cohort of high-potential employees who gave members of the Board a view of employee experiences.

Our customers and end-users

[More information page 22](#)

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

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

Why we engage

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

What's important to them

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

How we engaged at Board level

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

How we engaged across the Group

- Participated in major events including Defence & Security Equipment International exhibitions in the UK and Japan, the Association of the United States Army exposition in the US and Indo Pacific International Maritime exposition in Australia.
- International summits, like the Shangri-La Dialogue in Singapore and Pacific Future Forum in Japan provided strategic access to key customers and stakeholders.
- Bespoke technology event series which provided an opportunity to engage customers around evolving capability requirements.
- Customer meetings, programme reviews, site visits and programme milestone events.
- Close working with end-users at customer facilities, bases and sites.
- Regular dialogue with senior military leaders as well as senior ministers and political officials in our key markets.

Key actions taken by the Board in 2025

- The Board reviewed a number of business proposals where the financial threshold was above that delegated to management.
- The Board undertook a review of the acquisition of Ball Aerospace (now SMS), which included a review of the evolving customer priorities.

Our stakeholders and work of the Board *continued*

Our suppliers

[More information page 60](#)

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

Why we engage

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

What's important to them

- Labour and skills requirements
- Cost of materials and operations
- Terms of trade
- Timely payment
- Supply chain resilience and continuity of supply
- GHG emissions and decarbonisation strategy¹

How we engaged at Board level

- The Board received regular updates and information on particular supply chain matters from the Chief Executive and Chief Financial Officer. A deep dive into the LCM Framework was also undertaken by the Innovation and Technology Committee and attended by the full Board.

Key actions taken by the Board in 2025

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

How we engaged across the Group

- Direct engagement with our suppliers, including at major trade exhibitions and industry conferences, along with specific subject matter engagement throughout the year.
- This enabled us to maintain close relationships to help ensure continuity of supply, more proactively mitigate supply chain disruptions arising from global events and support our suppliers by providing extended demand visibility and expertise to find mutual solutions to identified supply challenges.

Our partners

[More information page 24](#)

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

Why we engage

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

What's important to them

- R&D investment
- Product and service development
- Collaboration on low-emission products
- Developing common standards, including an approach to reduce industry GHG emissions¹
- Access to market and customer opportunities
- Sharing best practices and common standards, including on ESG issues

How we engaged at Board level

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

Key actions taken by the Board in 2025

- Members of the Innovation and Technology Committee, along with other directors, visited the MBDA site in Stevenage, UK, to discuss technology innovation and interact with executives and early-career employees.

How we engaged across the Group

- Official incorporation of the GCAP joint venture (Edgewing), a trilateral global defence collaboration with our industry partners Leonardo (Italy) and JAIEC (Japan) to support the GCAP delivery.
- Maintained regular dialogue with industry partners, think tanks, trade bodies and customers around challenges that require a multi-partner approach, including evolving global events, multi-domain integration, resilient use of space for intelligence and communications, and progress on our sustainability agenda.

Our investors

[More information page 20](#)

Investors who provide capital to the business.

Why we engage

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

What's important to them

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

How we engaged at Board level

- Executive directors attended investor roadshows following full-year and half-year results to discuss Group performance with key shareholders.
- Our Chair and Senior Independent Director consulted with shareholders to discuss the updated Directors' Remuneration policy and engaged through various ad hoc investor meeting requests.
- The AGM in May 2025 provided an opportunity for investors to engage with Board members.

Key actions taken by the Board in 2025

- Approved the revised Remuneration policy for proposal to investors for approval at the 2025 AGM.
- Approved a final dividend of 20.6p per share in respect of 2024 and an interim dividend of 13.5p per share in respect of the first half of 2025.

How we engaged across the Group

- We executed a comprehensive investor programme, comprising a mixture of in-person and virtual engagements in the UK, US and other key international markets.
- The programme included meetings, attendance at investor conferences, bank-led Q&A sessions and major trade shows, including DSEI in the UK, the Association of the United States Army exposition in the US and Paris Airshow in France.
- Conducted an investor group tour of our Glasgow, UK, Naval Ships production facilities, including the Janet Harvey Hall.
- Hosted an Air Sector Capital Markets Day in Warton, UK, with 50+ attendees from our investment community. The event showcased the current portfolio and the continued strong growth potential for the sector, including a flying display from two Typhoon combat aircraft followed by a demonstration of our T-150 UAS.

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

Our communities and the environment

[More information page 56](#)

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

Why we engage

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

What's important to them

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

How we engaged at Board level

- Chief Executive provided an update on ESG matters at each scheduled Board meeting.
- Group ESG, Culture & Business Transformation Director attended a Board meeting where they provided an update on the ESG agenda, aligned to business priorities.
- Continued to monitor the Group's sustainability agenda and ESG agenda in conjunction with the Environmental, Social and Governance Committee.

Key actions taken by the Board in 2025

- As Chair of Movement to Work, which helps people in to work in the UK, the Chief Executive hosted the annual Movement to Work CEO Summit and Youth Employability Awards.
- President and Chief Executive Officer of BAE Systems, Inc attended the 2025 *FIRST*® Championship.

How we engaged across the Group

- Extensive education outreach programme, including STEM ambassadors in key markets, school roadshows in the UK and sponsorship of the international *FIRST* Championship in the US.
- Continued support for local communities through sponsorships, donations and employee volunteering, including supporting Feeding Britain, which works to combat hunger in communities across the UK, and the launch of a new community grant programme in Australia.
- Sustained partnerships with armed forces charities, including Legacy in Australia, the Royal British Legion's Poppy Appeal and The Great Tommy Sleep Out in the UK.

Our regulators

[More information page 59](#)

Governmental bodies that oversee industry or business activities.

Why we engage

We maintain constructive dialogue and relationships with those who oversee the regulations which can impact our business.

What's important to them

- Relevant laws and regulations
- Appropriate compliance programmes

How we engaged at Board level

- Received and reviewed legal compliance reports from the Group General Counsel and senior members of the Legal Function.
- Received and reviewed correspondence from other regulators, including the UK Government.

Key actions taken by the Board in 2025

- The Company, along with other UK FTSE companies, received a letter from the UK Government outlining the Cyber Governance Code of Practice and its recommendations. As part of its review, the Board was updated on the Group's alignment with the Cyber Governance Code of Practice. Given the importance of this topic, the Board requested that this be an agenda item for discussion every six months.
- Considered Board tenure and made changes to Committee composition, in line with the provisions of the UK Corporate Governance Code and the Company's Articles of Association.

How we engaged across the Group

- Open and constructive engagement with various regulators, including meetings and discussions with UK, US and Australian regulators in support of efforts to drive efficient compliance, improve bilateral and multilateral defence trade cooperation and support our licensing strategy.
- Participation in industry association initiatives to work with regulators to the same end.
- Regulator attendance and presentations at external conferences and engagement events alongside regulators.

Our pension scheme members

[More information page 182](#)

Members and trustees of our pension schemes.

Why we engage

We are committed to fulfilling our obligations to current and former employees in our pension schemes. We and the Trustees of our defined benefit and defined contribution pension schemes engage with scheme members regularly to ensure they are informed about how we continue to do so and ensure that they have access to all the information they need to manage their pension arrangements.

What's important to them

- Member benefits
- Funding position and investment strategy for our defined benefit pension schemes
- Group performance

How we engaged at Board level

- Approved increases to employer contribution rates for defined contribution benefits.
- Approved reductions to employee contribution rates for defined benefit members.

How we engaged across the Group

- Continued to engage with our UK members via dedicated pensions websites, ensuring they have access to key scheme documents and pensions information.
- Newsletters made available to all defined benefit members to keep them updated and engaged in their pension planning.
- Face-to-face and virtual engagement sessions for employee members around the UK, supported by a series of videos and guides to help them better understand their pensions.

We also engage with other non-profit organisations and public interest groups who have a focus on business or defence and security issues to address factors that can impact our business and how we operate.

Applying the 2024 UK Corporate Governance Code

Applying Principles of Good Governance: The Company has applied the Principles in the Code. Using the section headings in the Code, the following provides details of how we have applied those Principles and references other parts of these reports to provide more detail. The statements reference the Code Principles.

Section 1 – Board leadership and Company purpose

Principles

- A.** A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society. The board should ensure that the necessary resources, policies and practices are in place for the company to meet its objectives and measure performance against them.
- B.** The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are all aligned. All directors must act with integrity, lead by example and promote the desired culture.
- C.** Governance reporting should focus on board decisions and their outcomes in the context of the company's strategy and objectives. Where the board reports on departures from the Code's provisions, it should provide a clear explanation.
- D.** In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.
- E.** The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Reference

- Dividends paid and capital allocation policy objectives [Page 15](#)
- Governance framework [Page 82](#)
- Annual Board performance review [Page 95](#)
- Our purpose [Page 3](#)
- Our strategic framework [Page 16](#)
- Responsible business [Page 48](#)
- Governance framework [Page 82](#)
- Audit and Risk Committee report [Page 97](#)
- Environmental, Social and Governance Committee report [Page 101](#)
- Our strategic framework [Page 16](#)
- Governance framework [Page 82](#)
- Our stakeholders and work of the board [Page 85](#)
- Environmental, Social and Governance Committee report [Page 101](#)
- Our strategic framework [Page 16](#)
- Ethics and compliance [Page 59](#)
- Our stakeholders and work of the Board [Page 85](#)

Section 2 – Division of responsibilities

Principles

- F.** The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.
- G.** The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.
- H.** The non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.
- I.** The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Reference

- Chair's governance letter [Page 76](#)
- Annual Board performance review [Page 95](#)
- Chair's governance letter [Page 76](#)
- Board of directors [Page 77](#)
- Governance framework [Page 82](#)
- Board of directors [Page 77](#)
- Board information [Page 81](#)
- Governance framework [Page 82](#)
- Annual Board performance review [Page 95](#)

Section 3 – Composition, succession and evaluation

Principles	Reference
J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan for the board and senior management should be maintained. Both appointments and succession plans should be based on merit and objective criteria. They should promote diversity, inclusion and equal opportunity.	<ul style="list-style-type: none"> ➤ Board information Page 77 ➤ Nominations Committee report Page 93
K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.	<ul style="list-style-type: none"> ➤ Board of directors Page 77 ➤ Board information Page 81 ➤ Nominations Committee report Page 93
L. Annual evaluation of the board should consider its performance, composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.	<ul style="list-style-type: none"> ➤ Nominations Committee report Page 93 ➤ Annual Board performance review Page 95

Section 4 – Audit, risk and internal control

Principles	Reference
M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.	<ul style="list-style-type: none"> ➤ Audit and Risk Committee report Page 96
N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.	<ul style="list-style-type: none"> ➤ Directors' responsibility statement Page 133
O. The board should establish and maintain an effective risk management and internal control framework and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.	<ul style="list-style-type: none"> ➤ Our risk management framework Page 64 ➤ Our principal risks Page 65 ➤ Governance framework Page 82

Section 5 – Remuneration

Principles	Reference
P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.	<ul style="list-style-type: none"> ➤ Remuneration Committee report Page 104 ➤ Annual remuneration report Page 112
Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.	<ul style="list-style-type: none"> ➤ Remuneration Committee report Page 104 ➤ Directors' remuneration policy Page 109
R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.	<ul style="list-style-type: none"> ➤ Remuneration Committee report Page 104

Compliance with the 2024 UK Corporate Governance Code provisions *continued*

The Company is subject to the principles and provisions of the Code, a copy of which is available at frc.org.uk. The Company was compliant with the provisions of the Code throughout 2025. The following statements are made in compliance with the Code.

Risk management and internal control statement

The Board is responsible for the oversight of the effectiveness of the Group's risk management and internal control framework. It has delegated responsibility for monitoring and reviewing the effectiveness of this framework to the Audit and Risk Committee, which reports to the Board on its findings so that all directors can take a view on the matter.

An overview of the processes used to identify, evaluate and manage the principal risks can be found on pages 62 to 63. These processes are an integral part of our governance and are therefore included within the Operational Framework, details of which can be found on page 82. The Operational Framework mandates the OAS process, which is owned by the Group's Internal Audit function and is one of the principal processes the Board uses in monitoring the effectiveness of control systems.

The OAS process is designed to provide assurance with regard to compliance with the policies and processes which the Operational Framework mandates. It is a key element of the Group's governance. The Risk Management policy and the LCM framework direct employees and line and functional leaders on the approach to effectively managing business and project risks. Twice a year, the line leaders for our business and the heads of our functions are required to critically analyse compliance relative to a scoring framework, which sets standards against which compliance must be assessed. Line and functional leaders are required to assure themselves of the level of compliance for a business and submit, as required, supporting information and data to provide evidence of compliance asked for.

The output from the OAS process is reviewed by (and subject to challenge from) the Internal Audit function relative to its understanding of matters within particular businesses. The output from the risk management and OAS processes is provided to the Board and is reviewed in detail by the Audit and Risk Committee.

The report to the directors on the output from the risk management and OAS processes provides granular graphical and narrative analysis of compliance against the requirements of the Operational Framework, and as such is an important part of how the Board monitors and reviews the Company's risk management and internal control framework. Further details of the Board's monitoring and review process can be found in the Audit and Risk Committee report on page 96.

The risk management and internal control framework detailed in the Operational Framework was in place throughout the year, and the Board, having reviewed its effectiveness, believes it accords with FRC Guidance.

Viability statement and going concern

As required by the provisions of the Code, the Board has undertaken an assessment of the future prospects of the Group, taking into account the Group's current position and principal risks. This assessment considered both the Group's long-term prospects and also its ability to continue in operation and meet its liabilities as they fall due over its five-year business planning period. This can be found on page 73 of the Strategic report.

Directors

In compliance with the Code, all directors are subject to annual re-election by shareholders. The Board considers all of the non-executive directors (except the Chair) named on pages 78 to 79 of this report to be independent for the purposes of the Code. The Chair was also independent on appointment.

The Board regularly reviews all of the directors' external commitments to ensure that they have sufficient time to dedicate to the Company. Prior to making Board appointments, the Board considers other demands on an individual's time to ensure that, following appointment, they can meet their Board responsibilities. Non-executive directors are required to seek prior approval before taking on additional external appointments. The Board also considers whether there are any matters that could have a bearing on a non-executive director's independence pursuant to Provision 10 of the Code. The following disclosure is made on these matters:

Director independence

During our conversations on Board succession, we considered the length of service of the Board as a whole and how best to ensure that we retained the right balance of skills, experience and knowledge. We also specifically considered the succession for Dame Elizabeth Corley, who reached a tenure of nine years on the Board in February 2025, and the importance of independence of mind and objective judgement from non-executive directors. The Board reflected on the insightful perspectives Dame Elizabeth Corley provided during her tenure based on her corporate memory, which, coupled with her external background and knowledge, enriched Board discussions. The Board was unanimous in its agreement that it considered Dame Elizabeth Corley to be independent. Dame Elizabeth Corley stepped down from the Board at the end of November 2025.

Nominations Committee report



Members during 2025	Member since
Cressida Hogg (Chair)	November 2022
Nick Anderson	November 2020
Crystal E Ashby	September 2021
Angus Cockburn	November 2023
Dame Elizabeth Corley	Retired November 2025
Jane Griffiths	April 2020
Ewan Kirk	June 2021
Stephen Pearce	June 2019
Nicole Piasecki	June 2019



The Committee ensures that plans are in place for orderly, well-planned succession for executive management.

Cressida Hogg
Chair of the Nominations Committee

Dear Shareholders

I am pleased to present this report of the Nominations Committee and provide a summary of our activities during 2025. The Committee's Terms of Reference can be found on the Company's website and provide further details of the Committee's responsibilities.

The Committee leads the process for appointments to Board and executive director roles, ensures plans are in place for orderly, well-planned succession for executive management¹ and oversees the development of a diverse succession pipeline of candidates. It also makes recommendations to the Board on certain corporate governance matters.

Board and succession planning

The Committee regularly monitors the composition of the Board and its Committees to ensure that there remains a suitable balance of skills and experience to oversee the delivery of the Group's strategy and discharge each Committee's responsibilities effectively.

The Committee must also consider the specific nationality restrictions for certain executive and non-executive roles within any succession planning. National security considerations limit the pool of talent available when considering candidates for certain positions. In addition, the Special Share provisions in the Company's Articles of Association require that a majority of the members of the Board must be British nationals and that also applies to the membership of Board Committees. These nationality requirements are factored into the Committee's long-term plans for managing Board and Committee composition.

During the year, the Committee focused on the succession for Dame Elizabeth Corley, who reached a tenure of nine years on the Board in February 2025, and the longer-term succession of our other non-executive directors. The Committee considered the skills and experience that the Board would be losing with the retirement of Dame Elizabeth and worked with MWM Consulting² to help assist with the nomination and appointment of John Pettigrew, who joins the Board in February 2026. Committee members held meetings with John Pettigrew in advance of making the recommendation to the Board.

At the beginning of 2025, the Committee reviewed the Board Committee composition as part of Board succession planning to ensure potential gaps and areas for strengthening are identified and addressed as appropriate. In February 2025, changes were made to committee memberships, with Ewan Kirk joining the Audit and Risk Committee, Angus Cockburn joining the Environmental, Social and Governance Committee, while John Pettigrew will be joining the Audit and Risk Committee. Dame Elizabeth Corley stood down from these two committees.

The Committee is cognisant that the balance of women on the Board has now fallen below the 40% target set by the UK FCA, following the retirement of a female director during 2025. The Committee will be mindful of this position as it continues with its succession planning in the year ahead. Following the retirement of Dame Elizabeth Corley, the proportion of women on the Board stood at 36%.

The Committee ensures and receives reports on plans in place for appropriate executive management succession. As you would expect, all companies must have resilience to maintain momentum through any unexpected management change. Therefore, the Committee also considers the succession plans for our most senior leaders; the Chief Executive, the Chief Financial Officer and the President and Chief Executive Officer of BAE Systems, Inc., along with all Executive Committee members and the Company Secretary. During the year, we considered the critical success components of these roles and the potential succession talent from both inside and outside the business.

On an annual basis, the Committee discusses the senior succession candidates with the Chief Executive. The Committee will have also met with some of these candidates during the year at site visits or specific engagements before Board meetings. The Committee reported to the Board that our talent pipeline is being strengthened, with greater focus on development and clear succession routes for key executives below the level of the Executive Committee. Senior Finance Executive pipeline and succession planning was undertaken at the Audit and Risk Committee meeting, with a detailed presentation across many finance roles. More executives are being identified and developed for specific positions and short-term emergency cover.

1. Executive management refers to members of the Executive Committee and the Company Secretary.
2. MWM Consulting is an executive search agency which has no other connection with the Company or any individual director.

Nominations Committee report *continued*

Director external appointments

Directors are permitted to undertake additional external appointments and we have a clear process for the evaluation and Board consideration of new roles. As part of the nominations process, the role is reviewed for any actual or potential conflict of interest and, if any such conflict arises, whether this could be suitably managed. The time commitment is also assessed to determine if the role would impact the director's ability to properly fulfil their duties as a director of BAE Systems. My appointment as President of the Confederation of British Industry was considered by Nicole Piasecki as Senior Independent Director and approved by the Board with her recommendation.

On an annual basis, the Committee considers all non-executive directors' time commitments to ensure that there are no concerns with overboarding. This review considers the number of appointments, the scope and size of the company in which the position is held, as well as the most recent published guidelines and recommendations. The Board remains confident that all Board members continue to have sufficient time to dedicate to their duties.

Board diversity

The Board recognises that diversity is an important factor in its effectiveness and strives to maintain a diverse Board, which includes, among other things, an appropriate balance of gender, ethnicity, skills, knowledge and experience.

The Board's Diversity and Inclusion policy, which the Committee routinely reviews, outlines the approach to diversity and inclusion for BAE Systems' Board of directors and is available to view on the Company's website.

The Committee regularly considers the composition of committees, including the needs for particular attributes, skills and experience, when undertaking non-executive search activities. The membership of the Board's Audit and Risk, Remuneration and Nominations committees is drawn from the wider membership of the Board and therefore the membership of these bodies is broadly aligned with the Board's Diversity and Inclusion policy.

Although the Committee strives to maintain the targets set within the Board's Diversity and Inclusion policy, it must also take full account of the Company circumstances and the unique national security requirements to which the Company must adhere. Further information on the Board's approach to diversity can be found on pages 80 to 81.

Cressida Hogg CBE

Chair of the Nominations Committee

The Nominations Committee's year

- Discussed succession plans for executive roles.
- Considered non-executive director succession planning and recommended the appointment of John Pettigrew.
- Discussed the role specification and candidate profile for future non-executive director search.
- Discussed senior succession plans.
- Considered external appointments for members of the Board as appropriate.
- Discussed non-executive director planning for the medium to long term.
- Considered the composition of the Board Committees.

Board performance review

Delivery against the 2025 ambitions

From the 2024 Board performance review, certain areas of focus were identified. Progress in these areas is provided below.

Area of focus from the 2024 review	Progress
People	More agenda time was allocated to the Nominations Committee for its discussion on senior succession and the talent pipeline. The Audit and Risk Committee also held a detailed discussion on succession and talent management within the finance function.
Strategy	The June strategy session included increased focus on external perspectives, increased insight on the impact of new technology, customers and products. Feedback from the directors was captured during the session, which has been used to scope materials for future updates.
Site visits	During the year the following sites were visited by some, or in some instances all, directors: MBDA, Malloy Aeronautics, Electronic Systems in Rochester, the Maritime and Land facility in Australia and sites in the Kingdom of Saudi Arabia. In addition, a director with a higher level of security clearance spent time with the cyber team looking at classified security issues, cyber preparedness and a threat review. An overview of this visit was shared with the Board. The Chair also visited many other facilities across the business.

2025 Board performance review process

The Board undertakes an annual performance review of the effectiveness of the Board, its Committees, the Chair and individual directors, and conducts an externally facilitated review at least every third year with the assistance of an independent facilitator.

In 2025, the annual performance review of the effectiveness of the Board and its Committees was conducted internally. The Chair led the process, which was facilitated by the Company Secretary. Questionnaires were circulated via an electronic platform, with responses anonymised and the conclusions discussed by the Board. In addition, The Chair held one-on-one discussions with each Board member to gather views on Board performance.

The internal performance review considered a number of matters, including the composition of the Board and its committees, culture, the effectiveness of

The process

1. Questionnaire agreed and distributed electronically to Board members
2. One-on-one discussions between the Chair and Board members
3. Outcome of questionnaires provided to the Board and Committee members and discussed at a meeting of the Board in December 2025
4. Action plan agreed following discussion of the reports

meetings and the quality of information flow to the Board. Through one-on-one discussions, the Chair was able to consider whether each director continues to contribute effectively. No director was involved in the review of their own individual performance.

Each of the directors is considered to be an effective member of the Board and, accordingly, the Board recommends to shareholders the re-election of the directors standing at the 2026 AGM.

The performance of the Chair of the Board was also evaluated, with questions covering areas such as effectiveness both inside and outside of the Board meetings, interactions with internal and external stakeholders, and key strengths.

The Company Secretary collated the Chair performance review results and shared these with the Senior Independent Director, Nicole Piasecki. After engaging with other Board members, Nicole Piasecki discussed the feedback with the Chair.

Performance review outcomes

The Board and Committee member feedback indicated that the performance review was objective and rigorous and that the Board and its Committees are considered to operate effectively. Key topics were discussed for the year ahead for the Board and each Committee, based on director feedback. Feedback also indicated that there are good personal relationships and a high degree of mutual respect among directors.

Areas of focus for 2026	Proposed action
People	The Board agreed to deepen its discussion on the Company's talent management and leadership development in 2026.
Risk	The risk management process is considered to work well. However, the Board will continue to spend time on the evolution of the risk process, emerging risk, cyber and organisation resilience.
Strategy	The complexity of market dynamics continues to change at pace. The Board's strategic discussion will include time on competitor dynamics, new entrants to market and defence technology developments.

Audit and Risk Committee report



Members during 2025

Stephen Pearce (Chair)

Angus Cockburn

Dame Elizabeth Corley

Jane Griffiths

Ewan Kirk

Member since

January 2020

November 2023

Retired February 2025

January 2024

February 2025



The Committee exercises rigorous oversight over the Group's internal controls and risk management systems through targeted deep dives into critical risk areas.

Stephen Pearce

Chair of the Audit and Risk Committee

Dear Shareholders

As announced in February 2026, I have advised the Board that I will retire at the end of November 2026, therefore, this is my last report as Chair of the Audit and Risk Committee. In this report, I will provide you a summary of the main discussions of the Audit and Risk Committee for the year ended 31 December 2025. During the year, the Committee has maintained focus on the key areas which are summarised on page 100.

The Committee keeps under review the relationship with the external auditors, including the terms of engagement, fees, independence and the effectiveness of the external audit process. Similarly, we monitor the effectiveness of the Group's Internal Audit function.

On behalf of the Board, we undertake regular reviews of the Group's risk management and internal control framework, in relation to the Group's financial and non-financial reporting processes and associated disclosures, fraud and other risks, as well as the Group's Principal Risks.

The Committee Terms of Reference can be found on the Company's website.

Committee composition and attendees

In accordance with the Code, all members of the Audit and Risk Committee are independent and, as Chair of the Audit and Risk Committee, I have recent and relevant financial experience.

Our biographies on pages 77 to 79 provide a summary of our skills and our experience, which highlights that collectively, the Committee members have the knowledge, skills, experience and financial literacy to effectively discharge our duties as an Audit and Risk Committee. When John Pettigrew joins the Board in February 2026, he will also become a member of the Committee and the Board is satisfied that he also has recent and relevant financial experience which will complement the existing skills and balance of the Committee.

In 2025, we held five formal meetings attended by Committee members, the Chair of the Board and Internal and External Audit teams. Each meeting was followed by a private session with the same participants, excluding management. Our formal meetings are also attended by the Chief Executive, the Chief Financial Officer, the Group General Counsel, the Company Secretary and the Group Financial Controller.

I report back to the Board, after each meeting, on our discussions, highlighting relevant matters and providing recommendations where appropriate/ necessary to the Board, on behalf of the Committee.

Before each meeting, I have a pre-meeting in order to ensure that the key areas of focus are properly reviewed and discussed during the Committee meeting. I meet with the Chief Financial Officer, the Internal Audit Director, the Group Financial Controller, the Audit Partners from Deloitte LLP and the Deputy Company Secretary (the Committee Secretary). Outside of the meeting cycle, I maintain regular conversation with the Internal Audit Director and the Audit Partners, and regularly engage with members of the global finance teams.

Climate-related financial reporting

The Committee continues to monitor developments in reporting frameworks and regulatory guidance, receiving regular updates from the management team on emerging global initiatives and evolving climate-related disclosure requirements across the jurisdictions in which the Group operates. This ensures that our assurance approach remains aligned with, and proportionate to, regulatory change.

As part of its remit, the Committee oversees the Group's internal and external assurance processes for data disclosed on behalf of the Group, including sustainability-related information that informs, and is linked to, the financial statements. Climate-related reporting requirements under TCFD form part of this remit.

To support continuity and oversight of the Board's strategic intent, particularly in relation to resource and energy efficiency, the Chair of the Environmental, Social and Governance Committee and the Chair of the Audit and Risk Committee each serve as members of the opposite Committee. This cross-membership structure strengthens alignment, facilitates holistic oversight, and ensures that the evolution of ESG data capabilities is appropriately governed as regulation and stakeholder expectations continue to progress.

[The Statutory Audit Services for Large Companies Market Investigation \(Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities\) Order 2014](#)

[The Company has complied with the Statutory Audit Services Order issued by the UK Competition and Markets Authority for the financial year ended 31 December 2025.](#)

In line with our responsibilities, we have continued to assess the potential impact of climate-related transition activities and physical risks on the Group's reporting. For the year ended 31 December 2025, we concluded that these factors did not have a material impact on the Group's Consolidated Financial Statements. Recognising that the external environment and associated risk landscape are dynamic, the Committee will maintain close and ongoing oversight as these areas evolve.

Provision 29

As part of our ongoing preparations for the implementation of Provision 29, the Committee reviewed the methodology adopted to identify material controls and to assess their effectiveness and the enhancements made to the Operational Framework. We approved the Group's material control list which we noted was, in general, a codification of existing, well-established internal control processes.

The Committee also reviewed the outcomes of several dry-run exercises which were built on existing assurance processes and supplemented by additional confirmation work where required. The results provided valuable insight into the effectiveness of the current controls and established a clear roadmap for any activity to be undertaken during 2026 to assist the Board with its new reporting requirement under Provision 29.

Risk management and internal controls

The Group's Risk Management policy and internal control framework are structured to manage, rather than eliminate, the risk of failing to achieve strategic and financial objectives. Accordingly, these arrangements provide reasonable, though not absolute, assurance against material misstatement or loss.

The Board maintains ultimate responsibility for the effectiveness of the Group's risk management and internal control framework. Comprehensive details of the Group's risk management process and principal risks are set out on pages 64 to 72.

The Committee exercised rigorous oversight of these arrangements through targeted deep dives into critical risk areas, including Export Control, the Group's ethics and whistleblowing programme, progress on preparations for the implementation of Provision 29, findings from the OAS and other matters relating to risk management and internal controls.

This approach is reinforced by structured processes such as Business Reviews (see page 82), ongoing monitoring of the IBP and the OAS process, all of which underpin the assessment of the risk management and internal control framework's effectiveness.

The Committee ensures continuous scrutiny of risk management and internal controls through established governance mechanisms, guided by the Risk Management policy and implemented via the Group's assurance model. Regular reporting from Internal Audit and other specialist functions enables the Committee to challenge and engage with senior subject matter experts.

A key focus for the Committee is internal controls over financial reporting. We continued to receive updates on the progress of the modernisation of the Group's global finance function, which the Chief Financial Officer has initiated, to streamline processes and share best practice across the Group. We were pleased to hear of the milestones being achieved within the year, in developing a more collaborative, innovative culture focused on continuous improvement and in enhancing assurance over external financial reporting.

These reporting and assurance processes provide the Committee with robust oversight and support its responsibility to confirm that the Annual Report and Financial Statements are prepared in full compliance with applicable standards and regulatory requirements. Additionally, on behalf of the Board, the Committee also reviews the Company's whistleblowing processes, including the procedures for the proportionate and independent investigation of reported concerns.

This work forms part of the Board's broader oversight of the Company's culture and its assessment of how effectively the desired culture is embedded. Following its review, the Committee is satisfied that the mechanisms in place are adequate and effective in enabling individuals to raise concerns appropriately.

External audit

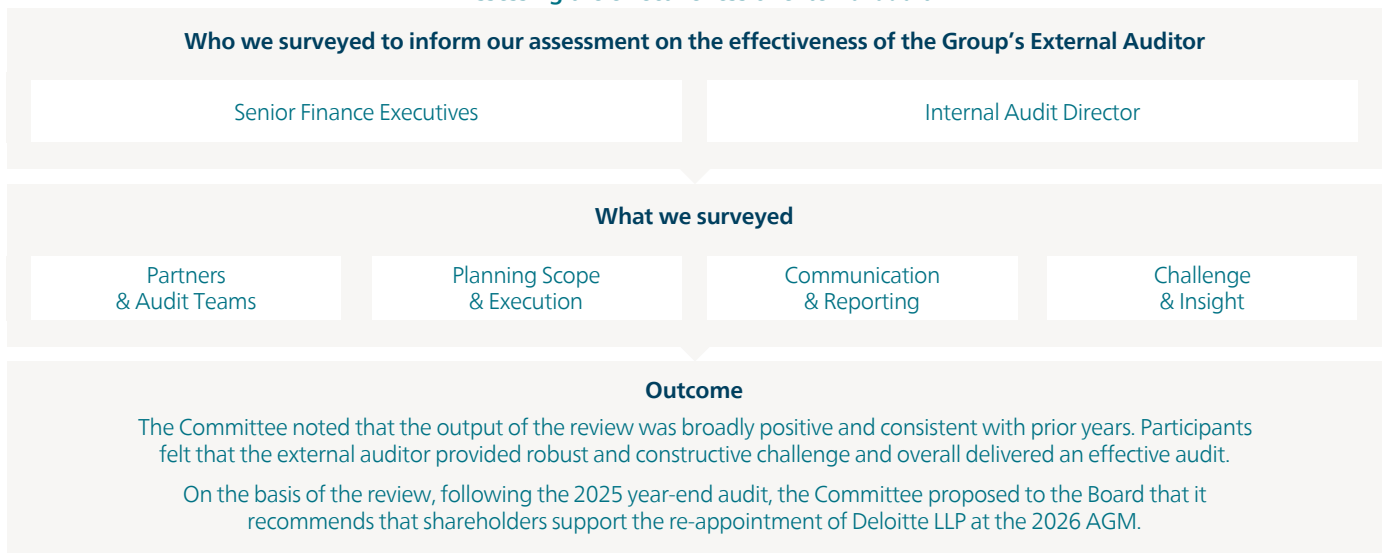
Deloitte LLP has served as the Group's external auditor for eight years, following its appointment at the 2018 Annual General Meeting. Claire Faulkner is currently in her third year as Lead Audit Partner. The Committee regularly reviews Deloitte's role and the scope of work it undertakes.

Its reports provide valuable insight into discussions held with management on key contracts, significant judgements and major programmes, as well as its assessment of the Group's control environment.

We agreed the scope and fees for Deloitte's external audit plan, covering its review of the half-year financial statements and the audit of the full-year financial statements. In doing so, we considered key audit risks and other areas of particular focus for the Group.

The audit and non-audit fees for 2025 are provided in note 3 to the Consolidated financial statements on page 154.

Assessing the effectiveness of external audit



Who we surveyed to inform our assessment on the effectiveness of the Group's External Auditor

Senior Finance Executives

Internal Audit Director

What we surveyed

Partners & Audit Teams

Planning Scope & Execution

Communication & Reporting

Challenge & Insight

Outcome

The Committee noted that the output of the review was broadly positive and consistent with prior years. Participants felt that the external auditor provided robust and constructive challenge and overall delivered an effective audit.

On the basis of the review, following the 2025 year-end audit, the Committee proposed to the Board that it recommends that shareholders support the re-appointment of Deloitte LLP at the 2026 AGM.

Audit and Risk Committee report *continued*

Auditor independence and effectiveness

In overseeing the relationship with the external auditor, the Committee conducts an annual assessment of its effectiveness, technical competence and the quality of its audit input. This evaluation informs our consideration of whether a competitive tender process for the external audit would be appropriate.

On behalf of the Committee, management facilitated a questionnaire seeking feedback on the external auditor's performance and whether it continue to meet expectations.

Our assessment of the external auditor's effectiveness is undertaken based on the requirements of the Code, including following the 'Audit Committees and the External Audit: Minimum Standard' published by the FRC in May 2023, as explained in this report. We reviewed and discussed the results of this assessment and concluded that Deloitte remains effective in its role as external auditor. Having considered Deloitte's continued objectivity, independence and effectiveness, the Committee believes it is in the best interests of the Company's shareholders for Deloitte LLP to remain as external auditor for the forthcoming financial year. A high-level summary of the auditor effectiveness review is provided below. The Committee remains mindful of its obligations under the Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, which governs the frequency and oversight of external audit tenders.

Deloitte was appointed as external auditor for the year ended 31 December 2018 and, in accordance with these requirements, the Company must re-tender its external audit services for the year ended 31 December 2028. The Committee, with the support of senior management, has commenced planning for the next audit tender process with the aim of completing the tender in 2026.

Non-Audit Services policy

The Group has a policy on non-audit services that aligns with the FRC's 2019 Revised Ethical Standard of Permitted Audit-Related and Non-Audit Services. The policy prohibits the auditor from undertaking certain activities and places restrictions on the employment of former employees of the auditor. The policy permits the provision of certain audit-related services and permitted non-audit services up to limits that are pre-approved by the Committee, with specific approvals required beyond such limits.

In 2025, we considered and approved three non-audit services (relating to the Half Year Review, Climate Reporting and Assurance and extended controls assessment) which were compatible with the general standard of independence for auditors. Prior to approving any non-audit work, the Committee considered the nature of the services and concluded that the provision of these services did not impair the independence of the external auditor.

Internal audit

The Internal Audit function undertakes a broad range of reviews across the Group, providing independent assurance on the design and effectiveness of internal control processes and systems. Its purpose, authority and responsibilities are codified in the Internal Audit Charter, which the Committee reviews annually.

The Internal Audit Director (whose appointment is reserved for the Committee) and the VP Internal Audit, BAE Systems, Inc. attend Committee meetings to provide regular insight into the effectiveness of risk assessment and internal control and risk management frameworks, as well as key processes.

As a Committee, we review and approve the Internal Audit plan and any subsequent adjustments, ensuring appropriate resourcing and alignment of the plan to the Group's Principal Risks and areas critical to the operation of material controls. The plan remains flexible and evolves to reflect changes in the risk environment, with all amendments presented to and agreed by the Committee.

We also monitor the effectiveness of the Internal Audit function through multiple sources, including feedback from the annual assessment, the quality and depth of Internal Audit reports, direct interactions with the Internal Audit Director and outputs from the bi-annual OAS. Based on these evaluations, the Committee is satisfied that the Internal Audit function continues to operate effectively.

Assessing the effectiveness of Internal Audit

Who we surveyed to inform our assessment on the effectiveness of the Internal Audit function

Executive Committee members

Sector Leadership

Audit Review Board Chairs

Audit Committee members

What we surveyed

Purpose

People & Processes

Stakeholders Reporting

Areas of Improvement

Outcome

The Committee noted the feedback from the survey and were pleased with the positive comments. Overall, the feedback highlighted strong performance, professionalism, better alignment of audit plans to the Group's risks and recent improvements in quality and impact of audits. The function is widely regarded and well respected, and respondents praised the team's integrity, collaboration and commitment to high standards, as well as initiatives such as onboarding apprentices and enhancing career pathways.

Overview of the process to ensure that the Group's Annual Report, taken as a whole, is fair, balanced and understandable and provides information necessary for shareholders to assess the Group's position and performance, business model and strategy



Financial statements and narrative reporting

A core part of our remit is to oversee internal and external assurance processes relating to sustainability disclosures linked to the financial statements, including those aligned with TCFD. Following our assessment of climate-related transition activities and physical risks, the Committee concluded that there was no material impact on the Group's Consolidated financial statements for the year ended 31 December 2025. We will continue to monitor this position closely as part of our ongoing responsibilities.

This review forms part of our broader oversight of significant matters relating to the Annual Report, including the going concern and viability statements. For the 2025 Annual Report, the Committee assessed whether the report is fair, balanced and understandable, and whether it provides investors with the information necessary to evaluate the Group's position, performance, business model and strategy.

In agreeing the parameters of the going concern statement, we reviewed supporting reports (see page 73) and the Board's assessment of the Group's prospects (see the viability statement on page 73). These assessments are underpinned by reasonably plausible but severe downside scenarios linked to the Group's principal risks, including their impact on future cash flows, profitability, financial covenants, solvency and liquidity. We also considered the period covered by the viability statement and remain of the view that a five-year horizon is most appropriate, reflecting the business planning cycle and the long-term nature of several Group programmes.

To support our assessment of whether the Annual Report and Accounts are fair, balanced and understandable, the Committee draws on a range of year-round processes and specific verification activities. We receive regular updates from management on developments in financial and non-financial reporting, the internal control environment, key findings and internal verification processes undertaken during the Annual Report's preparation.

Together, these processes enable the Committee to evaluate the integrity and completeness of disclosures within the Annual Report. After careful review and consideration of all relevant information, the Committee was satisfied that, taken as a whole, the 2025 Annual Report and Accounts are fair, balanced and understandable and we confirmed this view to the Board.

The principal areas of judgement considered concerning the 2025 financial statements are set out below.

Margin recognition

The estimation of contract margin and the level of revenue and profit to recognise in a single accounting period requires the exercise of management judgement. The Committee reviewed key estimates and judgements applied in determining the financial status of the more significant programmes.

Pensions

Accounting for pensions and other post-employment benefits involves making estimates when measuring the Group's retirement benefit obligations. These estimates require assumptions to be made about uncertain events, such as discount rates, inflation rates and longevity. As at 31 December 2025, a number of the Group's pension schemes remain in an accounting surplus.

The Group has recognised the surpluses on the basis that the future economic benefits are unconditionally available to the Group. These were recognised after deducting a 25% withholding tax, which would be levied prior to the future refunding of any surplus, and were presented on a net basis, as this is not deemed to be an income tax of the Group. We reviewed this presentation and concluded that this estimate is appropriate based on the Group's current ability to access its defined benefit surpluses.

We reviewed the methodology used to allocate a proportion of the net post-employment benefit surpluses to equity accounted investments and concluded that this continues to be appropriate with reference to agreement between the Company and the retirement benefit schemes.

Taxation

Computation of the Group's tax expense and liability, the provisioning for potential tax liabilities and the level of deferred tax asset recognition are underpinned by management judgement and estimation of the amounts that could be payable.

Although the Board determines the tax policy, we reviewed the Group's tax strategy. Twice during the year, we reviewed the Group's tax expense and tax provisions and discussed these with the Group Tax Director.

Stephen Pearce

Chair of the Audit and Risk Committee

Audit and Risk Committee report *continued*

The Audit and Risk Committee's year¹

- Reviewed the Annual Report and Accounts and specific disclosures, including viability and going concern, for recommendation to the Board.
- Received a presentation from the Group Financial Controller and Group Treasurer in respect of work supporting the viability and going concern statements.
- Considered the accounting, financial control and audit issues reported by the external auditor that flowed from the year-end audit work and half-year review work.
- Reviewed the effectiveness of the external audit process.
- Received a report from the Group Tax Director.
- Reviewed external auditor independence and the nature and value of non-audit services.
- Agreed the external audit engagement letter.
- Considered outputs from the six-monthly OAS reviews.
- Reviewed the Company's compliance with ESG reporting, including compliance with TCFD. Considered development of ESG-related disclosures, including climate change and TCFD reporting requirements.
- Agreed the 2025 external audit plan and scope.
- Agreed the external audit fee proposal.
- Considered any emerging accounting issues prior to the half year.
- Reviewed the Non-Audit Services policy.
- Reviewed the nature and value of non-audit services.
- Reviewed the ESG assurance map.
- Reviewed the Half yearly financial statements and specific disclosures, including going concern, for recommendation to the Board.
- Conducted a deep dive into the Group's business ethics and received a report that includes key indications in relation to whistleblowing reports.
- Reviewed the effectiveness of the risk management and internal control framework and the overall risk profile of the Group (including emerging risks), and ratified the Group's principal risks for recommendation to the Board.
- Received updates on the preparation for compliance in 2026 with the updated Provision 29 of the Code.
- Agreed the Group's provisional list of material controls and the associated assurance requirements for recommendation to the Board.
- Reviewed improvements made to risk management processes.
- Considered any emerging accounting issues prior to the year end.
- Considered the external auditor's controls report.
- Considered the output of the Internal Audit Director's report.
- Considered and approved the Internal Audit strategy, charter, mandate and 2026 audit plan.

1. The Committee holds a quarterly session with the Internal Audit Director and external auditor without management present. The Audit and Risk Committee Chair also meets with the Chief Financial Officer, the Internal Audit Director and the external auditor on an ad hoc basis.

Environmental, Social and Governance Committee report



Members during 2025

- Jane Griffiths** (Chair)
- Nick Anderson**
- Crystal E Ashby**
- Dame Elizabeth Corley**
- Stephen Pearce**
- Angus Cockburn**

Members since

- September 2020
- November 2020
- September 2021
- Retired
- February 2025
- January 2024
- February 2025



We are continuing to focus on resource efficiency, developing energy and infrastructure strategies to reduce our GHG emissions across our operations, while supporting our business growth.

Jane Griffiths
Chair of the Environmental, Social and Governance Committee

Dear Shareholders

I am pleased to present this report of the Environmental, Social and Governance Committee and provide a summary of our activities during 2025.

The Committee provides oversight of the management of business responsibility matters, including climate, social and safety, and the review of progress against objectives and targets. Together with the Audit and Risk Committee and the Remuneration Committee, we support the Board in fulfilling its responsibility to monitor and assess the extent to which the Company’s desired culture has been embedded across the Group. This is achieved through our oversight and assessment of the Group’s health and safety culture, workplace environment, anti-corruption and ethical practices, and the Group’s approach to engagement with its supply chain and the local communities in which it operates. The Committee’s Terms of Reference can be found on the Company’s website and provide further details of the Committee’s responsibilities.

At each meeting, we reviewed and challenged the updates from Executive Committee members and senior leadership, against delivery of the Group’s ESG programme and various initiatives. During the year, we met three times and, after each Committee meeting, I reported to the Board on the Committee’s activities, and the key matters discussed along with any recommendations from the Committee.

Environment and climate transition

Environmental factors, including those related to climate change, impacts three of the Group’s principal risks. As such, climate transition and climate resilience remained an important area of discussion during our meetings in 2025.

Following updates from the Environment, Climate & Infrastructure Director, we were able to better understand and provide insight on the impact of climate change on the Group’s activities to the Board. We also discussed the various transition risks and opportunities and considered areas such as climate resilience and the potential disruption to sites and facilities, and customer operations.

We are pleased that the Group is making good progress around our workstream of building climate resilience. As reported in the Group’s half-yearly results announcement, we are continuing to focus on resource efficiency, developing energy and infrastructure strategies to reduce our GHG emissions across our operations, while supporting our business growth. Further detail can be found on pages 56 to 58.

Workplace environment

We discussed the various initiatives that were undertaken throughout the year to create and maintain a positive and welcoming atmosphere, in line with the overall culture.

Strategic workforce planning was a continued area of focus for the Board and, at the Committee level, the workplace environment remained one of our continued priorities.

Employee and product safety have long been key areas of focus for the Group, the Board and this Committee. During the year, the Committee reviewed the Group’s global safety performance for 2025, presented by our Group ESG, Culture & Business Transformation Director. We were pleased with the decrease in recordable injuries during the year. In 2025, the recordable injury rate was 432, which was a decrease of 6% from 2024.

Achievement of improvements in both safety and our approach to an inclusive workplace are factors the Remuneration Committee considered when determining whether to apply any reduction to the annual incentive plan for senior executives, subject to applicable laws. The objectives may reduce (but not increase) the incentive payments if performance is not at the expected levels. We help monitor, measure and determine the level of performance achieved against all ESG objectives and make a recommendation to the Remuneration Committee.

Anti-corruption framework

We are committed to high standards of business conduct and responsible behaviour. Our Code of Conduct and Supplier Code of Conduct outline clear expectations for all our employees and suppliers. Our Code of Conduct strictly prohibits any form of bribery or corruption. Our ongoing anti-corruption programme is designed to identify, manage and mitigate corruption risks, supporting the Group’s adherence to applicable legal and regulatory requirements.

During the year, the Committee considered the Group’s business practices in relation to anti-corruption and noted the arrangements and actions in place to ensure effective oversight. Particular attention was paid to controls that had been implemented to manage anti-corruption risks, especially in respect of the use of advisers.

A summary of our key policies can be found on the Company’s website.

Environmental, Social and Governance Committee report continued

Supply chain

In the year, the Committee was updated on the resilience of the supply chain, with a particular focus on decarbonisation and modern slavery.

In February 2025, the Committee reviewed the Group's policy on compliance with the Company's Modern Slavery Act statement. The Committee reviewed the steps taken in relation to the preparation of the Modern Slavery Act statement (the "Statement") and concluded that the processes and policies in connection with the Statement were robust and effectively embedded in supply chain processes.

The Company's Statement is available to view on the Company's website.

Communities

The communities in which we operate and the Group's impact are regularly reviewed by the Committee. During our meetings, we discussed the community impact and investments being made across the Group. £5.8m was invested in STEM education initiatives, £3.3m donated in support of armed forces charities and heritage projects, and £2.9m was provided to local community projects.

Jane Griffiths

Chair of the Environmental, Social and Governance Committee

The Environmental, Social and Governance Committee's year

- Reviewed the Group's approach to anti-corruption compliance.
- Discussed the progress of the Group's environment and climate transition – decarbonisation strategy.
- Received an update on the Group's social value activities, particularly in respect of skills and education, communities and employee wellbeing.
- Reviewed business conduct matters, including the Company's Modern Slavery Act statement for in-scope entities.
- Reviewed the 2025 key strategic objectives and approach for 2026.
- Considered the initial proposed objectives and annual incentive targets for 2026.

Innovation and Technology Committee report



Members during 2025

Ewan Kirk (Chair)
Nick Anderson
Dame Elizabeth Corley
Nicole Piasecki

Members since

October 2021
 October 2021
 Retired
 November 2025
 October 2021



We engaged with a broad range of colleagues, which highlighted both the strength of the innovation culture and the depth of the talent pipeline being developed across the organisation.

Ewan Kirk
 Chair of the Innovation and Technology Committee

Dear Shareholders

In this report, I provide a summary of our key discussions over the past year and the insights gained. During the year, we held two meetings: a site visit to our MBDA joint venture and a teach-in session focused on the Company's LCM framework.

Overview of activities

Our site visit enabled us to explore the evolving landscape of our business operations, shaped by shifting geopolitics, customer expectations, technology investments and the Group's overall strategic direction. We engaged with a broad range of colleagues from the executive team to early-career professionals, which highlighted both the strength of the innovation culture and the depth of the talent pipeline being developed across the organisation.

Demonstrations during the visit provided valuable visibility into emerging technologies, their capabilities and the opportunities they present for efficiency and enhanced performance.

Following discussions throughout the year on various programmes and bids, we undertook an in-depth briefing on the Group's LCM framework. This session offered a clearer understanding of the governance and risk management approach applied at each stage of LCM. We were particularly keen to explore the extent of agility within the process, recognising that different projects may require tailored approaches within the established framework. We were reassured to learn how the process can be adapted to ensure an appropriate and proportionate application for each project.

Evolution of the Committee

During the year, the Board undertook a review of the role of the Committee within the context of its broader responsibilities. Since its inception, the Committee has provided effective oversight of the Group's application of science, engineering and technology and has supported the successful use of our intellectual property and know-how in pursuit of our commercial objectives. The Committee's programme of site visits and "deep dives" has enabled Committee and Board members to get a better understanding of the Group's technologies, innovation culture and alignment with the Group's strategic priorities. Over time, these activities have increasingly been attended by the full Board, reflecting the importance and broader interest in these topics.

As noted by the Chair at the start of this report, the Board has taken the decision to disband the Committee, believing that a more impactful and richer interaction can be achieved through an alternative approach to the Board's engagement with technology and innovation. From 2026, although the Committee will no longer be operational, my responsibilities in supporting the Board Chair in shaping agenda items for Board discussion on technology, engineering and science related matters will continue. In addition, I will engage with subject matter experts from the senior management team to identify and review key areas of technological focus in support of our strategy. I will also provide independent oversight on these matters as they are prepared for Board discussion.

I would like to express my gratitude to my fellow Committee members for their contributions and the executive colleagues who have facilitated our site visits, technology reviews and provided thoughtful and engaging discussions throughout the year.

Ewan Kirk
 Chair of the Innovation and Technology Committee

Remuneration Committee report



Members during 2025

Nicole Piasecki (Chair)

Angus Cockburn

Dame Elizabeth Corley

Ewan Kirk

Members since

May 2022

January 2024

Retired
November 2025

March 2023

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Remuneration Committee

We achieve our objectives with an executive remuneration programme that:

- offers competitive pay that enables us to retain and attract top talent;
- emphasises pay for performance that drives superior financial results and value creation;
- provides strong alignment with the interests of our shareholders;
- mitigates unnecessary and excessive risk-taking; and
- considers the needs of our entire workforce.

- Group underlying EPS up 12%
- Free cash flow of over £2bn in 2025
- Group order intake of £36bn
- TSR of 136% over three years

Dear Shareholders

On behalf of the Board, I am pleased to present the Remuneration Committee's report for 2025.

The Remuneration Committee is responsible for determining the policy for, and setting, directors' remuneration to support strategy and sustainable success. A new Remuneration policy was approved by shareholders at the 2025 AGM, with more than 97% of votes in favour. Thank you for your support, which has helped us to retain key employees and strengthen the link between pay and performance. A summary of the new remuneration policy is included on page 109 with a full copy on the Company's website.

This report discloses the performance and operation of the Remuneration policy, and the resulting remuneration outcomes for 2025, including decisions made by the Committee. The 'quick read' section on pages 106 to 108 summarises the outcomes for each remuneration element and the resulting total remuneration for each executive director.

Pay and performance in 2025

BAE Systems has delivered another year of strong operational and financial performance, with each of our key performance indicators exceeding target. Within this context, the Committee has determined the following outcomes for the annual bonus and long-term incentive plans for performance periods ended 31 December 2025.

Annual bonus

75% of executive directors' annual bonus opportunity is determined by financial performance and 25% by the achievement of key strategic objectives.

The financial performance measures are linked to our strategy to sustain and grow our business and deliver growth in shareholder value. The performance targets are set in line with the IBP, around which an appropriate range is set for threshold (below which no bonus is paid) and stretch (at which maximum bonus is paid) to ensure sufficient challenge without motivating excessive risk-taking.

For 2025, the Group financial outcomes for earnings, cash and order intake exceeded stretch, and most of the key strategic objectives were achieved, resulting in annual bonus outcomes near maximum for the executive directors.

The Committee is required to assess bonus outcomes against a range of factors beyond the specific performance measures, including overall business performance, safety record and workforce culture. The Committee retains discretion to apply downward moderation where circumstances warrant, though not to increase awards above the formulaic outcome. Having reviewed the 2025 results holistically, the Committee concluded that the formulaic bonus outcomes are appropriate and require no adjustment.

The annual bonus performance measures and outcomes are shown on page 114. Two-thirds of the bonus amount will be paid in cash and one-third is deferred into shares for a further three years (until 2029) in accordance with our Remuneration policy.

Long-term incentive

Performance Shares granted to executive directors in 2023 are dependent upon EPS growth, cash flow, total shareholder return (TSR) out-performance, return on capital employed (ROCE) and ESG.

For the three-year performance period ended 31 December 2025, TSR grew by 136% making BAE Systems one of the highest performing shares in the FTSE 100. Average annual EPS growth was 11.9% per annum, with free cash flow of £7.5bn over the period, ROCE of 26.7%, and resource efficiencies achieved through the reduction in GHG emissions by 25%, exceeding the stretch targets set for these objectives in 2023. Accordingly, the Performance Shares have vested at 100% of maximum for each of the executive directors.

The Committee assessed the formulaic vesting calculations in the context of overall business performance, competitive performance and the macroeconomic environment. The Committee concluded that the vesting outcomes appropriately reflect the Company's strong performance over the period and determined that no adjustments are necessary.



For the three-year performance period ended 31 December 2025, TSR grew by 136% making BAE Systems one of the highest performing shares in the FTSE 100.

The long-term incentive performance measures and outcomes are shown on page 116. The release of shares is deferred for a further two-year period, so that shares vest five years after grant for UK-based executive directors and in three equal tranches on the third, fourth and fifth anniversaries of grant for the US executive director.

Wider workforce

The policies and practices applying to the wider workforce are broadly the same as those applying to executive directors, although quantum and participation may vary by location and grade. The Committee actively reviews and considers wider workforce pay before determining executive director remuneration.

During 2025, pay increases for employees across our operating locations were in line with their local competitive markets. UK employees received average base pay increases of between 3% and 3.6% (UK-based executive directors received 3%). The average increase for US employees was 4% (and the US executive director received 4%).

Most employees are eligible to receive a performance-related bonus and may also receive life insurance, ill-health insurance, medical and wellbeing benefits, shopping discounts and access to a 24/7/365 days employee assistance programme. In the UK, there is also a financial assistance facility through a credit union owned and operated by BAE Systems' employees and retirees.

Employee retirement plans vary by location. UK employees participate in the Company's defined contribution or defined benefit pension arrangements, with a Section 401(k) plan in the US, and superannuation plans in Australia.

Long-term incentive share awards are granted each year to around 800 employees, mostly senior executives (to three reporting levels below the executive directors) plus selected high-performing and high-potential employees whose specialist skills and innovation we want to retain.

In addition, employees in participating countries can become shareholders in BAE Systems plc through an annual award of shares dependent upon group financial performance, worth up to £613 in 2025, with a further £638 of shares to be awarded to each eligible employee in 2026. They can also acquire further shares, including free matching shares, through the UK and International all-employee Share Incentive Plans.

Executive director pay in 2026

With effect from 1 January 2026, the UK executive directors received base pay increases of 3%, and the US executive director received a base pay increase of 4%, each in line with the average percentage increase for the wider workforce in the same locality.

Pension contributions for Brad Greve in 2025 were 9% of base pay, but increased to 10% of base pay with effect from 1 January 2026, aligned with the increase in employer contributions for the UK workforce.

The annual bonus structure and opportunity for executive directors remains unchanged for 2026, with the financial performance measures based on earnings, cash and order intake, with key strategic objectives linked to the delivery of the Group's strategic priorities.

The long-term incentive plan performance measures for 2026 will continue to include EPS, cash, TSR and ROCE. Since 2023, reduction of GHG emissions has also formed part of our long-term incentive framework. In 2026 grants, we will replace the GHG measure with an operational delivery metric, reflecting our commitment to meeting customer requirements and expanding production capacity in response to evolving defence priorities (see page 117).

Committee changes

Dame Elizabeth Corley retired from the Board and this Committee in November 2025, after nine years of dedicated service. I would like to thank Elizabeth for her knowledge, insight and challenge, which have helped the Group navigate complex matters and achieve great results.

In conclusion

The Company delivered strong performance in 2025, and we are proud that employees across the organisation shared in that success. As global military demand and capability requirements continue to grow and intensify, we remain committed to setting ambitious targets that drive both operational excellence and shareholder value, underpinned by robust governance principles.

I trust that you will find this report a clear and comprehensive account of the Committee's deliberations and decisions regarding directors' remuneration, demonstrating our commitment to transparency and sound governance practices. Thank you for your continued confidence in our strategy and your investment in our shared future.

On behalf of the Board

Nicole Piasecki

Chair of the Remuneration Committee

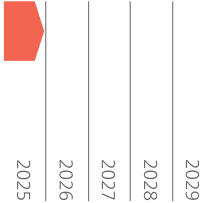
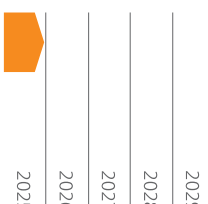
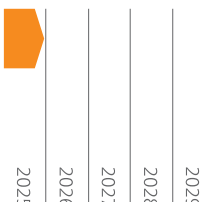
Summary of key decisions and outcomes

- 2026 base pay increases are 3% for the UK executive directors and 4% for the US executive director, each in line with the wider workforce in the same locality.
- 2025 annual bonus outcomes for executive directors are 99.5% of maximum.
- Performance Shares granted in 2023 will vest at maximum.
- The Remuneration policy has operated as intended throughout the year in the context of Group performance and overall pay outcomes, with no malus or clawback applied in the last financial year.

Quick read summary

Remuneration policy summary and 2025 implementation

This section summarises the key features of the current Remuneration policy approved by shareholders at the 2025 AGM. Please refer to the 2024 Annual Report (available on the Company's website) for full details.

Remuneration element and time horizon	Policy summary	2025 implementation																								
Base pay 	<p>Operation Base pay is reviewed annually, usually with effect from 1 January, taking into account; the scope of the role; the individual's skills, experience and performance; competitive market data; pay and conditions elsewhere in the Group; and overall business performance. There is no obligation to increase base pay upon any such review.</p> <p>Opportunity There is no maximum base pay, but ordinarily any increases will not exceed the average percentage increase for the wider workforce in the same locality.</p> <p>Performance Personal performance will be taken into consideration.</p>	<table border="1"> <thead> <tr> <th>Base pay</th> <th>Effective 1 January 2025</th> <th>Effective 1 January 2026</th> <th>2026 % increase</th> </tr> </thead> <tbody> <tr> <td>Charles Woodburn</td> <td>£1,270,800</td> <td>£1,309,000</td> <td>3%</td> </tr> <tr> <td>Brad Greve</td> <td>£807,500</td> <td>£832,000</td> <td>3%</td> </tr> <tr> <td>Tom Arseneault</td> <td>\$1,189,000</td> <td>\$1,236,560</td> <td>4%</td> </tr> <tr> <td>UK workforce (average)</td> <td></td> <td></td> <td>3% - 3.5%</td> </tr> <tr> <td>US workforce (average)</td> <td></td> <td></td> <td>4%</td> </tr> </tbody> </table>	Base pay	Effective 1 January 2025	Effective 1 January 2026	2026 % increase	Charles Woodburn	£1,270,800	£1,309,000	3%	Brad Greve	£807,500	£832,000	3%	Tom Arseneault	\$1,189,000	\$1,236,560	4%	UK workforce (average)			3% - 3.5%	US workforce (average)			4%
Base pay	Effective 1 January 2025	Effective 1 January 2026	2026 % increase																							
Charles Woodburn	£1,270,800	£1,309,000	3%																							
Brad Greve	£807,500	£832,000	3%																							
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UK workforce (average)			3% - 3.5%																							
US workforce (average)			4%																							
Pension 	<p>Operation UK-based executive directors may participate in the defined contribution pension plan, receive a cash allowance in lieu, or some combination thereof. US-based executive directors may participate in the US defined benefit pension plans and US Section 401(k) defined contribution plan. Base pay is the only element of pensionable remuneration.</p> <p>Opportunity The maximum employer contribution for the Chief Executive is aligned with the weighted average available to the UK workforce (14% of base pay). The maximum employer contribution for the Chief Financial Officer and any other new UK-based executive director is the level available to the majority of UK defined contribution plan members (9% of base pay in 2025, increased to 10% of base pay from 1 January 2026). The maximum annual accrual for the US defined benefit pension plan is \$1,500 and the maximum 401(k) contribution is 6% of base pay, capped at applicable US regulatory limits.</p> <p>Performance No performance conditions.</p>	<table border="1"> <thead> <tr> <th>Pension contributions</th> <th>During 2025 (% of base pay)</th> <th>Effective 1 January 2026 (% of base pay)</th> </tr> </thead> <tbody> <tr> <td>Charles Woodburn</td> <td>14%</td> <td>14%</td> </tr> <tr> <td>Brad Greve</td> <td>9%</td> <td>10%</td> </tr> <tr> <td>Tom Arseneault</td> <td>US DB + 401(k)</td> <td>US DB + 401(k)</td> </tr> </tbody> </table>	Pension contributions	During 2025 (% of base pay)	Effective 1 January 2026 (% of base pay)	Charles Woodburn	14%	14%	Brad Greve	9%	10%	Tom Arseneault	US DB + 401(k)	US DB + 401(k)												
Pension contributions	During 2025 (% of base pay)	Effective 1 January 2026 (% of base pay)																								
Charles Woodburn	14%	14%																								
Brad Greve	9%	10%																								
Tom Arseneault	US DB + 401(k)	US DB + 401(k)																								
Benefits 	<p>Operation In line with other employees and senior executives, appropriate to the market to assist employees in their duties and to ensure their safety and security.</p> <p>Opportunity The maximum value is the actual cost of providing the benefits, subject to the limits of those benefit plans and any tax or regulatory limits.</p> <p>Performance No performance conditions.</p>	<p>Benefits during 2025 include:</p> <ul style="list-style-type: none"> – Transportation – Financial and tax support – Medical and other insured benefits 																								

[See Page 113](#)

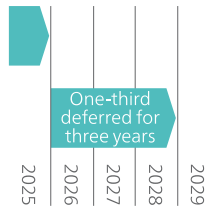
[See Page 113](#)

Remuneration element and time horizon

Policy summary

2025 implementation

Annual incentive plan



Operation

Performance is assessed over a one-year period. Performance measures are aligned with the Group's strategic priorities, with appropriately stretching targets. Two-thirds of any bonus award is paid in cash, with one-third of the total net bonus deferred into shares for three years.

Opportunity

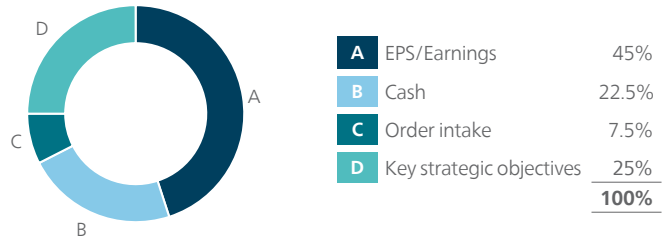
Nil bonus for performance below threshold; 25% of maximum at threshold; 50% of maximum at target; 100% of maximum at stretch; with payout on a straight-line basis for performance between these points.

Performance

A combination of financial performance (with at least 75% weighting) and key strategic objectives. Malus and clawback applies to cash awards and deferred shares.

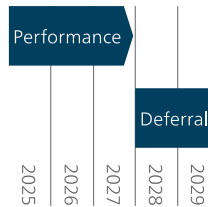
Annual incentive	At maximum (% of base pay)	Actual 2025 (% of max)	Actual 2025 (£/\$)
Charles Woodburn	225%	99.5%	£2,845,003
Brad Greve	200%	99.5%	£1,606,925
Tom Arseneault	225%	99.5%	\$2,661,873

2025 performance measures



Long-term incentives

Performance Shares



Operation

Performance Shares have a performance period of three years, plus a further two-year deferral period. For UK-based executive directors the shares vest five years after grant and for the US executive director the shares vest in three equal tranches on the third, fourth and fifth anniversaries of grant.

The US executive director also receives Restricted Shares, subject to remaining employed for three years from the grant date, with a requirement to retain those shares for a further two-year clawback period.

Opportunity

Nil vesting for performance below threshold; 25% of maximum at threshold; 50% of maximum at target; 100% of maximum at stretch; with vesting on a straight-line basis for performance between these points.

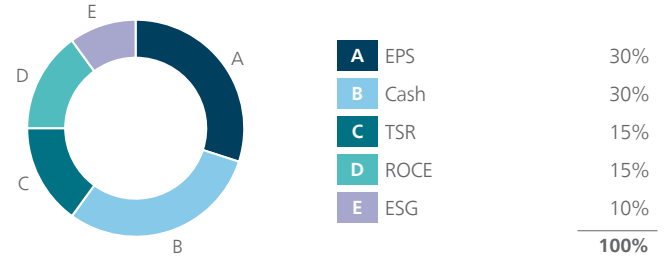
Performance

For Performance Shares, an appropriate mix of financial and other measures linked to long-term strategic priorities. Malus and clawback applies.

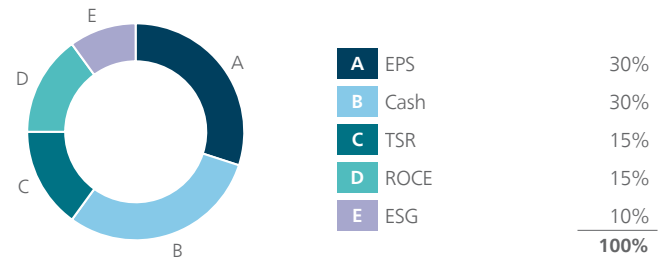
Performance Shares	Maximum opportunity (% of base pay)	2023 grant (% of base pay)	Vesting of 2023 awards based on performance period ended 2025 (% of max)
Charles Woodburn	500%	370%	100%
Brad Greve	400%	335%	100%
Tom Arseneault	440% ¹	440% ¹	100%

1. plus Restricted Shares awarded at 150% of base pay.

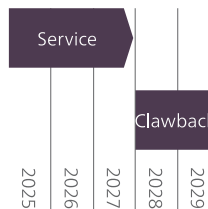
2023 grant performance measures (performance period ended 2025)



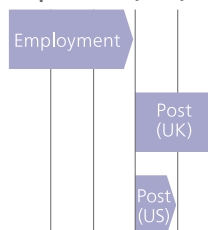
2025 grant performance measures



Restricted Shares (US executive director)



Minimum Shareholding Requirement (MSR)



To ensure long-term commitment and investment in the Company, aligning executive pay with shareholder returns. Executive directors may not sell, except for tax, any vested shares until their MSR is met in full and must maintain their post-employment MSR for at least two years after leaving employment with the Group (one year for the US executive director).

	Full MSR (% of base pay)	Post-employment MSR (% of base pay)	Actual shareholding 31 December 2025 (% of base pay)
Charles Woodburn	500%	500% for two years	1,280%
Brad Greve	400%	400% for two years	579%
Tom Arseneault	425%	300% for one year	2,403%

Quick read summary continued

2025 performance outcomes

Annual bonus	Actual performance against targets				Weighting		
	Threshold	Target	Stretch	Actual performance	UK executive directors	US executive director	% of maximum achieved
● Group underlying EPS	67.5p	71.1p	73.2p	76.0p	45%	15%	100%
● Group free cash flow	£349m	£599m	£1,099m	£2,213m	22.5%	7.5%	100%
● Group order intake	£24.3bn	£25.6bn	£26.9bn	£36.4bn	7.5%	2.5%	100%
● Inc. underlying EBIT	\$2,160m	\$2,280m	\$2,355m	\$2,474m		30%	100%
● Inc. free cash flow	\$636m	\$786m	\$1,086m	\$1,890m		15%	100%
● Inc. order intake	\$14.64bn	\$15.40bn	\$16.16bn	\$21.11bn		5%	100%
● Key strategic objectives	➔ See page 115				25%	25%	98%
					100%	100%	99.5%
Long-term incentives							
● Annual average EPS growth (3-year)	3% p.a.	5% p.a.	7% p.a.	11.9% p.a.	30%	30%	100%
● Free cash flow	£3.8bn	£4.0bn	£4.5bn	£7.5bn	30%		100%
● Inc. operating cash flow	\$4.41bn	\$4.54bn	\$4.91bn	\$5.8bn		30%	100%
● TSR vs FTSE 100	34.1% (median)		97.5% (80th percentile)	136.8%	15%	15%	100%
● ROCE	19.20%	19.45%	19.70%	26.73%	15%	15%	100%
● ESG (reduction in GHG emissions)	5%	12.6%	14%	25%	10%	10%	100%
					100%	100%	100%

Key ● Below target ● Between target and stretch ● At or exceeds stretch

Note: Actual results have been adjusted to be on a comparable basis with the targets, including alignment of foreign exchange rates. Free cash flow for the annual bonus is measured on a quarterly basis, with achievement reflecting performance throughout the year.

Total remuneration

The charts below show the breakdown of total remuneration received by the executive directors for 2024 and 2025, and their maximum total remuneration opportunity for 2025.

Charles Woodburn (£'000)	2024 (actual)	1,449	2,734	7,497	11,681	
	2025 (actual)	1,490	2,845	8,061	12,397	
	2025 (maximum)	1,490	2,859	8,061	12,411	
Brad Greve (£'000)	2024 (actual)	885	1,544	3,814	6,244	
	2025 (actual)	917	1,607	4,637	7,162	
	2025 (maximum)	917	1,615	4,637	7,170	
Tom Arseneault (£'000)	2024 (actual)	960	1,977	4,508	1,339	8,784
	2025 (actual)	988	2,018	7,211	2,667	12,884
	2025 (maximum)	988	2,028	7,211	2,667	12,894

■ Fixed (base pay, benefits and pension)
■ Annual incentive plan
■ Performance Shares
■ Other (Restrictive Shares, Free Shares and Matching Shares in the all-employee Share Incentive Plan)

The values for the Performance Shares vested in 2024 and disclosed in the 2024 Annual Report were based on the three-month average share price to 31 December 2024 (£12.665). The value of the tranche vesting in 2025 for Tom Arseneault has been restated to reflect the actual share price at vesting on 24 March 2025 (£15.94). The totals for Charles Woodburn and Brad Greve include £1,000 (rounded) classified as 'Other' representing the value of shares acquired through the all-employee Share Incentive Plan (SIP).

Remuneration policy summary

The policy table below summarises key aspects of the remuneration policy approved by shareholders at the 2025 AGM. The full remuneration policy was published in the 2024 Annual Report which is available on the Company's website.

Base pay	Pension	Benefits	Annual incentive plan (AIP)
<p>Purpose and link to strategy</p> <p>Provides a fixed level of earnings, appropriate to the market and requirements of the role.</p> <p>Operation</p> <p>Reviewed annually, usually with effect from 1 January, taking into account:</p> <ul style="list-style-type: none"> – the scope of the role; – the individual's skills, experience and performance; – competitive market data; – pay and conditions elsewhere in the Group; and – overall business performance. <p>There is no obligation to increase base pay upon any such review, and any decision to increase base pay will take into account the associated impact on overall quantum.</p>	<p>Purpose and link to strategy</p> <p>Provides a basis for an income in retirement.</p> <p>Operation</p> <p>UK-based executive directors may:</p> <ul style="list-style-type: none"> – participate in the defined contribution pension plan; – receive a cash allowance in lieu; or – some combination thereof. <p>US based executive directors may participate in:</p> <ul style="list-style-type: none"> – the US defined benefit pension plans; and – US Section 401(k) defined contribution plan. <p>Base pay is the only element of pensionable remuneration.</p>	<p>Purpose and link to strategy</p> <p>Provides benefits and allowances appropriate to the market to assist employees in their duties and to ensure their safety and security.</p> <p>Operation</p> <p>In line with other employees, benefits may include:</p> <ul style="list-style-type: none"> – health allowance, including medical and dental benefits; – life insurance; – ill-health and disability insurance; – financial and tax support; and – all-employee Share Incentive Plan participation. <p>In line with other senior executives, executive directors may receive a non-pensionable cash allowance in lieu of a company car.</p> <p>From time to time, the executive directors may use a chauffeur-driven car and a company aircraft.</p>	<p>Purpose and link to strategy</p> <p>Incentivises and rewards the achievement of annual financial performance and the delivery of key strategic objectives.</p> <p>Operation</p> <p>In normal circumstances:</p> <ul style="list-style-type: none"> – performance is assessed over a one-year period; – performance measures and weightings are set each year, to be relevant and aligned with the Group's strategic priorities; – performance targets are set to be appropriately stretching, taking into account forecasts in the business plan, budgets, prior-year performance and market expectations; – bonus awards are determined after the end of the performance period, taking into consideration performance against targets and individual performance; – two-thirds of any bonus award is paid in cash, with one-third of the total net bonus deferred into shares for three years, with dividends or dividend equivalents paid during the deferral period; and – malus and clawback applies to cash awards and deferred shares.
<p>Opportunity</p> <p>There is no maximum base pay, but ordinarily any increases will not exceed the average percentage increase for the wider workforce in the same locality. In specific circumstances, the Committee may award increases above this level, for example where:</p> <ul style="list-style-type: none"> – base pay for a recently appointed executive director has been set with a view to allowing progression in the role over time; or – there has been a significant increase in the size or scope of an executive director's role or responsibilities. 	<p>Opportunity</p> <p>The maximum employer contribution for the:</p> <ul style="list-style-type: none"> – Chief Executive is aligned with the weighted average available to the UK workforce. – Chief Financial Officer and any other new UK-based executive director is the level available to the majority of UK defined contribution plan members. – President and Chief Executive Officer of BAE Systems, Inc. maximum annual accrual for the US defined benefit pension plans is \$1,500 and the maximum 401(k) contribution is 6% of base pay, capped at applicable US regulatory limits. 	<p>Opportunity</p> <p>The maximum value is the actual cost of providing the benefits which, for insured benefits, may vary from year to year.</p> <p>The maximum opportunity for the all-employee Share Incentive Plan is the same for all participants, capped at applicable UK HMRC limits.</p>	<p>Opportunity</p> <p>The maximum opportunity for the:</p> <ul style="list-style-type: none"> – Chief Executive is 225% of base pay; – Chief Financial Officer and any other UK-based executive director is 200% of base pay; – President and Chief Executive Officer of BAE Systems, Inc. is 225% of base pay. <p>The performance payout range is:</p> <ul style="list-style-type: none"> – nil bonus for performance below threshold; – 25% of maximum at threshold; – 50% of maximum at target; and – 100% of maximum at stretch; with <p>payout on a straight-line basis for performance between these points.</p> <p>The Committee will consider the calculated outcome in the context of a range of factors (not just the specific performance measures) including overall business performance, safety and workforce culture, and may apply a 'bonus moderator' to reduce (but not increase) the bonus if there are any factors that warrant a reduction.</p>
<p>Performance</p> <p>Personal performance will be taken into consideration in determining any base pay increase.</p>	<p>Performance</p> <p>No performance conditions.</p>	<p>Performance</p> <p>No performance conditions.</p>	<p>Performance</p> <p>A combination of:</p> <ul style="list-style-type: none"> – financial performance (with at least 75% weighting); and – key strategic objectives.

Remuneration policy summary *continued***Long-term incentives (LTI)****Purpose and link to strategy**

Provides a direct and transparent link between executive pay and the delivery of long-term performance.

Operation

Performance Shares:

- a performance period of three years, plus a further two-year deferral period;
- for UK-based executive directors, shares vest five years after grant; for the US executive director, shares vest in three equal tranches on the third, fourth and fifth anniversaries of grant;
- performance measures and weightings are set each year, to be relevant and aligned with the delivery of shareholder returns over the long term;
- performance targets are set to be appropriately stretching, taking into account forecasts in the strategic plan, prior performance and market expectations;
- dividends or dividend equivalents accrue during the performance and deferral periods based on the number of shares that have vested, but excluding any shares that have lapsed; and
- malus and clawback applies.

Restricted Shares:

- for US executive director only, subject to remaining employed for three years from the grant date, plus a further two-year clawback period; and
- notional reinvested dividends accrue during the vesting period.

Opportunity

The maximum Performance Shares annual grant for the:

- Chief Executive is 500% of base pay;
- Chief Financial Officer and any other UK-based executive director is 400% of base pay;
- President and Chief Executive Officer of BAE Systems, Inc. is 440% of base pay.

The performance payout range for Performance Shares is:

- nil vesting for performance below threshold;
- 25% of maximum at threshold;
- 50% of maximum at target; and
- 100% of maximum at stretch; with
- vesting on a straight-line basis for performance between these points.

The Committee will assess the formulaic vesting calculation, and may amend the vesting outcome in the context of a range of factors including overall business and share price performance.

The President and Chief Executive Officer of BAE Systems, Inc. additionally receives an annual grant of Restricted Shares equivalent to 150% of base pay.

There are no performance conditions for Restricted Shares, other than continued employment for at least three years from the grant date with a further two-year clawback period.

Performance

For the Performance Shares, an appropriate mix of financial and other measures based on the key performance indicators that drive our financial ambitions, linked to long-term strategic priorities with the majority determined by financial metrics.

Minimum shareholding requirement (MSR)**Purpose and link to strategy**

Ensures long-term commitment and investment in the Company, aligning executive pay with shareholder returns.

Operation

Executive directors may not sell, except for tax, any vested shares until their MSR is met in full.

Executive directors must maintain their MSR (or their actual shareholding at the date of leaving, if lower) for at least two years after leaving employment with the Group (one year for the US executive director).

The sale of shares prior to the MSR being met may be permitted in extenuating situations, for example, a change to personal circumstances, ill health, etc.

Opportunity

The Minimum Shareholding Requirement (comprising shares owned outright) for the:

- Chief Executive is 500% of base pay;
- Chief Financial Officer and any other UK-based executive director is 400% of base pay;
- President and Chief Executive Officer of BAE Systems, Inc. is 425% of base pay.

Post-employment shareholding requirements for the:

- Chief Executive is 500% of base pay for two years;
- Chief Financial Officer and any other UK-based executive director is 400% of base pay for two years;
- President and Chief Executive Officer of BAE Systems, Inc. is 300% of base pay for one year.

Performance

Not applicable.

Non-executive director (NED) fees**Purpose and link to strategy**

Provides an appropriate reward to attract and retain high-calibre NEDs with the relevant skills, knowledge and experience.

Operation

NED fees are determined by the Chair and executive directors.

NEDs receive a base fee, with an additional fee for:

- the Senior Independent Director (SID);
- Committee Chair (except Nominations Committee); and
- Committee membership (except Nominations Committee).

The Chair's fee is determined by the Committee. NED and Chair fees are reviewed periodically, taking into account:

- responsibility of each role;
- time commitment;
- practice in other comparable companies; and
- the average increase for the wider workforce.

Opportunity

There is no cap on the amount of NED fees payable, but fees are reviewed periodically taking account of the factors listed above and may be increased at appropriate intervals.

NEDs are not eligible to participate in any Company pension arrangements or any performance-related incentives.

The Chair may be provided with a chauffeur-driven car. This may be used for non-Company business, providing that the cost of the benefit is paid for by the Chair.

Travel and subsistence expenses (including any associated tax cost) incurred on Company business by a director or their accompanying partner may be reimbursed.

Directors' and Officers' insurance cover is provided.

Performance

No performance conditions.

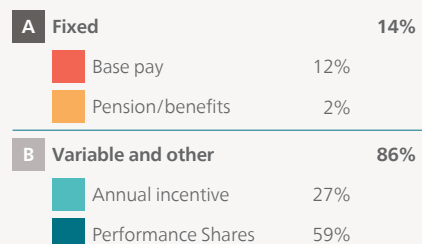
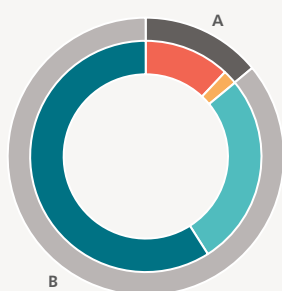
2026 remuneration framework

The table and charts below provide an overview of the 2026 remuneration framework for the executive directors.

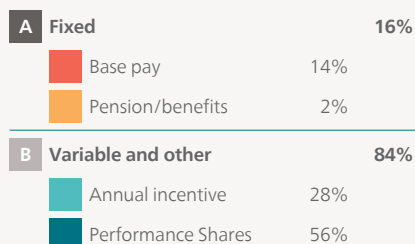
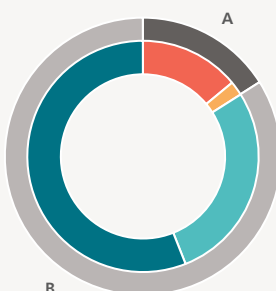
		Charles Woodburn Chief Executive	Brad Greve Chief Financial Officer	Tom Arseneault President and Chief Executive Officer of BAE Systems, Inc.
Base pay		£1,309,000	£832,000	\$1,236,560
Pension and benefits	Pension	Defined contribution (14% of base pay)	Defined contribution (10% of base pay)	US defined benefit and Section 401(k) defined contribution
	Benefits	Transportation Financial and tax support Medical and other insured benefits		
Annual incentive	Target / maximum opportunity (% base pay)	112.5% / 225%	100% / 200%	112.5% / 225%
	Deferral	One-third deferred into shares for three years		
Performance Shares	Grant (% base pay)	500%	400%	440%
	Vesting	Three-year performance period, plus a further two-year deferral, vests in year 5		Three-year performance period with vested shares released one-third in years 3, 4, and 5
Restricted Shares	Grant (% base pay)	n/a		150%
	Vesting	n/a		Three-year service condition plus two-year clawback period
Minimum Shareholding Requirement	In-employment (% base pay)	500%	400%	425%
	Post-employment (% base pay)	500% for two years	400% for two years	300% for one year

Total remuneration – fixed and variable (at maximum)

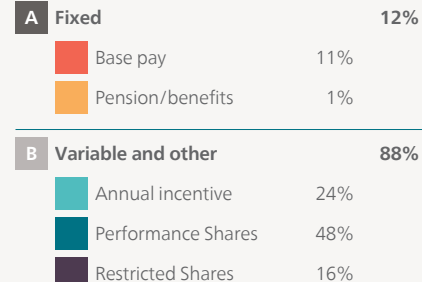
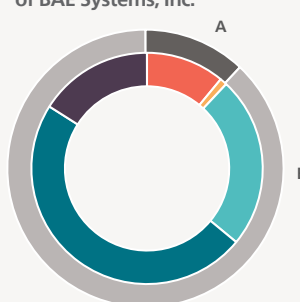
Charles Woodburn
Chief Executive



Brad Greve
Chief Financial Officer



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



Annual remuneration report

How our approach to remuneration aligns with strategy

Our remuneration approach has been designed to incentivise and reward delivery of the Group strategy and the achievement of long-term sustainable performance. In accordance with the provisions of the UK Corporate Governance Code 2024 (the Code), the Committee has continued to consider our approach to executive remuneration to ensure that our policies, structures and performance measures have clear strategic rationale.

The Committee considers it important that the performance measures for the annual incentive and long-term incentive arrangements are directly aligned to the Group's KPIs and other strategic priorities, as shown in the table below.

Alignment with the Group's KPIs and other strategic objectives							
Group KPIs and strategic objectives	Earnings per share (EPS)	Cash	Order intake	TSR	ROCE	Environmental, social and governance	Key strategic objectives
Links to strategy	3 5	1	1 2 3	5	5	1 4 6	1 2 3 4 5 6
Annual incentive	45%	22.5%	7.5%				25%
Long-term incentive	30%	30%		15%	15%	10%	

Links to strategy

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

'Single figure' of remuneration – executive directors (audited)

The following table shows the single total figure of remuneration for each executive director in respect of qualifying services for the 2025 financial year, together with comparatives for 2024.

	Fixed				Variable						
	Base pay £'000	Benefits £'000	Pension £'000	Total fixed £'000	LTI ¹			Other ² £'000	Total variable £'000	Total £'000	
					AIP £'000	Face value £'000	Share appreciation £'000				
2025											
Charles Woodburn	1,271	41	178	1,490	2,845	4,368	3,693	8,061	1	10,907	12,397
Brad Greve	808	37	72	917	1,607	2,513	2,124	4,637	1	6,245	7,162
Tom Arseneault	902	72	14	988	2,018	3,931	3,280	7,211	2,667	11,896	12,884
2024											
Charles Woodburn	1,234	42	173	1,449	2,734	4,014	3,483	7,497	1	10,232	11,681
Brad Greve	784	38	63	885	1,544	2,042	1,772	3,814	1	5,359	6,244
Tom Arseneault	895	50	15	960	1,977	2,222	2,286	4,508	1,339	7,824	8,784

- The 2025 values for LTI are calculated based on the three-month average share price to 31 December 2025 (£17.991) as these awards are yet to vest. The vesting values for 2024 were based on the three-month average share price to 31 December 2024 (£12.665) but the value of the tranche vesting in 2025 for Tom Arseneault has been restated to reflect the actual share price at vesting on 24 March 2025 (£15.94).
- Other includes the value of shares acquired through the all-employee Share Incentive Plan (SIP) comprising £638 Free Shares for Charles Woodburn and Brad Greve in 2025, and £786 Matching Shares from their voluntary investment in the SIP; and the value at grant of the 2025 Restricted Shares award for Tom Arseneault (150% of base pay).

Tom Arseneault is paid in US dollars with the disclosed figures for 2025 converted to pounds sterling at the average exchange rate for 2025.

Base pay (audited)

Base pay for 2025 and 2026			
	Effective 1 January 2025	Effective 1 January 2026	% increase
Charles Woodburn	£1,270,800	£1,309,000	3%
Brad Greve	£807,500	£832,000	3%
Tom Arseneault	\$1,189,000	\$1,236,560	4%

Benefits (audited)

	Transportation ¹		Financial and tax support		Medical and other insured benefits ²		Total	
	2025	2024	2025	2024	2025	2024	2025	2024
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Charles Woodburn	25	26	8	8	8	8	41	42
Brad Greve	21	22	8	8	8	8	37	38
Tom Arseneault	41	19	12	12	19	19	72	50

1. Transportation benefits include company car or cash allowance and deemed private use of chauffeur-driven car for UK executive directors, and deemed private use of chauffeur-driven car and company aircraft for the US executive director.
2. Medical and other insured benefits include private medical insurance and other insured benefits for UK executive directors, and private medical and executive medical benefits, dental benefits, life insurance and disability benefits for the US executive director.

Benefits for 2026

Benefits provided for 2026 are unchanged and in line with the Remuneration policy.

Pension (audited)

Charles Woodburn receives pension contributions equal to 14% of base pay, aligned to the weighted average pension contributions of the UK workforce. During 2025, Brad Greve received pension contributions equal to 9% of base pay, in line with the level available to the majority of UK defined contribution plan members. For Charles Woodburn and Brad Greve, the maximum contribution to a UK pension was limited by the Annual Allowance (£10,000 for 2025) with the amount in excess of the Annual Allowance paid as a taxable cash allowance.

Tom Arseneault participates in the US defined benefit pension plan and the US Section 401(k) defined contribution plan as follows:

Arrangement	Accrued benefit at 1 January 2025	Accrued benefit at 31 December 2025
BAE Systems ERP Qualified Plan – life pension	\$39,348 per annum	\$39,348 per annum
BAE Systems ERP 2006 Qualified Plan – lump sum	\$86,000	\$87,000
12/31/2004 BRP Restoration Plan – life pension	\$5,283 per annum	\$5,283 per annum
2007 BRP – ten-year pension	\$99,920 per annum	\$99,361 per annum
Section 401(k)	\$1,953,446	\$2,324,876

The accrued defined benefit for Tom Arseneault is an annual pension and lump sum payable at retirement (normal retirement age 65) prior to any reduction for early retirement. Tom Arseneault also participates in a Section 401(k) defined contribution arrangement for US employees in which the Company will match his contributions up to a maximum contribution of 6% of base pay, subject to US regulatory limits (2026 \$35,750; 2025 \$31,000). In 2025, the Company paid contributions of \$18,900 into this arrangement. The accrued Section 401(k) benefit for Tom Arseneault is the total value of his Section 401(k) account including both employee and company contributions as well as investment returns.

Pension for 2026

The pension arrangements for Charles Woodburn and Tom Arseneault are unchanged for 2026 and in line with the Remuneration policy.

From 1 January 2026, Brad Greve has received pension contributions equal to 10% of base pay, in line with the increased level available to the majority of UK defined contribution plan members for 2026. The maximum contribution up to the Annual Allowance will be paid into the Company's defined contribution pension plan, with the excess paid as a taxable cash allowance.

Payments to former directors and for loss of office (audited)

There were no payments to former directors in 2025. There were no payments for loss of office in 2025.

Annual remuneration report *continued***Annual incentive plan (audited)**

The 2025 annual bonuses are based on performance for the year ended 31 December 2025, with 75% of bonus opportunity determined by financial performance and 25% based on the achievement of key strategic objectives.

The figures in the table below represent the total annual bonus amounts to be paid, including the cash amount (two-thirds of total) payable in March 2026, and the balancing amount (one-third of total) deferred into BAE Systems shares for three years to be released in March 2029. Malus and clawback may be applied to cash awards and deferred shares.

2025 annual bonus for Charles Woodburn and Brad Greve

Performance measure	2025 performance range and outcome					Percentage of maximum achieved	Weighting		Weighted outcome (%)	
	Threshold (25% max)	Target (50% max)	Stretch (100% max)	Actual performance	Charles Woodburn				Brad Greve	
Financial										
● Group underlying EPS	67.5p	71.1p	73.2p	76.0p	100%	x	45%	=	45%	45%
● Group free cash flow	£349m	£599m	£1,099m	£2,213m	100%	x	22.5%	=	22.5%	22.5%
● Group order intake	£24.3bn	£25.6bn	£26.9bn	£36.4bn	100%	x	7.5%	=	7.5%	7.5%
Key strategic objectives										
● Charles Woodburn	➔ See page 115				98%	x			24.5%	
● Brad Greve					98%	x	25%	=		24.5%
Total (% of maximum)							100%		99.5%	99.5%
Maximum bonus opportunity (% of base pay)									x	x
									x	x
2025 base pay									£1,270,800	£807,500
									=	=
2025 annual bonus									£2,845,003	£1,606,925

2025 annual bonus for Tom Arseneault

Performance measure	2025 performance range and outcome					Percentage of maximum achieved	Weighting		Weighted outcome (%)	
	Threshold (25% max)	Target (50% max)	Stretch (100% max)	Actual performance	Tom Arseneault					
Financial										
● Group underlying EPS	67.5p	71.1p	73.2p	76.0p	100%	x	15%	=	15%	
● Group free cash flow	£349m	£599m	£1,099m	£2,213m	100%	x	7.5%	=	7.5%	
● Group order intake	£24.3bn	£25.6bn	£26.9bn	£36.4bn	100%	x	2.5%	=	2.5%	
● Inc. underlying EBIT	\$2,160m	\$2,280m	\$2,355m	\$2,474m	100%	x	30%	=	30%	
● Inc. free cash flow	\$636m	\$786m	\$1,086m	\$1,890m	100%	x	15%	=	15%	
● Inc. order intake	\$14.64bn	\$15.40bn	\$16.16bn	\$21.11bn	100%	x	5%	=	5%	
● Key strategic objectives	➔ See page 115				98%	x	25%		25%	
Total (% of maximum)							100%		99.5%	
Maximum bonus opportunity (% of base pay)									x	
									x	
2025 base pay									\$1,189,000	
									=	
2025 annual bonus									\$2,661,873	£2,018,252

Key ● Below target ● Between target and stretch ● At or exceeds stretch

Note: Actual results have been adjusted to be on a comparable basis with the targets, including alignment of foreign exchange rates. Free cash flow is measured on a quarterly basis, with achievement reflecting weighted average performance throughout the year.

A 'bonus moderator' may be applied to the whole of the bonus calculation, to reduce (but not increase) the bonus if there are any factors that warrant a reduction. Having reviewed the 2025 results holistically, the Committee concluded that the formulaic bonus outcomes are appropriate and require no adjustment.

Key strategic objectives

Achievement of key strategic objectives represents 25% of the annual bonus opportunity. These objectives relate to the delivery of the Group's strategic priorities as listed below. Executive directors and Executive Committee members are collectively responsible for shared strategic objectives.

Objective	Assessment
Enhance financial performance and deliver sustainable shareholder growth <ul style="list-style-type: none"> ● – Drive efficiencies and effectiveness. 	<ul style="list-style-type: none"> – Improved margin expansion through efficiencies, with standardisation of end-to-end functional processes. – Further progress in SMS integration synergies.
Sustain and grow our defence and security business. <ul style="list-style-type: none"> ● – Enable enhanced international and effectiveness outcomes for digital, cyber and technology continuity. ● – Improve delivery of resourcing capability and recruitment demand plans. 	<ul style="list-style-type: none"> – Continuous improvements in technology capabilities. – Recruitment demand accuracy enhancements delivered, with improved recruitment fulfilment during 2025.
Continue to grow our business in adjacent markets <ul style="list-style-type: none"> ● – Enable growth in adjacent markets. ● – Demonstration of key technology milestones. ● – Increase adjacent market portfolio mix. 	<ul style="list-style-type: none"> – Further margin accretive opportunities identified and delivered. – Key technology milestones achieved.
Develop and expand our international business <ul style="list-style-type: none"> ● – Pursue growth internationally. 	<ul style="list-style-type: none"> – Further progress of non-core growth targets. – Additional margin accretive opportunities successfully adding to our international market share.
Inspire and develop our workforce to drive success <ul style="list-style-type: none"> ● – Succession development. ● – Organisational effectiveness. 	<ul style="list-style-type: none"> – Increased developmental moves, with focus on key talent. – Leadership programme interventions increased.
Advance and integrate our sustainability agenda <ul style="list-style-type: none"> ● – Resource efficiency: progress strategy for longer-term energy management and resilience to drive operational efficiencies; and integrate natural hazard resilience measures. ● – Safety: sustain relentless focus on reducing safety incident severity; and reduction in recordable injury rate. ● – Social & Governance: maintain rigorous standards of governance and assurance. 	<ul style="list-style-type: none"> – Significant improvements in energy management and improved waste streams. – Natural hazard resilience measures aligned. – Further improvements in safety, with reductions in recordable injury rates.

Key ● Below target ● Between target and stretch ● At or exceeds stretch

	Key strategic objective achievement (% of maximum)
Charles Woodburn	98%
Brad Greve	98%
Tom Arseneault	98%

Annual incentive plan for 2026

Annual bonus opportunity for 2026 is unchanged and in line with the Remuneration policy.

The Remuneration Committee is of the view that bonus targets are commercially sensitive and that it would be detrimental for the Company to disclose them in advance. The targets will be disclosed retrospectively after the end of the financial year.

Annual remuneration report *continued***Long-term incentives (audited)**

The table below summarises the achievement of Performance Shares vesting in respect of the three-year performance period ended 31 December 2025.

Key performance indicators	Actual performance against targets				Percentage of maximum achieved	Weighting		Weighted vested outcome (%)	
	Threshold (25% vesting)	Target (50% vesting)	Stretch (100% vesting)	Actual performance		UK executive directors	US executive director	UK executive directors	US executive director
● Annual average EPS growth (3-year)	3% p.a.	5% p.a.	7% p.a.	11.9% p.a.	100%	30%	30%	30%	30%
● Free cash flow	£3.8bn	£4.0bn	£4.5bn	£7.5bn	100%	30%		30%	
● Inc. operating cash flow	\$4.41bn	\$4.54bn	\$4.91bn	\$5.8bn	100%		30%		30%
● TSR	34.1% (median)		97.5% (80th %ile)	136.8 %	100%	15%	15%	15%	15%
● ROCE	19.20%	19.45%	19.70%	26.73%	100%	15%	15%	15%	15%
● ESG (reduction in GHG emissions)	5%	12.6%	14%	25%	100%	10%	10%	10%	10%
						100%	100%		
Overall vesting								100%	100%

Key ● Below target ● Between target and stretch ● At or exceeds stretch

Note: Actual results have been adjusted to enable like-for-like measurement with the same basis upon which the original performance targets were set in 2023, including alignment of foreign exchange rates.

For the three-year performance period ended 31 December 2025, EPS, cash flow, TSR, ROCE and ESG performance exceeded the stretch targets set in 2023 and therefore the vesting outcome for the Performance Shares is 100% of maximum for each of the executive directors.

Before approving the vesting outcomes, the Committee considered overall business performance, competitive performance and the macroeconomic environment. Having considered these factors, the Committee was satisfied that the calculated vesting outcomes and values for the performance period ended 31 December 2025 are appropriate and did not consider it necessary to apply any adjustments.

Long-term incentives for 2026

Long-term incentive opportunities for 2026 are unchanged and in line with the Remuneration policy.

For 2026, the ESG (reduction in GHG emissions) performance measure will be replaced with an Operational Delivery metric, with a 10% weighting. The performance measures and weightings are shown on the next page.

Description of share plans

Performance Shares

Performance Shares have a performance period of three years, plus a further two-year deferral period. For UK-based executive directors the shares vest five years after grant and for the US executive director the shares vest in three equal tranches on the third, fourth and fifth anniversaries of grant. Dividends or dividend equivalents accrue during the performance and deferral periods based on the number of shares that have vested, but excluding any shares that have lapsed.

The description of the performance conditions for awards granted since 2023, and for awards to be granted in 2026, are shown below.

	Weighting	Awards	Threshold (25% vesting)	Target (50% vesting)	Stretch (100% vesting)
EPS					
Average annual diluted underlying EPS growth over three years.	30%	2023 & 2024 2025 & 2026	3% pa 4% pa	5% pa 6% pa	7% pa 8% pa
Cash					
For UK executive directors, three-year cumulative free cash flow (FCF) at a Group level and for the US executive director, three-year operating cash flow (OCF) in respect of BAE Systems, Inc.	30%	2023, 2024, 2025 & 2026	Due to commercial sensitivity, the targets will be disclosed retrospectively after the end of each performance period		
TSR					
Vesting is determined by (i) the Company's TSR measured against other companies in the FTSE 100 index and (ii) whether there has been a sustained improvement in the Company's underlying financial performance.	15%	2023, 2024, 2025 & 2026	Median		80th percentile
ROCE					
Comparison in ROCE versus IBP. Due to commercial sensitivity, the target will be disclosed retrospectively after the end of each performance period.	15%	2023, 2024, 2025 & 2026	25bps reduction	Consistent	25bps improvement
ESG					
Reduce Group GHG emissions (Scope 1 and 2) aligned to a science-based pathway of 1.5°C, year-on-year over ten years against baseline year of 2020.	10%	2023, 2024, & 2025	5% reduction	12.6% reduction	14% reduction
Operational Delivery					
Customer requirements and production capacity metrics.		2026	Due to commercial sensitivity, the targets will be disclosed retrospectively after the end of each performance period		

Awards vest on a straight-line basis for performance between threshold, target and stretch.

Restricted Shares

Restricted Shares are not subject to any performance conditions. They are designed primarily for senior US executives to ensure their remuneration is competitive in the local market, where these types of awards are more prevalent, and to mitigate retention risks of certain key executives. The shares are subject to a condition that the participant must remain employed by the Group at the vesting date (usually three years after the award date). Restricted Shares accrue notional reinvested dividends during the vesting period. Awards made to the US executive director are subject to a further two-year clawback period after the initial three-year vesting period.

Malus and clawback

Malus and/or clawback may be applied to any bonus, deferred bonus and long-term incentive awards where:

- the Company is entitled to terminate employment for cause or the participant has engaged in misconduct (including breach of policy) which gives rise to other disciplinary sanction;
- the results of the Company and/or relevant business or businesses for any period have been restated or subsequently appear materially inaccurate or misleading;
- any Group company or business unit has made a material financial loss; and/or
- the measurement of any performance condition does not reflect the performance of the Company over the performance period.

The table below sets out the time period for which malus and clawback will apply for each incentive arrangement:

	Malus	Clawback	Rationale
Annual bonus	Until payment		These periods have been selected as they are the most reflective of the period of assessment of individual and company performance in relation to the respective incentives, during which malus triggers would apply.
Deferred bonus	Until the end of the three-year deferral period		
Long-term incentives	Until the awards vest	Until two years after vesting (or if sooner, the fifth anniversary of grant)	The longer period applicable to long-term incentive awards provides the Remuneration Committee with the ability to apply malus and/or clawback in the event that circumstances are unknown for some time.

No malus or clawback has been applied in the last financial year for any executive director.

Annual remuneration report *continued***Statement of directors' shareholdings and share interests****Scheme interests awarded during the financial year (audited)**

Scheme	Date of grant	Number of shares	Basis of award (% of base pay)	Face value of award ¹ £	Exercise price £	Date to which performance is measured (three years to)
Charles Woodburn						
Performance Shares	20-Mar-25	281,049	370%	£4,701,950	nil	31-Dec-27
Performance Shares	13-May-25	99,191	130%	£1,652,026	nil	31-Dec-27
Brad Greve						
Performance Shares	20-Mar-25	161,693	335%	£2,705,124	nil	31-Dec-27
Performance Shares	13-May-25	31,514	65%	£524,866	nil	31-Dec-27
Tom Arseneault						
Performance Shares	20-Mar-25	243,144	440%	£4,067,799	n/a	31-Dec-27
Restricted Shares	20-Mar-25	84,459	150%	£1,412,999	n/a	n/a

1. The value of the award is calculated on the grant date by reference to the middle market quotation at close on the preceding day, being £16.730 for grants made on 20 March 2025, and £16.655 for grants made on 13 May 2025.

Note: For UK executive directors, Performance Shares are structured as nil-cost options, which vest on the fifth anniversary of grant. For the US executive director, Performance Shares are conditional share awards vesting on the third, fourth and fifth anniversary of grant. All Performance Shares are subject to the attainment of performance conditions, with 25% vest at threshold; 50% vest at target; and 100% vest at stretch performance. Further details on the performance conditions is set out on page 117.

Minimum Shareholding Requirement (MSR) (audited)

Executive directors are required to establish and maintain a minimum personal shareholding equal to a fixed percentage of their base pay as set out in the table below.

Where an executive director leaves employment for any reason, a post-employment shareholding requirement will apply. Executive directors will be required to sign a contract upon leaving employment to ensure compliance with this requirement. Any case of non-compliance will be dealt with by the Committee.

The table below sets out the MSR and actual shareholdings (as a percentage of base pay) as at 31 December 2025.

	MSR	Actual	Achieved MSR?	Post-employment MSR
Charles Woodburn	500%	1,280%	Yes	500% for two years
Brad Greve	400%	579%	Yes	400% for two years
Tom Arseneault	425%	2,403%	Yes	300% for one year

The actual MSR is calculated based on the share price on 31 December 2025 (£17.14).

Minimum Shareholding Requirement (MSR) from 2026

The in-employment and post-employment shareholding requirements (as a percentage of base pay) are unchanged for 2026 and in line with the Remuneration policy.

Share interests as at 31 December 2025 (audited)

The interests of the executive directors in the shares of BAE Systems plc, or scheme interests in relation to those shares, were:

	Shares	Scheme interests: Options and awards over shares					Total scheme interests
		Share awards with performance conditions (Performance Shares)	Share awards without performance conditions (Restricted Shares)	Share options with performance conditions (Performance Shares)	Share options with performance conditions, vested but unexercised	Share options without performance conditions, vested but unexercised (see note below)	
Charles Woodburn	949,333	–	–	2,667,925	–	–	2,667,925
Brad Greve	272,712	–	–	1,409,433	–	–	1,409,433
Tom Arseneault	1,263,892	1,316,717	337,136	–	–	621,065	2,274,918

Note: The share options without performance conditions were granted to Tom Arseneault prior to him being appointed an executive director and are vested but unexercised, with exercise prices ranging from £4.85 to £5.818 per share and expiry dates ranging from 20 March 2028 to 20 March 2029.

The interests of the non-executive directors in the shares of BAE Systems plc on 31 December 2025 were:

	Shares
Chair	
Cressida Hogg	13,698
Non-executive directors	
Nick Anderson	14,000
Crystal E Ashby	–
Angus Cockburn	2,000
Dame Elizabeth Corley ¹	19,000
Jane Griffiths	10,117
Ewan Kirk	20,000
Stephen Pearce	10,000
Nicole Piasecki ²	3,132

1. Holding shown at date retired from Board (30 November 2025).

2. Shares held in the form of 783 American Depositary Shares.

The interests of directors include those of their connected persons.

Since 31 December 2025, Charles Woodburn has acquired an additional 10 shares and Brad Greve has acquired an additional 11 shares through the all-employee Share Incentive Plan (SIP). Their beneficial shareholdings at the latest practicable date for inclusion in this report (15 February 2026) were 949,343 and 272,723 shares respectively. There have been no other changes in the interests of the directors in the shares of BAE Systems plc between 31 December 2025 and 15 February 2026.

Share Options – options exercised during 2025 (audited)

	Exercised during the year	Exercise price £	Date of grant	Date of exercise	Market price at exercise £
Charles Woodburn - 2020 Performance Shares	877,344	nil	25-May-20	28-Mar-25	15.6458
Brad Greve - 2020 Performance Shares	494,439	nil	25-May-20	7-Apr-25	14.9663
Tom Arseneault - 2017 Share Options	267,026	6.490	21-Mar-17	12-Mar-25	15.5694
Tom Arseneault - 2020 Performance Shares	165,890	nil	25-Mar-20	26-Mar-25	15.6790
Tom Arseneault - 2021 Performance Shares	160,277	nil	25-Mar-21	26-Mar-25	15.6790
Tom Arseneault - 2022 Performance Shares	109,223	nil	24-Mar-22	24-Mar-25	15.9437
Tom Arseneault - 2022 Restricted Shares	177,590	nil	24-Mar-22	24-Mar-25	15.9437

– The Share Options granted to Tom Arseneault were granted prior to him being appointed as an executive director and do not have performance conditions. Options are normally exercisable between the third and tenth anniversary of their grant. Share options granted to Tom Arseneault from 2015 onwards are subject to a two-year clawback period after the initial three-year vesting period.

– The 2020 Performance Shares granted to Charles Woodburn and Brad Greve vested in full based on TSR and EPS performance conditions. The awards were structured as nil-cost options and accrued notional reinvested dividends during the performance and deferral periods. The shares vested on the fifth anniversary of grant and were exercisable until the seventh anniversary of their grant.

Annual remuneration report *continued*

Executive directors' service contracts

All executive directors have rolling service agreements which may be terminated in accordance with the terms of those agreements.

Dates of appointment for executive directors:

Name	Date of appointment	Expiry of current term
Charles Woodburn	1 July 2017	12 months' notice by either party
Brad Greve	1 April 2020	12 months' notice by either party
Tom Arseneault ¹	1 April 2020	60 days' notice by either party

1. Tom Arseneault's contract of employment automatically renews for a one-year period from 31 December each year, unless one party gives the other at least 60 days' notice.

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

Chair and non-executive directors – letters of appointment

The Chair and non-executive directors have letters of appointment, which are contracts for services, and not a contract for employment. The non-executive directors are normally appointed for an initial three-year term that, subject to review, may be extended subsequently for further such terms. Non-executive directors do not have notice periods. The dates of their original appointment and expiry of their current term are shown below:

Name	Date of appointment	Expiry of current term
Cressida Hogg	4 May 2023	Close of the AGM in 2029
Nick Anderson	1 November 2020	31 October 2026
Crystal E Ashby	1 September 2021	1 September 2027
Angus Cockburn	6 November 2023	5 November 2026
Dame Elizabeth Corley	1 February 2016	30 November 2025 (retired)
Jane Griffiths	1 April 2020	1 April 2029
Ewan Kirk	1 June 2021	31 May 2027
Stephen Pearce	1 June 2019	1 June 2026
Nicole Piasecki	1 June 2019	1 June 2026

'Single figure' of remuneration for the Chair and non-executive directors (audited)

	Committee membership as at 31 December 2025	Fixed						Total remuneration £'000	
		Fees £'000		Benefits £'000		Other £'000		2025	2024
		2025	2024	2025	2024	2025	2024		
Chair									
Cressida Hogg	N	716	700	—	—	—	—	716	700
Non-executive directors									
Nick Anderson	E I N	136	129	17	14	—	—	153	143
Crystal E Ashby	E N	115	110	23	18	—	—	138	128
Angus Cockburn	A E N R	155	129	8	5	—	—	163	134
Dame Elizabeth Corley ¹		130	153	5	3	—	—	135	156
Jane Griffiths	A E N	152	146	9	7	—	—	161	153
Ewan Kirk	A I N R	170	146	5	4	—	—	175	150
Stephen Pearce	A E N	152	146	20	20	—	—	172	166
Nicole Piasecki	I N R	190	182	22	21	—	—	212	203
Lord Mark Sedwill ²		—	74	—	—	—	—	—	74

- Retired from the Board on 30 November 2025.
- Retired from the Board on 10 September 2024.

●	Committee Chair	●	Innovation and Technology Committee
●	Audit and Risk Committee	●	Nominations Committee
●	Environmental, Social and Governance Committee	●	Remuneration Committee

The amounts for 'Benefits' relate to travel and subsistence expenses.

Chair of the Board

The fee for the Chair of the Board is determined by the Remuneration Committee. Cressida Hogg's fee was reviewed in February 2026 and will be increased by 3% to £743,000 per annum with effect from 1 April 2026.

Non-executive directors

Fees for the non-executive directors were reviewed in February 2026 by the Chair and executive directors. It was agreed that with effect from 1 April 2026, the base fee and Committee membership fees will be increased by 3%, in line with the average percentage increase for the wider workforce in the UK, and the Senior Independent Director and the Committee Chair fees will be increase by 6.4% to £40,000 per annum to better reflect the time commitment required and align with the practice in other comparable companies.

	Effective 1 April 2024	Effective 1 April 2025	2025 % increase	Effective 1 April 2026	2026 % increase
Base fee	£92,500	£95,300	3%	£98,200	3%
Additional fees					
Senior Independent Director	£36,500	£37,600	3%	£40,000	6.4%
Committee Chair (except Nominations Committee)	£36,500	£37,600	3%	£40,000	6.4%
Committee membership (except Nominations Committee)	£20,000	£20,600	3%	£21,200	3%

Annual remuneration report *continued***Annual percentage change in directors' remuneration**

The table below shows the percentage change in remuneration for executive directors, non-executive directors and an average employee comparator group (being those employed by BAE Systems plc on a full-time equivalent basis). The percentage changes represent the change in remuneration, as reported in the single figure of remuneration for each year, and therefore may show a significant increase or decrease when compared with pay for a part-year.

	2024/2025 % change			2023/2024 % change			2022/2023 % change			2021/2022 % change			2020/2021 % change		
	Base pay/ fees	Benefits	Annual bonus	Base pay/ fees	Benefits	Annual bonus	Base pay/ fees	Benefits	Annual bonus	Base pay/ fees	Benefits	Annual bonus	Base pay/ fees	Benefits	Annual bonus
Executive directors															
Charles Woodburn	+3.0	-3.4	+4.0	+4.5	+3.3	+4.6	+4.0	+11.0	+4.9	+2.5	+56.4	+2.9	+12.7	+17.7	+39.1
Brad Greve	+3.0	-3.8	+4.1	+4.5	+6.6	+4.9	+14.1	+14.2	+43.6	+5.6	+79.3	+6.0	+36.0	+44.2	+68.7
Tom Arseneault	+0.8	+46.0	+2.1	+1.7	-17.1	+1.9	+3.3	+7.1	+4.0	+15.0	+24.1	+15.8	+27.9	+156.9	+115.4
Current non-executive directors															
Cressida Hogg	+2.3	n/a	n/a	+43.9	n/a	n/a	+3,333.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nick Anderson	+5.1	+21.5	n/a	+17.2	+86.2	n/a	+29.5	+642.4	n/a	0.0	-42.7	n/a	+500.0	+81.0	n/a
Crystal E Ashby	+4.4	+26.0	n/a	+11.6	+171.8	n/a	+16.2	+51.7	n/a	+200.0	n/a	n/a	n/a	n/a	n/a
Angus Cockburn	+20.0	+56.5	n/a	+703.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dame Elizabeth Corley	-15.1	+57.0	n/a	+26.2	+101.8	n/a	+42.7	+69.7	n/a	0.0	-47.6	n/a	+1.5	0.0	n/a
Jane Griffiths	+4.1	+35.6	n/a	+21.9	+94.9	n/a	+9.1	+288.3	n/a	0.0	-82.2	n/a	+72.5	0.0	n/a
Ewan Kirk	+16.1	+19.1	n/a	+11.5	+45.8	n/a	+19.4	+101.7	n/a	+75.8	+92.6	n/a	n/a	n/a	n/a
Stephen Pearce	+4.1	+2.6	n/a	+21.9	+2,326.6	n/a	+9.1	-20.3	n/a	0.0	-50.0	n/a	+1.1	+90.4	n/a
Nicole Piasecki	+4.0	+5.4	n/a	+28.0	+95.6	n/a	+40.7	+72.2	n/a	+19.2	n/a	n/a	+1.5	-100.0	n/a
Former non-executive directors															
Sir Roger Carr	n/a	n/a	n/a	n/a	n/a	n/a	-65.2	0.0	n/a	0.0	0.0	n/a	0.0	0.0	n/a
Dame Carolyn Fairbairn	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-58.2	n/a	n/a	n/a	n/a	n/a
Chris Grigg	n/a	n/a	n/a	n/a	n/a	n/a	+29.6	n/a	n/a	0.0	n/a	n/a	+7.3	0.0	n/a
Ian Tyler	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-65.2	-8.8	n/a	+1.1	+8.9	n/a
Lord Mark Sedwill	n/a	n/a	n/a	-25.5	-100.0	n/a	+597.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Average employee															
	+4.5	+4.5	+1.1	+4.5	+4.5	+2.8	+6.0	+6.0	+63.3	+4.5	+4.5	+9.2	+1.5	+1.5	+28.4

Where figures are £nil (as is often the case for non-executive directors), the percentage change is shown as n/a.

Remuneration reflects part-years as follows: 2020 remuneration for Brad Greve, Tom Arseneault, Nick Anderson and Jane Griffiths; 2021 remuneration for Crystal E Ashby, Dame Carolyn Fairbairn and Ewan Kirk; 2022 remuneration for Cressida Hogg, Lord Mark Sedwill, Dame Carolyn Fairbairn and Ian Tyler; 2023 remuneration for Angus Cockburn and Sir Roger Carr; and 2024 remuneration for Lord Mark Sedwill.

Average employee figures are determined by the median based on a full-time equivalent with annual bonus estimate based on the expected financial outturn for 2025.

Pay ratio in relation to the Group Chief Executive

The table below provides the ratio between the 'single figure' of remuneration for the Chief Executive and the total remuneration of UK employees at the upper quartile (75th percentile), median (50th percentile) and lower quartile (25th percentile).

Year	Method	Pay ratio		
		25th percentile	Median	75th percentile
2025	B	234:1	195:1	136:1
2024	B	232:1	183:1	157:1
2023	B	264:1	191:1	181:1
2022	B	256:1	185:1	168:1
2021	B	171:1	140:1	99:1
2020	B	121:1	103:1	89:1
2019	B	90:1	72:1	59:1
2018	B	61:1	48:1	38:1

	25th percentile	50th percentile	75th percentile
Total pay and benefits	£53,026	£63,476	£90,954
Base pay	£41,155	£50,163	£61,227

Pay ratio commentary

Between 2024 and 2025 the ratio of total remuneration for the Chief Executive compared to UK employees increased at median, but reduced at the 75th percentile. The Chief Executive and other senior employees have a greater proportion of pay that is variable with performance, whereas other employees typically have a greater proportion of fixed pay which does not vary with performance. Consequently, as 2025 was a year of strong operational and financial performance, the variable pay outcome for the Chief Executive was greater than for the median employee, resulting in an increased pay ratio at median. However, the Chief Executive's pay did not increase at the same rate as for some other senior employees, including at the 75th percentile, resulting in a reduced pay ratio at the 75th percentile for 2025.

Since 2018, there has been a general upward trend in the median pay ratio, which reflects progressive improvements in financial performance and increased variable pay through the performance-related annual and long-term incentive plans.

The ratio at each of the three quartile positions is consistent with our pay, reward and progression policies, with the ratio decreasing as the Chief Executive's remuneration is compared with that of progressively more senior employees.

Methodology

The Companies (Miscellaneous Reporting) Regulations 2018 permit different options for calculating the pay ratio. We have chosen Option B for calculating the pay ratio for 2025, consistent with our gender pay reporting, which is considered the most appropriate methodology for reporting. The total full-time equivalent pay and benefits for the relevant employees have been calculated on the same basis as the Chief Executive's 'single figure' of remuneration as at 31 December 2025. For pension-related benefits, employer pension costs have been estimated using the employer contribution rates applicable to the member's pension plan. No other estimates or adjustments have been used in the calculation and no remuneration items have been omitted.

Bonus amounts for 2025 are not able to be calculated for some employees until after publication of this report and therefore it is not possible to determine exact 2025 total remuneration for all UK employees within the timescale required for calculating the pay ratio using Option A.

To ensure a sufficiently robust representation at each quartile, the average total pay and benefits of a number of employees centred around each quartile is calculated. Any anomalies arising in the pay and benefit amounts (for example, if an employee left part way through the year) are adjusted or excluded.

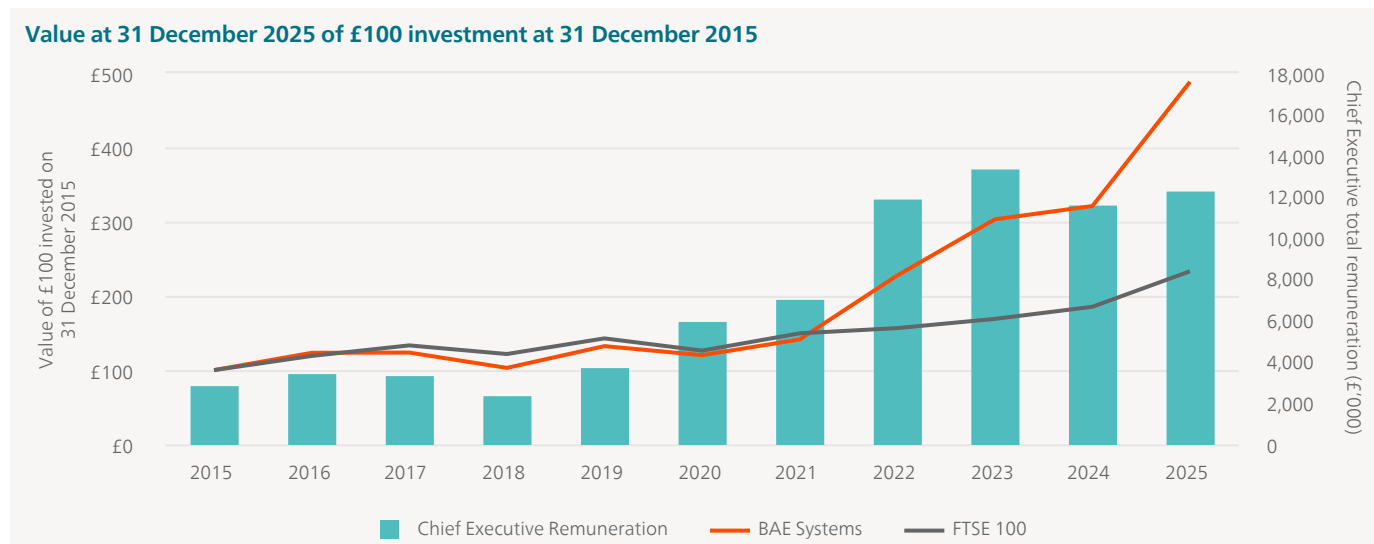
Gender and ethnicity pay

The 2025 UK gender pay gap and ethnicity pay gap reports are available on the Company's website. For our UK workforce, the average (median) gender pay gap was 7.4% (2024 8.1%) and the average (median) ethnicity pay gap was 7.7% (2024 6.0%).

Annual remuneration report *continued***Total Shareholder Return (TSR) performance and Chief Executive pay**

The chart below shows the value at 31 December 2025 of £100 invested in BAE Systems shares on 31 December 2015, compared to £100 invested in the FTSE 100 on the same date. If invested in BAE Systems that shareholding would be worth £488.34 on 31 December 2025, compared to £233.15 if invested in the FTSE 100.

The FTSE 100 was chosen as the comparator because it is a broad equity index of which BAE Systems is a constituent member and reflects the investment interests of our UK shareholder base. In addition, comparative TSR performance with the FTSE 100 is a performance measure for the Long-Term Incentive (LTI) awards.

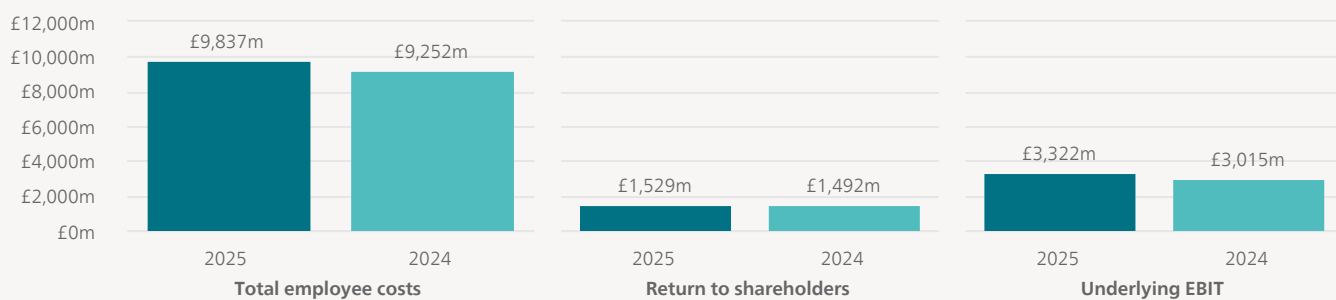
**Change in Chief Executive's remuneration over ten years**

	2016	2017 ¹	2018	2019	2020	2021	2022	2023	2024	2025
Chief Executive total remuneration (£'000)										
Charles Woodburn	—	1,279	2,416	3,747	6,080 ²	7,071	12,008	13,451	11,681	12,397
Ian King	3,463	2,086	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	3,463	3,365	2,416	3,747	6,080 ²	7,071	12,008	13,451	11,681	12,397
Bonus paid as a percentage of maximum										
Charles Woodburn	—	75.8%	65.6%	95.6%	78.7%	97.1%	97.5%	98.4%	98.5%	99.5%
Ian King	82.3%	75.9%	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
LTI vesting as a percentage of maximum										
Charles Woodburn	—	—	nil	10.9%	100% ²	57.9%	100%	97.9%	95.6%	100%
Ian King	nil	11.3%	—	—	—	—	—	—	—	—

- In 2017, Charles Woodburn succeeded Ian King as Chief Executive. Ian King's remuneration is shown from the start of 2017 until 30 June 2017 and Charles Woodburn's remuneration is shown from 1 July 2017 to the end of that year.
- Total remuneration includes the value of shares vesting that were granted to Charles Woodburn prior to his appointment as Chief Executive.

Relative importance of spend on pay

The chart below shows the relative importance of expenditure on pay¹ compared to returns to shareholders². Underlying EBIT³ is shown for information.



- Wages and salaries increased by approximately 3.5% per employee in 2025, excluding the impact of exchange translation.
- Returns to shareholders comprise dividends to ordinary shareholders paid in the year and share repurchases in 2024 (£555m) and 2025 (£502m).
- Underlying EBIT is the Group's principal measure of operational profitability as defined in the Alternative performance measures section on page 216.

Remuneration for employees below the Board

General remuneration policy

Our Remuneration policy aims to ensure all employees are rewarded fairly and appropriately for their contribution to attract and retain the best talent with competitive market pay and a range of useful benefits for employees and their dependants.

This means that our total reward packages include a competitive level of base pay, short-term and long-term incentives (where applicable) and a range of health, wealth and lifestyle benefits aligned with the relevant local markets.

Summary of our remuneration structure and rationale for employees below the Board

Remuneration element	Executive Committee	Senior executives	Middle management	Wider workforce
Base pay	Provides a fixed level of earnings, appropriate to the market and requirements of the role. Normally reviewed annually with increases ordinarily in line with the wider workforce in the same locality.			Provides a fixed level of earnings, subject to negotiation with recognised trade unions, and/or in line with market and/or performance.
Pension and benefits	To assist employees in their duties, by providing a range of health, wealth and lifestyle benefits, including retirement savings, in line with the relevant local market.			
Annual incentives	Cash	Incentivises and rewards the achievement of annual financial performance and the delivery of key strategic objectives (KSOs).	Incentivises and rewards the achievement of annual financial performance and individual/team objectives linked to KSOs, and behaviours.	Typically rewards business results and individual/team achievements (UK only).
	Deferral	Compulsory deferral of part of annual bonus into shares, increasing alignment with long-term shareholder interests.		
Share ownership & Long-term incentives	Free shares	Eligible employees in participating countries receive an annual award of shares (or cash equivalent in some countries), based on Group financial performance.		
	Share Incentive Plan (SIP)	Eligible employees in participating countries may receive free matching shares when investing their own money in the all-employee SIP or international equivalent.		
	Performance Shares	Performance Shares with a performance period of three years, providing a direct and transparent link between pay and the delivery of long-term performance.		
	Restricted Shares	Restricted Shares are predominantly provided in the US to be market competitive and usually subject to remaining employed for at least three years from the grant date.		

Engagement with key stakeholders

In line with our commitment to full transparency and engagement with our shareholders on executive remuneration, the Chair of the Remuneration Committee periodically consults with shareholders and shareholder representative bodies to seek feedback on executive pay and any contemplated changes to the remuneration policy or structure. During 2024 and 2025, the Committee Chair engaged directly with major shareholders to seek their views regarding the proposed changes to the remuneration policy presented to shareholders at the 2025 AGM. Feedback received at that time and subsequent feedback received has been shared with all Committee members and proved extremely valuable in informing the Committee regarding shareholder views.

This report is the principal means through which we communicate and engage with employees regarding executive remuneration alignment with the wider workforce. Over 63,000 of the Company's employees are now shareholders in the Company and they receive email communications with a direct link to this report on the Company's website and an invitation to vote on the resolutions at the AGM, including those resolutions on executive remuneration.

Effective engagement enables employees to contribute to improving business performance and helps us to create an environment in which everyone is safe, valued and can fulfil their potential. We use a range of channels to engage with employees, including surveys and insight sessions, in-person and virtual meetings, briefings, conferences, toolbox talks, safety and security stand-downs, events and listening forums at all levels. Additionally, employee share and incentive plan communications, regular leadership updates through videos and live-streaming throughout the year (including financial and business performance updates) and digital channels, including our employee app, intranet, email and TV systems are also used.

Annual remuneration report *continued***Remuneration Committee composition and advisers**

During 2025, the Committee members comprised Nicole Piasecki (Chair), Angus Cockburn, Dame Elizabeth Corley and Ewan Kirk. Committee attendance is shown on page 81. The Committee received material assistance and advice on Remuneration policy from the Group Reward Director, Roger Fairhead, and the Group Human Resources Director, Tania Gandamihardja. Charles Woodburn in his role as Chief Executive and Brad Greve as Chief Financial Officer also provided input that was of material assistance to the Committee.

PwC has been appointed by the Committee as its independent adviser and also attends Committee meetings during the year. The Committee is aware that PwC provides other services to the Company, including tax and pensions advice, and other consultancy services. The Committee is satisfied that the PwC LLP engagement partner and team who provide remuneration advice to the Committee do not have connections with the Group or the individual directors that could impair their independence or objectivity. PwC is a member of the Remuneration Consultants Group (RCG) and is a signatory to the RCG's code of conduct. Fees in respect of services provided to the Committee for 2025 were £111,000 determined on a fixed fee/hourly basis.

Statement of voting

Shareholder voting on the resolutions to approve the Annual remuneration report and the Directors' Remuneration policy at the 7 May 2025 AGM were:

Annual remuneration report (2025)

Votes for	%	Votes against	%	Total votes cast	Votes withheld (abstentions)
2,032,090,304	96.59	71,736,961	3.41	2,103,827,265	731,774

Directors' Remuneration policy (2025)

Votes for	%	Votes against	%	Total votes cast	Votes withheld (abstentions)
2,061,161,446	97.97	42,639,415	2.03	2,103,800,861	749,449

The Directors' Remuneration policy approved at the 2025 AGM was published in the 2024 Annual Report and is available on the Company's website at baesystems.com/annual-report.

The Remuneration Committee's year**3 February****C Committee (Videoconference)**

- Considered feedback from shareholders in relation to the Remuneration policy review.
- Received an update on provisional 2024 financial performance relating to the incentive plans.
- Assessed achievement of 2024 key strategic objectives.
- Approved 2025 key strategic objectives.
- Approved 2025 base pay increases for Executive Committee members.

17 February**C Committee (London, UK)**

- Determined 2024 annual bonuses for executive directors and executive committee members.
- Approved 2024 all-employee share award.
- Determined vesting outcome for 2022 long-term incentive awards.
- Agreed the 2025 performance measures and targets.
- Approved grant of 2025 long-term incentive awards.
- Approved proposed new Remuneration policy to be submitted for a shareholder vote at the 2025 AGM.
- Approved 2024 Directors' remuneration report.

June**C Committee (Washington, USA)**

- Reviewed AGM voting outcomes.
- Considered UK, US and Global market developments.

September**C Committee (London, UK)**

- Reviewed the pay and incentive arrangements for key executives and other employees with identified specialist skills.

December**C Committee (London, UK)**

- Received an update on 2025 UK gender and ethnicity pay gaps.
- Received a performance update on 2025 annual incentive and in-flight long-term incentive awards.
- Approved executive directors' base pay increases from 1 January 2026.
- Considered the structure, weightings and financial metrics for the 2026 annual incentive plans and long-term incentive awards.

Directors' Remuneration Report

The Directors' Remuneration Report was approved by the Board of directors on 17 February 2026.

Nicole Piasecki

Chair, Remuneration Committee

Statutory and other regulatory information

Company registration

BAE Systems plc is a public company limited by shares registered in England and Wales with the registered number 01470151.

Directors

The directors who served during the 2025 financial year are listed on pages 77 to 79. Dame Elizabeth Corley also served during the year, retiring as a non-executive director on 30 November 2025.

Dividend

An interim dividend of 13.5p per share was paid on 3 December 2025. On 17 February, the directors proposed a final dividend of 22.8p per ordinary share. Subject to shareholder approval, the final dividend will be paid on 4 June 2026 to shareholders on the share register on 24 April 2026.

AGM

The Company's 2026 AGM is scheduled to be held on 7 May 2026.

Disclosures required under UK Listing Rule 6.6

There are no disclosures required to be made under UK Listing Rule 6.6 which have not already been disclosed elsewhere in this Report. Details of long-term incentives can be found within the Annual remuneration report on page 112 and details of dividend waivers can be found in note 25 of the Consolidated financial statements on page 195.

Office of Fair Trading undertakings

As a consequence of the merger between British Aerospace and the former Marconi Electronic Systems businesses in 1999, the Company gave certain undertakings to the Secretary of State for Trade and Industry (now the Secretary of State for Business and Trade). In February 2007, the Company was released from the majority of these undertakings and the remainder have been superseded and varied by a new set of undertakings. Compliance with the undertakings is monitored by a compliance officer. Further information regarding the undertakings and the contact details of the compliance officer may be obtained through the Company Secretary at the Company's registered office or through the Company's website.

Trade unions

We have structures in place to work with trade union representatives in our local markets, where it is appropriate and legally acceptable. Of our UK workforce, 64% are covered by collective bargaining agreements and of this section of the workforce, approximately 55% are trade union members. In the US, approximately 9% of the workforce is covered by a collective bargaining agreement and in Australia, this is approximately 20%.

Other information that is relevant to the Directors' report (which covers pages 74 to 133), and which is incorporated by reference into this report

Further information	Reference
Disclosures in relation to the use of financial instruments	<ul style="list-style-type: none"> Financial statements page 172
Disclosures in relation to the Company's culture	<ul style="list-style-type: none"> Our investment in our people and our communities page 50 Ethics and compliance page 59 Governance framework page 82 Audit and Risk Committee report page 96 Environmental, Social and Governance Committee report page 101
Particulars of important events affecting the Group which have occurred since 31 December 2024	<ul style="list-style-type: none"> Chief Executive's review page 8 Segmental review page 37
An indication of likely future developments in the business of the Group	<ul style="list-style-type: none"> Chief Executive's review page 8 Our investment in technology page 24 Segmental review page 37
An indication of the activities of the Group in the field of R&D	<ul style="list-style-type: none"> Our business model page 14
Actions taken to introduce, maintain or develop arrangements aimed at employees	<ul style="list-style-type: none"> Our investment in people and communities page 50
GHG emissions and energy consumption data	<ul style="list-style-type: none"> Climate and the environment page 57 Other information on page 221
Employee engagement (including regarding employee interests)	<ul style="list-style-type: none"> Our investment in people and communities page 50
Fostering business relationships with suppliers, customers and others	<ul style="list-style-type: none"> Our stakeholders page 85

Statutory and other regulatory information *continued*

Employment of disabled persons

In 2025, we remained committed to fostering an inclusive workplace where employees in the UK, including those with disabilities, can thrive. We welcome applications from candidates with disabilities and seek to give full and fair consideration to applicants and candidates for promotion having regard to the requirements of the role and the aptitudes and abilities of candidates. We strive to support colleagues who become disabled during their employment, including making reasonable adjustments, redesigning roles where appropriate and offering training. We also consider adjustments to remove or reduce barriers that employees may face with the aim of creating an environment where everyone can progress and succeed and have measures in place to help line managers create inclusive workplaces including training. We work with external partners to provide expert guidance and accreditation, including:

- US Disability Index score of 100 (maintained from 2024)
- UK accredited Disability Confident Employer
- Saudi Arabia Mowaamah Gold Certificate for disability friendly workplace

Employee involvement in share schemes

We encourage our colleagues in the UK and other participating countries to benefit from the Company's performance by enrolling in one of our employee share incentive plans. These employees receive an information pack when they become eligible to purchase shares or to receive the annual free shares award. Reminders are sent to non-participating eligible employees on an annual basis. An annual grant of free shares is awarded to eligible employees in participating countries on an auto-enrolment basis. Information regarding the plans can be found on our dedicated intranet sites.

Profit forecast

In its Half-yearly Report 2025 published on 30 July 2025, the Company made the following statement in respect of the year ending 31 December 2025, which is regarded as a profit forecast for the purposes of UK Listing Rule 6.2.23 and which replaced the profit forecast made in the Company's 2024 Annual Report:

"Whilst the Group is subject to geopolitical and other uncertainties, the Group guidance is provided on current expected operational performance. The guidance is based on the measures used to monitor the underlying financial performance of the Group.

Given the strong operational performance in the first half, we are upgrading our sales and underlying EBIT guidance for the full year by 100bps each. Sales are now expected to increase in the range of 8% to 10% while underlying EBIT is expected to increase in the range of 9% to 11%. The share price increase since the start of the year is expected to result in fewer shares being repurchased, which, along with a marginally higher tax rate, means our guidance for EPS growth remains unchanged between 8% to 10%. Our free cash flow target remains >£1.1bn.

Guidance is provided on a constant currency basis using an exchange rate of \$1.28:£1, which is in line with the actual 2024 exchange rate."

For the year ended 31 December 2025, sales were £30,662m and underlying EBIT was £3,322m.

See Financial review on page 30 for more information.

Political donations

During 2025, the Company did not: (i) make any political donations to a UK political party, other UK political organisation or any UK independent election candidate and/or incur any UK political expenditure; or (ii) make any contribution to a non-UK political party.

It remains the policy of the Company not to make any political donations or incur political expenditure within the normal understanding of those terms and the Company has no intention of altering this policy. However, the definitions of 'political donation' and 'political expenditure' within the UK Companies Act 2006 are very wide and potentially capture activities that would not be ordinarily considered to be such but form part of the Company's usual business engagement with key stakeholders and allow the Company to participate in public debate and opinion-forming on matters which affect its business. Consequently, to avoid inadvertent infringement of the UK Companies Act 2006, authority will be sought from shareholders at the 2026 AGM to make political donations and incur political expenditure up to a specified limit (as has been done in prior years).

In accordance with the US Federal Election Campaign Act, BAE Systems, Inc. provides administrative support to a federal Political Action Committee (PAC) in the US, funded by the voluntary political contributions of eligible employees. The PAC is not funded by BAE Systems, Inc. and all decisions regarding the amounts and recipients of contributions are directed by a Board of Trustees comprising employees eligible to contribute to the PAC. Contributions to political organisations reported by the PAC during 2025 totalled \$547,500 (2024 \$559,000).

Distributable reserves

As at 31 December 2025, the distributable reserves of the Company were £2,454m (2024 £2,130m).

Issued share capital

As at 31 December 2025, BAE Systems' issued share capital of £79,137,769 comprised 3,165,510,735 ordinary shares of 2.5p each and one Special Share of £1.

Share buyback

During the year, 29,595,214 ordinary shares of 2.5p each were repurchased under the buyback programme of up to £1.5bn announced on 2 August 2023 (which commenced on 25 July 2024) and such repurchased shares have been cancelled.

The total consideration for the purchase of these shares, including commission and stamp duty, was £502m.

The percentage of called up share capital (excluding treasury shares) as at 31 December 2025, which the shares repurchased in 2025 represents, is 1.0%.

Treasury shares

As at 1 January 2025, the number of shares held in treasury totalled 183,673,739 (having a total nominal value of £4,591,843 and representing 5.7% of the Company's called up share capital as at 31 December 2024). During 2025, the Company used 19,178,971 treasury shares (having a total nominal value of £479,474 and representing 0.6% of the Company's called up share capital as at 31 December 2025) to satisfy awards under the Company's Free and Matching elements of the Share Incentive Plan (3,019,629 shares in aggregate), awards under the Free and Matching elements of the International Share Incentive Plan (134,210 shares in aggregate), awards vested under the Performance Shares element of the Long-Term Incentive Plan (7,806,773 shares), awards vested under the Restricted Shares element of the Long-Term Incentive Plan (2,050,860 shares) and options exercised under the Share Options element of the Long-Term Incentive Plan and Executive Share Option Plan (5,985,037 shares). The treasury shares used in respect of the Share Incentive Plan, the International Share Incentive Plan, and the Performance and Restricted Shares elements of the Long-Term Incentive Plan were disposed of by the Company for nil consideration. As at 31 December 2025, 164,506,971 ordinary shares of the issued share capital were held in treasury. The 5,985,037 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 £37,281,172.

As at 31 December 2025, the number of shares held in treasury totalled 164,506,971 (having a total nominal value of £4,112,674 and representing 5.2% of the Company's called up share capital at 31 December 2025).

The rights to treasury shares are restricted in accordance with the Companies Act and, in particular, the voting and dividend rights attaching to these shares are automatically suspended.

Rights and obligations of ordinary shares

The full rights attaching to shares are set out in the Company's Articles of Association. Currently, the voting rights of each ordinary share carry one vote at a general meeting of the Company. Subject to the relevant statutory provisions and the Company's Articles of Association, holders of ordinary shares are entitled to a dividend where declared or paid out of profits available for such purposes. Subject to the relevant statutory provisions and the Company's Articles of Association, on a return of capital on a winding-up, holders of ordinary shares are entitled, after repayment of the £1 Special Share, to participate in such a return. There are no redemption rights in relation to the ordinary shares.

Rights and obligations of the Special Share

In the interests of national security, a Special Share is held on behalf of the Secretary of State for Business and Trade (the Special Shareholder). Certain provisions of the Company's Articles of Association cannot be amended without the consent of the Special Shareholder. These provisions include the requirement that:

- no foreign person, or foreign persons acting in concert, can have more than a 15% voting interest in the Company;
- the majority of the directors (including any alternate directors) must be British citizens, British Overseas Territories citizens or British Overseas citizens by virtue of the British Nationality Act 1981 (British Citizens);
- any Chief Executive or Executive Chair must be a British Citizen; and
- if the Company has a non-executive Chair and a non-executive Deputy Chair, then one of them must be a British Citizen.

The holder of the Special Share is entitled to attend a general meeting, but the Special Share carries no right to vote or any other rights at any such meeting, other than to speak in relation to any business in respect of the Special Share. Subject to the relevant statutory provisions and the Company's Articles of Association, on a return of capital on a winding-up, the holder of the Special Share shall be entitled to repayment of the £1 capital paid up on the Special Share in priority to any repayment of capital to any other members.

The holder of the Special Share has the right to require the Company to redeem the Special Share at par or convert the Special Share into one ordinary share at any time.

Restrictions on transfer of securities

The restrictions on the transfer of shares in the Company are as follows:

- the Special Share may only be issued to, held by and transferred to the Special Shareholder or their successor or nominee;
- the directors shall not register any allotment or transfer of any shares to a foreign person, or foreign persons acting in concert, who at the time have more than a 15% voting interest in the Company, or who would, following such allotment or transfer, have such an interest;
- the directors shall not register any person as a holder of any shares unless they have received: (i) a declaration stating that upon registration, the share(s) will not be held by foreign persons or that upon registration the share(s) will be held by a foreign person or persons; (ii) such evidence (if any) as the directors may require of the authority of the signatory of the declaration; and (iii) such evidence or information (if any) as to the matters referred to in the declaration as the directors consider appropriate;
- the directors may also refuse to register any instrument of transfer of shares unless the instrument of transfer is in respect of only one class of share and it is lodged at the place where the register of members is kept, accompanied by a relevant certificate or such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer;
- the directors may refuse to register an allotment or transfer of shares in favour of more than four persons jointly;
- where a shareholder has failed to provide the Company with certain information relating to their interest in shares, the directors can, in certain circumstances, refuse to register a transfer of such shares;
- certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws);
- restrictions may be imposed whereby certain of the Group's employees require the Company's approval to deal in shares; and
- awards of shares made under the Company's Long-Term Incentive Plan 2025, Long-Term Incentive Plan 2014, Deferred Bonus Plan, Share Incentive Plan, International Share Incentive Plan, Group All-Employee Free Shares Plan and International Profit Sharing Scheme are subject to restrictions on the transfer of shares prior to vesting and/or release.

The Company is not aware of any arrangements between its shareholders that may result in restrictions on the transfer of shares and/or voting rights.

Notifiable interests in voting rights

Information provided to the Company by shareholders pursuant to the UK Disclosure Guidance and Transparency Rules (DTRs) are published via a Regulatory Information Service and is available on the Company's website. Up to 31 December 2025, the Company had been advised of the following interests in the voting rights attached to its shares:

Name of investor	Date of disclosure	Percentage of total voting rights notified ¹
BlackRock, Inc.	29 June 2021	9.90%
The Capital Group Companies, Inc.	25 November 2025	10.98%
FMR LLC	23 December 2024	4.96%
Washington Investment Management, LLC	14 November 2025	3.98%

1. The percentage of voting rights detailed above was calculated at the time of the relevant disclosures made in accordance with Rule 5 of the DTRs.

Between 31 December 2025 and 17 February 2026 (being the latest practicable date for inclusion in this report), the Company had not received any additional notifications pursuant to Rule 5 of the DTRs, other than (1) on 23 January 2026 and 26 January 2026, when Silchester International Investors LLP and Invesco Limited, respectively, confirmed that they did not have a notifiable direct or indirect interest in the Company as at 31 December 2025; and (2) on 23 January 2026, when The Capital Group Companies, Inc. confirmed that its notifiable direct and indirect interest in the Company was 11.04 per cent.

Exercise of rights of shares in employee share schemes

The trustees of the employee trusts do not seek to exercise voting rights on shares held in the employee trusts other than on the direction of the underlying beneficiaries. No voting rights are exercised in relation to shares unallocated to individual beneficiaries. The trustees of the employee trusts also waive their entitlement to receive dividends in respect of shares that are the beneficial property of the trusts.

Restrictions on voting deadlines

The notice of any general meeting shall specify the deadline for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be proposed at the general meeting. The number of proxy votes for, against or withheld in respect of each resolution are publicised on the Company's website after the meeting.

Statutory and other regulatory information *continued*

Appointment and replacement of directors

Subject to the nationality requirements outlined under Rights and obligations of the Special Share on page 195 and in the Company's Articles of Association, the Company may by ordinary resolution appoint any person to be a director.

The directors also have the power to make appointments to the Board at any time. Any individual so appointed will hold office until the next AGM and shall then be eligible for election or re-election.

The Company must have not less than six directors holding office at all times. If the number is reduced to below six, then such number of persons shall be appointed as directors as soon as is reasonably practicable to reinstate the number of directors to six. The Company may by ordinary resolution from time to time vary the minimum number of directors.

All directors will stand for election or re-election in 2026 as required by the Company's Articles of Association and in compliance with the Code.

Amendment of the Company's Articles of Association

The Company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders. Where class rights are varied, such amendments must be approved by the members of each class of shares separately.

In addition, certain provisions of the Articles of Association cannot be amended without the consent of the Special Shareholder. These provisions include the requirement that no foreign person, or foreign persons acting in concert, can have more than a 15% voting interest in the Company, the requirement that the majority of the directors are British, and the requirement that the Chief Executive or any executive Chair are British.

Powers of the directors

The directors are responsible for the management of the business of the Company and may exercise all powers of the Company subject to applicable legislation and regulation, and the Articles of Association.

At the 2025 AGM, the directors were given the power to buy back a maximum number of 300,785,866 ordinary shares at a minimum price of 2.5p each. The maximum price was the higher of (i) an amount equal to 105% of the average of the middle market quotations of the Company's ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which such ordinary shares are contracted to be purchased, and (ii) the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange.

This power will expire at the conclusion of the 2026 AGM or, if earlier, at the close of business on 30 June 2026. A special resolution will be proposed at the 2026 AGM to renew the Company's authority to acquire its own shares.

At the 2025 AGM, the directors were given the power to issue new shares up to a nominal amount of £24,814,834. This power will expire at the conclusion of the 2026 AGM or, if earlier, at the close of business on 30 June 2026. Accordingly, a resolution will be proposed at the 2026 AGM to renew the Company's authority to issue further new shares.

Conflicts of interest

As permitted under the Companies Act 2006, the Company's Articles of Association contain provisions which enable the Board to authorise conflicts or potential conflicts that individual directors may have.

To avoid potential conflicts of interest the Board requires the Nominations Committee to check that any individual it nominates for appointment to the Board is free of potential conflicts. In addition, the Board's procedures and the induction programme for new directors emphasise a director's personal responsibility for complying with the duties relating to conflicts of interest. The procedure adopted by the Board for the authorisation of conflicts reminds directors of the need to consider their duties as directors and not grant an authorisation unless they believe, in good faith, that this would be likely to promote the success of the Company. As required by law, the potentially conflicted director cannot vote on an authorisation resolution or be counted in the quorum. Any authorisation granted may be terminated at any time, and the director is informed of the obligation to inform the Company without delay should there be any material change in the nature of the conflict or potential conflict so authorised.

Directors' indemnities

The Company has entered into deeds of indemnity with all of its current directors and those persons who were directors for any part of 2025 which are qualifying indemnity provisions for the purpose of the Companies Act 2006.

The directors of BAE Systems Pension Funds Trustees Limited, BAE Systems 2000 Pension Plan Trustees Limited, BAE Systems Executive Pension Scheme Trustees Limited and Alvis Pension Scheme Trustees Limited benefit from indemnities in the governing documentation of the BAE Systems Pension Scheme, the BAE Systems 2000 Pension Plan, the BAE Systems Executive Pension Scheme and the Alvis Pension Scheme, respectively, which are qualifying indemnity provisions for the purpose of the Companies Act 2006.

All such indemnity provisions are in force as at the date of this Directors' report.

Change of control – significant agreements

The following significant agreements contain provisions entitling the counterparties to exercise termination, alteration or other similar rights in the event of a change of control of the Company:

Group

- The Company, BAE Systems, Inc., BAE Systems (Holdings) Limited and BAE Systems Holdings Inc. entered into a renewed SSA, effective date of 5 January 2023, with the US Department of Defense regarding the management of BAE Systems, Inc. in order to comply with the US Government's national security requirements. In the event of a change of control of the Company, the Agreement may be terminated or altered by the US Department of Defense.
- The Company and BAE Systems Holdings Inc. have entered into a £2bn RCF dated 27 September 2023. The facility provides that, in the event of a change of control of the Company, the lenders are entitled to renegotiate terms, or if no agreement is reached on negotiated terms within a certain period, to call for the repayment or cancellation of the facility. The RCF was undrawn as at 31 December 2025.

Platforms & Services

- In May 2023, BAE Systems Hägglunds AB entered into a contract with Försvarets Materielverk and the Ministry of Defence of the Czech Republic (MoD Czech Republic) for the manufacture of 246 CV90 MkIV infantry fighting vehicles. The contract provides that any change of control of BAE Systems Hägglunds AB (or its direct or indirect holding company) is subject to the MoD Czech Republic's consent.

Air

- The Company has entered into a Restated and Amended Shareholders Agreement with European Aeronautic Defence and Space Company EADS N.V. (EADS) and Finmeccanica S.p.A. (Finmeccanica) relating to MBDA S.A.S. dated 18 December 2001 (as amended). In the event that control of the Company passes to certain specified third-party acquirors, the agreement allows EADS and Finmeccanica to exercise an option to terminate certain executive management level nomination and voting rights, and certain shareholder information rights of the Company in relation to the MBDA joint venture. Following the exercise of this option, the Company would have the right to require the other shareholders to purchase its interest in MBDA at fair market value. The Company and EADS have agreed that, if Finmeccanica acquires a controlling interest in the Company, EADS will increase its shareholding in MBDA to 50% by purchasing the appropriate number of shares in MBDA at fair market value.

- In April 2019, BAE Systems (Operations) Limited, Rolls Royce, MBDA and Leonardo entered into a contract with the UK Ministry of Defence (MoD) for the Tempest Programme to develop and mature future combat air-related technologies and concepts. Since then further contract funding has been awarded. This contract provides that where the MoD has any concerns about the actual or proposed change of control of BAE Systems (Operations) Limited (or its direct or indirect holding company), which may include, but is not limited to, such change of control having an impact on the reputation or public perception of the MOD or national security, then the MoD shall advise the contractor in writing of any concerns it may have and the MoD may terminate the contract.
 - In June 2021, BAE Systems (Operations) Limited entered into a contract with the MoD for the Future Combat Air System Acquisition Programme Concept and Assessment Phase Contract to advance the concepting and technology of the next-generation Combat aircraft. The total value of this contract is currently £2.82bn. This contract provides that where the MoD has any concerns about the actual or proposed change of control of BAE Systems (Operations) Limited (or its direct or indirect holding company), which may include, but is not limited to, potential threats of national security, then the MoD shall advise the contractor in writing of any concerns it may have. The MoD may terminate the contract within six months of it being notified of such actual or proposed change of control.
 - In March 2022, the Hawk Integrated Support contract was entered into between BAE Systems (Operations) Limited and the MoD for the provision of support services to the Royal Air Force's fleet of Hawk fast jet trainer aircraft and the Royal Air Force Aerobatic Team aircraft. Where the MoD has any concerns about the actual or proposed change of control of BAE Systems (Operations) Limited (or its direct or indirect holding company), which may include, but is not limited to, potential threats of national security, then the MoD shall advise the contractor in writing of any concerns it may have. The MoD may terminate the contract within six months of such actual or proposed change of control.
 - In December 2024, BAE Systems (Holdings) Limited entered into a joint venture agreement with Leonardo S.p.A and Japan Aircraft Industrial Enhancement Co. Ltd in connection with GCAP. If there is a change of control of the Company without the consent of the other shareholders, the agreement provides that BAE Systems (Holdings) Limited would lose its voting rights, its information rights and its right to nominate directors to the board of the GCAP joint venture company, in each case, until the change of control is reversed.
 - In October 2025, BAE Systems (Operations) Limited entered into a contract with the UK MoD for the procurement of 20 Typhoon aircraft for the Turkish Ministry of National Defence. This contract provided that where the UK MoD has any concerns about the actual or proposed change of control of BAE Systems (Operations) Limited (or its direct or indirect holding company), which may include, but is not limited to, potential threats of national security, then the MoD shall advise the contractor in writing of any concerns it may have. The MoD may terminate the contract within six months of being notified of such actual or proposed change of control.
- Maritime**
- In December 2011, BAE Systems Marine Limited entered into a contract with the MoD for the design of the Dreadnought submarines. Where the MoD considers that a proposed change of control of BAE Systems Marine Limited (or its direct or indirect holding company) would be contrary to the defence, national interest or national security of the UK, then the change of control shall not take place until agreement is reached with the MoD on how to proceed. In the event that there is a change of control notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the contract with immediate effect.
 - In November 2015, BAE Systems Marine Limited entered into a contract with the MoD for the design, construction, testing and commissioning of Boat 5 of the Astute Class programme. In March 2016, BAE Systems Marine Limited entered into a contract with the MoD for the design, construction, testing and commissioning of Boat 6 of the Astute Class Programme. In March 2018, BAE Systems Marine Limited entered into a contract with the MoD for the design, construction, testing and commissioning of Boat 7 of the Astute Class Programme. Where the MoD considers that a proposed change of control of BAE Systems Marine Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK, then the change of control shall not proceed until agreement is established with the MoD. In the event that there is a change of control notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the agreements immediately.
 - In September 2016, BAE Systems Marine Limited entered into a contract with the MoD for the initial phase of manufacturing activities for the Dreadnought Class programme. This contract was extended and amended in March 2022 to include continuation of manufacturing and associated activities on all four boats in the class. Where the MoD considers that a proposed change of control of BAE Systems Marine Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK, then the change of control shall not proceed until agreement is established with the MoD. In the event that there is a change of control, notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the agreements immediately.
 - In June 2017, BAE Systems Surface Ships Limited entered into a contract with the MoD for the manufacture of the first batch of three Type 26 frigates. This contract was amended and restated in November 2022 to include the manufacture of the second batch of five Type 26 frigates. Where the MoD considers that a proposed change of control of BAE Systems Surface Ships Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK or where the change of control would result in increased costs to the MoD under the contract, then the change of control shall not proceed until agreement with the MoD is established. If there is a change of control without notice or notwithstanding the objection of the MoD on such grounds, then the MoD may terminate the contract with immediate effect.
 - In December 2018, BAE Systems' subsidiary, ASC Shipbuilding Pty Limited, entered into a contract providing the framework for the design and manufacture of Hunter Class frigates for the Royal Australian Navy (Head Contract). As part of the acquisition of ASC Shipbuilding Pty Limited from the Commonwealth of Australia (the Commonwealth), BAE Systems Australia Limited entered into a Sovereign Capability and Option Deed (SCOD). Under the Head Contract and the SCOD, if there is a change of control of ASC Shipbuilding Pty Limited or BAE Systems Australia Limited or, in the case of the Head Contract, there is a change of control of the Company as guarantor, consent is required from the Commonwealth prior to any change of control occurring. If there is a change of control without notice or notwithstanding an objection, the Commonwealth may terminate the Head Contract, take any action to mitigate an actual or potential threat to Australia's national security interests, or exercise its call option under the SCOD and regain ownership of ASC Shipbuilding Pty Limited.

Statutory and other regulatory information *continued*

- In November 2020, BAE Systems Global Combat Systems Munitions Limited and the MoD entered into a 15-year agreement for the provision of ammunition to UK forces (the Next Generation Munitions Solution (NGMS) agreement) from 2023 to 2037. Where the MoD has any concerns regarding a proposed change of control of BAE Systems Global Combat Systems Munitions Limited (or its direct or indirect holding company) and such concerns are not resolved, then if the change of control proceeds, the MoD may terminate the contract.
- In March 2021, BAE Systems Surface Ships Limited and the MoD entered into the FMSP Ships Engineering Management and Delivery agreement for the provision of surface ship engineering management and delivery services relating to HM Naval Base Portsmouth. Where the MoD considers that a proposed change of control of BAE Systems Surface Ships Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK, then the change of control shall not proceed until agreement with the MoD is established. If there is a change of control without notice or notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the agreement.
- In June 2021, BAE Systems Australia Limited entered into a contract providing the framework for the provision of in-service support for the Hawk aircraft until June 2031. If there is a change of control of BAE Systems Australia Limited or BAE Systems plc without consent from the Commonwealth, the Commonwealth may terminate the contract.
- In June 2023, BAE Systems Marine Limited entered into a contract with the MoD for the funding of facilities required for the SSN-AUKUS Class programme. In July 2023, BAE Systems Marine Limited entered into a contract with the MoD for the development of the design of the SSN-AUKUS Class of submarines and long lead item procurement for that programme. In each contract where the MoD considers that a proposed change of control of BAE Systems Marine Limited (or its direct or indirect holding company) would be contrary to the defence, national security or national interest of the UK, then the change of control shall not proceed until agreement is established with the MoD. In the event that there is a change of control notwithstanding the objection of the MoD on such grounds, the MoD shall be entitled to terminate the agreements immediately.
- In December 2024, BAE Systems Australia Submarines Pty Ltd signed a Tasking Statement with the Commonwealth in connection with the SSN-AUKUS Pillar 1 programme. The Tasking Statement is a call-off contract from the Mobilisation Deed framework arrangement that was entered into in November 2024 between the Commonwealth, BAE Systems Australia Submarines Pty Ltd and ASC SSN-AUKUS Pty Ltd. The Tasking Statement will enable the commencement of the development of the SSN-AUKUS Pillar 1 programme foundations. If there is a change of control of BAE Systems plc without the consent of the Commonwealth, then the Commonwealth may either: (i) terminate the Enterprise Collaboration Deed/Mobilisation Deed/Tasking Statement arrangements; or (ii) agree not to terminate subject to BAE Systems Australia Submarines Pty Ltd providing further information, giving specified undertakings or entering into further agreements as may be required by the Commonwealth.

In addition, the Company's share plans contain provisions as a result of which options and awards may vest and become exercisable on a change of control of the Company in accordance with the rules of the plans.

Auditor

Deloitte LLP has indicated its willingness to be re-appointed as the Company's auditor and a resolution proposing its re-appointment will be put to the 2026 AGM.

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report, and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable law, and have elected to prepare the parent company financial statements in accordance with UK accounting standards, including Financial Reporting Standard (FRS) 101, Reduced Disclosure Framework.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company, and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the UK;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006.

The directors are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulation, the directors are also responsible for preparing a strategic report, directors' report, directors' remuneration report and corporate governance statement that comply with that law and regulation.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Controls over financial reporting

Through implementation of the Operational Framework, internal control procedures are in place to support the approval of the financial statements of the Group.

Management is responsible for reviewing the financial reports and disclosures to ensure that they have been subject to adequate verification and comply with applicable standards and legislation (including reviewing data for consolidation into the Group's financial statements to ensure that it gives a true and fair view of the Group's results in compliance with applicable accounting policies).

Responsibility statement of the directors in respect of the Annual Report and financial statements

Each of the directors, whose names and functions can be found on pages 77 to 79 (excluding John Pettigrew), confirms that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the undertakings included in the consolidation taken as a whole; and
- the Strategic report and Directors' report (which together comprise a management report for the purposes of DTR 4.1.8R), taken together, include a fair review of the development and performance of the business, and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, each of the directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

On behalf of the Board

Cressida Hogg
Chair

17 February 2026

Where appropriate, management reports its conclusions to the Audit and Risk Committee, which debates such conclusions and provides further challenge. Finally, the Board scrutinises and approves results announcements and the Annual Report and ensures that appropriate disclosures have been made.

This governance process ensures that both management and the Board are given sufficient opportunity to debate and challenge the financial statements of the Group and other significant disclosures before they are made public.

Statement of disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' report

This Directors' report was approved by the Board of directors of BAE Systems plc on 17 February 2026 and signed on its behalf by:

Anthony Clarke
Company Secretary



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Group accounting policies

Material accounting policies are included within the relevant note to the Consolidated financial statements.

Independent Auditor's report to the members of BAE Systems plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of BAE Systems plc (the "Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2025 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise pages 141 to 214.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Company for the year are disclosed in note 3 to the consolidated financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Our application of materiality

3.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

3.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls.

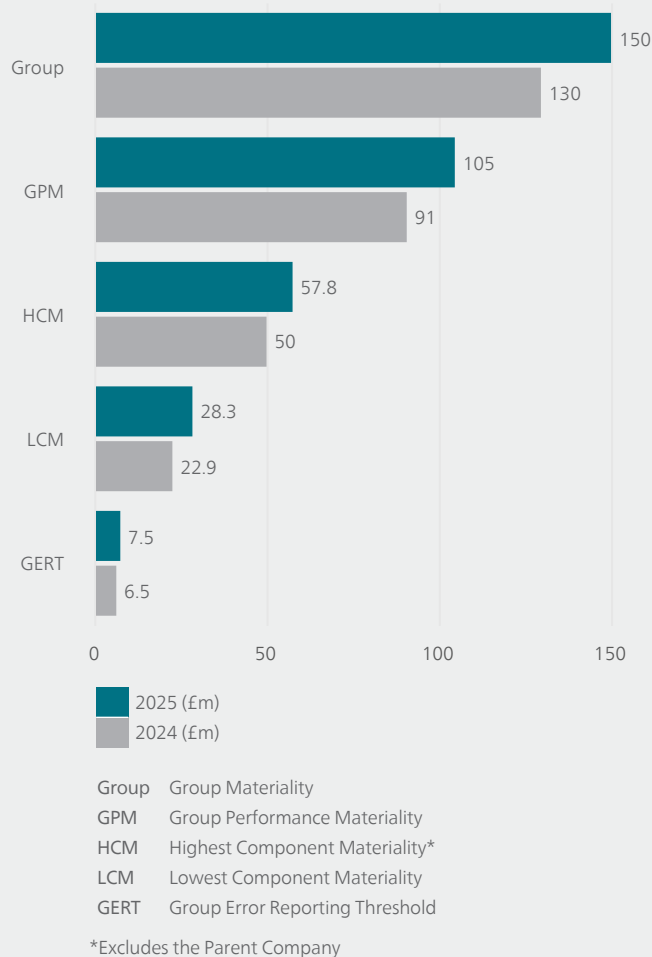
	Group financial statements	Company financial statements
Performance materiality	70% (2024: 70%) of Group materiality	70% (2024: 70%) of Company materiality

3.3. Error reporting threshold

We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £7.5m (2024: £6.5m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

	Group financial statements	Company financial statements
Materiality	£150m (2024: £130m)	£117m (2024: £86m)
Basis for determining materiality	4.7% of underlying EBIT of £3,322m (2024: 4.3% of underlying EBIT of £3,015m).	0.5% of total assets of £22,202m, (2024: 0.4% of total assets of £23,436m).
Rationale for the benchmark applied	We consider underlying EBIT to be of most relevance to users of the financial statements as it is a key financial reporting metric and is reconciled to the financial statements within this Annual Report.	We consider total assets to be the key benchmark in assessing the Company's financial position as its primary purpose is to hold investments.

Materiality levels used in our audit



Independent Auditor's report to the members of BAE Systems plc continued

4. An overview of the scope of our audit

4.1. Identification and scoping of components

We scoped the Group audit by understanding the Group and its environment, including Group-wide controls, and assessing the risk characteristics of significant transactions, account balances, and disclosures. This determined the focus on 25 (2024: 27) components, covering 78% (2024: 81%) of revenue, 84% (2024: 83%) of profit before tax ("PBT") and 86% (2024: 90%) of total assets.



Our calculation of revenue and total asset coverage only includes components where audit procedures are performed over the revenue and asset account balances respectively. For profit before tax, our coverage calculation includes those components where we perform audit procedures over the majority of balances which constitute PBT.

Deloitte member firms in the US, UK, Kingdom of Saudi Arabia, Sweden and Australia performed audit procedures under our supervision, direction and review, leveraging their local regulatory knowledge within a common Deloitte audit approach. For MBDA, an equity-accounted investment, we supervised, directed and reviewed the work of its non-Deloitte auditor. The UK-based Group audit team directly audited the Company, treasury, post-employment benefits, litigation, goodwill and tax.

4.2. Our consideration of the control environment

Our controls approach primarily informed our risk assessment and we tested certain revenue and pension asset valuation controls, as well as relevant general IT controls. We focused on the Group's contract accounting processes, obtaining an understanding of key contract controls (eg, estimating contract costs and recognising revenue) at components where revenue was in scope. We also assessed contract accounting controls for other relevant income statement and balance sheet balances.

The Group operates various IT systems critical to financial reporting, including principal Enterprise Resource Planning systems and ancillary systems. For all components audited, we identified IT systems, relevant to our audit, gained an understanding of general IT controls in place and observed improvements made in response to prior control findings.

We also obtained an understanding of head office controls over central balances and processes, including post-employment benefit obligations, consolidation, treasury, tax and planning and budgeting.

During the audit, we relied on certain contract accounting and pension valuation controls. Where deficiencies were identified or remediation was incomplete, we did not rely on those controls for our audit.

4.3. Our consideration of climate-related risks

Supported by our climate specialists, we have understood the Group's assessment of climate-related risks. We conducted an independent climate risk assessment to evaluate the completeness of identified risks, with component teams considering local regulatory environments for potential environmental claims.

As described in the financial statements (pages 147 and 148), key financial reporting areas impacted include future forecasts and the recoverability of goodwill. We assessed management's climate-related assumptions, their alignment with the Group's Net Zero targets and the adequacy of related disclosures.

We concluded that treating climate change as a factor within goodwill estimates is appropriate given the Group's current risk and assessed financial impact.

4.4. Working with other auditors

Our oversight of component auditors (including MBDA) involved directing their audit planning, understanding their risk assessments and supervising their work. We issued detailed referral instructions, and all teams participated in our annual planning workshop led by the Group audit partner and team.

Supervision included regular communication with component teams to address audit and accounting matters. The lead audit partner or senior team members visited component teams in the UK, US, Australia and Kingdom of Saudi Arabia during the planning and performance stages to supervise and review their work. We also reviewed audit documentation to challenge component reporting and findings and attended closing meetings either in person or virtually.

For BAE Systems, Inc. components in the US and related entities, which are subject to a Department of War Special Security Agreement (SSA) restricting information flow to non-US nationals, we implemented alternative procedures. These included engaging an independent US national partner to assist us with the oversight of the US component audit team.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, are of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified.

These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Revenue and margin recognition on long-term contracts

Key audit matter description

Refer to page 96 (Audit & Risk Committee Report), Note 1 (Preparation of the Consolidated financial statements) and Note 2 (Segmental analysis and revenue recognition).

Revenue: £28,336m (2024: £26,312m)

Operating profit: £2,925m (2024: £2,685m)

Revenue and margin recognition require significant judgement, particularly for contracts with high estimation uncertainty. Key estimates include forecast costs to complete, assumed learning efficiencies over the life of a programme, scheduled completion dates and appropriateness of contingency held against the risk of future cost growth. As such, revenue and margin recognition on long-term contracts is a key audit matter.

To identify high-risk contracts, we conducted a contract risk assessment at each component using data analytics, contract information, prior audit results and external factors such as market and geopolitical conditions. This included meetings with finance and contract managers, attending management's quarterly business reviews, analysing contract documentation and assessing key judgements.

Our assessment identified one programme with a particularly elevated risk of misstatement due to the significant judgement required in estimating the trading margin position, which could impact the 2025 financial statements.

How the scope of our audit responded to the key audit matter

Our contract testing approach included:

Testing the relevant controls

- We tested relevant financial and IT controls across the Group's project accounting processes established to ensure that contracts are appropriately forecast, managed, controlled and reported.
- We observed the controls in operation by attending a sample of project contract status review meetings, quarterly business review meetings and Group-level meetings to assess the levels of challenge applied to the forecasts.

Challenging assumptions and estimates

We focused audit effort on contracts with higher judgement, designing contract-specific procedures to address associated risks. To gain assurance over the contract judgements and estimates made, our work included:

- **Inspection of customer contracts** – Inspecting customer contracts to gain an understanding of key contractual terms;
- **Enquiry** – Making enquiries of programme management and other operational personnel to obtain an understanding of the performance of the projects throughout the year and at year-end;
- **Historical forecasting accuracy** – Evaluating historical forecasting accuracy of costs against actual costs, including on similar programmes, and challenging future cost expectations with reference to those data points;
- **Site visits** – Conducting production site visits to inform our challenge of the cost to complete estimates and understanding of contract status;
- **Tests of detail of costs to date** – Testing a sample of expenditure to date;
- **Tests of detail of estimates to complete** – Testing the underlying calculations used in the contract assessments for sensitivity, accuracy and completeness, including the estimated costs to complete the contract alongside associated contingencies. In auditing the cost to complete, we have challenged the key assumptions with reference to previous programmes and current run-rate data, resource availability, supply chain issues (such as inflation and contract delivery schedule) and other factors that could impact on contract and schedule risk;
- **Inspection and evaluation of external evidence** – Examining external evidence to assess contract status, timeframe for delivery and any variation of consideration (including associated recoverability of contract balances), such as customer correspondence. For certain contracts, this evidence was evaluated by meeting with the customer directly;
- **Legal** – Enquiring with in-house legal counsel regarding contract-related litigation and claims and analysing legal opinions where applicable; and
- **Stand back assessment** – Considering whether there were any indicators of management override of controls.

Key observations

As a result of the audit procedures outlined above, we consider the judgements made by the Group in recognising revenue and margin to be reasonable.

5.2. Changes in Key Audit Matters

Last year, following the acquisition of Ball Aerospace in February 2024, we identified the associated fair value acquisition accounting as a key audit matter. Given that this was a one-off event in the prior year, we no longer consider this a key audit matter.

Independent Auditor's report to the members of BAE Systems plc continued

6. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Group's and Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining an understanding of the directors' process for determining the appropriateness of the going concern basis;
- evaluating the Group's existing access to sources of financing, including existing debt and undrawn committed bank facilities;
- obtaining an understanding of relevant controls over the going concern models prepared by management, including the review of the inputs and assumptions used in those models;
- testing the accuracy of management's models, including agreement to the most recent Board approved budgets and forecasts;
- challenging the key assumptions underpinning these forecasts by:
 - reading analyst reports, industry data and other external information and comparing these with management's estimates;
 - comparing forecast revenue with the Group's order book and historical performance;
 - evaluating the historical accuracy of forecasts prepared by management;
 - considering potential macro-economic impacts on the forecasts as a consequence of the current geo-political environment; and
 - assessing the sensitivity of the headroom to key assumptions; and
- assessing the appropriateness of the Group's disclosure concerning the going concern basis.

Based on the work performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

7. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

8. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

9. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

10. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

10.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement due to irregularities, including fraud and non-compliance with laws and regulations, we considered:

- the Group's industry, control environment, business performance and remuneration policies;
- the Group's own risk assessments of fraud or error;
- enquiries with management, legal counsel, internal audit, directors and the Audit & Risk Committee regarding their identification of risks;
- the Group's policies and procedures for compliance with laws, fraud detection and internal controls, including bribery, corruption and whistleblowing policies; and
- discussions among the audit team, including specialists (eg, tax, valuations, pensions, IT), on potential fraud risks and indicators.

We identified the greatest potential fraud risk in the judgement involved in estimating costs to complete and its impact on revenue and margin recognition for long-term contracts. As required under ISAs (UK), we also addressed the risk of management override.

We obtained an understanding of the legal and regulatory frameworks affecting material amounts and disclosures in the financial statements, focusing on the UK Companies Act, UK Listing Rules, pension and tax legislation. Additionally, we considered other laws critical to the Group's operations, such as export controls, defence contracting and anti-bribery legislation.

10.2. Audit response to risks identified

As a result of performing the above, we identified revenue and margin recognition on long-term contracts as a key audit matter, with the greatest potential for fraud owing to the level of estimation uncertainty and management judgement. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

Additionally, our response to identified risks included:

- reviewing financial statement disclosures and testing supporting documentation for compliance with relevant laws and regulations that have a direct effect on the financial statements;
- enquiring with management, the Audit & Risk Committee and legal counsel about litigation and claims;
- performing analytical procedures to identify unusual or unexpected relationships indicating potential fraud risks;
- reviewing governance meeting minutes, internal audit reports and correspondence with regulatory authorities; and
- addressing the risk of management override by testing journal entries, assessing potential bias in accounting estimates and evaluating the rationale for significant or unusual transactions.

We also communicated relevant laws, regulations and fraud risks to the engagement team, including specialists and component audit teams and remained vigilant for indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

11. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

12. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 73;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 73;
- the directors' statement on fair, balanced and understandable set out on page 133;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 63;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on page 96; and
- the section describing the work of the Audit & Risk Committee set out on page 96.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in this regard.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if, in our opinion, certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in this regard.

14. Other matters which we are required to address

14.1. Auditor tenure

Following the recommendation of the Audit & Risk Committee, we were appointed by the members on 10 May 2018 to audit the financial statements for the year ending 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is eight years covering the years ended 31 December 2018 to 31 December 2025.

14.2. Consistency of the audit report with the additional report to the Audit & Risk Committee

Our audit opinion is consistent with the additional report to the Audit & Risk Committee we are required to provide in accordance with ISAs (UK).

Independent Auditor's report to the members of BAE Systems plc continued

15. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.15R – DTR 4.1.18R, these financial statements will form part of the Electronic Format Annual Financial Report filed on the National Storage Mechanism of the FCA in accordance with DTR 4.1.15R – DTR 4.1.18R. This auditor's report provides no assurance over whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R. We have been engaged to provide assurance on whether the Electronic Format Annual Financial Report has been prepared in compliance with DTR 4.1.15R – DTR 4.1.18R and will publicly report separately to the members on this.

Claire Faulkner
(Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor

London
17 February 2026

Consolidated income statement for the year ended 31 December

	Note	2025		2024	
		£m	Total £m	£m	Total £m
Continuing operations					
Revenue	2		28,336		26,312
Operating costs	3		(25,838)		(24,106)
Other income	5		233		266
Share of results of equity accounted investments	13		194		213
Operating profit	2		2,925		2,685
<i>Finance income</i>			135		135
<i>Finance costs</i>			(488)		(488)
Net finance costs	6		(353)		(353)
Profit before tax			2,572		2,332
Tax expense	7		(421)		(291)
Profit for the year			2,151		2,041
Attributable to:					
Equity shareholders			2,062		1,956
Non-controlling interests			89		85
			2,151		2,041
Earnings per share					
Basic earnings per share	8		68.8p		64.9p
Diluted earnings per share			68.0p		64.1p

Consolidated statement of comprehensive income for the year ended 31 December

	Note	2025			2024		
		Other reserves ¹ £m	Retained earnings £m	Total £m	Other reserves ¹ £m	Retained earnings £m	Total £m
Profit for the year		—	2,151	2,151	—	2,041	2,041
Other comprehensive income							
Items that will not be reclassified to the income statement:							
Consolidated:							
Remeasurements on post-employment benefit schemes	23	—	(7)	(7)	—	414	414
Remeasurements on other investments		—	12	12	—	—	—
Tax on items that will not be reclassified to the income statement	7	—	(28)	(28)	—	(25)	(25)
Share of the other comprehensive (expense)/income of associates and joint ventures accounted for using the equity method (net of tax)	13	—	(3)	(3)	—	15	15
Items that may be reclassified to the income statement:							
Consolidated:							
Currency translation on foreign currency net investments		(608)	—	(608)	4	—	4
Reclassification of cumulative currency translation reserve on divestment of interest in equity accounted investments and other business disposals		21	—	21	3	—	3
Fair value gain/(loss) arising on hedging instruments during the year	16	44	—	44	(36)	—	(36)
Cumulative fair value loss on hedging instruments reclassified to the income statement		11	—	11	69	—	69
Tax on items that may be reclassified to the income statement	7	(6)	—	(6)	(7)	—	(7)
Share of the other comprehensive (expense)/income of associates and joint ventures accounted for using the equity method (net of tax)	13	(6)	—	(6)	4	—	4
Total other comprehensive (expense)/income for the year (net of tax)		(544)	(26)	(570)	37	404	441
Total comprehensive (expense)/income for the year		(544)	2,125	1,581	37	2,445	2,482
Attributable to:							
Equity shareholders		(536)	2,038	1,502	38	2,357	2,395
Non-controlling interests		(8)	87	79	(1)	88	87
		(544)	2,125	1,581	37	2,445	2,482

1. An analysis of other reserves is provided in note 25.

Consolidated statement of changes in equity for the year ended 31 December

	Note	Attributable to equity holders of BAE Systems plc					Non-controlling interests £m	Total equity £m
		Issued share capital £m	Share premium £m	Other reserves ¹ £m	Retained earnings £m	Total £m		
At 1 January 2024		81	1,253	6,403	2,822	10,559	164	10,723
<i>Profit for the year</i>		—	—	—	1,956	1,956	85	2,041
<i>Total other comprehensive income for the year</i>		—	—	38	401	439	2	441
Total comprehensive income for the year		—	—	38	2,357	2,395	87	2,482
Share-based payments (inclusive of tax)	28	—	—	—	145	145	—	145
Cumulative fair value loss on hedging instruments transferred to the balance sheet		—	—	5	—	5	—	5
Ordinary share dividends	25	—	—	—	(937)	(937)	(90)	(1,027)
Purchase of own shares	25	(1)	—	1	(551)	(551)	—	(551)
At 31 December 2024		80	1,253	6,447	3,836	11,616	161	11,777
<i>Profit for the year</i>		—	—	—	2,062	2,062	89	2,151
<i>Total other comprehensive expense for the year</i>		—	—	(536)	(24)	(560)	(10)	(570)
Total comprehensive (expense)/income for the year		—	—	(536)	2,038	1,502	79	1,581
Share-based payments (inclusive of tax)	28	—	—	—	226	226	—	226
Cumulative fair value gain on hedging instruments transferred to the balance sheet		—	—	(31)	—	(31)	—	(31)
Ordinary share dividends	25	—	—	—	(1,027)	(1,027)	(87)	(1,114)
Purchase of own shares	25	(1)	—	1	(502)	(502)	—	(502)
At 31 December 2025		79	1,253	5,881	4,571	11,784	153	11,937

1. An analysis of other reserves is provided in note 25.

Consolidated balance sheet as at 31 December

	Note	2025 £m	2024 £m
Non-current assets			
Goodwill	9	12,732	13,297
Other intangible assets	10	2,513	2,965
Property, plant and equipment	11	5,160	4,843
Right-of-use assets	12	1,638	1,755
Investment property		37	38
Equity accounted investments	13	698	823
Other investments		124	83
Contract receivables	14	117	108
Other receivables	15	859	626
Post-employment benefit surpluses	23	1,250	1,271
Other financial assets	16	232	265
Deferred tax assets	17	172	315
		25,532	26,389
Current assets			
Inventories	18	1,384	1,324
Contract receivables	14	3,834	3,749
Trade and other receivables	15	3,125	2,914
Current tax	19	183	176
Other financial assets	16	183	212
Cash and cash equivalents	20	3,438	3,378
		12,147	11,753
Total assets		37,679	38,142
Non-current liabilities			
Loans	21	(7,190)	(7,713)
Lease liabilities	12	(1,513)	(1,658)
Contract liabilities	14	(1,746)	(1,720)
Other payables	22	(1,921)	(1,859)
Post-employment benefit obligations	23	(406)	(503)
Other financial liabilities	16	(248)	(193)
Deferred tax liabilities	17	(26)	(14)
Provisions	24	(389)	(363)
		(13,439)	(14,023)
Current liabilities			
Loans	21	(95)	(699)
Lease liabilities	12	(253)	(183)
Contract liabilities	14	(4,820)	(4,504)
Trade and other payables	22	(6,686)	(6,383)
Other financial liabilities	16	(173)	(264)
Current tax	19	(44)	(55)
Provisions	24	(232)	(254)
		(12,303)	(12,342)
Total liabilities		(25,742)	(26,365)
Net assets		11,937	11,777
Capital and reserves			
Issued share capital	25	79	80
Share premium		1,253	1,253
Other reserves	25	5,881	6,447
Retained earnings		4,571	3,836
Total equity attributable to equity holders of BAE Systems plc		11,784	11,616
Non-controlling interests		153	161
Total equity		11,937	11,777

Approved by the Board of directors of BAE Systems plc on 17 February 2026 and signed on its behalf by:

C N Woodburn
Chief Executive

B M Greve
Chief Financial Officer

Consolidated cash flow statement for the year ended 31 December

	Note	2025 £m	2024 £m
Profit for the year		2,151	2,041
Tax expense	7	421	291
Adjustment in respect of research and development expenditure credits	5	(59)	(45)
Share of results of equity accounted investments	13	(194)	(213)
Net finance costs	6	353	353
Depreciation, amortisation and impairment	3	1,173	1,097
Net loss on disposal of property, plant and equipment, and investment property	3,5	—	6
Gain in respect of divestment of interests in equity accounted investments and other business disposals	5,32	(12)	(94)
Cost of equity-settled employee share schemes	4	174	144
Movement in provisions		16	24
Difference between pension funding contributions paid and the pension charge		(50)	(249)
(Increase)/decrease in working capital:			
Inventories		(110)	(144)
Trade, contract and other receivables		(723)	(121)
Trade and other payables, and contract liabilities		488	1,010
Tax paid net of research and development expenditure credits received		(196)	(175)
Net cash flow from operating activities		3,432	3,925
Dividends received from equity accounted investments	13	299	158
Interest received		79	130
Principal element of finance lease receipts		6	12
Purchase of property, plant and equipment, and investment property		(920)	(990)
Purchase of intangible assets		(183)	(173)
Purchase of other investments		(2)	—
Proceeds from funding related to assets		122	153
Equity accounted investment funding	13	(1)	—
Proceeds from sale of property, plant and equipment, investment property and intangible assets		25	23
Purchase of subsidiary undertakings, net of cash and cash equivalents acquired	31	(8)	(4,776)
Cash flow in respect of divestment of interests in equity accounted investments and other business disposals	32	42	194
Net cash flow from investing activities		(541)	(5,269)
Interest paid		(512)	(543)
Equity dividends paid	25	(1,027)	(937)
Purchase of own shares	25	(502)	(555)
Dividends paid to non-controlling interests		(86)	(89)
Principal element of lease payments		(187)	(190)
Cash inflow from derivative financial instruments (excluding cash flow hedges)		419	136
Cash outflow from derivative financial instruments (excluding cash flow hedges)		(317)	(266)
Cash inflow from bond finance		—	3,753
Cash outflow from repayment of bond finance		(562)	(626)
Cash inflow from draw-down of bridge loan facility		—	3,180
Cash outflow from repayment of bridge loan facility		—	(3,168)
Net cash flow from financing activities	26	(2,774)	695
Net increase/(decrease) in cash and cash equivalents		117	(649)
Cash and cash equivalents at 1 January		3,378	4,067
Effect of foreign exchange rate changes on cash and cash equivalents		(57)	(40)
Cash and cash equivalents at 31 December	20	3,438	3,378

Notes to the Consolidated financial statements

1. Preparation of the Consolidated financial statements

Basis of preparation

BAE Systems plc (the ultimate parent company) is a public company limited by shares incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The address of the parent company's registered office is shown on page 235.

Following review, the directors have concluded that it is appropriate to adopt the going concern basis for these financial statements and have not identified any material uncertainties concerning the Group's ability to do so in the 12-month period from the date of approving them. Accordingly, the Consolidated financial statements of BAE Systems plc have been prepared on a going concern basis, and in accordance with UK-adopted International Accounting Standards and the Companies Act 2006.

The Consolidated financial statements are presented in pounds sterling and, unless stated otherwise, rounded to the nearest million. They have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative financial instruments).

Transactions in foreign currencies are translated at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date, with the resulting exchange differences recognised in the Consolidated income statement.

Material accounting policies

The material accounting policies applied in the preparation of these Consolidated financial statements are set out in the relevant notes. These policies have been applied consistently to all the years presented, unless otherwise stated. The directors believe that the Consolidated financial statements reflect appropriate judgements and estimates, and provide a true and fair view of the Group's financial performance and position.

Key sources of estimation uncertainty

The application of the Group's accounting policies requires the use of estimates. In response to the potential impact of risks and uncertainties, the Group undertakes risk assessments and scenario planning in order to be able to respond to potential rapid changes in circumstances. The Group considers a range of estimates and assumptions in the application of its accounting policies and management's assessment of the carrying value of assets and liabilities. In the event that these estimates or assumptions prove to be inaccurate, there may be an adjustment to the carrying values of assets and liabilities within the next year. Areas of the Group's financial statements which could be materially impacted may include, but are not limited to:

Accounting policy	Description	Note
Revenue and profit recognition	<p>The Group accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers. For most of the Group's contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired.</p> <p>The ultimate profitability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks which are reliant on the knowledge and experience of the Group's project managers, engineers, and finance and commercial professionals. Material changes in these estimates could affect the profitability of individual contracts. Revenue and cost estimates are reviewed and updated at least quarterly, or more frequently as determined by events or circumstances.</p> <p>The long-term nature of many of the Group's contracts means that judgements are made in estimating future costs on a contract, as well as when risks will be mitigated or retired. The Group continues to work closely and collaboratively with its key customers to deliver effectively on its contracts and commitments. However, the volume, scale, complexity and long-term nature of its programmes mean that potential sensitivities would be wide-ranging and not practicable to calculate. Owing to the potential future impact of current uncertainties, the Group's estimates and assumptions related to revenue recognition could be impacted by issues such as reduced productivity as a result of operational disruption, production delays and increased costs as a result of disruption to the supply chain, changing working practices to move towards our decarbonisation ambitions or, where there is uncertainty as to the recovery from customers, of programme costs incurred.</p> <p>As described in the Group's accounting policy on page 149, revenue and profit is recognised only to the extent that it is highly probable that there will not be a reversal of revenue in the future. Therefore, in any given reporting year, the Group would expect to recognise an amount of revenue that did not meet the highly probable threshold at the end of the previous reporting year, but subsequently became highly probable in the current reporting year. Accordingly, the Group has recognised £0.2bn (2024 £0.2bn) of revenue in respect of performance obligations satisfied or partially satisfied in previous years. This continues to provide an approximation of the potential revenue sensitivity arising as a result of management's estimates and assumptions for variable consideration, future costs, and technical and other risks; however, it may not reflect the full potential impact on the contract receivables and contract liabilities balances.</p>	2

1. Preparation of the Consolidated financial statements continued

Accounting policy	Description	Note
Post-employment benefit obligations	<p>A number of actuarial assumptions are made in assessing the value of post-employment benefit obligations, including the discount rate, inflation rate and mortality assumptions. For each of the actuarial assumptions used, there is a wide range of possible values and management estimates a point within that range that most appropriately reflects the Group's circumstances.</p> <p>If estimates relating to these actuarial assumptions are no longer valid, or change due to changing economic and social conditions, then the potential obligations due under these schemes could change significantly.</p> <p>Discount and inflation rates could change significantly as a result of a prolonged economic downturn, monetary policy decisions and interventions or other macroeconomic issues. Estimates made with regard to mortality projections may also change based on medical and epidemiological developments.</p> <p>Similarly, the values of many assets are subject to estimates and assumptions, in particular those which are held in unquoted pooled investment vehicles. The associated fair value of these unquoted pooled investments is estimated with consideration of the most recently available valuations provided by the investment or fund managers. These valuations inherently incorporate a number of assumptions on the underlying investments. The overall level of estimation uncertainty in valuing these assets could therefore give rise to a material change in valuation within the next 12 months.</p> <p>Furthermore, estimates are required around the Group's ability to access its defined benefit surpluses, and on what basis, which then determines the associated rate of tax to apply. Depending on the outcome, judgement is then required to determine the presentation of any tax payable in recovering a surplus.</p> <p>Note 23 provides information on the key assumptions and analysis of their sensitivities.</p>	23

Critical judgements made in applying accounting policies

In the course of preparing the Consolidated financial statements and when applying its accounting policies, the Group has been required to make judgements with regard to the actions required to enable the business to continue to meet customers' requirements in an operating environment still dominated by global economic uncertainties. No critical judgements have been made in the process of applying the Group's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the Consolidated financial statements.

Impact of climate on the Consolidated financial statements

In preparing the Consolidated financial statements management has considered the potential impact of climate change, both in the context of the disclosures included in the Strategic report, and the impact of climate-related risks and opportunities and the Group's decarbonisation ambitions and activities on the Group's financial results.

As a responsible defence business, sustainability is embedded in our strategic framework, with one of the Group's long-term objectives to advance and integrate our ESG agenda. The products and services we provide are complex, diverse and developed over extended periods of time. Sustainability and the impact of our operations is considered in the planning and ongoing production of our products and services, including incorporation of the impact of the Group's decarbonisation ambitions and activities. These are embedded in our financial reporting, forecasting and governance processes.

Estimates and judgement are required in determining how the Group will pursue its decarbonisation ambitions. These, as well as mitigating actions required from the detailed review of climate risks and opportunities identified within the TCFD disclosures on page 222, have been factored into the current and future plans of the Group through the IBP. The IBP is the Group's annual long-term strategy review and five-year plan for each segment, including the investment case to decarbonise.

There are a number of core practices and processes that support the business to remain resilient and adapt to the impacts of climate change, while controlling the financial impacts to the Group. These include:

- **Maintenance and investment in our infrastructure** – our products are designed and built to remain in service for decades to come, and require development and construction over a significant period of time. In order to deliver complex engineering and technologically advanced products, we continuously invest in the maintenance and upkeep of our global sites and facilities. The Group regularly invests in its facilities to ensure they are maintained and adapted to enable our operations. Regular maintenance and investing in Group infrastructure is embedded in our strategy, and the expected associated costs are reflected in our IBP. Insurance also provides underlying cover for more immediate and unexpected impacts of climate change.
- **Investment in renewable energy** – during the year, the Group has continued to contract for PPAs to invest in renewable energy, providing long-term security of energy and pricing.
- **Proactive estate management** – a large part of our business is based on sites that are leased to the Group, as reflected in our right-of-use assets in the Consolidated financial statements. Although some facilities, such as shipyards, are required to be in certain locations, many of our operations are not tied to a particular location. Given the long-term outlook of our business, future physical impacts of climate change could be mitigated through movement of activities on these sites to facilities that will be less impacted by climate change. As and when sites are identified that would benefit from relocation, the associated costs are reflected within the IBP. We have not currently identified any sites which require relocation due to climate change. We also use opportunities to build new infrastructure and refurbish existing buildings to upgrade energy efficiency.

The more immediate financial impacts of climate-related risks, and the actions being taken to address them, are reflected in the financial results of the Group for the year. These are not considered to have had a material impact. Areas impacted by climate-related risks and opportunities include:

- **Goodwill and other intangible assets** – the annual impairment review uses cash flow projections from the IBP, which incorporates any financial impact of climate-related risks and opportunities identified. This includes product repair and adaptation, as well as investment in facilities to progress the Group's decarbonisation ambitions. All Cash-Generating Units showed sufficient headroom after incorporation of climate-related costs and opportunities.

Notes to the Consolidated financial statements *continued*

1. Preparation of the Consolidated financial statements *continued*

- Property, plant and equipment – the useful economic life of existing capitalised assets across the Group has been reviewed in light of any repairs, upgrades to existing infrastructure, or future investment in facilities that will be required as a result of the climate-related risks and opportunities identified across our sites. No significant impairment of assets has been identified from this review.
- Right-of-use assets, lease liabilities, and financial assets and liabilities – the Group has continued to contract for PPAs during the year to provide more sustainable energy from renewable sources. Once the projects are completed, and where the accounting for these agreements falls within the scope of IFRS 16 Leases, the relevant right-of-use assets and corresponding liabilities will be recognised in the Consolidated financial statements. The associated costs of the arrangement will be recognised in line with the term of the agreement. The Group has also considered whether any embedded derivatives have arisen, within the scope of IFRS 9 Financial Instruments, as a result of the PPAs entered into during the year. None are considered to exist at the balance sheet date; however, this will continue to be monitored as the associated contractual arrangements are refined and the construction of the facilities approaches completion.
- Pension plans – in assessing the value of pension assets for the UK schemes, the Group has considered the impact of climate change in so far as climate risk is considered by respective asset managers and reflected in the cash flow projections used in valuing infrastructure investment assets and pooled investment vehicle assets upon which the Group bases its assessment. There is also alignment between the UK Main Scheme and the Group's climate change objectives with consistent long-term decarbonisation ambitions. This has not materially impacted the Group's net pension position during the year.
- Deferred tax assets – the recoverability of deferred tax assets is dependent on the future availability of profits, which in turn could be impacted by climate-related matters. The recoverability of deferred tax assets has been reviewed against the Group's future forecasts resulting from the IBP process, which incorporate identified climate-related risks and opportunities. No material risk to the recoverability of deferred tax assets has been identified.
- Share-based payments – the award of Performance Shares within the Director's Long-Term Incentive framework has a 10% weighting based on the reduction of Group GHG emissions (Scopes 1 and 2) aligned to a science-based pathway. The ability to meet this target will impact the amount and timing of any share-based payments over the term of the policy. This condition has not materially impacted the financial results of the Group for the current year.

Changes in accounting policies

The following amendments to existing standards became effective on 1 January 2025 and have not had a material impact on the Group:

- Amendments to IAS 21: Lack of Exchangeability, effective from 1 January 2025.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning on 1 January 2025. These either have been, or are expected to be, endorsed by the UK Endorsement Board and are not expected to have a material impact on the Group:

- Amendments to IFRS 9 and IFRS 7: Amendments to the Classification and Measurement of Financial Instruments, effective from 1 January 2026;
- Amendments to IFRS 9 and IFRS 7: Contracts Referencing Nature-dependent Electricity, effective from 1 January 2026;
- Annual Improvements to IFRS Accounting Standards – Volume 11, effective from 1 January 2026; and
- IFRS 19 Subsidiaries without Public Accountability: Disclosures, effective from 1 January 2027.

The following new standard has been endorsed by the UK Endorsement Board and is expected to have a material impact to the presentation of the Consolidated financial statements:

- IFRS 18 Presentation and Disclosure in Financial Statements, effective from 1 January 2027. This is a presentational standard and the Group is working through the impact, with the main changes to the Group expected to be the requirement to disaggregate information reported in the Consolidated income statement and the reporting of Management-defined Performance Measures in the notes to the Consolidated financial statements.

Consolidation

The financial statements of the Group consolidate the results of the Company and its subsidiary entities, and include its share of results of investments accounted for under the equity method.

A subsidiary is an entity controlled by the Group. The Group controls a subsidiary when it is exposed, or has the rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The results of subsidiaries are included in the Consolidated income statement from the date of acquisition, or up until the date of disposal.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated financial statements.

Joint ventures and investments in associated undertakings are accounted for under the equity method and the Consolidated income statement includes the Group's share of their profits and losses, the Consolidated statement of comprehensive income includes its share of their other comprehensive income and expense, and the Consolidated balance sheet includes its share of their net assets within equity accounted investments.

The assets and liabilities of overseas subsidiaries and equity accounted investments are translated at the exchange rates ruling at the balance sheet date. The income statements of such entities are translated at average rates of exchange during the year. All resulting exchange differences are recognised directly in a separate component of equity. Translation differences that arose before the transition date to IFRS (1 January 2004) are presented in equity, but not as a separate component. When a foreign operation is sold, the cumulative exchange differences recognised in equity since 1 January 2004 are recognised in the Consolidated income statement as part of the profit or loss on sale.

2. Segmental analysis and revenue recognition

Revenue and profit recognition

Revenue represents income derived from contracts for the provision of goods and services, over time or at a point in time, by the Group to customers in exchange for consideration in the ordinary course of the Group's activities.

The Group accounts for revenue in accordance with IFRS 15 Revenue from Contracts with Customers. For most of the Group's contracts, revenue and associated margin are recognised progressively over time as costs are incurred, and as risks have been mitigated or retired.

The ultimate profitability of contracts is based on estimates of revenue and costs, including allowances for technical and other risks which are reliant on the knowledge and experience of the Group's project managers, engineers, and finance and commercial professionals. Revenue and cost estimates are reviewed and updated at least quarterly, or more frequently as determined by events and circumstances.

The Group typically enters into the following types of contracts with customers:

- to design, build or create assets uniquely available to the customer such as combat vehicles, ships, submarines, aircraft and spacecraft;
- to service or maintain assets over a period of time;
- to give access to software and licences; and
- to offer bespoke services to customers, for example through training or the offering of cyber, intelligence and security capabilities.

Revenue is recognised against each of these types of contracts in line with the following accounting policies.

Performance obligations

Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

In some cases, the Group provides warranties to its customers to give them assurance that its products and services will function in line with agreed-upon specifications. Warranties are not provided separately and, therefore, do not represent separate performance obligations. As they are not provided separately, they are not considered to be insurance contracts in scope of IFRS 17 Insurance Contracts. A provision for warranties is recognised when the underlying products and services are sold (see note 24 for further details).

Transaction price

At the start of the contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. Variable consideration, such as variable price mechanisms, is included based on the expected value or most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. The total transaction price is allocated to the performance obligations identified in the contract in proportion to their relative stand-alone selling prices. Given the bespoke nature of many of the Group's products and services, which are designed and/or manufactured under contract to the customer's individual specifications, there are typically no observable stand-alone selling prices. Instead, stand-alone selling prices are typically estimated based on expected costs plus contract margin consistent with the Group's pricing principles.

While payment terms vary from contract to contract, on many of the Group's contracts, an element of the transaction price is received in advance of delivery. When cash is received in advance of goods or services being delivered a contract liability is recognised. The Group therefore has significant contract liabilities (note 14). The Group's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price. UK Ministry of Defence contracting rules prohibit the inclusion of financing in the sales price. Negotiations on competitive international export contracts do not make allowance for the cash payment profile.

Revenue and profit recognition

Revenue is recognised as performance obligations are satisfied and control of the goods and services is transferred to the customer.

For each performance obligation within a contract, the Group determines whether it is satisfied over time or at a point in time.

Performance obligations are satisfied over time if one of the following criteria is satisfied:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs;
- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

The Group has determined that most of its contracts satisfy the over-time criteria, either because the customer simultaneously receives and consumes the benefits provided by the Group's performance as it is performed (typically services or support contracts, for example in the case of ongoing maintenance and support of aircraft and flying capability), or the Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date (typically development or production contracts, such as in the production of ships or aircraft to customers' unique specifications).

Notes to the Consolidated financial statements *continued*

2. Segmental analysis and revenue recognition *continued*

For each performance obligation to be recognised over time the Group recognises revenue using an input method, based on costs incurred in the year. Revenue and attributable margin are calculated by reference to reliable estimates of the transaction price and total expected costs, after making suitable allowances for technical and other risks including the impact of global economic uncertainties and climate change. Revenue and associated margin are therefore recognised progressively as costs are incurred and as risks have been mitigated or retired. The Group has determined that this method appropriately depicts the Group's performance in transferring control of the goods and services to the customer.

If the over-time criteria for revenue recognition are not met, revenue is recognised at the point in time that control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

When it is probable that total contract costs will exceed total contract revenue the expected loss is recognised immediately as an expense.

Software licences

The Group sells software licences either separately or together with other goods and services, including computer hardware and implementation, hosting and support. Revenue recognition in respect of software licences sold as part of a bundle of goods and services is considered separately when the licence is determined to be a separate performance obligation. Software licences either represent a right to access the Group's intellectual property as it exists throughout the licence period or a right to use the Group's intellectual property as it exists at the point in time at which the licence is granted. Revenue in respect of a right to access licence is recognised over the licence term or, in relation to perpetual licences, over the related customer relationship. Revenue in respect of a right to use licence is recognised on delivery of the software to the customer or, if the customer chooses not to access and take delivery of the software, on expiry of the licence arrangement. A software licence is considered to be a right to access the Group's intellectual property as it exists throughout the licence period if all of the following criteria are satisfied:

- the contract requires, or the customer reasonably expects, that the Group will undertake activities that significantly affect the intellectual property;
- the licence directly exposes the customer to the effects of those activities; and
- those activities do not result in the transfer of a good or service to the customer.

Contract modifications

The Group's contracts are often amended for changes in customers' requirements and specifications. A contract modification exists when the parties to the contract approve a modification that either changes existing, or creates newly enforceable, rights and obligations. The effect of a contract modification on the transaction price, and the Group's measure of progress towards the satisfaction of the performance obligation to which it relates, is recognised in one of the following ways:

1. prospectively, as an additional, separate contract;
2. prospectively, as a termination of the existing contract and creation of a new contract; or
3. as part of the original contract using a cumulative catch-up.

The majority of the Group's contract modifications are treated under either 1 (for example, the requirement for additional distinct goods or services) or 3 (for example, a change in the specification of the distinct goods or services for a partially completed contract), although the facts and circumstances of any contract modification are considered individually as the types of modifications will vary and may result in different accounting outcomes.

Costs to obtain a contract

The Group expenses pre-contract bidding costs which are incurred regardless of whether a contract is awarded. The Group does not typically incur costs to obtain contracts that it would not have incurred had the contracts not been awarded, such as sales commission.

Costs to fulfil a contract

Contract fulfilment costs in respect of over-time contracts are expensed as incurred. Contract fulfilment costs in respect of point in time contracts are accounted for under IAS 2 Inventories.

Reporting segments

The Group has five sectors which, together with HQ, make up its six reporting segments as defined by IFRS 8 Operating Segments.

- **Electronic Systems** comprises the US- and UK-based electronics solutions business and the US-based SMS business, which have been aggregated together due to the similarities of the services offered. Together the teams deliver electronic warfare systems, navigation systems, electro-optical sensors, military and commercial avionics, precision guided solutions and communications systems, as well as space electronics, spacecraft, and ground and tactical systems.
- **Platforms & Services**, with operations in the US, Sweden and UK, manufactures and upgrades combat vehicles, weapons and munitions, and delivers services and sustainment activities, including naval ship repair, and the management and operation of two government-owned contractor-operated ammunition plants.
- **Air** comprises the Group's UK-based aircraft build and support activities for European and international markets, US programmes, development of our Future Combat Air System and FalconWorks®, alongside our business in the Kingdom of Saudi Arabia and interests in our joint ventures: Edgewing, Eurofighter and MBDA.
- **Maritime** comprises our UK-based maritime and land activities, including ship build and support activities, major submarine build programmes, as well as our Australian business and interest in our RBSL joint venture.

2. Segmental analysis and revenue recognition continued

- Cyber & Intelligence comprises the US-based Intelligence & Security business and UK-headquartered Digital Intelligence business, which have been aggregated together due to the similarities of the services offered. Together, they cover the Group's cyber security activities for national security, central government and government enterprises.
- HQ comprises the Group's head office and UK-based shared services activities.

The Board (the chief operating decision maker as defined by IFRS 8 Operating Segments) monitors the results of these reporting segments to assess performance and make decisions about the allocation of resources. Segmental performance is evaluated based on key performance indicators – sales¹ and underlying EBIT². Net finance costs and tax expense are managed on a Group basis.

Revenue and sales¹ by reporting segment

	Revenue		Deduct: Sales to equity accounted investments		Add back: Share of sales by equity accounted investments		Sales ¹	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Electronic Systems	7,507	7,186	(251)	(258)	272	261	7,528	7,189
Platforms & Services	5,021	4,344	—	—	18	46	5,039	4,390
Air	7,372	6,880	(1,574)	(1,413)	3,501	3,052	9,299	8,519
Maritime	6,579	6,002	(5)	(6)	223	191	6,797	6,187
Cyber & Intelligence	2,397	2,411	—	—	—	—	2,397	2,411
HQ	52	24	—	—	180	179	232	203
	28,928	26,847	(1,830)	(1,677)	4,194	3,729	31,292	28,899
Intra-group revenue/sales	(592)	(535)	(38)	(29)	—	—	(630)	(564)
	28,336	26,312	(1,868)	(1,706)	4,194	3,729	30,662	28,335

	Revenue from external customers		Intra-group revenue	
	2025 £m	2024 £m	2025 £m	2024 £m
Electronic Systems	7,310	6,988	197	198
Platforms & Services	4,948	4,288	73	56
Air	7,318	6,840	54	40
Maritime	6,507	5,915	72	87
Cyber & Intelligence	2,245	2,271	152	140
HQ	8	10	44	14
	28,336	26,312	592	535

Revenue and sales¹ by customer location

	Revenue		Sales ¹	
	2025 £m	2024 £m	2025 £m	2024 £m
UK	7,876	7,039	8,349	7,439
Europe (excluding UK)	2,221	1,733	3,634	2,842
US	13,145	12,559	13,157	12,536
Canada	227	189	227	189
Kingdom of Saudi Arabia	2,838	2,892	2,843	2,962
Qatar	252	259	332	468
Australia	1,287	1,158	1,293	1,170
Asia and Pacific (excluding Australia)	358	354	499	455
Other	132	129	328	274
	28,336	26,312	30,662	28,335

Notes to the Consolidated financial statements *continued***2. Segmental analysis and revenue recognition** *continued***Revenue by major customer**

Revenue from the Group's three principal customers, which individually represent over 10% of total revenue, is as follows:

	2025 £m	Restated ² 2024 £m
US Department of War	9,614	8,831
UK Ministry of Defence	7,126	6,481
Kingdom of Saudi Arabia Ministry of Defense	2,795	2,817

Revenue from the UK Ministry of Defence and the US Department of War was generated by five reporting segments, excluding HQ. Revenue from the Kingdom of Saudi Arabia Ministry of Defense was generated by the Air segment.

Operating profit/(loss) by reporting segment

	Operating profit/(loss)		Finance and tax expense/ (income) of equity accounted investments		Amortisation of programme, customer- related and other intangible assets, and impairment of equity accounted investments and intangible assets		Adjusting items		Underlying EBIT ³	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Electronic Systems	863	708	—	—	337	307	(38)	56	1,162	1,071
Platforms & Services	576	456	—	9	—	—	—	(17)	576	448
Air	1,078	1,009	14	(14)	16	10	—	2	1,108	1,007
Maritime	431	465	4	4	22	5	—	—	457	474
Cyber & Intelligence	182	182	—	—	39	22	2	(5)	223	199
HQ	(205)	(135)	5	10	—	—	(4)	(59)	(204)	(184)
	2,925	2,685	23	9	414	344	(40)	(23)	3,322	3,015
Net finance costs	(353)	(353)								
Profit before tax	2,572	2,332								
Tax expense	(421)	(291)								
Profit for the year	2,151	2,041								

1. Sales is an alternative performance measure defined in the Alternative performance measures section on page 216. Sales includes revenue from the Group's subsidiaries as well as the Group's share of revenue of equity accounted investments, recognising the strategic importance in its industry of its equity accounted investments. It is presented here as our internal measure of segmental performance and to provide additional information on performance to the user.
2. The 2024 revenue by major customer has been restated to reflect revenue from the ultimate customer where contracts are subcontracted through another entity.
3. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 216. It provides a measure of operating profitability, excluding one-off events or adjusting items that are not considered to be part of the ongoing operational transactions of the business, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group. It is presented here as our internal measure of segmental performance and to provide additional information on performance to the user.

2. Segmental analysis and revenue recognition continued

Adjusting items

Adjusting items are items of financial performance which have been determined by management as being material by their size or incidence and not relevant to an understanding of the Group's underlying business performance. Adjusting items include profit or loss on business transactions, the impact of substantively enacted tax rate changes, and costs incurred which are one-off in nature, for example non-routine costs or income relating to post-retirement benefit schemes, and other items which management has determined as not being relevant to an understanding of the Group's underlying business performance.

2025

Adjusting items in 2025 totalled a net gain of £40m. This comprised a net profit of £51m for pension-related gains, largely in relation to a review of US pension arrangements (£58m), and a £12m profit on the disposal of a portion of our remaining shareholding in Air Astana. This was partially offset by £22m of integration-related costs, primarily in relation to SMS, and £1m of costs related to historic transactions.

2024

Adjusting items in 2024 totalled a net gain of £23m. This comprised a net profit on disposal of a number of non-core business of £94m, the most significant being the partial disposal of the Group's partial shareholding in Air Astana which generated a profit of £75m. In addition, we recognised a settlement gain of £13m on a US pension buy-out offset by £72m of acquisition and integration-related costs, primarily in relation to Ball Aerospace, and £12m of other charges related to historic transactions.

Performance obligations

The Group's order book, which represents its unsatisfied performance obligations, as at 31 December 2025 was £63.1bn (2024 £60.4bn).

The Group expects that approximately 38% (2024 35%) of the order book will be recognised as revenue during the next year, with the remainder largely recognised over the following four (2024 four) years.

For each performance obligation to be recognised over time, the Group recognises revenue using an input method, based on costs incurred in the year. Revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks. Revenue and associated margin are therefore recognised progressively as costs are incurred, and as risks have been mitigated or retired. The Group has determined that this method appropriately depicts the Group's performance in transferring control of the goods and services to the customer. Accordingly, revenue of £0.2bn (2024 £0.2bn) was recognised during the year in respect of performance obligations satisfied or partially satisfied in previous years.

Geographical analysis of non-current assets

Asset location	Note	2025 £m	2024 £m
UK		6,295	5,902
Europe (excluding UK)		2,356	2,326
US		13,213	14,316
Kingdom of Saudi Arabia		810	870
Australia		513	467
Asia and Pacific (excluding Australia)		8	8
		23,195	23,889
Other investments		124	83
Contract receivables	14	117	108
Other receivables (excluding prepayments)	15	442	458
Post-employment benefit surpluses	23	1,250	1,271
Other financial assets	16	232	265
Deferred tax assets	17	172	315
Non-current assets		25,532	26,389

Notes to the Consolidated financial statements *continued***3. Operating costs****Research and development**

The Group undertakes research and development activities either on its own behalf or on behalf of customers, including research and development expenditure in relation to the Group's Sustainability Accelerator Fund.

Group-funded expenditure on research, and on development activities not meeting the conditions for capitalisation, is written off as incurred and charged to the Consolidated income statement.

	Note	2025 £m	2024 £m
Inventories recognised as an expense		9,862	9,085
Staff costs	4	9,837	9,252
Depreciation		690	663
Amortisation	10	470	422
Impairment – intangible assets	10	12	6
Impairment – property, plant and equipment	11	4	6
Impairment reversal – investment property		(3)	—
Acquisition and integration-related costs	31	22	72
Loss on disposal of property, plant and equipment, and intangible assets		16	18
Other operating charges		4,928	4,582
Operating costs		25,838	24,106

Research and development expenditure

	2025 £m	2024 £m
Total research and development cost	3,165	2,673
Deduct: Contract-funded research and development	(2,758)	(2,308)
Company-funded research and development expenditure	407	365
Deduct: Capitalised in the year	(14)	(8)
Company-funded research and development expense	393	357
Add back: Amortisation and impairment of capitalised cost	3	2
Research and development included in operating costs	396	359

Fees payable to the Company's auditor and its associates included in operating costs

	2025			2024		
	UK £'000	Overseas £'000	Total £'000	UK £'000	Overseas £'000	Total £'000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	3,149	—	3,149	3,145	—	3,145
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries	5,632	7,177	12,809	5,579	8,578	14,157
Total audit fees	8,781	7,177	15,958	8,724	8,578	17,302
Audit-related assurance services ¹	1,389	102	1,491	1,405	4	1,409
Other non-audit services	1	—	1	1	—	1
Total non-audit fees²	1,390	102	1,492	1,406	4	1,410
Total fees payable to the Company's auditor and its associates	10,171	7,279	17,450	10,130	8,582	18,712

1. Audit-related assurance services principally comprises fees in respect of the review of the Group's Half-yearly report, along with European Single Electronic Format controls, ESG assurance work and extended controls assessment.

2. In addition to the amounts shown above, the auditor received fees of £497k (2024 £500k) for the audit of the BAE Systems UK pension schemes and £345k (2024 £392k) for the audit of BAE Systems US pension schemes.

4. Employees

The average and year-end numbers of Group employees, excluding employees of equity accounted investments, were as follows:

	Average		At year end	
	2025 Number '000	2024 Number '000	2025 Number '000	2024 Number '000
Electronic Systems	22	22	23	22
Platforms & Services	12	12	12	12
Air	22	21	22	21
Maritime	31	28	32	30
Cyber & Intelligence	11	11	11	11
HQ	4	3	4	4
	102	97	104	100

The aggregate staff costs of Group employees, excluding employees of equity accounted investments, were as follows:

	Note	2025 £m	2024 £m
Wages and salaries		8,439	7,999
Social security costs		699	615
Share-based payments	28	174	144
Pension costs - defined contribution plans	23	380	334
Pension costs - defined benefit plans	23	121	133
Other post-employment benefit costs	23	24	27
		9,837	9,252

5. Other income

	Note	2025 £m	2024 £m
Research and development expenditure credits		59	45
Gain on divestment of interests in equity accounted investments and other business disposals	32	12	94
Profit on disposal of investment property		16	12
Management recharges to equity accounted investments	29	3	3
Royalties		27	31
Income related to plan amendments / settlements on pension schemes	23	58	13
Other		58	68
Other Income		233	266

Notes to the Consolidated financial statements *continued***6. Net finance costs****Finance income and finance costs**

Finance income and finance costs are recognised in the Consolidated income statement in the year in which they are incurred.

	Note	2025 £m	2024 £m
Interest income on cash and other financial instruments		80	116
Interest income on finance lease receivables	12	1	1
Net interest income on post-employment benefit obligations	23	54	18
Finance income		135	135
Interest expense on loans and other financial instruments		(425)	(482)
Facility fees		(4)	(4)
Interest expense on lease liabilities	12	(79)	(73)
Net present value expenses on provisions and other payables		(15)	(13)
Gain/(loss) on remeasurement of financial instruments at fair value through profit or loss ^{1,2}		45	(6)
Foreign exchange (losses)/gains ^{2,3}		(10)	90
Finance costs		(488)	(488)
Net finance costs		(353)	(353)

1. Comprises gains and losses on derivative financial instruments, principally held to manage the Group's exposure to interest rate fluctuations on current and anticipated external borrowings and exchange rate fluctuations on balances with the Group's subsidiaries and equity accounted investments.
2. The net gain or loss on remeasurement of financial instruments at fair value through profit or loss and the net gain or loss on foreign exchange are presented within finance costs as the gains and losses relate to the same underlying transactions.
3. Foreign exchange (losses)/gains reflects exchange rate movements on US dollar-denominated borrowings and balances with the Group's subsidiaries and equity accounted investments.

7. Tax expense

Income tax expense comprises current and deferred tax. Current and deferred tax is recognised in the Consolidated income statement, except to the extent that it relates to a business combination or items recognised directly in equity or other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Deferred tax is not recognised for temporary differences:

- on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, except for transactions giving rise to equal taxable and deductible temporary differences, or to temporary differences associated with right-of-use assets and lease liabilities;
- related to investments in subsidiaries and equity accounted investments to the extent that it is probable that they will not reverse in the foreseeable future; and
- arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

The Group's underlying effective tax rate is sensitive to the geographic mix of profits and is impacted by the UK's enactment of the Organisation for Economic Co-operation and Development's Global Anti-Base Erosion Model Rules (Global Minimum Tax) effective from 1 January 2024. The Group has applied the temporary exception issued by the International Accounting Standards Board from the accounting requirements for deferred taxes in IAS 12. Accordingly, the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Global Minimum Tax income taxes.

7. Tax expense continued**Tax expense**

	2025 £m	2024 £m
Current tax		
UK:		
Current year	(188)	(157)
Adjustments in respect of prior years	47	27
	(141)	(130)
Overseas:		
Current year	(191)	(230)
Adjustments in respect of prior years	37	292
	(154)	62
Total current tax	(295)	(68)
Deferred tax		
UK:		
Origination and reversal of temporary differences	(10)	(19)
Adjustments in respect of prior years	(16)	8
	(26)	(11)
Overseas:		
Origination and reversal of temporary differences	(63)	43
Adjustments in respect of prior years	(37)	(255)
	(100)	(212)
Total deferred tax	(126)	(223)
Tax expense	(421)	(291)
UK	(167)	(141)
Overseas	(254)	(150)
Tax expense	(421)	(291)

Reconciliation of tax expense

The following table reconciles the theoretical income tax expense, using the UK corporation tax rate, to the reported tax expense. The reconciling items represent, besides the impact of tax rate differentials and changes, non-taxable benefits or non-deductible expenses arising from differences between the local tax base and the reported financial statements.

	2025 £m	2024 £m
Profit before tax	2,572	2,332
UK corporation tax rate	25.0%	25.0%
Expected income tax expense	(643)	(583)
Effect of tax rates in foreign jurisdictions, including US state taxes	(1)	3
Expenses not tax effected	(16)	(12)
Income not subject to tax	122	162
Research and development tax credits	29	38
Adjustments in respect of prior years	31	72
Adjustments in respect of equity accounted investments	52	55
Other	5	(26)
Tax expense	(421)	(291)

8. Earnings per share

The number of ordinary shares outstanding at the start of the year is calculated by taking the total number of ordinary shares in issue, less treasury shares and shares held in trust which are contingently returnable (i.e. where the performance conditions attached to those shares have not been met, excluding the passage of time). The weighted average number of ordinary shares purchased, issued or released is calculated by reference to the day on which each transaction occurred.

The weighted average number of ordinary shares used in calculating earnings per share is the number of ordinary shares outstanding at the start of the year, less the weighted average number of shares repurchased, plus the weighted average number of shares issued within the year (including those issued from treasury), and those shares held in trust that are no longer contingently returnable (i.e. all performance conditions attached to them are met, excluding the passage of time).

The weighted average number of ordinary shares used in calculating diluted earnings per share is the weighted average number of ordinary shares outstanding, plus the number of ordinary shares which are considered potentially dilutive ordinary shares in respect of share incentive schemes, should the vesting conditions have been met as at the year end.

	Ordinary shares millions	Treasury shares millions	Contingently returnable shares held in trust millions	Outstanding shares for purpose of earnings per share millions	Weighted average share movement in the year millions
Movement in shares for the purpose of calculating earnings per share					
At 1 January 2024	3,239	(204)	(20)	3,015	
Ordinary shares repurchased in the year	(44)	—	—	(44)	(20)
Net shares issued in the year	—	20	5	25	18
At 31 December 2024	3,195	(184)	(15)	2,996	
Ordinary shares repurchased in the year	(29)	—	—	(29)	(15)
Net shares issued in the year	—	19	2	21	16
At 31 December 2025	3,166	(165)	(13)	2,988	
				2025 Number of shares millions	2024 Number of shares millions
Outstanding shares for purpose of earnings per share at 1 January				2,996	3,015
Average ordinary shares repurchased in the year				(15)	(20)
Average ordinary shares issued in the year (net)				16	18
Weighted average shares for the purpose of calculating basic earnings per share at 31 December				2,997	3,013
Incremental ordinary shares in respect of employee share schemes				34	40
Weighted average shares for the purpose of calculating diluted earnings per share at 31 December				3,031	3,053
				2025	2024
Profit for the year attributable to equity shareholders (£m)				2,062	1,956
Basic earnings per share (pence)				68.8	64.9
Diluted earnings per share (pence)				68.0	64.1

Notes to the Consolidated financial statements *continued***9. Goodwill**

Under the acquisition method for business combinations, goodwill is the acquisition-date fair value of the consideration transferred, less the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed. On acquisition of joint ventures and associates, goodwill is included in the carrying value of equity accounted investments. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is not amortised, but is tested annually for impairment, and carried at cost less accumulated impairment losses.

Impairment

Goodwill is tested annually for impairment as required by IAS 36 Impairment of Assets. For the purposes of impairment testing, goodwill is allocated to Cash-Generating Units (CGUs), or a group of CGUs on a consistent basis. The impairment calculations require the use of estimates of the future profitability and cash-generating ability of the CGU to determine its value in use based on the Group's five-year IBP and the pre-tax discount rate used in discounting these projected cash flows.

An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount, which is the greater of its value in use and its fair value less cost of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using an appropriate pre-tax discount rate. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the CGU to which the asset belongs.

Impairment losses are recognised in the Consolidated income statement. An impairment loss in respect of goodwill is not reversed.

	Note	Goodwill £m
Cost or valuation		
At 1 January 2024		16,051
Business acquisitions		1,812
Business disposals		(3)
Foreign exchange adjustments		128
At 31 December 2024		17,988
Business acquisitions	31	22
Foreign exchange adjustments		(740)
At 31 December 2025		17,270
Impairment		
At 1 January 2024		4,665
Foreign exchange adjustments		26
At 31 December 2024		4,691
Foreign exchange adjustments		(153)
At 31 December 2025		4,538
Net book value		
At 31 December 2025		12,732
At 31 December 2024		13,297
At 1 January 2024		11,386

9. Goodwill continued

Impairment testing

The recoverable amount of the Group's goodwill is based on value in use, estimated using risk-adjusted future cash flow projections from the five-year IBP and a terminal value based on the projections for the final year of that plan, with long-term growth rates applied across each significant group of CGUs. The IBP process includes the use of historical experience, available government spending data and the Group's order backlog, as well as the impact of evolving issues such as global economic uncertainty and climate change. Pre-tax discount rates have been used in discounting the projected risk-adjusted cash flows and are adjusted for other factors specific to each CGU, such as the territory and market in which they operate.

Significant CGUs

A summary of the significant CGUs is presented below.

Cash-Generating Unit	Key assumptions	Allocated goodwill		Pre-tax discount rate		Long-term growth rate	
		2025 £bn	2024 £bn	2025 %	2024 %	2025 %	2024 %
Electronic Systems (excluding Space & Mission Systems)	Continued demand from the US Government for electronic warfare systems (where the business has a leadership position), other technology-based solutions and growth in the commercial avionics market.	4.9	5.1	10	9	2.0	2.0
Space & Mission Systems	Continued demand from the US Government, US Intelligence Community and civilian space agencies for capabilities in the design, build and operation of satellites and satellite systems, space electronics and instrument payloads.	1.4	1.5	9	8	3.8	3.8
Platforms & Services	Continued demand in the Group's principal markets for existing and successor military tracked vehicles, naval guns, missile launchers, artillery systems, munitions, upgrade programmes and support, and in the US for complex infrastructure and maritime services.	3.4	3.6	9	9	1.0	1.0
Maritime	Continued demand, primarily from the UK and Australian Governments, for existing and successor programmes for submarines, complex warships and munitions. This includes upgrade and sustainment programmes in these areas as well as in the field of air, electronic systems and wide-area surveillance.	1.4	1.4	11	9	2.0	2.0

The Group has undertaken sensitivity analysis on the key assumptions used in the impairment testing against each group of CGUs to which goodwill is allocated. Applying a reasonably possible change in any of these key assumptions did not cause the CGUs carrying amount to exceed its recoverable amount.

Other CGUs

The remaining goodwill balance of £1.6bn (2024 £1.7bn) is allocated across multiple CGUs. No individual CGU exceeds 10% of the Group's total goodwill balance. The majority of the projected cash flows within these CGUs is primarily underpinned by expected levels of government spending on defence, aerospace and security and the Group's ability to capture a broadly consistent market share.

Notes to the Consolidated financial statements *continued***10. Other intangible assets**

Other intangible assets are carried at cost or valuation, less accumulated amortisation and impairment. The Group has no indefinite-life intangible assets other than goodwill.

Cost or valuation**Software**

Software includes:

- Computer software licences acquired for use within the Group are capitalised as an intangible asset on the basis of the costs incurred to acquire and bring to use the specific software; and
- Software development costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Group-funded expenditure associated with enhancing or maintaining computer software programmes for sale is recognised as an expense as incurred.

Software as a service cloud computing arrangements

Software as a Service (SaaS) solutions are service contracts which provide the Group with the right to access a cloud provider's application software over a contractual period. Typically, such arrangements involve ongoing licence fees to obtain access to the cloud provider's application software, as well as upfront costs incurred to implement the SaaS solution.

Implementation services are only capitalised as intangible assets, in accordance with IAS 38, where:

- The Group has both a contractual right to take possession of the software at any time without significant penalty, and the ability to run the software independently of the host vendor; or
- The costs incurred meet the definition of and recognition criteria for an intangible asset. This includes the development of software code that enhances or creates additional capability to existing systems controlled by the Group.

Where costs associated with the implementation do not meet the criteria above, but the implementation activities are performed by the SaaS vendor or an agent thereof, consideration is given as to whether these activities are distinct from the provision of the solution itself. This assessment considers the nature of the implementation activities and whether benefit can be obtained from any of these in isolation. Where the activity is not considered distinct, the costs are recognised as a prepayment and released over the expected useful life of the solution.

Where the conditions above are not met, costs incurred in relation to implementation activities and the ongoing fees to obtain access to the SaaS solution are recognised as operating expenses when the services are received.

Development costs

Development costs funded by the Group on activities applied to a plan or design for the production of new or substantially improved products are capitalised as an internally generated intangible asset if certain conditions are met. The costs capitalised include materials, direct labour and related overheads.

Programme and customer-related

Intangible assets recognised by the Group include those relating to ongoing programmes within businesses acquired, mainly in respect of customer relationships and order backlog. These assets are initially recognised at their fair value at the acquisition date.

Other

Other intangible assets includes patents, trademarks and licences.

Amortisation

Amortisation on other intangible assets is charged to the Consolidated income statement on a straight-line basis over their estimated useful lives.

For programme-related intangibles, amortisation is set on a programme-by-programme basis over the life of the individual programme. Amortisation for customer-related intangibles is also set on an individual basis.

The estimated useful lives are as follows:

Software	up to 10 years	Programme and customer-related	up to 15 years
Development costs	up to 10 years	Other	up to 20 years

Impairment of intangible assets, property, plant and equipment, right-of-use assets, investment property and equity accounted investments

The carrying amounts of the Group's intangible assets (excluding goodwill), property, plant and equipment, right-of-use assets, investment property and equity accounted investments are reviewed at each balance sheet date to determine whether there is any indication of impairment, as required by IAS 36 Impairment of Assets. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, impairment testing is performed annually. In estimating the asset's recoverable amount, the Group takes into consideration the impact of the Group's net zero ambitions.

Impairment losses are recognised in the Consolidated income statement. An impairment loss in respect of other intangible assets, property, plant and equipment, investment property and equity accounted investments is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised or if there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

10. Other intangible assets continued

	Note	Software £m	Development costs £m	Programme and customer-related £m	Other £m	Total £m
Cost or valuation						
At 1 January 2024		1,021	141	646	133	1,941
Additions:						
Acquired separately		149	—	—	—	149
Internally developed		16	8	—	—	24
Business acquisitions		48	—	2,317	136	2,501
Disposals		(46)	(15)	(24)	(12)	(97)
Foreign exchange adjustments		(2)	2	17	1	18
At 31 December 2024		1,186	136	2,956	258	4,536
Additions:						
Acquired separately		160	—	—	—	160
Internally developed		12	14	—	—	26
Disposals		(12)	—	(11)	(6)	(29)
Transfer from property, plant and equipment	11	3	7	—	—	10
Foreign exchange adjustments		(11)	(7)	(194)	(8)	(220)
At 31 December 2025		1,338	150	2,751	244	4,483
Amortisation and impairment						
At 1 January 2024		702	88	362	76	1,228
Amortisation		86	2	312	22	422
Impairment charge		6	—	—	—	6
Disposals		(46)	(15)	(24)	(12)	(97)
Foreign exchange adjustments		—	2	9	1	12
At 31 December 2024		748	77	659	87	1,571
Amortisation		88	3	347	32	470
Impairment charge		—	—	7	5	12
Disposals		(1)	—	(11)	(6)	(18)
Foreign exchange adjustments		(4)	(5)	(50)	(6)	(65)
At 31 December 2025		831	75	952	112	1,970
Net book value						
At 31 December 2025		507	75	1,799	132	2,513
At 31 December 2024		438	59	2,297	171	2,965
At 1 January 2024		319	53	284	57	713

Capital commitments

At 31 December 2025, capital expenditure of £49m (2024 £43m) in respect of intangible assets was contracted for but not provided for in the Consolidated financial statements.

Notes to the Consolidated financial statements *continued***11. Property, plant and equipment****Cost**

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of demonstration assets is written off as incurred. The reimbursement of the cost of an item of property, plant and equipment by way of a government grant is presented as deferred income and recognised in the Consolidated income statement on a basis consistent with the depreciation of the asset over its estimated useful life.

Assets held for leasing out under operating leases are included in property, plant and equipment at cost less accumulated depreciation and impairment losses.

Depreciation

Depreciation is provided, normally on a straight-line basis, to write off the cost of items of property, plant and equipment over their estimated useful lives to any estimated residual value, using the following rates:

Buildings	up to 50 years, or the lease term if shorter
Plant and machinery:	
Computing equipment and motor vehicles	4 to 5 years
Other equipment	10 to 20 years, or the project life if shorter

No depreciation is provided on freehold land and assets in the course of construction.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date, taking into consideration the impact on the assets' useful economic lives as a result of the Group's sustainability ambitions.

Impairment

The carrying amounts of the Group's property, plant and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment in accordance with the policy shown in note 10.

11. Property, plant and equipment continued

	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January 2024	3,430	4,339	7,769
Additions	386	585	971
Business acquisitions	464	230	694
Disposals	(32)	(99)	(131)
Business disposals	(7)	(24)	(31)
Foreign exchange adjustments	8	25	33
At 31 December 2024	4,249	5,056	9,305
Additions	370	558	928
Disposals	(77)	(114)	(191)
Transfer to other intangibles	—	(10)	(10)
Foreign exchange adjustments	(112)	(166)	(278)
At 31 December 2025	4,430	5,324	9,754
Depreciation and impairment			
At 1 January 2024	1,374	2,760	4,134
Depreciation	158	286	444
Impairment charge	5	1	6
Disposals	(30)	(96)	(126)
Business disposals	(3)	(16)	(19)
Foreign exchange adjustments	5	18	23
At 31 December 2024	1,509	2,953	4,462
Depreciation	171	290	461
Disposals	(75)	(104)	(179)
Impairment charge	—	4	4
Foreign exchange adjustments	(55)	(99)	(154)
At 31 December 2025	1,550	3,044	4,594
Net book value			
At 31 December 2025¹	2,880	2,280	5,160
At 31 December 2024 ¹	2,740	2,103	4,843
At 1 January 2024	2,056	1,579	3,635

1. Includes £1,367m (2024 £1,262m) of assets at Barrow-in-Furness, UK funded by the UK Government.

Assets in the course of construction

Included in the above analysis, the following balances relate to those assets which are still in the course of construction:

	Land and buildings £m	Plant and machinery £m	Total £m
At 31 December 2025	515	622	1,137
At 31 December 2024	579	658	1,237

Capital commitments

At 31 December 2025, capital expenditure of £493m (2024 £539m) in respect of property, plant and equipment was contracted for but not provided for in the Consolidated financial statements.

Assets pledged as security

Within the Land and buildings balance, there are assets with a carrying value of £162m (2024 £160m) which the Group cannot pledge as security for borrowings or sell to another entity.

Notes to the Consolidated financial statements *continued***12. Leases****The Group as lessee**

All leases in which the Group is lessee are recognised as a right-of-use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between repayment of the lease liability and finance cost. The finance cost is charged to the Consolidated income statement over the lease term to produce a constant periodic rate of interest on the lease liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

The lease liability is initially measured as the present value of future lease payments, discounted using the Group's incremental borrowing rate, where the interest rate implicit in the lease is not determinable. The Group's incremental borrowing rate is the interest rate the Group would have to pay to borrow the amount necessary to obtain an asset of similar value, in a similar economic environment with similar terms and conditions.

The right-of-use asset is initially measured at cost, comprising the initial value of the lease liability, any lease payments made (net of any incentives received from the lessor) before the commencement of the lease, any initial direct costs and any restoration costs.

The carrying amounts of the Group's right-of-use assets are reviewed at each balance sheet date to determine whether there is any indication of impairment in accordance with the policy shown in note 10.

Payments in respect of short-term leases, low-value leases and leases of intangible assets are charged to the Consolidated income statement on a straight-line basis over the lease term.

The Group leases land, buildings, vehicles and equipment under non-cancellable lease arrangements. The leases have varying terms, including escalation clauses, renewal rights and purchase options. None of these terms represents unusual arrangements or creates material onerous or beneficial rights or obligations.

Right-of-use assets

	Note	2025			2024		
		Land and buildings £m	Plant and machinery £m	Total £m	Land and buildings £m	Plant and machinery £m	Total £m
Net book value at 1 January		1,720	35	1,755	1,280	31	1,311
Additions		113	24	137	494	21	515
Business acquisitions	31	—	—	—	77	—	77
Disposals		(14)	—	(14)	—	—	—
Lease modifications		71	2	73	53	2	55
Depreciation		(208)	(20)	(228)	(203)	(16)	(219)
Business disposals		—	—	—	(1)	—	(1)
Foreign exchange adjustments		(85)	—	(85)	20	(3)	17
Net book value at 31 December		1,597	41	1,638	1,720	35	1,755

Lease liabilities

A maturity analysis of the future undiscounted lease payments in respect of the Group's lease liabilities is presented in the table below:

	2025 £m	2024 £m
Payments due:		
Within one year	265	260
Between one and five years	868	891
Later than five years	1,324	1,342
Total undiscounted gross payments	2,457	2,493
Deduct: Impact of discounting	(691)	(652)
Lease liabilities	1,766	1,841

The Group is also committed to future undiscounted lease payments of £nil in respect of leases which had not yet commenced at 31 December 2025 (2024 £76m).

The total cash outflow for leases in the year ended 31 December 2025, including short-term leases and low-value leases, amounted to £304m (2024 £295m).

12. Leases continued**Amounts recognised in the Consolidated income statement**

	2025 £m	2024 £m
Included in operating costs:		
Depreciation on right-of-use assets	(228)	(219)
Short-term lease expense	(28)	(25)
Low-value lease expense	(7)	(8)
	(263)	(252)
Included in net finance costs:		
Interest income on finance lease receivables	1	1
Interest expense on lease liabilities	(79)	(73)
	(78)	(72)

13. Equity accounted investments

Equity accounted investments comprise joint ventures and associates. A joint venture is a joint arrangement whereby the parties that have joint control have rights to the net assets of the arrangement. An associate is an entity over which the Group has significant influence but not control or joint control.

The Group recognises its share of the profit or loss and other comprehensive income of equity accounted investments as a separate line in the Consolidated income statement and Consolidated statement of comprehensive income, respectively.

The carrying value of an equity accounted investment comprises the Group's share of net assets and purchased goodwill, and is assessed for impairment as a single asset. The carrying amounts of the Group's equity accounted investments are reviewed at each balance sheet date to determine whether there is any indication of impairment, in accordance with the policy shown in note 10.

Group summary

The Group has two individually material joint ventures which are Eurofighter Jagdflugzeug and MBDA, the carrying values of which are included below. The following table shows a reconciliation of the opening to closing carrying values for both the Group's principal and other joint ventures and associates.

Notes to the Consolidated financial statements *continued*13. Equity accounted investments *continued*

	Principal equity accounted investments £m	Other joint ventures £m	Other associates £m	Total £m
At 1 January 2024	551	185	96	832
<i>Group's share of profit for the year</i>	197	10	6	213
<i>Group's share of remeasurements on post-employment benefit schemes</i>	16	—	—	16
<i>Tax on items that may be reclassified to the income statement</i>	(1)	—	—	(1)
<i>Foreign exchange adjustments</i>	4	(1)	—	3
<i>Amounts recognised in hedging reserve</i>	(1)	2	—	1
Group's share of total comprehensive income for the year	215	11	6	232
Divestment of interest in equity accounted investments	—	(56)	—	(56)
Dividends received from equity accounted investments	(135)	(22)	(1)	(158)
Foreign exchange adjustments	(28)	1	—	(27)
At 31 December 2024	603	119	101	823
<i>Group's share of profit/(loss) for the year</i>	194	43	(18)	219
<i>Impairment of equity accounted investments</i>	—	—	(25)	(25)
<i>Group's share of remeasurements on post-employment benefit schemes</i>	(2)	—	—	(2)
<i>Tax on items that will not be reclassified to the income statement</i>	(1)	—	—	(1)
<i>Foreign exchange adjustments</i>	(4)	—	—	(4)
<i>Amounts recognised in hedging reserve</i>	—	(2)	—	(2)
Group's share of total comprehensive income/(expense) for the year	187	41	(43)	185
Equity accounted investment funding	—	1	—	1
Divestment of interest in equity accounted investments	—	(39)	—	(39)
Dividends received from equity accounted investments	(275)	(29)	—	(304)
Foreign exchange adjustments	31	(1)	2	32
At 31 December 2025	546	92	60	698

Contingent liabilities

The Group is not aware of any material contingent liabilities in respect of its equity accounted investments.

Principal equity accounted investments

Joint venture	Principal activities	Shareholding	Principally operates in
Eurofighter Jagdflugzeug	Management and control of the European Typhoon programme	33.3%	Germany
MBDA	Development and manufacture of missiles and missile systems	37.5%	Europe

The following tables summarise the financial information of the Group's principal equity accounted investments included in their own financial statements, as adjusted for fair value adjustments at acquisition and differences in accounting policies, and reconcile this to the Group's interest in those equity accounted investments.

13. Equity accounted investments continued

	2025		2024	
	Eurofighter Jagdflugzeug £m	MBDA £m	Eurofighter Jagdflugzeug £m	MBDA £m
Revenue (100%)	4,674	4,950	4,187	4,159
Underlying EBIT ¹ excluding depreciation and amortisation	24	740	38	603
Depreciation and amortisation	(4)	(200)	(4)	(149)
Finance income	12	176	10	229
Finance costs	(2)	(6)	(2)	(30)
Tax expense	(7)	(214)	(13)	(156)
Profit for the year (100%)	23	496	29	497
Remeasurements on post-employment benefit schemes, net of tax	—	(6)	—	40
Amounts recognised in hedging reserve, net of tax	—	(2)	—	(2)
Foreign exchange adjustments	—	(10)	—	12
Total comprehensive income for the year (100%)	23	478	29	547
Group's share of total comprehensive income for the year	8	179	10	205
Non-current assets ²	32	3,824	29	3,100
<i>Cash and cash equivalents</i>	49	6,444	27	5,065
<i>Current assets excluding cash and cash equivalents</i>	11,763	6,569	9,892	5,486
Current assets	11,812	13,013	9,919	10,551
<i>Non-current financial liabilities excluding trade and other payables, and provisions</i>	—	(7)	—	(6)
<i>Other non-current liabilities</i>	(47)	(573)	(47)	(66)
Non-current liabilities	(47)	(580)	(47)	(72)
<i>Current financial liabilities excluding trade and other payables, and provisions</i>	(8)	—	(13)	—
<i>Other current liabilities</i>	(11,753)	(14,870)	(9,851)	(12,033)
Current liabilities	(11,761)	(14,870)	(9,864)	(12,033)
Net assets (100%)	36	1,387	37	1,546

1. Underlying EBIT is an alternative performance measure defined in the Alternative performance measures section on page 216.

2. Includes MBDA's share of the net IAS 19 surplus in the Group's defined benefit schemes of £104m (2024 £100m).

	2025			2024		
	Eurofighter Jagdflugzeug £m	MBDA £m	Total £m	Eurofighter Jagdflugzeug £m	MBDA £m	Total £m
Group's share of net assets	12	520	532	12	580	592
Goodwill adjustment	—	14	14	—	11	11
Carrying value	12	534	546	12	591	603

	2025			2024		
	Eurofighter Jagdflugzeug £m	MBDA £m	Total £m	Eurofighter Jagdflugzeug £m	MBDA £m	Total £m
Dividends received	9	266	275	6	129	135

Notes to the Consolidated financial statements *continued***14. Contract receivables and liabilities**

Contract receivables are measured at amortised cost under IFRS 9 Financial Instruments as they are held within a business model to collect contractual cash flows, and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Contract receivables represent amounts for which the Group has an unconditional right to consideration in respect of unbilled revenue recognised at the balance sheet date and comprise costs incurred plus attributable margin.

Contract receivables include a provision for expected credit losses, which is measured at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Group writes off a receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation.

Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

	2025 £m	2024 £m
Non-current		
Contract receivables	117	108
Contract liabilities	(1,746)	(1,720)
Current		
Contract receivables	3,834	3,749
Contract liabilities	(4,820)	(4,504)

Contract receivables are stated net of a provision for expected credit losses. Disclosures relating to provision for expected credit losses are provided in note 16.

Revenue recognised in the year includes £4,002m (2024 £4,105m) that was included in the opening contract liabilities balance.

Non-current and current contract liabilities as at 1 January 2024 were £1,955m and £3,865m, respectively.

15. Trade and other receivables

Trade receivables are measured at amortised cost under IFRS 9 Financial Instruments as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Trade receivables, amounts owed by equity accounted investments and finance lease receivables include a provision for expected credit losses. The Group measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Group writes off a receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation.

US deferred compensation plan assets are measured at fair value in accordance with IAS 19 Employee Benefits.

	Note	2025 £m	2024 £m
Non-current			
Prepayments		417	168
US deferred compensation plan assets		372	367
Finance lease receivables		16	18
Other receivables		54	73
		859	626
Current			
Trade receivables		1,563	1,357
Amounts owed by equity accounted investments	29	95	52
Prepayments		924	1,005
Accrued income		42	27
US deferred compensation plan assets		51	50
Finance lease receivables		8	6
Other receivables		442	417
		3,125	2,914

Trade receivables are stated net of a provision for expected credit losses. Disclosures relating to the ageing of trade receivables and movements in the provision for expected credit losses are provided in note 16.

Notes to the Consolidated financial statements *continued***16. Other financial assets and liabilities and financial risk management****Derivative financial instruments and hedging activities**

The international nature of the Group's business means it is exposed to volatility in currency exchange rates. In order to protect itself against currency fluctuations, the Group's policy is to hedge all material firm transactional exposures.

The Group uses interest rate derivative instruments to manage the Group's exposure to interest rate fluctuations on its borrowings and deposits by varying the proportion of fixed-rate debt relative to floating-rate debt over the forward time horizon.

The Group uses foreign exchange derivative instruments to manage the Group's exposure to currency fluctuations on its borrowings and deposits with the Group's subsidiaries and equity accounted investments.

In accordance with its Treasury policy, the Group does not hold derivative financial instruments for trading purposes.

The Group aims to achieve hedge accounting treatment for all derivatives that hedge material foreign currency exposures.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, such instruments are stated at fair value at the balance sheet date. The fair values are estimated by discounting expected future cash flows based on reputable third-party forecast data, and then adjusting for credit risk, including the Group's own credit risk, and market risk.

Fair value through profit or loss

Gains and losses on derivative financial instruments that are not designated as cash flow hedges are recognised within net finance costs in the Consolidated income statement for the year.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows relating to a highly-probable forecast transaction (income or expense) or recognised asset or liability, the effective portion of any change in the fair value of the instrument is recognised in other comprehensive income and presented in the hedging reserve in equity. Amounts recognised in equity are removed from the hedging reserve and included in the cost of the underlying transaction or reclassified to the Consolidated income statement when the underlying transaction affects profit or loss. These amounts are presented within the same line item in the Consolidated income statement as the underlying transaction, typically revenue or operating costs. The ineffective portion of any change in the fair value of the instrument is recognised in the Consolidated income statement within net finance costs immediately. The Group treats the foreign currency basis element of the designated foreign exchange derivative hedging instruments as a cost of hedging, and as such it is excluded from the hedge designation. Any hedges entered into on behalf of equity accounted investments (note 29) are classified as cash flow hedges.

	2025		2024	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Non-current				
Cash flow hedges – foreign exchange contracts	125	(170)	152	(169)
Debt-related derivative financial instruments	80	(77)	110	(21)
Other foreign exchange/interest rate contracts	27	(1)	3	(3)
	232	(248)	265	(193)
Current				
Cash flow hedges – foreign exchange contracts	152	(143)	163	(225)
Other foreign exchange/interest rate contracts	31	(30)	49	(39)
	183	(173)	212	(264)

Debt-related derivative financial instruments

The debt-related derivative financial instruments represent the fair value of cross-currency and foreign exchange derivatives relating to the US\$500m 7.5% bond, repayable 2027 and the US\$1,300m 3.4% bond, repayable 2030 (see note 21).

16. Other financial assets and liabilities and financial risk management continued

Interest rate risk

The Group's objective is to manage its exposure to interest rate fluctuations on borrowings through varying the proportion of fixed-rate debt relative to floating-rate debt with derivative instruments, including interest rate and cross-currency swaps.

The Group's interest rate management policy is that a minimum of 50% (2024 50%) and a maximum of 90% (2024 90%) of borrowings are maintained at fixed interest rates. At 31 December 2025, the Group had 85% (2024 86%) of fixed-rate debt and 15% (2024 14%) of floating-rate debt based on a gross debt of £7.3bn (2024 £8.3bn), including debt-related derivative financial assets.

Based on contracted maturities and/or repricing dates, the following amounts are exposed to interest rate risk over the future as shown below:

	2025			2024		
	Within one year £m	Between one and two years £m	Later than two years £m	Within one year £m	Between one and two years £m	Later than two years £m
Cash and cash equivalents	3,438	—	—	3,378	—	—
Interest rate swaps	(1,115)	(1,119)	(1,121)	(1,197)	(1,197)	(1,197)

The floating-rate debt has been predominantly achieved by entering into interest rate swaps which swap the fixed-rate US dollar interest payable on debt into a floating rate. At the end of 2025, the Group had a total of \$1.5bn (2024 \$1.5bn) of this type of swap outstanding with a weighted average duration of 2.2 years (2024 3.2 years). In December 2025, the Group transacted £600m of interest rate swaps to receive a fixed rate of 3.6% and to pay the floating sterling benchmark rate, SONIA. These swaps have an effective date of March 2027 and a maturity date of September 2030.

In respect of the Group's fixed-rate debt, the weighted average period in respect of which interest is fixed was 11.4 years (2024 11.6 years). Given the level of short-term interest rates during the year, the average cost of the floating-rate debt was 4.9% (2024 6.0%) on US dollars. The cost of the fixed-rate debt was 4.4% (2024 4.3%).

Sensitivity analysis

A change of 100 basis points in short-term rates applied to the average fixed/floating mix, and level of borrowings would vary the interest cost to the Group by approximately £11m (2024 £12m).

In respect of cash deposits, given the fluctuation in the Group's working capital requirements, cash is generally invested for short-term periods based at floating-interest rates. A change of 100 basis points in the average interest rates during the year applied to the average cash deposits would vary the interest receivable by approximately £20m (2024 £23m). Should interest rates fluctuate by a different rate to those disclosed, the impact can be linearly interpolated.

Notes to the Consolidated financial statements *continued***16. Other financial assets and liabilities and financial risk management** *continued***Liquidity risk****Contractual cash outflows on financial liabilities**

The contracted cash outflows on loans, derivative financial instruments and other financial instruments at the reporting date are shown below, classified by maturity. The cash outflows are shown on a gross basis, are not discounted, are translated at the spot rate and include estimated interest payments where applicable. Contracted cash outflows reflect the gross cash outflow on derivative financial instruments and exclude the broadly offsetting cash inflows for the receive leg of derivatives that are settled separately to the pay leg.

	2025					2024				
	Carrying amount £m	Contracted cash outflow			Total £m	Carrying amount £m	Contracted cash outflow			Total £m
		Within one year £m	Between one and five years £m	Later than five years £m			Within one year £m	Between one and five years £m	Later than five years £m	
Cash outflows without directly offsetting inflows										
Accruals ¹	(1,786)	(1,761)	(25)	—	(1,786)	(1,713)	(1,684)	(29)	—	(1,713)
Trade and other payables ²	(3,714)	(3,651)	(63)	—	(3,714)	(3,440)	(3,351)	(89)	—	(3,440)
Lease liabilities	(1,766)	(265)	(868)	(1,324)	(2,457)	(1,841)	(260)	(891)	(1,342)	(2,493)
Loans	(7,285)	(332)	(3,914)	(6,342)	(10,588)	(8,412)	(977)	(3,295)	(8,071)	(12,343)
		(14,551)				(15,406)				
Cash outflows with largely offsetting inflows³										
Cash flow hedges – financial assets	277	(7,119)	(4,776)	(1,226)	(13,121)	315	(5,199)	(4,932)	(1,465)	(11,596)
Cash flow hedges – financial liabilities	(313)	(8,931)	(5,437)	(1,260)	(15,628)	(394)	(7,154)	(6,026)	(1,310)	(14,490)
Debt-related derivatives – financial assets	80	(23)	(360)	—	(383)	110	(23)	(347)	(36)	(406)
Debt-related derivatives – financial liabilities	(77)	(35)	(1,123)	—	(1,158)	(21)	(35)	(141)	(1,018)	(1,194)
Other foreign exchange/interest rate contracts – financial assets	58	(2,078)	(205)	(93)	(2,376)	52	(2,977)	—	—	(2,977)
Other foreign exchange/interest rate contracts – financial liabilities	(31)	(2,795)	(77)	—	(2,872)	(42)	(2,045)	(327)	—	(2,372)
	(6)					20				
		(14,557)				(15,386)				

1. Accruals presented in the table excludes £1,070m (2024 £1,082m) of accruals which are non-financial liabilities.

2. Trade and other payables excludes other taxes and social security costs, deferred income and US deferred compensation plan liabilities (see note 22) on the basis that these are non-financial liabilities.

3. Cash outflows in relation to derivatives presented in this table do not include the cash inflows which would be received when closing out the trades. These cash inflows are expected to largely offset all outflows presented within this table.

Borrowing facilities

The Group's objective is to maintain adequate undrawn committed borrowing facilities.

At 31 December 2025, the Group had a committed Revolving Credit Facility (RCF) of £2bn (2024 £2bn). In September 2025 the Group exercised the remaining one-year extension option, taking the maturity of the facility to 2030. The RCF was undrawn throughout the year.

16. Other financial assets and liabilities and financial risk management continued

Currency risk

The Group's objective is to reduce its exposure to transactional volatility in earnings and cash flows from movements in foreign currency exchange rates, mainly the US dollar, euro, Saudi riyal and Australian dollar.

The Group is exposed to movements in foreign currency exchange rates in respect of foreign currency-denominated transactions. All material firm transactional exposures are hedged using foreign exchange forward contracts and the Group aims, where possible, to apply cash flow hedge accounting to these transactions.

The currency and notional amount of the designated hedging instruments match the currency and principal amounts of the forecast transactions being hedged; therefore, the hedging instruments and hedged items have values which will generally move in opposite directions because of the same hedged risk. As the critical terms of the hedging instruments match those of the hedged items, an economic relationship can be demonstrated on an ongoing basis.

The hedge ratio is 1:1 on the basis that the notional amount of the designated hedging instruments matches the principal amount of the forecast foreign currency sales/purchases designated as the hedged items. The Group does not designate groups of items with offsetting risk positions as hedged items.

The Group considers the potential sources of hedge ineffectiveness to be:

- valuation adjustments for credit risk made to derivative hedging instruments at each hedge effectiveness measurement date;
- changes to the timing and amount of forecast transactions; and
- non-occurrence of the designated hedged items.

Foreign currency basis is excluded from the currency hedge designation and was highly immaterial.

The Group enters into derivative contracts with varying maturities up to 2035. The following table presents the sterling nominal amounts of the foreign currency contracts used to hedge foreign currency risk, split by maturity profile, along with the exchange rate:

(Purchase)/sale contracts	Maturity date	2025				2024			
		Currency purchased		Currency sold		Currency purchased		Currency sold	
		Weighted average hedged rate	Notional value of currency purchased £m	Weighted average hedged rate	Notional value of currency sold £m	Weighted average hedged rate	Notional value of currency purchased £m	Weighted average hedged rate	Notional value of currency sold £m
Sterling/US dollar	Within one year	1.31	(2,187)	1.30	2,426	1.27	(2,015)	1.28	2,627
	Between one and five years	1.28	(800)	1.27	1,038	1.27	(1,304)	1.26	1,728
	Later than five years	1.28	(25)	1.28	28	1.30	(10)	1.30	10
Sterling/euro	Within one year	1.13	(3,930)	1.13	3,512	1.15	(2,944)	1.15	2,550
	Between one and five years	1.10	(3,357)	1.10	3,122	1.11	(3,207)	1.11	3,165
	Later than five years	1.06	(1,224)	1.06	1,282	1.06	(1,455)	1.06	1,449
Other	Within one year	n/a	(4,054)	n/a	4,049	n/a	(2,243)	n/a	2,222
	Between one and five years	n/a	(2,072)	n/a	2,018	n/a	(1,814)	n/a	1,815
	Later than five years	n/a	(28)	n/a	27	n/a	(27)	n/a	25
Cash flow hedges			(17,677)		17,502		(15,019)		15,591

The effect of cash flow hedges on the Group's financial position and performance for the year is as follows:

(Purchase)/sale contracts	2025				2024			
	Change in the value of hedging instruments since 1 January	Change in the value of hedged items since 1 January	Notional amount	Carrying amount	Change in the value of hedging instruments since 1 January	Change in the value of hedged items since 1 January	Notional amount	Carrying amount
	£m	£m	£m	£m	£m	£m	£m	£m
Sterling/US dollar	62	(62)	480	32	(24)	24	1,036	(28)
Sterling/euro	13	(13)	(595)	(2)	(15)	15	(442)	(17)
Other	(31)	31	(60)	(66)	3	(3)	(22)	(34)
Cash flow hedges	44	(44)	(175)	(36)	(36)	36	572	(79)

Notes to the Consolidated financial statements *continued***16. Other financial assets and liabilities and financial risk management** *continued***Currency risk** *continued***Sensitivity analysis**

The Group is exposed to movements in foreign currency exchange rates in respect of the translation of net assets and income statements of foreign subsidiaries and equity accounted investments. The Group does not hedge the translation effect of exchange rate movements on the income statements or balance sheets of foreign subsidiaries and equity accounted investments it regards as long-term investments.

The estimated impact on foreign exchange gains and losses in net finance costs of a ten cent movement in the closing sterling to US dollar exchange rate on the retranslation of US dollar-denominated bonds held by BAE Systems plc is approximately £473m (2024 £545m).

The Group enters into cash flow hedges in order to manage all material firm transactional exposures. The estimated impact on fair value gains and losses in other reserves of a ten cent movement in the closing sterling to US dollar exchange rates on the transactional cash flow hedges is approximately £33m (2024 £85m). The estimated impact of a ten cent movement in the closing sterling to euro exchange rate on the transactional cash flow hedges is approximately £52m (2024 £35m).

Credit risk

For trade receivables, contract receivables, amounts due from equity accounted investments and finance lease receivables, the Group measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

The Group's assessment is that credit risk in relation to defence-related sales to government customers or subcontractors to governments is extremely low as the probability of default is insignificant; therefore, the provision for expected credit losses is immaterial in respect of receivables from these customers. For all non-government commercial customers, the Group assesses expected credit losses, including risk arising from global economic uncertainty; however, this is not considered material to the financial statements. The Group considers that default has occurred when a receivable is past 180 days overdue, unless there is evidence of recoverability, because historical experience indicates that these receivables are generally not recoverable. The Group recognises a provision of 100% against all receivables over 180 days past due unless there is evidence that individual receivables in this category are recoverable.

The carrying amount of the Group's financial assets represents the maximum exposure to credit risk.

Movements on the provision for expected credit losses for trade receivables are as follows:

	2025 £m	2024 £m
At 1 January	19	20
Business acquisitions	—	1
Net remeasurement of loss allowance	1	3
Amounts written off	(3)	(5)
At 31 December	17	19

For contract receivables, amounts due from equity accounted investments and finance lease receivables the expected credit loss provision is immaterial as the probability of default is considered insignificant.

The Group writes off a receivable when there is evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery, for example, when a debtor enters bankruptcy or financial reorganisation. The ageing of trade receivables is detailed below:

	2025			2024		
	Gross £m	Provision £m	Net £m	Gross £m	Provision £m	Net £m
Not past due	1,033	—	1,033	895	—	895
Up to 180 days overdue	499	(3)	496	438	(3)	435
Past 180 days overdue	48	(14)	34	43	(16)	27
	1,580	(17)	1,563	1,376	(19)	1,357

Cash management

Cash flow forecasting is performed by the businesses on a monthly basis. The Group monitors a rolling forecast of its liquidity requirements to ensure that there is sufficient cash to meet operational needs and maintain adequate headroom.

Surplus cash held by the businesses over and above balances required for working capital management is loaned to the Group's centralised treasury department. Surplus cash is invested in instant-access current accounts, short-term deposits and money market funds, choosing instruments with appropriate maturities or sufficient liquidity to provide adequate headroom as determined by cash flow forecasts.

The Group's objective is to monitor and control counterparty credit risk and credit limit utilisation. The Group adopts a conservative approach to the investment of its surplus cash which is deposited for short periods with financial institutions with investment-grade (BBB- and above) credit ratings. The cash and cash equivalents balance at 31 December 2025 of £3,438m (2024 £3,378m) was invested with 38 (2024 40) financial institutions. A credit limit is allocated to each institution taking account of its market capitalisation, credit rating and credit default swap price. The cash and cash equivalents of the Group are invested in non-speculative financial instruments which are usually highly liquid, such as short-term deposits. Therefore, the Group believes it has reduced its exposure to counterparty credit risk through this process.

16. Other financial assets and liabilities and financial risk management continued

Credit risk continued

The cash and cash equivalents balance is subject to review for impairment under IFRS 9 and, due to the high credit ratings of the counterparties set out below, no impairment has been recognised within the year:

Counterparty credit rating at 31 December	2025	2024
AAA to AA-	64%	62%
A+ to A-	35%	37%
BBB+ to BBB-	1%	1%

Offsetting financial assets and liabilities

Financial assets and liabilities are offset, and the net amount reported in the balance sheet, when there is a legally enforceable right to offset the recognised amounts. The following table sets out the Group's financial assets and financial liabilities which are subject to a master netting agreement. The master netting agreements regulate settlement amounts in the event a party defaults on their obligations.

	2025			2024		
	Balance sheet £m	Amounts not offset £m	Net balance £m	Balance sheet £m	Amounts not offset £m	Net balance £m
Assets						
Other financial assets	415	(339)	76	477	(363)	114
Liabilities						
Other financial liabilities	(421)	339	(82)	(457)	363	(94)

17. Deferred tax

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets/(liabilities)

	Deferred tax assets		Deferred tax liabilities		Net balance at 31 December	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Property, plant and equipment	12	13	(233)	(163)	(221)	(150)
Other intangible assets	78	66	(48)	(56)	30	10
Capitalised research and development	286	350	—	—	286	350
Provisions and accruals	252	256	—	—	252	256
Goodwill	—	—	(413)	(399)	(413)	(399)
Pension/post-employment schemes:						
Deficits	28	39	(11)	—	17	39
US deferred compensation plans	103	115	—	—	103	115
Share-based payments	107	86	—	—	107	86
Financial instruments	7	16	—	(3)	7	13
Other items, including tax losses carried forward	14	30	(36)	(49)	(22)	(19)
Deferred tax assets/(liabilities)	887	971	(741)	(670)	146	301
Set off of tax	(715)	(656)	715	656	—	—
Net deferred tax assets/(liabilities)	172	315	(26)	(14)	146	301

Notes to the Consolidated financial statements *continued***17. Deferred tax** *continued***Movement in temporary differences during the year**

	At 1 January 2025 £m	Foreign exchange adjustments £m	Acquisitions and disposals £m	Recognised in income £m	Recognised in equity £m	At 31 December 2025 £m
Property, plant and equipment	(150)	9	—	(80)	—	(221)
Other intangible assets	10	(5)	(2)	27	—	30
Capitalised research and development	350	(22)	—	(42)	—	286
Provisions and accruals	256	(15)	—	11	—	252
Goodwill	(399)	28	—	(42)	—	(413)
Pension/post-employment schemes:						
Deficits	39	—	—	6	(28)	17
US deferred compensation plans	115	(8)	—	(4)	—	103
Share-based payments	86	—	—	—	21	107
Financial instruments	13	—	—	—	(6)	7
Other items, including tax losses carried forward	(19)	(1)	—	(2)	—	(22)
	301	(14)	(2)	(126)	(13)	146

	At 1 January 2024 £m	Foreign exchange adjustments £m	Acquisitions and disposals £m	Recognised in income £m	Recognised in equity £m	At 31 December 2024 £m
Property, plant and equipment	(101)	(3)	—	(46)	—	(150)
Other intangible assets	39	—	(57)	28	—	10
Capitalised research and development	458	6	—	(114)	—	350
Provisions and accruals	229	3	—	24	—	256
Goodwill	(352)	(7)	—	(40)	—	(399)
Pension/post-employment schemes:						
Deficits	80	—	—	(5)	(36)	39
US deferred compensation plans	106	2	—	7	—	115
Share-based payments	94	—	—	23	(31)	86
Financial instruments	20	—	—	—	(7)	13
Other items, including tax losses carried forward	26	(3)	58	(100)	—	(19)
	599	(2)	1	(223)	(74)	301

Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following items:

	2025		2024	
	Gross amount £m	Unrecognised deferred tax asset £m	Gross amount £m	Unrecognised deferred tax asset £m
Deductible temporary differences, including tax credits	3	3	2	2
Tax losses carried forward	693	119	502	114
	696	122	504	116

These assets have not been recognised as the incidence of future profits in the relevant countries and legal entities cannot be accurately predicted at this time.

The Group has not recognised any deferred tax liability on temporary differences totalling £56m (2024 £158m) relating to potentially taxable unremitted earnings of overseas subsidiaries and equity accounted investments because the Group is in a position to control the timing of the reversal of the temporary differences and none are expected to reverse in the foreseeable future.

Both the recognised and unrecognised UK deferred tax balances at 31 December 2025 have been calculated at 25% (2024 25%), which reflects the rate at which they are expected to unwind.

18. Inventories

Inventories are stated at the lower of cost, including all relevant overhead expenditure, and net realisable value. Inventory cost is valued using the most appropriate method based on the business use of inventory. In the majority of cases this is moving average unit cost, with some businesses using standard cost or first in first out (FIFO) as methods more indicative of their use of inventory.

	2025 £m	2024 £m
Raw materials and consumables	748	746
Work-in-progress	554	471
Finished goods and goods for resale	82	107
	1,384	1,324

The Group recognised £32m (2024 £23m) as a write down of inventories to net realisable value during the year.

19. Current tax

Current tax for the current and prior years is recognised as a liability to the extent that it has not yet been settled and as an asset to the extent that the amounts already paid exceed the amount due or the benefit of a tax loss can be carried back to recover current tax of a prior year. Current tax assets and liabilities are measured at the amount expected to be paid to or recovered from tax authorities, using the rates that have been enacted or substantively enacted by the balance sheet date.

	2025 £m	2024 £m
Tax provisions	(39)	(78)
Research and development expenditure credits receivable	170	85
Other tax receivables	8	114
	139	121
Represented by:		
Current tax assets	183	176
Current tax liabilities	(44)	(55)
	139	121

20. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, call and term deposits, investments in money market funds and other short-term liquid investments with original maturities of three months or less and which are subject to an insignificant risk of change in value.

	2025 £m	2024 £m
Cash	410	604
Money market funds	1,169	1,227
Short-term deposits	1,859	1,547
	3,438	3,378

Cash and cash equivalents includes £35m (2024 £53m), which is subject to regulatory restrictions and is therefore not available for general use by other entities within the Group.

Notes to the Consolidated financial statements *continued***21. Loans**

Loans are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition, loans are stated at amortised cost. Any difference between the amount initially recognised and the redemption value is recognised in the Consolidated income statement over the period of the borrowings.

	2025 £m	2024 £m
Non-current		
US\$500m 7.5% bond, repayable 2027	372	399
US\$800m 5% bond, repayable 2027	593	636
US\$1,250m 5.125% bond, repayable 2029	926	993
US\$1,300m 3.4% bond, repayable 2030	962	1,032
US\$1,000m 1.9% bond, repayable 2031	740	793
US\$500m 5.25% bond, repayable 2031	370	397
US\$1,500m 5.3% bond, repayable 2034	1,107	1,187
US\$400m 5.8% bond, repayable 2041	295	317
US\$550m 4.75% bond, repayable 2044	401	430
US\$1,000m 3% bond, repayable 2050	731	784
US\$201m 6.05%, private placement, repayable 2053	147	160
US\$750m 5.5%, bond, repayable 2054	546	585
	7,190	7,713
Current		
US\$750m 3.85% bond, repayable 2025	—	598
US\$201m 6.05%, private placement, repayable 2053	2	1
Accrued interest	93	100
	95	699

The US\$500m 7.5% bond, repayable 2027, was converted at issue to a sterling fixed-rate bond by utilising cross-currency swaps and had an effective rate during 2025 of 7.7%.

The US\$800m 5% bond, repayable 2027, has been converted to a dollar floating-rate bond by utilising interest rate swaps that mature in March 2027 and had an effective rate during 2025 of 5.0%.

US\$700m of the US\$1,250m 5.125% bond, repayable 2029, has been converted to a dollar floating-rate bond by utilising interest rate swaps that mature in March 2029 and had an effective rate during 2025 of 5.5%.

US\$1,237m of the US\$1,300m 3.4% bond, repayable 2030, was converted at issue to a sterling fixed-rate bond by utilising cross-currency swaps and had an effective rate during 2025 of 3.5%.

22. Trade and other payables

Trade and other payables are stated at amortised cost.

US deferred compensation plan liabilities represent the present value of expected future payments required to settle the obligation to employees in accordance with IAS 19 Employee Benefits.

	Note	2025 £m	2024 £m
Non-current			
Accruals		84	85
Amounts owed to equity accounted investments	29	8	8
Deferred income ¹		1,379	1,287
US deferred compensation plan liabilities		395	398
Other payables		55	81
		1,921	1,859
Current			
Trade payables		1,114	1,084
Amounts owed to equity accounted investments	29	2,234	1,997
Other taxes and social security costs		141	198
Accruals		2,772	2,710
Deferred income ¹		71	74
US deferred compensation plan liabilities		51	50
Other payables		303	270
		6,686	6,383

1. Includes £1,417m (2024 £1,337m) of funding received from the UK Government for property, plant and equipment at Barrow-in-Furness, UK.

Notes to the Consolidated financial statements *continued***23. Post-employment benefits****Pension schemes****Defined contribution**

Obligations for contributions are recognised as an expense in the Consolidated income statement as incurred.

Defined benefit

The cost of providing benefits is determined periodically by independent actuaries and charged to the Consolidated income statement in the year in which those benefits are earned by the employees. Remeasurements, including actuarial gains and losses, are recognised in the Consolidated statement of comprehensive income in the year in which they occur. Past service costs resulting from a plan amendment or curtailment are recognised immediately in the Consolidated income statement.

The post-employment benefit surpluses and obligations recognised in the Group's balance sheet represent the fair value of scheme assets, less the present value of the defined benefit obligations calculated using a number of actuarial assumptions as set out on page 185. The bid values of scheme assets are not intended to be realised in the short term and may be subject to significant change before they are realised. The present values of scheme liabilities are derived from cash flow projections over long periods and are, therefore, inherently uncertain.

IAS 19 Employee Benefits limits the measurement of a defined benefit surplus to the lower of the surplus in the defined benefit scheme and the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the scheme or reductions in future contributions to the scheme. IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, issued in 2007, provides an interpretation of the requirements of IAS 19, clarifying that a refund is available if the entity has an unconditional right to a refund in certain circumstances. The Group has applied IFRIC 14 and has determined that there is no limit on the recognition of the surpluses in its defined benefit pension schemes as at 31 December 2025. In the UK the surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Group, which is assumed to be via a refund. These have been recognised after deducting a 25% (2024 25%) withholding tax which would be levied prior to the future refunding of any surplus and have been presented on a net basis as this is not deemed to be an income tax.

The Group operates a number of multi-employer schemes which their equity accounted investments and strategic partners participate in. Where the Group is a participating employer of a multi-employer scheme, the Group has recognised only its share of the IAS 19 pension surpluses and deficits based on liability agreements with those partners and on the relative shares of contributions paid into the schemes. While this methodology is intended to reflect a reasonable estimate of the share of the surplus or deficit, it may not accurately reflect the obligations of the participating employers.

In the event that an employer who participates in the Group's pension schemes fails or cannot be compelled to fulfil its obligations as a participating employer, the remaining participating employers are obliged to collectively take on its obligations. The Group considers the likelihood of this event arising as remote.

The Group's share of the IAS 19 pension surplus or deficit allocated to equity accounted investments is included in the balance sheet within equity accounted investments (see note 13).

Background**Pension schemes**

BAE Systems plc operates pension schemes for the Group's qualifying employees in the UK, US and other countries. The UK and US operate a number of funded defined benefit schemes, and the assets are held in separate trustee-administered funds. The largest funded defined benefit scheme is the BAE Systems Pension Scheme – BAE Systems Section (Main Scheme) which represents 93% (2024 92%) of the UK IAS 19 defined benefit obligation at 31 December 2025. The schemes in other countries are primarily defined contribution schemes.

At 31 December 2025, the weighted average durations of the UK and US defined benefit pension obligations were 11 years (2024 12 years) and 10 years (2024 10 years), respectively.

Regulatory framework

The funded UK schemes are registered and subject to the statutory scheme-specific funding requirements outlined in UK legislation, including the payment of levies to the Pension Protection Fund as set out in the Pension Act 2004. These schemes were established under trust and the responsibility for their governance lies jointly with the Trustees and the Group.

The funded US schemes are tax-qualified pension schemes regulated by the Pension Protection Act 2006 and insured by the Pension Benefit Guaranty Corporation up to certain limits. These schemes were established under, and are governed by, the US Employee Retirement Income Security Act 1974 and the BAE Systems Administrative Committee is a named fiduciary with the authority to manage their operation. The schemes' assets are held in the BAE Systems Master Pension Investment Trust and the trustee is The Northern Trust Company. The US schemes received a favourable determination letter from the Internal Revenue Service (IRS) dated 6 July 2017, stating that the US schemes and related Master Trust are designed in accordance with applicable sections of the IRS Code and, therefore, are exempt from tax. Once qualified, the US schemes are required to operate in conformity with the Code to maintain qualification.

Benefits

The UK defined benefit schemes provide benefits to members in the form of a set level of pension payable for life based on members' final salaries. The majority of benefits attract inflation-related increases both in deferment and payment. All UK defined benefit schemes are closed to new entrants, with benefits for new employees being provided through a defined contribution scheme. The Normal Retirement Age for the majority of active members of the Main Scheme is 65. Specific benefits applicable to members differ between schemes. Further details on the benefits provided by each scheme are provided on the BAE Systems Pensions website: baesystems.com/en-pensions/home.

The US defined benefit schemes cover eligible employees of BAE Systems, Inc. and certain adopting affiliates providing benefits based on each employee's final salary and service. The majority of the US defined benefit schemes ceased to be final salary schemes in January 2013. Since then an annual accrual of \$1,000 is credited to participants' accumulated plan benefits. Vested benefits are payable upon retirement, death, disability, and in certain circumstances upon termination of employment. The Normal Retirement Age for the US pension schemes is 65.

23. Post-employment benefits continued

Other post-employment benefits

The Group operates a number of non-pension retirement benefit schemes, under which certain employees are eligible to receive benefits after retirement or on leaving the Group, the majority of which relate to the provision of medical benefits to retired employees of the Group's subsidiaries in the US.

Funding

Introduction

Disclosures in respect of pension funding are provided below. Disclosures in respect of pension accounting under IAS 19 are provided on pages 185 to 193.

The majority of the UK and US defined benefit pension schemes are funded by the Group's subsidiaries and equity accounted investments. The individual pension schemes' funding requirements are based on actuarial measurement frameworks set out in their funding policies.

The funding valuations are performed by professionally qualified independent actuaries and include assumptions which differ from the actuarial assumptions used for IAS 19 accounting purposes shown on page 185. The purpose of the funding valuations is to design funding plans which ensure that the schemes have sufficient funds available to meet future benefit payments.

UK valuations

Funding valuations of the Group's UK defined benefit pension schemes are performed at least every three years. The most recent triennial funding valuation for the Main Scheme was carried out as at 31 March 2024. This valuation was concluded and signed off on 6 February 2025.

The results of the most recent triennial valuation for the Main Scheme are shown below. This valuation was agreed with the Trustees and certified by the Scheme Actuary after consultation with the Pensions Regulator in the UK.

	Main Scheme as at 31 March 2024 £bn
Market value of assets	19.2
Present value of liabilities	(18.4)
Funding surplus	0.8
Percentage of accrued benefits covered by the assets at the valuation date	104%

The other UK schemes were also in surplus at their most recent triennial valuations.

US valuations

The Group's US pension schemes are valued annually, with the latest valuations performed as at 1 January 2025. The actuarial present value of accumulated plan benefits is determined by an independent actuary and uses actuarial assumptions to adjust the accumulated plan benefits earned by participants to reflect the time value of money and the probability of payment between the valuation date and the expected date of payment.

Contributions

Under the terms of the trust deeds of the UK schemes, the Group is required to have a funding plan determined at the conclusion of the triennial funding valuations.

Equity accounted investments make regular contributions to the schemes in which they participate in line with the schedule of contributions.

Contributions in 2026 to the Group's pension schemes are expected to be approximately £90m, at a lower level than 2025, primarily reflecting the impact of updated market conditions on the cost of benefit accrual.

Notes to the Consolidated financial statements *continued***23. Post-employment benefits** *continued***Funding** *continued***Risk management**

The defined benefit pension schemes expose the Group to actuarial risks, including market (investment) risk, interest rate risk, inflation risk and longevity risk.

Risk	Mitigation
<p>Market (investment) risk Asset returns may not move in line with the liabilities and may be subject to volatility.</p>	<p>The investment portfolios are highly diversified, investing in a wide range of assets, in order to reduce the exposure of the total portfolio to a materially adverse impact from a single security or type of security. To reduce volatility, certain assets are held in a matching portfolio, which largely consists of index-linked bonds, gilts and swaps, designed to mirror movements in corresponding liabilities.</p> <p>Environmental (including exposure to climate-related risks), social and governance factors are incorporated into the investment analysis and decision-making process carried out by the Trustees of the UK schemes. There is alignment between the UK Main Scheme and the Company's climate change objectives with consistent long-term decarbonisation ambitions.</p>
<p>Interest rate risk Liabilities are sensitive to movements in interest rates, with lower interest rates leading to an increase in the valuation of liabilities.</p>	<p>The Main Scheme has adopted a cash flow matching strategy, whereby contractual income from assets is designed to directly match benefits paid to members each year. A portfolio of assets with contractual income has been structured to match benefits already in payment, representing just over half of the liabilities. This inherently hedges the associated interest rate risk. As members retire and become pensioners, additional matching assets will be purchased to keep pace. Interest rate risk associated with the remaining purchase of matching assets is mitigated via a hedging strategy involving mainly physical assets and derivatives. The overall level of interest rate hedging on the funding basis has increased over the years.</p>
<p>Inflation risk Liabilities are sensitive to movements in inflation, with higher inflation leading to an increase in the valuation of liabilities.</p>	<p>The Main Scheme's cash flow matching strategy includes aligning asset income to the inflation-linked members' benefit payments. Inflation risk is mitigated by the presence of caps on most inflation-linked benefits and via a hedging strategy, executed with several banks to reduce counterparty risk. The overall level of inflation hedging on the funding basis has increased over the years.</p> <p>The Group's US scheme benefits are not indexed with inflation.</p> <p>In 2014, the Main Scheme implemented a pension increase exchange to allow retired members to elect for a higher current pension in exchange for foregoing certain rights to future pension increases.</p>
<p>Longevity risk Liabilities are sensitive to life expectancy, with increases in life expectancies leading to an increase in the valuation of liabilities.</p>	<p>Longevity adjustment factors are used in the majority of the UK pension schemes which adjust the benefit calculations so as to share the cost of people living longer with employees.</p> <p>In 2013, with the agreement of the Company, the Trustees of the 2000 Plan, Royal Ordnance Pension Scheme and Shipbuilding Industries Pension Scheme (SIPS) entered into arrangements with Legal & General to insure against longevity risk for the current pensioner population, covering a total of £4.4bn of pension scheme liabilities at that time. These arrangements reduce the funding volatility relating to increasing life expectancy. This longevity risk cover with Legal & General remains in place following the 2019 merger of the 2000 Plan and SIPS into the Main Scheme.</p>

23. Post-employment benefits continued

Curtailed gain

In August 2025, the SMS pension scheme was modified to align with industry and other US schemes. The amendment resulted in a one-off gain of £58m which has been recognised in the Consolidated income statement.

Surplus recognition

A number of schemes are in an accounting surplus position. The surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Group, which is assumed to be via a refund. The UK surplus has been recognised net of withholding tax of 25% (2024 25%) based on the enacted legislation at that date. This tax would be levied prior to the future refunding of any surplus, and therefore the surplus has been presented on a net basis as this is not deemed to be an income tax of the Group.

IAS 19 accounting

The disclosures below relate to post-retirement benefit schemes in the UK, US and other countries which are accounted for as defined benefit schemes in accordance with IAS 19.

Principal actuarial assumptions

The assumptions used are estimates chosen from a range of possible actuarial assumptions which, due to the long-term nature of the obligation covered, may not necessarily occur in practice.

	UK			US		
	2025	2024	2023	2025	2024	2023
Financial assumptions						
Discount rate – past service (%)	5.5	5.5	4.5	5.2	5.5	4.8
Discount rate – future service (%)	5.8	5.6	4.6	5.2	5.5	4.8
Discount rate – US Healthcare schemes (%)	n/a	n/a	n/a	5.2	5.5	4.8
Retail Prices Index (RPI) inflation (%)	2.5	2.9	2.8	n/a	n/a	n/a
Rate of increase in salaries (%)	2.5	2.9	2.8	2.8	2.8	n/a
Rate of increase in deferred pensions (CPI/RPI) (%)	2.0/2.5	2.3/2.9	2.1/2.8	n/a	n/a	n/a
Rate of increase in pensions in payment (%)	1.6 – 3.5	1.7 – 3.6	1.6 – 3.6	n/a	n/a	n/a
Demographic assumptions						
Life expectancy of a male currently aged 65 (years)	86 – 89	85 – 88	85 – 89	88	88	88
Life expectancy of a female currently aged 65 (years)	88 – 91	88 – 91	88 – 89	89	89	89
Life expectancy of a male currently aged 45 (years)	87 – 90	86 – 89	86 – 89	87	87	87
Life expectancy of a female currently aged 45 (years)	89 – 92	89 – 92	89 – 90	89	89	89

Life expectancy

For its UK pension schemes, the Group has used the Self-Administered Pension Schemes S3 mortality tables based on year of birth (as published by the Institute and Faculty of Actuaries) for both pensioner and non-pensioner members, in conjunction with the results of an investigation into the actual mortality experience of scheme members and information on the demographic profile of the scheme's membership.

In addition, to allow for future improvements in longevity, the Continuous Mortality Investigation 2024 tables (published by the Institute and Faculty of Actuaries) have been used (in 2024, the 2023 version of the tables were used), with an assumed long-term rate of improvement of 1.0% per annum (2024 1.0%), an initial rate adjustment parameter ('A') of 0.2% (2024 0.2%), with both the age-period and cohort convergence periods equal to the core values, except increased to 20 years from ages 80 to 100, and then tapering down to nil by age 120.

For the majority of the US schemes, the mortality tables used at 31 December 2025 are a blend of the fully generational PRI-2012 White Collar table and the PRI-2012 Blue Collar table, both projected using November 2025 Aon Endemic Projection Scale MP-2021.

US healthcare schemes

The latest valuations of the principal schemes, covering retiree medical and life insurance schemes in certain US subsidiaries, were performed by independent actuaries as at 1 January 2025. These valuations were rolled forward to reflect the information at 31 December 2025. The method of accounting for these is similar to that used for defined benefit pension schemes.

Long-term healthcare cost is assumed to increase at 5.0% per annum (2024 5.1%).

Notes to the Consolidated financial statements *continued***23. Post-employment benefits** *continued***IAS 19 accounting** *continued*

Summary of movements in post-employment benefit obligations

	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Surplus/(deficit) at 1 January 2025	1,105	(230)	71	(178)	768
Actual return on assets excluding amounts included in net finance costs	(424)	147	3	—	(274)
Decrease/(increase) in liabilities due to changes in financial assumptions	384	(57)	(3)	(5)	319
Increase in liabilities due to changes in demographic assumptions	(118)	(1)	—	—	(119)
Experience gains/(losses)	53	(3)	1	(2)	49
Contributions in excess of/(below) service cost	44	(27)	(2)	(10)	5
Past service (cost)/credit – plan amendments	(7)	58	—	—	51
Transfer to employee benefit trust ¹	—	—	(34)	—	(34)
Net interest income/(expense)	92	(10)	3	(9)	76
Foreign exchange adjustments	—	4	(6)	9	7
Movement in withholding tax on surpluses	(4)	—	—	—	(4)
Surplus/(deficit) at 31 December 2025	1,125	(119)	33	(195)	844

1. Healthcare plan assets utilised to provide medical benefits for active members.

23. Post-employment benefits continued**IAS 19 accounting** continued**Amounts recognised on the balance sheet**

The table below shows a reconciliation between the Group's share of scheme assets and liabilities of the UK, US and other post-employment benefit schemes and the amounts recognised on the Group's balance sheet.

	2025				
	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Present value of unfunded obligations	(89)	(97)	—	(195)	(381)
Present value of funded obligations	(15,738)	(2,761)	(103)	—	(18,602)
Fair value of scheme assets	17,356	2,739	136	—	20,231
Total gross surplus/(deficit)	1,529	(119)	33	(195)	1,248
Withholding tax on surpluses	(404)	—	—	—	(404)
Surplus/(deficit)	1,125	(119)	33	(195)	844
Represented by:					
Post-employment benefit surpluses	1,214	3	33	—	1,250
Post-employment benefit obligations	(89)	(122)	—	(195)	(406)
	1,125	(119)	33	(195)	844

The US unfunded pension obligations have associated assets held in deferred compensation schemes with a fair value of £58m (2024 £62m), which are shown in other investments. The funds held in these trusts can be used solely for the satisfaction of the unfunded obligations.

	2024				
	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Present value of unfunded obligations	(92)	(97)	—	(178)	(367)
Present value of funded obligations	(16,128)	(2,974)	(108)	—	(19,210)
Fair value of scheme assets	17,725	2,841	179	—	20,745
Total gross surplus/(deficit)	1,505	(230)	71	(178)	1,168
Withholding tax on surpluses	(400)	—	—	—	(400)
Surplus/(deficit)	1,105	(230)	71	(178)	768
Represented by:					
Post-employment benefit surpluses	1,197	3	71	—	1,271
Post-employment benefit obligations	(92)	(233)	—	(178)	(503)
	1,105	(230)	71	(178)	768

Notes to the Consolidated financial statements *continued***23. Post-employment benefits** *continued***IAS 19 accounting** *continued*

Changes in the fair value of scheme assets

	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Value of scheme assets at 1 January 2024	19,254	2,629	180	—	22,063
<i>Interest income</i>	853	135	9	—	997
<i>Actual return on assets excluding amounts included in interest income</i>	(1,628)	(94)	(4)	—	(1,726)
Actual return on assets	(775)	41	5	—	(729)
<i>Contributions by employer</i>	229	156	1	13	399
<i>Contributions by employer in respect of employee salary sacrifice arrangements</i>	61	—	—	—	61
Total contributions by employer	290	156	1	13	460
Members' contributions	4	—	—	—	4
Settlements	—	(100)	—	—	(100)
Administrative expenses	(15)	(10)	(1)	—	(26)
Business acquisitions	—	253	—	—	253
Foreign exchange translation	—	45	3	—	48
Benefits paid	(1,033)	(173)	(9)	(13)	(1,228)
Value of scheme assets at 31 December 2024	17,725	2,841	179	—	20,745
<i>Interest income</i>	942	144	9	—	1,095
<i>Actual return on assets excluding amounts included in interest income</i>	(424)	147	3	—	(274)
Actual return on assets	518	291	12	—	821
<i>Contributions by employer</i>	120	11	—	12	143
<i>Contributions by employer in respect of employee salary sacrifice arrangements</i>	53	—	—	—	53
Total contributions by employer	173	11	—	12	196
Members' contributions	3	—	—	—	3
Administrative expenses	(16)	(6)	(1)	—	(23)
Transfer to employee benefit trust	—	—	(34)	—	(34)
Foreign exchange translation	—	(196)	(12)	—	(208)
Benefits paid	(1,047)	(202)	(8)	(12)	(1,269)
Value of scheme assets at 31 December 2025	17,356	2,739	136	—	20,231

23. Post-employment benefits continued**IAS 19 accounting** continued

Assets of defined benefit pension schemes

	UK			2025 US and other			Total		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities:									
UK ¹	1	—	1	—	—	—	1	—	1
Overseas	31	—	31	—	—	—	31	—	31
Pooled investment vehicles ²	366	6,016	6,382	751	—	751	1,117	6,016	7,133
Fixed-interest securities:									
UK gilts	2,205	—	2,205	—	—	—	2,205	—	2,205
UK corporates	2,055	1,480	3,535	—	—	—	2,055	1,480	3,535
Overseas government	23	—	23	205	—	205	228	—	228
Overseas corporates	1,797	—	1,797	1,584	—	1,584	3,381	—	3,381
Index-linked securities:									
UK gilts	2,855	—	2,855	—	—	—	2,855	—	2,855
UK corporates	283	—	283	—	—	—	283	—	283
Overseas corporates	8	—	8	—	—	—	8	—	8
Property ³	—	1,135	1,135	—	64	64	—	1,199	1,199
Derivatives ⁴	—	(1,523)	(1,523)	—	11	11	—	(1,512)	(1,512)
Cash:									
Sterling	401	36	437	—	—	—	401	36	437
Foreign currency	158	1	159	124	—	124	282	1	283
Other	—	28	28	—	—	—	—	28	28
Total	10,183	7,173	17,356	2,664	75	2,739	12,847	7,248	20,095

Notes to the Consolidated financial statements *continued***23. Post-employment benefits** *continued***IAS 19 accounting** *continued*

	2024								
	UK			US and other			Total		
	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m	Quoted £m	Unquoted £m	Total £m
Equities:									
UK ¹	1	—	1	—	—	—	1	—	1
Overseas	97	—	97	—	—	—	97	—	97
Pooled investment vehicles ²	—	6,559	6,559	815	—	815	815	6,559	7,374
Fixed-interest securities:									
UK gilts	2,400	—	2,400	—	—	—	2,400	—	2,400
UK corporates	1,951	1,480	3,431	—	—	—	1,951	1,480	3,431
Overseas government	61	—	61	477	—	477	538	—	538
Overseas corporates	1,891	—	1,891	1,329	—	1,329	3,220	—	3,220
Index-linked securities:									
UK gilts	1,959	—	1,959	—	—	—	1,959	—	1,959
UK corporates	580	—	580	—	—	—	580	—	580
Overseas corporates	8	—	8	—	—	—	8	—	8
Property ³	—	1,182	1,182	—	70	70	—	1,252	1,252
Derivatives ⁴	—	(1,497)	(1,497)	—	11	11	—	(1,486)	(1,486)
Cash:									
Sterling	904	40	944	—	—	—	904	40	944
Foreign currency	75	—	75	139	—	139	214	—	214
Other	—	34	34	—	—	—	—	34	34
Total	9,927	7,798	17,725	2,760	81	2,841	12,687	7,879	20,566

1. Includes £nil (2024 £nil) of the Company's own ordinary shares.

2. Primarily invested in private markets and exchange traded funds. The amounts classified as unquoted primarily comprise investments in private markets, with the majority held in infrastructure, alternatives and direct funds, valued in accordance with International Private Equity and Venture Capital Valuation Guidelines.

3. Valued on the basis of open market value at the end of the year determined in accordance with the Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards and the Practice Note contained therein. Includes £202m (2024 £203m) of property occupied by Group companies.

4. Includes forward foreign exchange contracts, futures, and interest rate, inflation and longevity swaps. In addition, the total derivative figures shown are net of £920m (2024 £512m) of repurchase agreements. The valuations are based on valuation techniques using underlying market data and discounted cash flows.

23. Post-employment benefits continued**IAS 19 accounting** continued**Longevity swap**

The Group holds longevity insurance contracts for some of its UK defined benefit pension schemes. These provide long-term protection and income to the underlying pension scheme in the event that insured members live longer than expected.

The value of the longevity insurance contracts held by the Group are calculated by an actuary. They are measured by discounting the difference between the projected fixed and floating cash flows payable under the contracts, excluding the value of future projected fees. The significant assumptions used for this valuation are the discount rate and mortality assumptions; fair values for these assumptions are advised by an actuary based on external data and characteristics of the insured member population.

At 31 December 2025, the longevity swap valuation leads to a negative adjustment to the assets which reflects that experience to date on the contracts has been higher than expected deaths.

Changes in the present value of the defined benefit obligations

	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Defined benefit obligations at 1 January 2024	(18,203)	(2,936)	(125)	(168)	(21,432)
<i>Current service cost</i>	(76)	(32)	(2)	(24)	(134)
<i>Contributions by employer in respect of employee salary sacrifice arrangements</i>	(61)	—	—	—	(61)
Total current service cost	(137)	(32)	(2)	(24)	(195)
Members' contributions	(4)	—	—	—	(4)
Settlements	—	113	—	—	113
Actuarial gain due to changes in financial assumptions	1,745	179	4	14	1,942
Actuarial gain/(loss) due to changes in demographic assumptions	46	(19)	12	1	40
Experience gains/(losses)	95	46	2	(5)	138
Interest expense	(795)	(153)	(5)	(8)	(961)
Business acquisitions	—	(400)	—	—	(400)
Foreign exchange translation	—	(42)	(3)	(1)	(46)
Benefits paid	1,033	173	9	13	1,228
Defined benefit obligations at 31 December 2024	(16,220)	(3,071)	(108)	(178)	(19,577)
<i>Current service cost</i>	(60)	(32)	(1)	(22)	(115)
<i>Contributions by employer in respect of employee salary sacrifice arrangements</i>	(53)	—	—	—	(53)
Total current service cost	(113)	(32)	(1)	(22)	(168)
Members' contributions	(3)	—	—	—	(3)
Past service (cost)/credit – plan amendments	(7)	58	—	—	51
Actuarial gain/(loss) due to changes in financial assumptions	384	(57)	(3)	(5)	319
Actuarial loss due to changes in demographic assumptions	(118)	(1)	—	—	(119)
Experience gains/(losses)	53	(3)	1	(2)	49
Interest expense	(850)	(154)	(6)	(9)	(1,019)
Foreign exchange translation	—	200	6	9	215
Benefits paid	1,047	202	8	12	1,269
Defined benefit obligations at 31 December 2025	(15,827)	(2,858)	(103)	(195)	(18,983)

Notes to the Consolidated financial statements *continued***23. Post-employment benefits** *continued***IAS 19 accounting** *continued*

Amounts recognised in the Consolidated income statement

	2025				
	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Included in operating costs:					
Current service cost	(60)	(32)	(1)	(22)	(115)
Past service cost – plan amendments	(7)	–	–	–	(7)
Administrative expenses	(16)	(6)	(1)	–	(23)
	(83)	(38)	(2)	(22)	(145)
Included in other income:					
Past service credit – plan amendments	–	58	–	–	58
Included in net finance costs:					
<i>Gross interest income/(expense) on post-employment benefit obligations</i>	92	(10)	3	(9)	76
<i>Impact of withholding tax</i>	(22)	–	–	–	(22)
Net interest income/(expense) on post-employment benefit obligations	70	(10)	3	(9)	54
Included within statement of comprehensive income:					
<i>Gross actuarial (loss)/gain on post-employment benefit schemes</i>	(105)	86	1	(7)	(25)
<i>Impact of withholding tax</i>	18	–	–	–	18
Net actuarial (loss)/gain on post-employment benefit obligations	(87)	86	1	(7)	(7)

	2024				
	UK defined benefit pension schemes £m	US and other pension schemes £m	US healthcare schemes £m	Kingdom of Saudi Arabia end of service benefit £m	Total £m
Included in operating costs:					
Current service cost	(76)	(32)	(2)	(24)	(134)
Administrative expenses	(15)	(10)	(1)	–	(26)
	(91)	(42)	(3)	(24)	(160)
Included in other income:					
Pensions settlement gain	–	13	–	–	13
Included in net finance costs:					
<i>Gross interest income/(expense) on post-employment benefit obligations</i>	58	(18)	4	(8)	36
<i>Impact of withholding tax</i>	(18)	–	–	–	(18)
Net interest income/(expense) on post-employment benefit obligations	40	(18)	4	(8)	18
Included within statement of comprehensive income:					
<i>Gross actuarial gain on post-employment benefit schemes</i>	258	112	14	10	394
<i>Impact of withholding tax</i>	20	–	–	–	20
Net actuarial gain on post-employment benefit obligations	278	112	14	10	414

Defined contribution schemes

The Group incurred a charge of £380m (2024 £334m) in relation to defined contribution schemes for employees.

23. Post-employment benefits continued**IAS 19 accounting** continued**Sensitivity analysis**

The sensitivity information has been derived using scenario analysis from the actuarial assumptions as at 31 December 2025 and keeping all other assumptions as set out on page 185.

The pension schemes hold a number of unquoted pooled investment vehicles, which are investments in private markets. These are valued based on latest available valuation reports, and as noted on page 147, these valuations are subject to estimation uncertainty as their valuation techniques incorporate a number of assumptions, including those associated with the impact of climate change. Should these funds' actual valuations at 31 December 2025 be on average 2% different to those assumed, this would result in a £0.1bn (2024 £0.1bn) change in the valuation of the assets.

Financial assumptions

The estimated impact of changes in the discount rate and inflation assumptions on the defined benefit pension obligation, together with the estimated impact on scheme assets, is shown in the table below. The sensitivity analysis on the defined benefit obligation is measured on an IAS 19 accounting basis.

	Decrease/(increase) in pension obligation ¹ £bn	(Decrease)/increase in scheme assets ¹ £bn
Discount rate:		
0.5 percentage point increase/decrease	1.0/(1.0)	(1.0)/1.1
1.0 percentage point increase/decrease	1.8/(2.2)	(1.9)/2.3

	(Increase)/decrease in pension obligation ¹ £bn	Increase/(decrease) in scheme assets ¹ £bn
Inflation:		
0.1 percentage point increase/decrease	(0.1)/0.1	0.1/(0.1)
0.5 percentage point increase/decrease	(0.5)/0.5	0.7/(0.6)

Demographic assumptions

Changes in the life expectancy assumption, including the benefit of longevity swap arrangements (see longevity risk on page 184), would have the following effect on the total net IAS 19 surplus:

	(Decrease)/increase in net surplus ¹ £bn
Life expectancy:	
One-year increase/decrease	(0.6)/0.6

1. Before deduction of withholding tax.

Notes to the Consolidated financial statements *continued***24. Provisions**

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate pre-tax risk-free discount rate.

Legal, contractual and environmental

The Group holds provisions for expected legal, contractual and environmental costs that it expects to incur over an extended period. Management exercises judgement to determine the amount of these provisions. Provision is made for known issues based on past experience of similar items and other known factors. Each provision is considered separately and the amount provided reflects the best estimate of the most likely amount, being the single most likely amount in a range of possible outcomes.

Warranties and after-sales services

Where warranties and after-sales services are provided in the normal course of business, provisions for associated costs are made based on an assessment of future claims with reference to past experience. A provision for warranties is recognised when the underlying products and services are sold. The provision is based on historical warranty data and a weighting of possible outcomes against their associated probabilities.

Reorganisations

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected. The costs associated with the reorganisation programmes are supported by detailed plans and based on previous experience as well as other known factors. Future operating costs are not provided for.

	Legal, contractual and environmental £m	Warranties and after-sales services £m	Reorganisations £m	Other £m	Total £m
Non-current	260	67	4	32	363
Current	150	45	10	49	254
At 1 January 2025	410	112	14	81	617
Created	116	64	11	15	206
Utilised	(76)	(32)	(7)	(11)	(126)
Released	(38)	(13)	(1)	(14)	(66)
Net present value adjustments	8	—	—	1	9
Foreign exchange adjustments	(14)	(1)	(1)	(3)	(19)
At 31 December 2025	406	130	16	69	621
Represented by:					
Non-current	271	87	3	28	389
Current	135	43	13	41	232
	406	130	16	69	621

Legal, contractual and environmental

Reflecting the inherent uncertainty within many legal proceedings, the amount of the outflows could differ significantly from the amount provided. While the timing of the outflows is also uncertain, the Group expects these provisions to be utilised over a period of approximately 25 years.

Warranties and after-sales services

Warranty and after-sales services provisions are generally utilised within three years post-delivery. While actual events could result in potentially significant differences to the value, but not the timing, of the outflows in relation to the provisions, management has reflected current knowledge in assessing the provision levels.

Reorganisations

Reorganisation provisions are generally utilised within one to three years. There is limited volatility around the timing and amount of the ultimate outflows related to these provisions.

Other

There are no individually significant provisions included within other provisions.

25. Share capital and other reserves

Share capital

	Equity		Non-equity		Total
	Ordinary shares of 2.5p each		Special Share of £1		Nominal value £m
	Number of Shares m	Nominal value £m	Number of Shares	Nominal value £	
Issued and fully paid					
At 1 January 2024	3,239	81	1	1	81
Shares cancelled	(44)	(1)	—	—	(1)
At 31 December 2024	3,195	80	1	1	80
Shares cancelled	(29)	(1)	—	—	(1)
At 31 December 2025	3,166	79	1	1	79

Special Share

One Special Share of £1 in the Company is held on behalf of the Secretary of State for Business and Trade (the Special Shareholder). Certain provisions of the Company's Articles of Association cannot be amended without the consent of the Special Shareholder. These provisions include the requirement that no foreign person, or foreign persons acting in concert, can have more than a 15% voting interest in the Company, the requirement that the majority of the directors are British, and the requirement that the Chief Executive or any executive Chair are British. The effect of these requirements can also be amended by regulations made by the directors and approved by the Special Shareholder.

The Special Shareholder may require the Company at any time to redeem the Special Share at par or to convert the Special Share into one ordinary voting share. The Special Shareholder is entitled to attend a general meeting, but has no right to vote or any other rights at such meeting, other than to speak in relation to any business in respect of the Special Share.

Treasury shares

As at 31 December 2025, 164,506,971 (2024 183,673,739) ordinary shares of 2.5p each with an aggregate nominal value of £4,112,674 (2024 £4,591,843) and a market value of £2,820m (2024 £2,109m) were held in treasury. During 2025, 19,178,971 (2024 20,367,966) treasury shares were used to satisfy awards and options under the Share Incentive Plan, International Share Incentive Plan, Performance Share Plan, the Performance Shares and Restricted Shares elements of the Long-Term Incentive Plan, the Executive Share Option Plan, the Group Free Shares Plan and the International Profit Sharing Scheme.

Shares held in trusts

The Group has an Employee Share Option Plan (ESOP) discretionary trust to administer the share plans and to acquire Company shares, using funds loaned by the Group, to meet commitments to Group employees. At 31 December 2025, the ESOP Trust held 7,512,216 (2024 8,172,124) ordinary shares of 2.5p each, with an aggregate nominal value of £187,805 (2024 £204,303) and a market value of £129m (2024 £94m).

The Group also has a Share Incentive Plan (SIP) trust. Participating employees are able to purchase Partnership shares, funded via salary sacrifice, and also benefit from Free Shares and Matching Partnership Shares. At 31 December 2025, the SIP trust held 66,202,916 (2024 74,600,040) ordinary shares of 2.5p each with an aggregate nominal value of £1,655,073 (2024 £1,865,001) and a market value of £1,135m (2024 £857m).

A dividend waiver was also in operation for the dividends paid in the year over shares within the trusts, other than those shares owned beneficially by the participants or where the dividend payment is used to purchase dividend shares.

Shares which are unconditionally available to employees, but are retained within these trusts, are considered outstanding shares for the purposes of the basic earnings per share calculation. Contingently issuable shares are included within the calculation of diluted earnings per share (see note 8).

Own shares held

Own shares held, including treasury shares and shares held by BAE Systems ESOP and SIP Trusts, are recognised as a deduction from retained earnings.

Equity dividends

Equity dividends on ordinary share capital are recognised as a liability on the date that the shareholder's right to receive payment is established.

	2025 £m	2024 £m
Final 20.6p dividend per ordinary share paid in the year (2024 18.5p)	622	562
Interim 13.5p dividend per ordinary share paid in the year (2024 12.4p)	405	375
	1,027	937

After the balance sheet date, the directors proposed a final dividend of 22.8p per ordinary share. The dividend proposed amounts to approximately £684m, although the final payment is likely to be lower as a result of the impact of share repurchases. Subject to shareholder approval, the dividend will be paid on 4 June 2026 to shareholders registered on 24 April 2026. The provisional ex-dividend date is 23 April 2026. The payment of this dividend will not have any tax expense consequences for the Group.

Notes to the Consolidated financial statements *continued***25. Share capital and other reserves** *continued***Other reserves**

	Merger reserve £m	Statutory reserve £m	Revaluation reserve £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Total £m
At 1 January 2024	4,589	202	10	9	(64)	1,657	6,403
Subsidiaries:							
Currency translation on foreign currency net investments	—	—	—	—	—	5	5
Reclassification of cumulative currency translation reserve on divestment of interest in equity accounted investments and other business disposals	—	—	—	—	—	3	3
Net amounts recognised in hedging reserve	—	—	—	—	31	—	31
Equity accounted investments (net of tax)	—	—	—	—	1	3	4
Purchase of own shares	—	—	—	1	—	—	1
At 31 December 2024	4,589	202	10	10	(32)	1,668	6,447
Subsidiaries:							
Currency translation on foreign currency net investments	—	—	—	—	—	(600)	(600)
Reclassification of cumulative currency translation reserve on divestment of interest in equity accounted investments	—	—	—	—	—	21	21
Net amounts recognised in hedging reserve	—	—	—	—	18	—	18
Equity accounted investments (net of tax)	—	—	—	—	(2)	(4)	(6)
Purchase of own shares	—	—	—	1	—	—	1
At 31 December 2025	4,589	202	10	11	(16)	1,085	5,881

Merger reserve

The merger reserve arose on the acquisition of the Marconi Electronic Systems (MES) business by British Aerospace in 1999 to form BAE Systems, and represents the amount by which the fair value of the shares issued by British Aerospace as consideration exceeded their nominal value.

Statutory reserve

Under Section 4 of the British Aerospace Act 1980, this reserve may only be applied in paying up unissued shares of the Company to be allotted to members of the Company as fully paid bonus shares.

Revaluation reserve

The revaluation reserve relates to the revaluation at fair value of the net assets of the BVT joint venture previously held as an equity accounted investment on the acquisition of the remaining 45% interest in 2009.

Capital redemption reserve

The capital redemption reserve represents the cumulative nominal value of the Company's ordinary shares repurchased and subsequently cancelled.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Capital

The Group funds its operations through a mixture of equity funding and debt financing, including bank and capital market borrowings.

At 31 December 2025, the Group's capital was £11,953m (2024 £11,809m), which comprised total equity of £11,937m (2024 £11,777m), excluding amounts accumulated in equity relating to cash flow hedges of £(16)m (2024 £(32)m). Net debt (excluding lease liabilities) was £3,844m (2024 £4,945m).

The capital structure of the Group reflects the judgement of the directors of an appropriate balance of funding required. The Group's policy is to maintain an investment grade credit rating and ensure operating flexibility, while:

- meeting its pension obligations;
- investing in research and technology and pursuing other organic investment opportunities;
- paying dividends in line with the Group's policy of long-term sustainable cover of around two times underlying earnings (see page 217);
- making accelerated returns of capital to shareholders when the balance sheet allows and when the return from doing so is in excess of the Group's Weighted Average Cost of Capital; and
- investing in value-enhancing acquisitions, where market conditions are right and where they deliver on the Group's strategy.

25. Share capital and other reserves continued

Purchase of own shares

In July 2022, the directors approved a share buyback programme of up to £1.5bn (the 2022 share buyback programme). The 2022 share buyback programme was completed on 24 July 2024. In total, 163,907,003 ordinary shares were repurchased under the 2022 share buyback programme for a total cost (including transaction costs) of £1,508m.

In August 2023, the directors approved a further share buyback programme of up to £1.5bn (the 2023 share buyback programme). The 2023 share buyback programme commenced on 25 July 2024. The 2023 share buyback programme is expected to complete within three years of its commencement.

In the year ended 31 December 2024, 22,220,182 ordinary shares were repurchased under the 2022 share buyback programme for a total cost (including transaction costs) of £287m. A further 20,901,154 ordinary shares were repurchased under the 2023 share buyback programme at a total cost (including transaction costs) of £264m.

In the year ended 31 December 2025, 29,595,214 ordinary shares were repurchased under the 2023 share buyback programme at a total cost (including transaction costs) of £502m.

All ordinary shares acquired have been subsequently cancelled, with the nominal value of ordinary shares cancelled deducted from share capital against the capital redemption reserve.

As part of the 2022 and 2023 buyback programmes, it was agreed that should a better alternative use for the Company's cash reserves be identified, the share buyback programmes would be ceased and the money instead used for the alternative purpose. Therefore, when the Company issued a mandate to the brokers to purchase shares on its behalf, the mandate was structured such that it could be revoked at any point. As such, no financial liability has been recognised for shares not yet purchased under the programmes at 31 December.

Notes to the Consolidated financial statements *continued***26. Movement in assets and liabilities arising from financing activities**

	As at 1 January 2025 £m	Cash flow ¹ £m	Non-cash movements					As at 31 December 2025 £m
			Foreign exchange movements £m	Leases £m	Fair value adjustments £m	Net finance costs £m	Business acquisitions £m	
Assets								
Other financial assets ²	162	(425)	—	—	395	6	—	138
	162	(425)	—	—	395	6	—	138
Liabilities								
Loans	(8,412)	919	567	—	—	(359)	—	(7,285)
Lease liabilities	(1,841)	266	82	(194)	—	(79)	—	(1,766)
Other financial liabilities ²	(63)	321	—	—	(362)	(4)	—	(108)
	(10,316)	1,506	649	(194)	(362)	(442)	—	(9,159)
		1,081						
Other interest paid		78						
Purchase of own shares		502						
Equity dividends paid		1,027						
Dividends paid to non-controlling interests		86						
Net cash flow from financing activities		2,774						

	As at 1 January 2024 £m	Cash flow ¹ £m	Non-cash movements					As at 31 December 2024 £m
			Foreign exchange movements £m	Leases £m	Fair value adjustments £m	Net finance costs £m	Business acquisitions £m	
Assets								
Other financial assets ²	143	(143)	—	—	155	7	—	162
	143	(143)	—	—	155	7	—	162
Liabilities								
Loans	(5,111)	(2,828)	(106)	—	—	(367)	—	(8,412)
Lease liabilities	(1,420)	262	(17)	(532)	—	(73)	(61)	(1,841)
Other financial liabilities ²	(168)	292	—	—	(161)	(26)	—	(63)
	(6,699)	(2,274)	(123)	(532)	(161)	(466)	(61)	(10,316)
		(2,417)						
Other interest paid		141						
Purchase of own shares		555						
Equity dividends paid		937						
Dividends paid to non-controlling interests		89						
Net cash flow from financing activities		(695)						

1. Cash flow movements represent both payments or receipts of principal and payments of interest, which are presented separately in the Consolidated cash flow statement.
2. Excluding cash flow hedges, for which the cash flow is reported in line with the underlying transaction. See note 16 for an analysis of other financial assets and liabilities.

27. Fair value measurement

Fair value of financial instruments

Certain of the Group's financial instruments are held at fair value.

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the balance sheet date.

The fair values of financial instruments held at fair value have been determined based on available market information at the balance sheet date, and the valuation methodologies listed below:

- the fair values of forward foreign exchange contracts are calculated by discounting the contracted forward values and translating at the appropriate balance sheet rates;
- the fair values of both interest rate and cross-currency swaps are calculated by discounting expected future principal and interest cash flows and translating at the appropriate balance sheet rates; and
- the fair values of money market funds are calculated by multiplying the net asset value per share by the investment held at the balance sheet date.

The derivative fair values are based on reputable third-party forecast data, and then adjusted for credit risk, including the Group's own credit risk, and market risk.

Due to the variability of the valuation factors, the fair values presented at 31 December may not be indicative of the amounts the Group will realise in the future.

Fair value hierarchy

The fair value measurement hierarchy is as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

All of the financial assets and liabilities measured at fair value are classified as level 2 using the fair value hierarchy, except for money market funds, which are classified as level 1; other investments, which are at a combination of level 1 and level 3; and the contingent consideration liability, which is measured at level 3. The fair value of the contingent consideration has been valued based on the discounted expected cash flows. The total value of investments classified as level 3 is immaterial. There were no transfers between levels during the period. Alternative valuation techniques would not materially change the valuations presented.

Financial assets and liabilities in the Group's Consolidated balance sheet are either held at fair value or at amortised cost. With the exception of loans, the carrying value of financial instruments measured at amortised cost approximates their fair value. For the bonds included within loans, the fair value of loans presented in the table above is derived from market prices as of 31 December, classified as level 1 using the fair value hierarchy. The fair value of the private placement included within loans has been valued based on the interest yield on an equivalent observable bond, applied to the private placement cash flows, and has been classified as level 2 using the fair value hierarchy.

Carrying amounts and fair values of certain financial instruments

	Note	2025		2024	
		Carrying amount £m	Fair value £m	Carrying amount £m	Fair value £m
Financial instruments measured at fair value:					
Non-current					
Other investments at fair value through other comprehensive income		124	124	83	83
Other financial assets	16	232	232	265	265
Contingent consideration arising from business combinations		(40)	(40)	(65)	(65)
Other financial liabilities	16	(248)	(248)	(193)	(193)
Current					
Other financial assets	16	183	183	212	212
Money market funds	20	1,169	1,169	1,227	1,227
Contingent consideration arising from business combinations		(18)	(18)	(6)	(6)
Other financial liabilities	16	(173)	(173)	(264)	(264)
Financial instruments not measured at fair value:					
Non-current					
Loans	21	(7,190)	(6,991)	(7,713)	(7,261)
Current					
Loans	21	(95)	(95)	(699)	(695)

Notes to the Consolidated financial statements *continued***28. Share-based payments**

The Group has granted equity-settled share options and Long-Term Incentive Plan arrangements which are measured at fair value at the date of grant using an option pricing model. The fair value is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of shares that will actually vest.

Details of the terms and conditions of each share-based payment plan are given in the Annual remuneration report on pages 111 to 126.

Expense in year

	2025 £m	2024 £m
Executive Share Option Plan	1	4
Performance Share Plan	100	75
Restricted Share Plan	15	14
	116	93

The Group also incurred a charge of £58m (2024 £51m) in respect of the equity-settled all-employee Free Shares and Matching Partnership Shares elements of the Share Incentive Plan.

Executive Share Option Plan

	2025		2024	
	Number of shares '000	Weighted average exercise price £	Number of shares '000	Weighted average exercise price £
Outstanding at 1 January	13,438	6.27	24,422	5.78
Exercised during the year	(9,699)	6.35	(10,262)	5.07
Expired during the year	(84)	6.98	(722)	6.81
Outstanding at 31 December	3,655	6.06	13,438	6.27
Exercisable at 31 December	3,655	6.06	6,767	5.18

	2025	2024
Range of exercise price of outstanding options (£)	4.85 – 7.83	4.38 – 7.83
Weighted average remaining contracted life (years)	5	6

Performance Share Plan and Restricted Share Plan

	Performance Share Plan		Restricted Share Plan	
	2025 Number of shares '000	2024 Number of shares '000	2025 Number of shares '000	2024 Number of shares '000
Outstanding at 1 January	32,383	33,005	4,775	5,581
Granted during the year	7,540	8,475	1,017	1,214
Exercised during the year	(6,882)	(7,132)	(1,892)	(1,789)
Expired during the year	(1,502)	(1,965)	(222)	(231)
Outstanding at 31 December	31,539	32,383	3,678	4,775
Exercisable at 31 December	439	953	211	271

	2025	2024	2025	2024
Weighted average remaining contracted life (years)	5	5	5	5
Weighted average fair value of awards granted (£)	16.71	13.27	16.74	13.31

The exercise price for the Performance Share Plan and Restricted Share Plan is £nil (2024 £nil).

28. Share-based payments continued

Details of options/awards granted in the year

The fair value of equity-settled options/awards granted in the year has been measured using the weighted average inputs below and the following valuation models:

- Executive Share Option Plan – Binomial
- Performance Share Plan – Monte Carlo
- Restricted Share Plan – Dividend valuation

	2025	2024
Range of share price at date of grant (£)	16.73 – 17.78	9.75 – 13.36
Expected option/award life (years)	3 – 7	3 – 7
Volatility (%)	25	22
Risk-free interest rate (%)	4	4

Volatility was calculated with reference to the Group's weekly share price volatility, after allowing for dividends, for the greater of 30 weeks or for the period until vest date.

The average share price in the year was £16.99 (2024 £12.85).

29. Related party transactions

The Group has a related party relationship with its directors and key management personnel (see below), equity accounted investments (note 13) and pension schemes (note 23).

Transactions with related parties occur in the normal course of business, are priced on an arm's-length basis and settled on normal trade terms. The more significant transactions are disclosed below:

Related party	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties ¹		Management recharges ¹	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Eurofighter Jagdflugzeug GmbH	1,545	1,383	122	291	33	22	250	163	—	—
FADEC International LLC	142	131	—	—	29	19	—	—	—	—
MBDA SAS	30	23	191	127	7	2	1,938	1,807	3	3
Panavia Aircraft GmbH	36	34	4	35	1	3	2	—	—	—
BAE Systems Pension Schemes	—	—	79	18	—	—	172	187	—	—
Other	115	135	43	41	26	8	52	35	—	—
	1,868	1,706	439	512	96	54	2,414	2,192	3	3

1. Also relates to disclosures under IAS 24 Related Party Disclosures, for the parent company, BAE Systems plc. At 31 December 2025, £2,193m (2024 £1,975m) was owed by BAE Systems plc and £221m (2024 £217m) by other Group subsidiaries.

The Group also manages certain treasury functions on behalf of some of their equity accounted investments. This includes entering into foreign exchange derivatives on their behalf. In 2025, we entered into forward contracts to purchase €604m, purchase \$131m and purchase £14m worth of other currencies (2024 purchase €551m, purchase \$123m and purchase £29m worth of other currencies) on their behalf. No service fee is charged for these arrangements. In addition, £7m (2024 £8m) of finance lease receivables in note 15 relates to amounts owed from MBDA SAS, and the Group recharged costs of £1m (2024 £1m) to MBDA SAS and £2m (2024 £2m) to other equity accounted investments, in respect of property and other administrative costs.

The Group considers key management personnel, as defined under IAS 24 Related Party Disclosures, to be the members of the Group's Executive Committee and the Company's non-executive directors. Fuller disclosures on directors' remuneration are set out in the Annual remuneration report on pages 111 to 126. Total emoluments for directors and key management personnel charged to the Consolidated income statement were:

	2025 £'000	2024 £'000
Short-term employee benefits	21,931	21,155
Post-employment benefits	1,227	1,279
Share-based payments	20,000	15,724
Termination benefits	—	596
	43,158	38,754

Notes to the Consolidated financial statements *continued***30. Contingent liabilities**

Contingent liabilities are potential future cash outflows which are either not probable or cannot be measured reliably.

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business. Various Group undertakings are parties to legal actions and claims which arise in the normal course of business. Provision is made for any amounts that the directors consider may become payable (see note 24).

The Group believes that the likelihood of any significant liability arising in respect of its guarantees and performance bond arrangements, and legal actions and claims not already provided for, is remote.

Subsidiary audit exemptions

The Group has taken the exemption provided by the Companies Act 2006 (the Act) Section 479A relating to the audit of individual accounts for certain UK subsidiary companies, as outlined below:

Company	Registered company number	Company	Registered company number
Alvis Limited	00731159	BAE Systems (Overseas Holdings) Limited	02775320
BAE Systems (Corporate Air Travel) Limited	03666197	BAE Systems Enterprises Limited	00782930
BAE Systems (Dynamics) Limited	02606542	BAE Systems Land Systems (Finance) Limited	02639638
BAE Systems (Funding Two) Limited	04333003	BAE Systems Surface Ships International Limited	04380304
BAE Systems (Kazakhstan) Limited	03550759	International Military Sales Limited	02536529

BAE Systems plc will issue guarantees for all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 31 December 2025 in accordance with section 479C of the Act.

31. Acquisition of businesses

The results and financial position of the acquired business are consolidated from the date of acquisition under the requirements of IFRS 3 Business Combinations. The Group recognises and measures the acquiree's identifiable assets acquired and liabilities assumed at their acquisition-date fair values. Where the consideration paid exceeds the fair value of the assets purchased then goodwill arises and will be disclosed in the Consolidated balance sheet.

Businesses acquired during 2025

There were no material acquisitions during the year.

Businesses acquired during 2024**Ball Aerospace**

On 16 February 2024, the Group acquired 100% of the share capital of Ball Aerospace (now Space & Mission Systems) for consideration of \$5.5bn (£4.4bn). The net assets acquired, including intangible assets identified, were valued at £2,845m resulting in goodwill of £1,507m.

Kirintec

On 3 September 2024, the Group acquired 100% of the share capital of Kirintec Ltd for total consideration of £282m, including £30m of contingent consideration. The net assets acquired, including intangible assets identified, were provisionally valued at £161m resulting in provisional goodwill of £121m. The purchase price allocation for the acquisition was finalised within the current year with no significant changes. The final goodwill arising on acquisition was valued at £122m.

Other acquisitions

On 31 January 2024, the Group acquired 100% of the share capital of Malloy Aeronautics Ltd and, on 2 May 2024, the Group acquired 100% of the share capital of Callen-Lenz Associates Ltd. Total consideration was £292m including £61m of contingent consideration. The net assets acquired, including intangible assets identified, were valued at £108m resulting in goodwill of £184m at 31 December 2024. Since the 31 December 2024, the Group has adjusted the net assets acquired with Callen-Lenz Associates Ltd by £16m, which has resulted in an increase to goodwill. Total goodwill of £200m has been recognised in respect of these acquisitions.

32. Business disposals

Business disposals during 2025

There were no business disposals in 2025.

Disposal of interests in equity accounted investments during 2025

Air Astana

On 17 December 2025, the Group disposed of a portion of its 17% interest in Air Astana leaving the group with a 7% shareholding at 31 December 2025. The Group received cash proceeds of £38m and realised a profit on disposal of £12m, after accounting for the carrying value of the investment, disposal costs and currency reserve reclassifications. Following the reduction in the shareholding, the Group is no longer equity accounting for the remaining investment in Air Astana which is held within other investments, at fair value through other comprehensive income, at 31 December 2025.

Innovaero

On 11 December 2025, the Group disposed of its 51% shareholding in Innovaero Pty Ltd, previously reported in the Maritime segment. The Group received cash proceeds of £4m, there was no profit or loss on the disposal.

Business disposals during 2024

On 31 October 2024, the Group completed the sale of BAE Systems Imaging Solutions Inc., previously reported within the Electronic Systems segment and, on 31 December 2024, the Group completed the sale of its forge facilities and related services which formed the Anniston business within the Platforms & Services segment. Total net cash proceeds from the disposals were £8m and, after accounting for disposal costs and cumulative currency translation, the loss on the disposals before tax totalled £4m.

Disposal of interests in equity accounted investments during 2024

Air Astana

On 9 February 2024, Air Astana launched a joint initial public offering (IPO). As a result of the IPO, the total shareholding held by BAE Systems in Air Astana reduced from 49% to 17%. The Group received cash proceeds of £166m and realised a profit on the disposal of £75m, after accounting for the carrying value of the investment and currency reserve reclassifications.

FNSS

On 10 December 2024, the Group sold its 49% shareholding in FNSS Savunma Sistemleri A.S., FNSS was included in the Platforms & Services segment. The Group received cash proceeds of £20m and realised a profit on the disposal of £23m, after accounting for currency reserve reclassifications.

33. Events after the reporting period

There were no events after the reporting period which would materially impact the balances reported in this Report.

Notes to the Consolidated financial statements *continued***34. Information about related undertakings**

In accordance with Section 409 of the Companies Act 2006, a full list of subsidiaries, joint ventures, associated undertakings, and significant holdings in undertakings other than subsidiary undertakings of the Group at 31 December 2025 is disclosed below. All subsidiary undertakings are subsidiary undertakings of their immediate parent undertaking(s) pursuant to section 1162 (2) (a) of the Companies Act 2006 unless otherwise indicated. Unless otherwise stated, the aggregate percentage of capital held by the Group is 100%, the Group's shareholding represents ordinary shares of equal value and voting rights held indirectly by BAE Systems plc, the year end is 31 December, the country of incorporation is the United Kingdom and the address of the registered office is Victory Point, Lyon Way, Frimley, Camberley, Surrey GU16 7EX, United Kingdom. For companies incorporated outside of the United Kingdom, the country of incorporation is shown in the address. No subsidiary undertakings have been excluded from the consolidation.

Subsidiary undertakings – wholly-owned

Aircraft Research Association Limited ¹ Manton Lane, Bedford MK41 7PF, United Kingdom	BAE Systems Applied Intelligence (International) Limited Priestley Road, Surrey Research Park, Guildford, Surrey GU2 7RQ, United Kingdom	BAE Systems Electronic Systems (Overseas) Limited
Alvis Limited ²	BAE Systems Applied Intelligence A/S c/o Intertrust, (Denmark) Aps, Sundkrogsvej 21, 2100 Kobenhavn O., Denmark	BAE Systems Electronics Limited
Alvis Pension Scheme Trustees Limited ³	BAE Systems Applied Intelligence GCS Inc. 800 Towers Crescent Drive, 13th Floor #1382, Vienna, VA 22182, United States	BAE Systems Enterprises Limited ²
Alvis Vickers Limited	BAE Systems Applied Intelligence Integrated Computer Solutions (Kuwait) (S.P.C.) ⁴ Al Hamra Tower, Office Number 3503, 35th Floor, East Maqwa, Kuwait City, Kuwait	BAE Systems Executive Pension Scheme Trustees Limited ³
Armstrong Whitworth Aircraft Limited ³	BAE Systems Applied Intelligence Limited Surrey Research Park, Guildford, Surrey GU2 7RQ, United Kingdom	BAE Systems Finance Inc. United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States
ASC Shipbuilding Pty Limited Bldg 01, Level 2, 640 Mersey Road North, Osborne SA 5017, Australia	BAE Systems Applied Intelligence LLC 600 Mamaroneck Avenue #400, Harrison, Westchester County, NY 10528, United States	BAE Systems Flight Training (Australia) Pty Limited ^{4,13} Level 2, 80 Flinders Street, Adelaide SA 5000, Australia
Australian Marine Engineering Corporation (Finance) Pty Limited ⁴ Level 2, 80 Flinders Street, Adelaide SA 5000, Australia	BAE Systems Australia (Electronic Systems) Pty Limited ⁴ Level 2, 80 Flinders Street, Adelaide SA 5000, Australia	BAE Systems GCS International Limited
Avro International Aerospace Limited ³	BAE Systems Australia (NSW) Holdings Pty Limited ⁴ Level 2, 80 Flinders Street, Adelaide SA 5000, Australia	BAE Systems Global Combat Systems Munitions Limited
BAE Systems (AI Diriyah C4i) Limited ³	BAE Systems Australia (NSW) Pty Limited ⁴ Level 2, 80 Flinders Street, Adelaide SA 5000, Australia	BAE Systems Global LLC United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States
BAE Systems (Canada) Inc. 220 Laurier Avenue West, Suite 1200, Ottawa ON K1P 5Z9, Canada	BAE Systems Australia Datagate Pty Limited ⁴ Level 2, 80 Flinders Street, Adelaide SA 5000, Australia	BAE Systems Högglunds AB Bjornavagen 2, Ornskoldsvik SE-89182, Sweden
BAE Systems (Corporate Air Travel) Limited ²	BAE Systems Australia Defence Holdings Pty Limited ⁴ Level 2, 80 Flinders Street, Adelaide SA 5000, Australia	BAE Systems Hawaii Shipyards Inc. United Agent Group Inc., 900 Fort Street Mall #1680, Honolulu, HI 96819, United States
BAE Systems (Defence Systems) Limited	BAE Systems Australia Defence Pty Limited ⁹ Level 2, 80 Flinders Street, Adelaide SA 5000, Australia	BAE Systems Holding GmbH Hauptstrasse 48, 82433 Bad Kohlgrub, Germany
BAE Systems (Dynamics) Limited ²	BAE Systems Australia Holdings Limited ³ Level 2, 80 Flinders Street, Adelaide SA 5000, Australia	BAE Systems Holdings (South Africa) (Pty) Limited ⁴ Central Office Park No. 5, 257 Jean Avenue, Centurion, Gauteng, 0157, South Africa
BAE Systems (Farnborough 3) Limited	BAE Systems Australia Limited Level 2, 80 Flinders Street, Adelaide SA 5000, Australia	BAE Systems Holdings B.V. ⁴ c/o IQ-EQ, Hoogoorddreef 15, 1101 BA Amsterdam, Netherlands
BAE Systems (Finance) Limited	BAE Systems Australia Logistics Pty Limited ⁴ Level 2, 80 Flinders Street, Adelaide SA 5000, Australia	BAE Systems Holdings Inc. United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States
BAE Systems (Funding Four) Unlimited Company ^{4,5} Riverside One, Sir John Rogerson's Quay, Dublin D02 X576, Ireland	BAE Systems Australia Sea Sentinel Project Pty Limited ⁴ Level 2, 80 Flinders Street, Adelaide SA 5000, Australia	BAE Systems Holdings International LLC United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States
BAE Systems (Funding Three) Limited ⁴ C/O Interpath Ltd, 10 Fleet Place, London, EC4M 7RB, United Kingdom	BAE Systems Australia Submarines Pty Limited Level 2, 80 Flinders Street, Adelaide SA 5000, Australia	BAE Systems India (Homeland Security) Private Limited ¹⁴ #201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India
BAE Systems (Funding Two) Limited ²	BAE Systems Avionics Singapore Pte Limited 1 Marina Boulevard, #28-00, One Marina Boulevard, Singapore, 018989	BAE Systems India (Services) Private Limited ¹⁴ #201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India
BAE Systems (Gripen Overseas) Limited	BAE Systems Bofors AB SE-691 80 Karlskoga, Sweden	BAE Systems India (Technology) Private Limited ¹⁴ #201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India
BAE Systems (Holdings) Limited ³	BAE Systems Bofors Holdings Sdn Bhd Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City, Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia	BAE Systems India (Ventures) Private Limited ¹⁴ #201, 2nd Floor, World Mark 2, Asset No. 8, Aerocity, NH-8, New Delhi – 110037, India
BAE Systems (International) Limited	BAE Systems C-ITS AB Repslagaregatan 25, Linköping SE-58222, Sweden	BAE Systems Information and Electronic Systems Integration Inc. United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States
BAE Systems (Kazakhstan) Limited ²	BAE Systems Communications Solutions LLC Knowledge Oasis, Building 4, Second Floor, 0402-2427, Knowledge Oasis Muscat, PO Box 16, Postal Code 135, Muscat, Oman	BAE Systems Insurance (Isle of Man) Limited Tower House, Loch Promenade, Douglas, IM1 2LZ, Isle of Man
BAE Systems (Land and Sea Systems) Limited ⁶	BAE Systems Controls Inc. United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	BAE Systems Integrated System Technologies (KSA) Limited
BAE Systems (Malaysia) Sdn Bhd Level 25 Menara Hong Leong, No. 6 Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur, Malaysia	BAE Systems Corporate Secretary Limited	BAE Systems Integrated System Technologies (Overseas) Limited
BAE Systems (MEH) Limited	BAE Systems Creole Inc. ¹⁰ United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	BAE Systems Integrated System Technologies Limited
BAE Systems (Military Air) Overseas Limited	BAE Systems Deployed Systems Limited ¹¹	BAE Systems International Inc. United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States
BAE Systems (Nominees) Limited ³	BAE Systems Digital Intelligence (Spain) S.A. Paseo de la Castellana, 141, Cuzco IV, 28046 Madrid, Spain	BAE Systems Japan GK Ark Mori Building, 1-12-32 Akasaka, Minato-Ku, Tokyo, Japan
BAE Systems (Oman) Limited	BAE Systems Digital Intelligence Pty Limited ¹² Level 2, 14 Childers Street, Canberra, ACT 2601, Australia	BAE Systems Land & Armaments Holdings LLC United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States
BAE Systems (Operations) Limited ⁷	BAE Systems do Brasil Ltda SCN Quadra 5 Bloco A, Ed. Brasilia Shopping, Torre Norte, Sala 426, Brasilia, DF CEP:70715-900, Brazil	BAE Systems Land & Armaments Inc. United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States
BAE Systems (Operations) Singapore Pte Limited 1 Marina Boulevard, #28-00, One Marina Boulevard, Singapore, 018989		BAE Systems Land & Armaments L.P. United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States
BAE Systems (Overseas Holdings) Limited ²		
BAE Systems (Poland) Sp. z o.o. ul. Abp. A. Baraniaka 88, 61-131 Poznan, Poland		
BAE Systems (Projects) Limited		
BAE Systems (Property Investments) Limited		
BAE Systems 2000 Pension Plan Trustees Limited ³		
BAE Systems AB ⁸ Box 5676, SE-114 86 Stockholm, Sweden		
BAE Systems Air Japan KK 1-1 Katamachi, Shinjuku-ku, Tokyo, Japan		
BAE Systems Applied Intelligence (Asia Pacific) Pte Limited 101 Thomson Road, # 07-03/07, United Square, Singapore, 307591		
BAE Systems Applied Intelligence (Connect) A/S ⁴ c/o Intertrust, (Denmark) Aps, Sundkrogsvej 21, 2100 Kobenhavn O., Denmark		

34. Information about related undertakings continued

Subsidiary undertakings – wholly-owned continued

BAE Systems Land Systems (Finance) Limited ²	BAE Systems Services Limited	Corporate Secretary Subco Limited ¹⁷
BAE Systems Land Systems ATF Limited	BAE Systems Shared Services Inc. United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	Corporate Secretary Subco 1 Limited
BAE Systems Land Systems FMTV International Inc. ¹⁰ United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	BAE Systems Southeast Shipyards AMHC Inc. United Agent Group Inc., 801 US Highway 1, North Palm Beach, FL 33408, United States	Corporate Secretary Subco 2 Limited
BAE Systems Land Systems Pinzgauer (Holdings) Limited	BAE Systems Space & Mission Systems Holdings Inc. United Agent Group Inc., 201 E 4th St, Loveland, CO 80537, United States	CPS International, Inc. ¹⁰ Benedetti & Benedetti, Comosa Building, 21st Floor, PO Box 850120, Panama 5, Panama
BAE Systems Land Systems Pinzgauer Limited	BAE Systems Space & Mission Systems Inc. United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	Detica Group Limited
BAE Systems MAI Turkey Hava Sistemleri A.Ş. Beştepe Mahallesi, Dumlupınar Bulvarı, No:6 Armada İş Merkezi, A Blok, Kat:11 Ofis No: 1115-1122, Yenimahalle, Ankara, Türkiye	BAE Systems Surface Ships (Holdings) Limited	Detica Mexico S. de R.L. de C.V. Torre Esmeralda II, Blvd Manuel Avila Camacho No. 36 Piso 18, Lomas de Chapultepec, 11000 D.F., Mexico
BAE Systems Marine (Holdings) Limited	BAE Systems Surface Ships (Overseas) Limited	Detica Services, Inc. The Corporation Trust Company, 1209 Orange Street, Wilmington, DE 19801, United States
BAE Systems Marine (YSL) Limited	BAE Systems Surface Ships (Projects) Limited	Dividend Training Limited
BAE Systems Marine Limited	BAE Systems Surface Ships Integrated Support Limited	Elliott Brothers (London) Limited
BAE Systems Maritime Solutions Inc. United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	BAE Systems Surface Ships International Limited ²	ETI Engineering, Inc. 1676 International Drive, 10th Floor, Suite 1000, McLean, VA 22102, United States
BAE Systems Maritime Solutions Jacksonville LLC United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	BAE Systems Surface Ships Limited	Eurostep AB Gustavslundsvägen 137, SE-167 51 Bromma, Sweden
BAE Systems Maritime Solutions Norfolk Inc. United Agent Group Inc., 425 West Washington Street #4, Suffolk, VA 23434, United States	BAE Systems Surface Ships Projects (Malaysia) Sdn Bhd Level 29 Menara Binjai, No 2 Jalan Binjai, Off Jalan Ampang, 50450 Kuala Lumpur, Malaysia	Eurostep Limited Unit 16 Ffordd Richard Davies, St. Asaph Business Park, St. Asaph, Denbighshire LL17 0LJ, United Kingdom
BAE Systems Maritime Solutions San Diego Inc. United Agent Group Inc., 7801 Folsom Boulevard, #202 Sacramento, CA 95826, United States	BAE Systems Surface Ships Support Limited ^{4,7}	Eurostep Oy Metsänneidonkuja 12 02130 Espoo, Finland
BAE Systems Netherlands B.V. c/o IQ-EQ, Hoogoorddreef 15, 1101 BA Amsterdam, Netherlands	BAE Systems SWS Defence AB SE-691 80 Karlskoga, Sweden	Eurostep S.à.r.l. 8 rue Germain Soufflot 78180 Montigny-le-Bretonneux, France
BAE Systems Norway AS C. J. Hambros plass 2C, 0164 Oslo, Norway	BAE Systems Tactical Vehicle Systems LP United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	EVU Czech, S.R.O. Pernerova 691/42, Karlin, 186 00 Prague 8, Czech Republic
BAE Systems Oman LLC PO Box 74, Postal Code 111, Seeb, Oman	BAE Systems Technology LLC Office No. 458, Building No. 47, 90th North Street, Section 1, New Cairo, 5th Settlement, Cairo, Egypt	Gloster Aircraft Limited ³
BAE Systems OneArc Australia Pty Ltd ¹⁵ Unit 2, Building A, 2 Technology Place, Williamstown NSW 2318, Australia	BAE Systems Technology Solutions & Services Inc. United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	H-B Utveckling, H-B Development AB Osternalmmsgatan 87D, Stockholm SE 11486, 114 86, Sweden
BAE Systems OneArc Czechia k.s. Karolinská, 654/2, Karín, 186 00 Prague 8, Czech Republic	BAE Systems TVS Holdings LLC United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	Hadrian Holdings, Inc. 521 Fifth Avenue, New York, NY 101075, United States
BAE Systems OneArc Germany GmbH c/o Bird & Bird LLP, Maximilianplatz 22, 80333 München, Germany	BAE Systems Ukraine LLC 23-A Building, Yaroslaviv Val Street, Kyiv City, 01054, Ukraine	Hadrian Trustees Limited ¹
BAE Systems OneArc UK Limited 31 Hercules Way, Farnborough Aerospace Centre, Farnborough, Hampshire GU14 6UU, United Kingdom	BAE Systems Zephyr Corporation United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	Hägglunds Vehicle GmbH Hoher Holzweg 12, Hemmingen, 30966 Hemmingen, Germany
BAE Systems OneArc USA, Inc. United Agent Group Inc., 801 US Highway 1, North Palm Beach, FL 33408, United States	BAE Systems Zephyr Fifth Corporation United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	Hawker Siddeley Aviation Limited ³
BAE Systems Ordnance Systems Inc. United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	BAE Systems Zephyr Fourth Corporation United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	Hawker Siddeley Dynamics Limited ³
BAE Systems Pension Funds CIF Trustees Limited ³	BAE Systems Zephyr Second Corporation United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	High Aerospace Ltd Suite 204 Warner House, 123 Castle Street, Salisbury, Wiltshire SP1 3TB, United Kingdom
BAE Systems Pension Funds Investment Management Limited ³	BAE Systems Zephyr Third Corporation United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	HSA/HSD Pension Fund Trustees Limited ³
BAE Systems Pension Funds Trustees Limited ³	BAE Systems, Inc. United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	Hunter Aerospace Corporation Pty Limited ⁴ Level 2, 80 Flinders Street, Adelaide SA 5000, Australia
BAE Systems Project Services Limited	BIS Invest S.à.r.l. 2, Place de Strasbourg, L-2562, Luxembourg, Grand Duchy of Luxembourg	In-Space Missions Limited 8 Oriol Court, Omega Park, Alton GU34 2YT, United Kingdom
BAE Systems Projects (Canada) Limited	Bohemia Interactive Simulations GK c/o ARK OUTSOURCING KK, 4-3-5-704 Ebisu, Shibuya-ku, Tokyo, 150-0013, Japan	International Military Sales Limited ²
BAE Systems Properties Limited	Bohemia Interactive Simulations Korea Ltd c/o ARK OUTSOURCING KK, 4-3-5-704 Ebisu, Shibuya-ku, Tokyo, 150-0013, Japan	Jetstream Aircraft Limited ³ Prestwick International Airport, Prestwick, Ayrshire KA9 2RW, United Kingdom
BAE Systems Regional Aircraft Colombia SAS ⁴ c/o Brigard & Urrutia, Calle 70 A No. 4-41, Bogotá, Colombia	Bohemia Interactive Simulations sp z.o.o. ⁴ Ul. Ostrobramska 101, 04-041, Warsaw, Poland	Kirintec B.V. Prins Hendrikkade 21 E, 1012 TL, Amsterdam, Netherlands
BAE Systems Resolution Inc. United Agent Group Inc., 2595 N Dallas Pkwy Suite 350, Frisco, TX 75034, United States	Bohemia Invest One Ltd	Kirintec International DMCC Unit 2707, Indigo Icon Tower, Plot No JLT-PH1-F3A, Jumeirah Lakes Towers, Dubai, United Arab Emirates
BAE Systems S&S Operations Inc. United Agent Group Inc., 1521 Concord Pike Suite 201, Wilmington, DE 19803, United States	Bohemia Invest Two Ltd	Kirintec Limited Walter Scott House, 10, Old Gloucester Road, Ross-On-Wye, Herefordshire HR9 5PB, United Kingdom
BAE Systems Saudi America Limited Riyadh Kingdom Centre 28th Floor (REGUS), PO Box 23088, Riyadh 11321, Central Province, Riyadh, Kingdom of Saudi Arabia	British Aerospace (Far East) Limited ¹² Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong	Kirintec Sp. Zo.o ⁴ 210, 86, Hozza, Warsaw, 00-682, Poland
BAE Systems Saudi Arabia (Maintenance and Equipment Services) Limited PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia	British Aerospace (Malaysia) Sdn Bhd ¹² Unit 30-01, Level 30, Tower A, Vertical Business Suite, Avenue 3, Bangsar South, No.8, Jalan Kerinchi, 59200 Kuala Lumpur, Malaysia	Malloy Aeronautics Defense LLC 10th Floor, 100 Light Street, Baltimore, MD 21202, United States
BAE Systems Saudi Arabia (Vehicles and Equipment Holdings) Limited ³	British Aircraft Corporation (Pension Fund Trustees) Limited ³	Malloy Aeronautics Limited
BAE Systems Saudi Arabia (Vehicles and Equipment Nominees) Limited ³	British Aircraft Corporation Limited ³	MES Holdco Limited Charter Place, 23/27 Seaton Place, St. Helier, Jersey JE1 1JY
BAE Systems Saudi Limited PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia	Callen-Lenz Associates Limited ¹⁶ 3 The Old Barns Manor Farm, Chilmark, Salisbury, Wiltshire SP3 5AF, United Kingdom	MES Interco ^{4,5} C/O Interpath Limited, 10 Fleet Place, London, EC4M 7RB, United Kingdom
BAE Systems Serviços de Aviação Ltda. Rua Ambrósio Molina, No. 1090. Bloco F, Eugênio de Melo, São José dos Campos, São Paulo 12.247-000, Brazil		Meslink Limited ⁴
		Newcombe Properties Limited
		Nexus Defence Limited Walter Scott House, 10, Old Gloucester Road, Ross-On-Wye, Herefordshire, HR9 5PB, United Kingdom
		Pitch Technologies AB Repslagaregatan 25, SE-582 22 Linköping, Sweden
		Pitch Technologies Ltd Sweden House, 5 Upper Montagu Street, London W1H 2AG, United Kingdom

Notes to the Consolidated financial statements *continued***34. Information about related undertakings** *continued***Subsidiary undertakings – wholly-owned** *continued*

Prismatic Ltd⁷
2 Omega Park, Alton GU34 2QE, United Kingdom

PT. BAE Systems Services
Wisma 46, Kota BNI, 34th Floor, Suite 34.01.A,
Jl. Jenderal Sudirman Kavling 71, Jakarta 10220, Indonesia

Pulse Power and Measurement Inc.
1717 Pennsylvania Avenue, NW Suite, 1025, Washington, DC
20006, United States

Pulse Power and Measurement Limited¹⁸
65 Shrivvenham Hundred Business Park, Watchfield, Swindon,
Wiltshire SN6 8TY, United Kingdom

Representaciones SSTS, CA¹⁰
Ave Francisco de Miranda, Centro Lido El Rosal Oficina 71B,
Caracas, Venezuela

Royal Ordnance (Crown Service) Pension Scheme
Trustees Limited

Scottish Aviation Limited³
Prestwick International Airport, Prestwick, Ayrshire KA9 2RW,
United Kingdom

Shipbuilding (MSF) Pty Limited⁴
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Shipbuilding (VIC) Pty Limited⁴
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Simulation Technologies S.A.S.
8 rue de La Michodière, Paris, 75002, France

SkyCircuits Ltd
9 The Old Barns Manor Farm, Chilmark, Salisbury, Wiltshire SP3
5AF, United Kingdom

Spectacular AI Oy
Tekniikantie 14 02150, ESPOO, Uusimaa, Finland

Stewart & Stevenson TVS UK Limited

Stratsec.net Sdn Bhd
Unit F-3-1, Blok F, Third Floor, CBD Perdana 3, Jalan Perdana,
Cyber 12, 63000 Cyberjaya, Selangor Darul Ehsan, Malaysia

Support Solutions General Services and Contracting
Company/Limited Liability Company⁴
House No. 145, Street No. 1, Qtr. 611, Al Andalous Area, Al
Mansour, Baghdad, Iraq

TDS International Holdings Pty Limited^{4,15}
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

TDS International Pty Limited⁴
Level 2, 80 Flinders Street, Adelaide SA 5000, Australia

Techmodal Limited

The Blackburn Aeroplane & Motor Co Limited³

The Bristol Aviation Company Limited³

The British & Colonial Aeroplane Co. Limited³

The Supermarine Aviation Works Limited^{3,6}

Thomas Sopwith Aviation Company Limited³

VSEL Birkenhead Limited

Westover Controls Incorporated
1098 Clark Street, Endicott, NY 13760, United States

Subsidiary undertakings – not wholly-owned

Advanced National Company for Aircraft Maintenance
Limited (51%)
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

BAE Systems Arabian Industries (Capability & Training –
UK) Ltd (51%)

BAE Systems Arabian Industries (Supply Chain – UK) Ltd
(51%)

BAE Systems Arabian Industries Limited (51%)
PO Box 67775, RIYADH, 11517, Kingdom of Saudi Arabia

Granada Enterprises Limited (51%)
Al Arid Business Center, 7611 King Abdulaziz Road, Al Arid
District, Riyadh, 13342, Kingdom of Saudi Arabia

Hadrian Properties, Inc. (95%)
521 Fifth Avenue, New York, NY 101075, United States

International Systems Engineering Company Limited
(46.2%)¹⁹
Al Arid Business Center, 7611 King Abdulaziz Road, Al Arid
District, Riyadh, 13342, Kingdom of Saudi Arabia

Overhaul and Maintenance Company Holding (51%)
Al Arid Business Center, 7611 King Abdulaziz Road, Al Arid
District, Riyadh, 13342, Kingdom of Saudi Arabia

Saudi Technology & Logistics Services Limited (65%)³
PO Box 1732, Riyadh 11441, Kingdom of Saudi Arabia

TMB International Logistics Limited (51%)

Equity accounted investments

Abercromby Property International (20.42%)
521 Fifth Avenue, New York, NY 101075, United States

AMSH B.V. (50%)²⁰
De Lairessestraat 145 E, Amsterdam, 1075 HJ, Netherlands

BAE Systems Strategic Aerospace Services Limited
(49%)
C/O TMF Group, 8th Floor, 20 Farringdon Street, London, EC2R
7HJ, United Kingdom

BAE Systems Strategic Aerospace Services SPC (49%)
Al Koudh, A' Seeb, Muscate Governate, PO Box 4245, Post Code
111, Oman

BAE Systems Strategic Aerospace Services WLL (49%)
Floor 3, Building 2, Street 984, Area 3, Doha, Qatar

BAeHAL Software Limited (40%)^{3,14}
Airport Lane, HAL Estate, Bangalore 560010, India

BHIC Bofors Defense Asia Sdn Bhd (49%)
Level 21, Suite 21.01, The Gardens South Tower, Mid Valley City,
Lingkaran Syed Putra, 59200 Kuala Lumpur, Malaysia

BSL LLC (49%)
Office No. 38, Floor 4, The Gate Tower 4, No. 8, Doha, Qatar

BSL Teknoloji Ve Danışmanlık Hizmetleri Anonim Şirketi
(49%)
Beştepe Mah. Nergiz SK. No:7/2 İç Kapi No: 96 Yenimahalle /
Ankara, Türkiye

Canadian Naval Support Limited (50%)²¹
1741 Lower Water Street, Halifax, Nova Scotia, B3J 0J2, Canada

CTA International SAS (50%)
13 Route De La Minière, 78034 Versailles Cedex, France

Data Link Solutions L.L.C. (50%)¹²
United Agent Group Inc., 1521 Concord Pike Suite 201,
Wilmington, DE 19803, United States

Edgewing Systems Italy S.P.A. (33.33%)
Torino (TO) Corso Francia, 426 CAP, 10146, Italy

Edgewing Systems Japan KK (33.33%)
20-15, Nishiki 2-chome, Naka Ward, Nagoya City, Japan

Edgewing Systems Limited (33.33%)²²
350 Brook Drive, Green Park, Reading, Berkshire, RG2 6UH,
United Kingdom

Edgewing Systems UK Limited (33.33%)
350 Brook Drive, Green Park, Reading, Berkshire, RG2 6UH,
United Kingdom

Eurofighter Jagdflugzeug GmbH (33.33%)³
Am Soldnermoos 17, 85399 Hallbergmoos, Germany

FADEC Alliance LLC (25%)
United Agent Group Inc., 1521 Concord Pike Suite 201,
Wilmington, DE 19803, United States

FADEC International LLC (50%)
United Agent Group Inc., 1521 Concord Pike Suite 201,
Wilmington, DE 19803, United States

FAST Holdings Limited (50%)^{14,15}

FAST Training Services Limited (50%)¹⁴

KBS Maritime Limited (50%)²³
Victory Building (Pp 72), Rm. 233, The Parade, HM Naval Base,
Portsmouth PO1 3LS, United Kingdom

MBDA B.V. (37.5%)
De Lairessestraat 145 E, Amsterdam, 1075 HJ, Netherlands

MBDA Holdings S.A.S. (25%)
1 Avenue Réaumur, 92350 Le Plessis-Robinson, France

MBDA S.A.S. (37.5%)
4 Rue de Presbourg, 75116, Paris, France

Nobeli Business Support AB (34%)
SE-691 80 Karlskoga, Sweden

Panavia Aircraft GmbH (42.5%)³
Am Soldnermoos 17, 85399 Hallbergmoos, Germany

Promoveo Solutions JV LLC (49%)
United Agent Group Inc., 1521 Concord Pike Suite 201,
Wilmington, DE 19803, United States

Reaction Engines Limited (15.3%)²⁴
8th Floor, 29 Wellington Street, Central Square, Leeds, LS1 4DL,
United Kingdom

Rheinmetall BAE Systems Land Limited (45%)
RBSL, Hadley Castle Works, Telford, Shropshire, TF1 9AY, United
Kingdom

Saab Bofors Test Center AB (30%)
Box 418, SE-691 27 Karlskoga, Sweden

Winner Developments Limited (33.3%)

Notes

- Company limited by guarantee.
- Company exempt from audit by virtue of the Companies Act 2006 Section 479A for the year ended 31 December 2025. Also see note 30.
- Directly owned by BAE Systems plc.
- In liquidation.
- Unlimited company.
- Ownership held in class of A shares, B shares and preference shares.
- Ownership held in class of A shares and B shares.
- Ownership held in ordinary shares and preference shares.
- Ownership held in ordinary shares and redeemable preference shares.
- Ownership held in authorized shares.
- 40% directly owned by BAE Systems plc.
- Year end 30 September.
- Ownership held in ordinary shares, ordinary A and ordinary B shares.
- Year end 31 March.
- Ownership held in ordinary A shares.
- Ownership held in ordinary, ordinary A, ordinary B, ordinary C, preference A and preference B shares.
- In strike-off.
- Ownership held in class of A, B, C, D, E, F and G ordinary shares.
- Subsidiary due to unilateral controlling rights.
- Ownership held in class of B shares.
- Ownership held in common shares (50%) and B Preferred shares (100%).
- Ownership held in 100% Class A Economic shares and 33.33% Class D voting shares.
- Ownership held in ordinary shares (50%) and preference shares (75%).
- In administration.

Company statement of changes in equity for the year ended 31 December

	Note	Issued share capital £m	Share premium £m	Other reserves £m	Retained earnings ¹ £m	Total equity £m
At 1 January 2024		81	1,253	214	3,030	4,578
<i>Profit for the year</i>		—	—	—	1,560	1,560
<i>Total other comprehensive income for the year</i>		—	—	1	32	33
Total comprehensive income for the year		—	—	1	1,592	1,593
Share-based payments	10	—	—	—	144	144
Purchase of own shares	9	(1)	—	1	(551)	(551)
Ordinary share dividends ²		—	—	—	(937)	(937)
At 31 December 2024		80	1,253	216	3,278	4,827
<i>Profit for the year</i>		—	—	—	1,847	1,847
<i>Total other comprehensive expense for the year</i>		—	—	(4)	(32)	(36)
Total comprehensive (expense)/income for the year		—	—	(4)	1,815	1,811
Share-based payments	10	—	—	—	174	174
Purchase of own shares	9	(1)	—	1	(502)	(502)
Ordinary share dividends ²		—	—	—	(1,027)	(1,027)
At 31 December 2025		79	1,253	213	3,738	5,283

1. The non-distributable portion of retained earnings is £1,284m (2024 £1,148m).

2. Details of ordinary share dividends are provided in note 25 to the Consolidated financial statements.

Company balance sheet as at 31 December

	Note	2025 £m	2024 £m
Non-current assets			
Intangible assets		12	9
Right-of-use assets		10	13
Investments in subsidiary undertakings and participating interests	2	10,395	10,258
Amounts owed by subsidiary undertakings	3	8,132	9,440
Other receivables	3	33	39
Post-employment benefit surpluses	8	155	150
Other financial assets	4	360	383
		19,097	20,292
Current assets			
Trade and other receivables	3	48	167
Current tax		—	13
Other financial assets	4	289	380
Cash and cash equivalents		2,768	2,584
		3,105	3,144
Total assets		22,202	23,436
Non-current liabilities			
Loans	5	(6,270)	(6,724)
Lease liabilities		(9)	(12)
Other payables	6	(4)	(4)
Post-employment benefit obligations	8	(89)	(74)
Other financial liabilities	4	(331)	(293)
Provisions	7	(137)	(132)
		(6,840)	(7,239)
Current liabilities			
Loans	5	(72)	(77)
Lease liabilities		(4)	(4)
Trade and other payables	6	(9,703)	(10,920)
Current tax		(11)	—
Other financial liabilities	4	(287)	(368)
Provisions	7	(2)	(1)
		(10,079)	(11,370)
Total liabilities		(16,919)	(18,609)
Net assets		5,283	4,827
Capital and reserves			
Issued share capital	9	79	80
Share premium		1,253	1,253
Other reserves	9	213	216
Retained earnings ¹		3,738	3,278
Total equity		5,283	4,827

1. The Company's profit for the year was £1,847m (2024 £1,560m).

Approved by the Board of directors of BAE Systems plc on 17 February 2026 and signed on its behalf by:

C N Woodburn
Chief Executive

B M Greve
Chief Financial Officer

Notes to the Company financial statements

1. Preparation of the Company financial statements

Basis of preparation

The directors have a reasonable expectation that the Company has adequate resources to continue its operational existence for at least 12 months from the signing of the accounts, notwithstanding the net current liabilities of £6,974m. Therefore, the financial statements of BAE Systems plc have been prepared on a going concern basis, as disclosed in the Strategic report on page 73, and in accordance with Financial Reporting Standard (FRS) 101, Reduced Disclosure Framework.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted International Financial Reporting Standards (IFRS), but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions have been taken:

- the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 Share-based Payment;
- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 Business Combinations;
- the requirements of paragraph 33(c) of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases and the requirements of paragraph 58 of IFRS 16 Leases;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements, to present comparative information in respect of: paragraph 53(a), (h) and (j) of IFRS 16 Leases; paragraph 79(a)(iv) of IAS 1; paragraph 73(e) of IAS 16 Property, Plant and Equipment; paragraph 118(e) of IAS 38 Intangible Assets; and paragraphs 76 and 79(d) of IAS 40 Investment Property;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 1 to 44E, 44H(b)(ii) and 45 to 63 of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures, to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly-owned by such a member;
- the requirements of paragraph 74A(b) of IAS 16 Property, Plant and Equipment;
- the requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets; and
- the requirements of paragraphs 88C and 88D of IAS 12 Income Taxes.

The Company intends to continue to prepare its financial statements in accordance with FRS 101.

In accordance with Section 408(3) of the Companies Act 2006, the Company is exempt from the requirement to present its own income statement. The amount of profit for the year of the Company is disclosed in the Company balance sheet.

The Company financial statements are presented in pounds sterling and, unless stated otherwise, rounded to the nearest million. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments).

Material accounting policies

The material accounting policies applied in the preparation of these individual financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Investments in subsidiary undertakings and participating interests

Fixed asset investments in shares in subsidiary undertakings and participating interests are stated at cost less provision for impairment.

The Company recognises an increase in its investments in subsidiary undertakings in respect of the cost of share-based payment awards issued by the Company to employees of the Company's operating subsidiaries, with a corresponding entry to equity.

Amounts owed by subsidiary undertakings

Amounts owed by subsidiary undertakings are stated at amortised cost including a provision for expected credit losses. For the purposes of impairment assessment, amounts to subsidiary undertakings are considered low credit risk and, therefore, the Company measures the provision at an amount equal to 12-month expected credit losses.

Other material accounting policies

Other material accounting policies are consistent with the Consolidated financial statements.

Judgements and sources of estimation uncertainty

In the course of preparing the financial statements, no judgements have been made in the process of applying the Company's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the Company financial statements.

Notes to the Company financial statements *continued***1. Preparation of the Company financial statements** *continued***Key sources of estimation uncertainty****Post-employment benefits**

A number of actuarial assumptions are made in assessing the value of post-employment benefit obligations, including discount rate, inflation rate and mortality assumptions. For each of the actuarial assumptions used there is a wide range of possible values and management estimates a point within that range that most appropriately reflects the Group's circumstances.

If estimates relating to these actuarial assumptions are no longer valid or change due to changing economic and social conditions, then the potential obligations due under these schemes could change significantly.

Discount and inflation rates could change significantly as a result of a prolonged economic downturn, monetary policy decisions and interventions or other macroeconomic issues. Estimates made with regard to mortality projections may also change based on medical and epidemiological developments.

Similarly, the values of many assets are subject to estimates and assumptions, in particular those which are held in unquoted pooled investment vehicles. The associated fair value of these unquoted pooled investments is estimated with consideration of the most recently available valuations provided by the investment or fund managers. These valuations inherently incorporate a number of assumptions on the underlying investments. The overall level of estimation uncertainty in valuing these assets could therefore give rise to a material change in valuation within the next 12 months.

Furthermore, estimates are required around the Group's ability to access its defined benefit surpluses, and on what basis, which then determines the associated rate of tax to apply. Depending on the outcome, judgement is then required to determine the presentation of any tax payable in recovering a surplus.

Note 23 of the Consolidated financial statements provides information on the key assumptions and analysis of their sensitivities.

Changes in accounting policies

In the current year, the Company has applied the amendments to IAS 21 Lack of Exchangeability, effective from 1 January 2025. This has not had a material impact on the Company.

2. Investments in subsidiary undertakings and participating interests

	£m
Cost	
At 1 January 2025	10,264
Additions	137
At 31 December 2025	10,401
Impairment provisions	
At 1 January 2025 and 31 December 2025	6
Net carrying value	
At 31 December 2025	10,395
At 31 December 2024	10,258

3. Trade and other receivables

	2025 £m	2024 £m
Non-current		
Amounts owed by subsidiary undertakings ¹	8,132	9,440
Other receivables	33	39
	8,165	9,479
Current		
Prepayments	23	12
Accrued income	17	14
Other receivables	8	141
	48	167

1. Amounts owed by subsidiary undertakings are repayable on demand. While the majority of these receivables are interest free, certain balances bear interest priced on an arm's-length basis. Provision for expected credit losses is immaterial.

4. Other financial assets and liabilities

	2025		2024	
	Assets £m	Liabilities £m	Assets £m	Liabilities £m
Non-current				
Cash flow hedges – foreign exchange contracts	–	–	2	–
Other foreign exchange/interest rate contracts	280	(254)	271	(272)
Debt-related derivative financial instruments	80	(77)	110	(21)
	360	(331)	383	(293)
Current				
Cash flow hedges – foreign exchange contracts	–	–	2	–
Other foreign exchange/interest rate contracts	289	(287)	378	(368)
	289	(287)	380	(368)

Included within other foreign exchange contracts are derivatives entered into on behalf of subsidiaries. These derivatives were passed down to the hedging subsidiary using an internal derivative with equal but opposite terms to the external derivatives, and valued using the same methodology as the external derivatives. The majority of such derivatives were designated in cash flow hedges in the Consolidated financial statements. Disclosures in respect of the maturity profile and fair value of other financial assets and liabilities are provided in notes 16 and 27 to the Consolidated financial statements.

5. Loans

	2025 £m	2024 £m
Non-current		
US\$800m 5% bond, repayable 2027	593	636
US\$1,250m 5.125% bond, repayable 2029	926	993
US\$1,300m 3.4% bond, repayable 2030	962	1,032
US\$1,000m 1.9% bond, repayable 2031	740	793
US\$500m 5.25% bond, repayable 2031	370	397
US\$1,500m 5.3% bond, repayable 2034	1,107	1,187
US\$400m 5.8% bond, repayable 2041	295	317
US\$1,000m 3% bond, repayable 2050	731	784
US\$750m 5.5% bond, repayable 2054	546	585
	6,270	6,724
Current		
Accrued interest	72	77

6. Trade and other payables

	2025 £m	2024 £m
Non-current		
Other payables	4	4
Current		
Amounts owed to subsidiary undertakings ¹	7,360	8,843
Amounts owed to equity accounted investments	2,193	1,975
Accruals	71	64
Deferred income	17	12
Other payables	62	26
	9,703	10,920

1. Amounts owed to subsidiary undertakings are repayable on demand. While the majority of these payables are interest free, certain balances incur interest priced on an arm's-length basis.

Notes to the Company financial statements *continued***7. Provisions**

	Contractual and other £m
Non-current	132
Current	1
At 1 January 2025	133
Created	1
Net present value adjustments	5
At 31 December 2025	139
Represented by:	
Non-current	137
Current	2
	139

The Company holds provisions for contractual costs that it expects to incur over an extended period. These costs are based on past experience of similar items and represent management's best estimate of the likely outcome, but the timing and amount of the outflows could differ significantly from management's estimates.

8. Post-employment benefits

The Company participates in all of the Group's UK pension schemes. Regular contributions to the schemes are made in line with the schedule of contributions and a share of deficit funding is allocated to participating employers. In the event of deficits arising, the costs of the deficit repair would be allocated to participating employers. Full disclosures relating to these schemes are given in note 23 to the Consolidated financial statements.

Amounts recognised on the balance sheet

The table below shows the Company's share of the Group's UK pension schemes after allocation to other participating employers.

	2025 £m	2024 £m
Present value of unfunded obligations	(89)	(74)
Present value of funded obligations	(1,498)	(1,554)
Fair value of scheme assets	1,705	1,754
Total gross surplus	118	126
Withholding tax on surpluses	(52)	(50)
Surplus	66	76
Represented by:		
Post-employment benefit surpluses	155	150
Post-employment benefit obligations	(89)	(74)
	66	76

Surplus recognition

A number of schemes are in an accounting surplus position. The surpluses have been recognised on the basis that the future economic benefits are unconditionally available to the Group, which is assumed to be via a refund. The surplus has been recognised net of withholding tax of 25% as at 31 December 2025 (2024 25%). This tax would be levied prior to the future refunding of any surplus, and therefore the surplus has been presented on a net basis as this is not deemed to be an income tax of the Group.

9. Share capital and other reserves

Share capital and equity dividends

Disclosures in respect of the Company's share capital and on equity dividends are provided in note 25 to the Consolidated financial statements.

Other reserves

	Statutory reserve	Capital redemption reserve	Hedging reserve	Total
	£m	£m	£m	£m
At 1 January 2024	202	9	3	214
Amounts recognised in hedging reserve	—	—	1	1
Shares cancelled	—	1	—	1
At 31 December 2024	202	10	4	216
Amounts recognised in hedging reserve	—	—	(4)	(4)
Shares cancelled	—	1	—	1
At 31 December 2025	202	11	—	213

Statutory reserve

Under Section 4 of the British Aerospace Act 1980, this reserve may only be applied in paying up unissued shares of the Company to be allotted to members of the Company as fully paid bonus shares.

Capital redemption reserve

The capital redemption reserve represents the cumulative nominal value of the Company's ordinary shares repurchased and subsequently cancelled.

Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Purchase of own shares

In July 2022, the directors approved a share buyback programme of up to £1.5bn (the 2022 share buyback programme). The 2022 share buyback programme was completed on 24 July 2024. In total, 163,907,003 ordinary shares were repurchased under the 2022 share buyback programme for a total cost (including transaction costs) of £1,508m.

In August 2023, the directors approved a further share buyback programme of up to £1.5bn (the 2023 share buyback programme). The 2023 share buyback programme commenced on 25 July 2024. The 2023 share buyback programme is expected to complete within three years of its commencement.

In the year ended 31 December 2024, 22,220,182 ordinary shares were repurchased under the 2022 share buyback programme for a total cost (including transaction costs) of £287m. A further 20,901,154 ordinary shares were repurchased under the 2023 share buyback programme at a total cost (including transaction costs) of £264m.

In the year ended 31 December 2025, 29,595,214 ordinary shares were repurchased under the 2023 share buyback programme at a total cost (including transaction costs) of £502m.

All ordinary shares acquired have been subsequently cancelled, with the nominal value of ordinary shares cancelled deducted from share capital against the capital redemption reserve.

As part of the 2022 and 2023 buyback programmes, it was agreed that should a better alternative use for the Company's cash reserves be identified, the share buyback programmes would be ceased and the money instead used for the alternative purpose. Therefore, when the Company issued a mandate to the brokers to purchase shares on its behalf, the mandate was structured such that it could be revoked at any point. As such, no financial liability has been recognised for shares not yet purchased under the programmes at 31 December.

10. Share-based payments

Options over shares of the Company have been granted to employees of the Company under various plans. Details of the terms and conditions of each share-based payment plan are given in the Annual remuneration report on pages 111 to 126.

	2025		2024	
	Range of exercise price of outstanding options £	Weighted average remaining contracted life Years	Range of exercise price of outstanding options £	Weighted average remaining contracted life Years
Executive Share Option Plan (ExSOP)	4.85 – 7.83	5	4.85 – 7.83	6
Performance Share Plan (PSP)	—	5	—	5
Restricted Share Plan (RSP)	—	4	—	4

The average share price in the year was £16.99 (2024 £12.85).

Notes to the Company financial statements *continued*

11. Employees

The average and year-end numbers of employees of the Company at 31 December 2025 were 1,532 (2024 1,363) and 1,619 (2024 1,447) respectively. All of the Company's employees work within head office functions.

Total staff costs, excluding charges for share-based payments, were as follows:

	2025 £m	2024 £m
Wages and salaries	143	127
Social security costs	28	22
Pension costs - defined contribution plans	7	9
Pension costs - defined benefit plans	11	13
	189	171

12. Other information

Company audit fee

Fees payable to the Company's auditor for the audit of the Company's annual accounts totalled £3,149,000 (2024 £3,145,000). Fees payable to Deloitte LLP and its associates for non-audit services to the Company are not required to be disclosed because the Consolidated financial statements disclose such fees on a consolidated basis (see note 3 to the Consolidated financial statements).

Related party transactions

Disclosures in respect of related party transactions are provided in note 29 to the Consolidated financial statements.

Directors' emoluments

Under Schedule 5 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 5), total directors' emoluments, excluding Company pension contributions, were £11,747,952 (2024 £11,542,570); these amounts are calculated on a different basis to emoluments in the Annual remuneration report which are calculated under Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (Schedule 8). These emoluments were paid for their services on behalf of the BAE Systems Group. No emoluments related specifically to their work for the Company. Under Schedule 5, the aggregate gains made by the directors from the exercise of share options in 2025 as at the date of exercise was £2,424,436 (2024 £4,439,876) and the net aggregate value of assets received by directors in 2025 from Long-Term Incentive Plans as calculated at the date of vesting was £31,004,827 (2024 £21,067,185); these amounts are calculated on a different basis from the valuation of share plan benefits under Schedule 8 in the Annual remuneration report. Retirement benefits are accruing to one director in respect of defined benefit schemes and to three directors in respect of defined contribution schemes.

Subsidiary guarantees

Borrowings by subsidiary undertakings totalling £943m (2024 £1,611m), which are included in the Group's borrowings, have been guaranteed by the Company. The probability of these financial guarantees being called is considered to be remote and therefore the fair value is deemed to be negligible.

Information about related undertakings

In accordance with Section 409 of the Companies Act 2006, a full list of the Company's subsidiaries and significant holdings is included in note 34 to the Consolidated financial statements.

13. Events after the reporting period

There were no events after the reporting period which would materially impact the balances reported in the Company financial statements.

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Alternative performance measures

We monitor the underlying financial performance of the Group using APMs. These measures are not defined in IFRS and, therefore, are considered to be non-GAAP (Generally Accepted Accounting Principles) measures. Accordingly, the relevant IFRS measures are also presented where appropriate.

The Group uses these APMs as a mechanism to support year-on-year business performance and cash generation comparisons, and to enhance management's planning and decision-making on the allocation of resources. The APMs are also used to provide information in line with the expectations of investors, and when setting guidance on expected future business performance. The Group presents these measures to the users to enhance their understanding of how the business has performed within the year, and does not consider them to be more important than, or superior to, their equivalent IFRS measures. As each APM is defined by the Group, they may not be directly comparable with equivalently named measures in other companies.

Purpose, definitions, breakdowns and reconciliations to the relevant statutory measure, where appropriate, are included below.

Sales

Purpose

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

Definition

Revenue plus the Group's share of revenue of equity accounted investments, excluding subsidiaries' revenue from equity accounted investments.

Reconciliation of sales to revenue

	2025 £m	2024 £m
Sales ^{KPI}	30,662	28,335
Deduct: Group's share of revenue of equity accounted investments	(4,194)	(3,729)
Add: Subsidiaries' revenue from equity accounted investments	1,868	1,706
Revenue	28,336	26,312

Underlying EBIT

Purpose

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

Definition

Operating profit excluding amortisation of programme, customer-related and other intangible assets (see note 10 to the Consolidated financial statements), impairment of equity accounted investments and intangible assets, net finance costs and tax expense of equity accounted investments (EBIT) and adjusting items. The exclusion of amortisation of acquisition-related intangible assets is to allow consistent comparability internally and externally between our businesses, regardless of whether they have been grown organically or via acquisition.

Reconciliation of underlying EBIT to operating profit

	2025 £m	2024 £m
Underlying EBIT ^{KPI}	3,322	3,015
Adjusting items	40	23
Amortisation of programme, customer-related and other intangible assets, and impairment of equity accounted investments and intangible assets	(414)	(344)
Net finance income of equity accounted investments	60	59
Tax expense of equity accounted investments	(83)	(68)
Operating profit	2,925	2,685

Return on sales

Purpose

Provides a measure of operating profitability, excluding one-off events, to enable management to monitor the performance of recurring operations over time, and which is comparable across the Group.

Definition

Underlying EBIT as a percentage of sales. Also referred to as margin.

	2025 £m	2024 £m
Sales ^{KPI}	30,662	28,335
Underlying EBIT ^{KPI}	3,322	3,015
Return on sales	10.8%	10.6%

Underlying earnings per share (EPS)

Purpose

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

Definition

Profit for the year attributable to shareholders, excluding post-tax impact of amortisation of programme, customer-related and other intangible assets, impairment of equity accounted investments and intangible assets, non-cash finance movements on pensions and financial derivatives, and adjusting items attributable to shareholders, being underlying earnings, divided by number of shares as defined for Basic EPS in accordance with IAS 33 Earnings per Share.

Reconciliation of underlying earnings to profit attributable to equity shareholders

	2025 £m	2024 £m
Underlying earnings for the year attributable to equity shareholders	2,253	2,065
Adjustments:		
Adjusting items	40	23
Amortisation of programme, customer-related and other intangible assets, and impairment of equity accounted investments and intangible assets	(414)	(344)
Net interest income on post-employment benefit obligations	57	20
Fair value and foreign exchange adjustments on financial instruments and investments	34	82
Tax impact of adjustments	92	110
Profit for the year attributable to equity shareholders	2,062	1,956

Reconciliation of underlying EBIT to underlying earnings

	2025 £m	2024 £m
Underlying EBIT ^{KPI}	3,322	3,015
Group and equity accounted investments' underlying net finance costs (see reconciliation on page 218)	(384)	(396)
Underlying tax expense (see reconciliation on page 218)	(596)	(469)
Underlying profit for the year	2,342	2,150
Deduct: Non-controlling interests	(89)	(85)
Underlying earnings for the year attributable to equity shareholders	2,253	2,065
Weighted average number of ordinary shares used in calculating basic EPS (note 8 to the Consolidated financial statements)	2,997	3,013
Underlying EPS – basic ^{KPI}	75.2p	68.5p
Weighted average number of ordinary shares used in calculating diluted EPS (note 8 to the Consolidated financial statements)	3,031	3,053
Underlying EPS – diluted	74.3p	67.6p

Adjusting items

Purpose

To adjust items of financial performance from the reported underlying results which have been determined by management as being material by their size or incidence and not relevant to an understanding of the Group's underlying business performance.

Definition

Adjusting items include profit or loss on business transactions, the impact of substantively enacted tax rate changes, and costs incurred which are one-off in nature, for example non-routine costs or income relating to post-retirement benefit schemes, and other items which management has determined as not being relevant to an understanding of the Group's underlying business performance.

	2025 £m	2024 £m
Net profit on business disposals	12	94
Net gain related to plan amendments / settlements on pension schemes	51	13
Acquisition and integration-related costs	(22)	(72)
Other	(1)	(12)
Adjusting items	40	23

Alternative performance measures *continued*

Underlying net finance costs

Purpose

Provides a measure of net finance costs associated with the operational borrowings of the Group that is comparable over time.

Definition

Net finance costs for the Group and its share of equity accounted investments, excluding net interest income/expense on post-employment benefit obligations and fair value and foreign exchange adjustments on financial instruments.

	2025 £m	2024 £m
Net finance costs – Group	(353)	(353)
Deduct:		
Net interest income on post-employment benefit obligations	(54)	(18)
Fair value and foreign exchange adjustments on financial instruments	(35)	(84)
Underlying net finance costs – Group	(442)	(455)
Net finance income – equity accounted investments	60	59
(Deduct)/add back:		
Net interest income on post-employment benefit obligations	(3)	(2)
Fair value and foreign exchange adjustments on financial instruments	1	2
Underlying net finance income – equity accounted investments	58	59
Total of Group and equity accounted investments' underlying net finance costs	(384)	(396)

Underlying effective tax rate

Purpose

Provides a measure of tax expense for the Group, excluding one-off items, that is comparable over time.

Definition

Tax expense for the Group and its share of equity accounted investments, excluding any one-off tax benefit/expense related to adjusting items and other items excluded from underlying EBIT, as a percentage of underlying profit before tax.

Calculation of the underlying effective tax rate

	2025 £m	2024 £m
Underlying EBIT KPI (see reconciliation on page 216)	3,322	3,015
Group and equity accounted investments' underlying net finance costs (see reconciliation above)	(384)	(396)
Underlying profit before tax	2,938	2,619
Group tax expense	(421)	(291)
Tax expense of equity accounted investments	(83)	(68)
Exclude:		
Tax effect of taxable adjusting items	10	(33)
Tax effect of other items excluded from underlying profit	(102)	(77)
Underlying tax expense	(596)	(469)
Underlying effective tax rate	20%	18%

Free cash flow

Purpose

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

Definition

Net cash flow from operating activities, including dividends received from equity accounted investments, interest paid, net of interest received, net capital expenditure and financial investments, and principal elements of lease payments and receipts.

Reconciliation from free cash flow to net cash flow from operating activities

	2025 £m	2024 £m
Free cash flow ^{KPI}	2,158	2,505
Add back:		
Interest paid, net of interest received	433	413
Net capital expenditure and financial investment	959	987
Principal element of lease payments and receipts	181	178
Deduct:		
Dividends received from equity accounted investments	(299)	(158)
Net cash flow from operating activities	3,432	3,925

Operating business cash flow

Purpose

Provides a measure of cash generated by the Group's operations, which is comparable across the Group, to service debt and meet tax obligations, and in turn available for use in line with the Group's capital allocation policy.

Definition

Net cash flow from operating activities excluding tax paid net of research and development expenditure credits received and including net capital expenditure (net of proceeds from funding of assets) and lease principal amounts, financial investment and dividends from equity accounted investments.

Reconciliation from operating business cash flow to net cash flow from operating activities

	2025 £m	2024 £m
Operating business cash flow	2,787	3,093
Add back:		
Net capital expenditure and financial investment	959	987
Principal element of lease payments and receipts	181	178
Deduct:		
Dividends received from equity accounted investments	(299)	(158)
Tax paid net of research and development expenditure credits received	(196)	(175)
Net cash flow from operating activities	3,432	3,925

Reconciliation of operating business cash flow to net cash flow from operating activities by reporting segment

	Operating business cash flow		Deduct: Dividends received from equity accounted investments		Add back: Net capital expenditure, lease principal amounts and financial investment		Net cash flow from operating activities	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Electronic Systems	1,337	801	(11)	(11)	245	254	1,571	1,044
Platforms & Services	166	732	—	(1)	226	245	392	976
Air	904	1,243	(278)	(138)	247	254	873	1,359
Maritime	373	436	(10)	(8)	310	306	673	734
Cyber & Intelligence	59	139	—	—	56	55	115	194
HQ	(52)	(258)	—	—	56	51	4	(207)
	2,787	3,093	(299)	(158)	1,140	1,165	3,628	4,100
Tax paid net of research and development expenditure credits received							(196)	(175)
Net cash flow from operating activities							3,432	3,925

Alternative performance measures *continued*

Net debt (excluding lease liabilities)

Purpose

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

Definition

Cash and cash equivalents, less loans (including debt-related derivative financial instruments). Net debt does not include lease liabilities.

Components of net debt (excluding lease liabilities)

	2025 £m	2024 £m
Cash and cash equivalents	3,438	3,378
Debt-related derivative financial instruments (net)	3	89
Loans – non-current	(7,190)	(7,713)
Loans – current	(95)	(699)
Net debt (excluding lease liabilities) ^{KPI}	(3,844)	(4,945)

Order intake

Purpose

Allows management to monitor the order intake of the Group together with its equity accounted investments, providing insight into future years' sales performance.

Definition

Funded orders received from customers including the Group's share of order intake of equity accounted investments.

	2025 £bn	2024 £bn
Order intake ^{KPI}	36.8	33.7

Order backlog

Purpose

Supports future years' sales performance of the Group together with its equity accounted investments.

Definition

Funded and unfunded unexecuted customer orders including the Group's share of order backlog of equity accounted investments. Unfunded orders include the elements of US multi-year contracts for which funding has not been authorised by the customer.

Reconciliation of order backlog, as defined by the Group, to order book¹

	2025 £bn	2024 £bn
Order backlog, as defined by the Group	83.6	77.8
Deduct:		
Unfunded order backlog	(5.6)	(5.3)
Share of order backlog of equity accounted investments	(20.5)	(16.6)
Add back: Order backlog in respect of orders from equity accounted investments	5.6	4.5
Order book¹	63.1	60.4

1. Order book represents the transaction price allocated to unsatisfied and partially satisfied performance obligations as defined by IFRS 15 Revenue from Contracts with Customers.

Other information

Double materiality assessment

In 2024, we conducted our first double materiality assessment to support future compliance with any reporting under the EU Corporate Sustainability Reporting Directive.

As part of this, we conducted interviews with employees, trade unions, suppliers, customers, investors, local interest groups and non-governmental organisations, as well as peer reviews and desktop research.




Output from this assessment is below, including where to find information on material sustainability issues identified within this report. All material issues are consistent with our last materiality assessment and are addressed within our sustainability agenda and risk management framework.

Material issue	Signpost to principal risk	Where can information be found in the report
Environment		
1. Climate change adaptation Identifying climate change-related risks and adapting our operations and value chain to address risk	Climate change and environmental factors Business interruption	<ul style="list-style-type: none"> ➤ Climate and the environment page 56 ➤ Environmental, Social and Governance Committee report page 101 ➤ Task Force on Climate-related Financial Disclosures page 222
2. Climate change mitigation Identifying climate change-related risks and mitigating risk in our operations and value chain	Climate change and environmental factors	
3. Biodiversity and ecosystems	Climate change and environmental factors	
4. Waste (hazardous/non-hazardous)	Climate change and environmental factors	
5. Pollution	Climate change and environmental factors	
Social		
6. Health, safety and employee wellbeing	Safety	<ul style="list-style-type: none"> ➤ Our investment in our people and communities page 50 ➤ Environmental, Social and Governance Committee report page 101
7. Human capital management	People	<ul style="list-style-type: none"> ➤ Our investment in our people and communities page 50 ➤ Environmental, Social and Governance Committee report page 101 ➤ Remuneration Committee report page 104
8. Rights of employees	People	<ul style="list-style-type: none"> ➤ Our investment in our people and communities page 50 ➤ Environmental, Social and Governance Committee report page 101
9. Training and skills development	People	<ul style="list-style-type: none"> ➤ Our investment in our people and communities page 50
10. Labour rights and working conditions in the supply chain		<ul style="list-style-type: none"> ➤ Our investment in our people and communities page 50
11. Product and service quality and safety	Safety	<ul style="list-style-type: none"> ➤ Environmental, Social and Governance Committee report page 101
12. Information-related impacts for end-users	Safety Cyber security and other security risks	<ul style="list-style-type: none"> ➤ Environmental, Social and Governance Committee report page 101 ➤ Innovation and Technology Committee report page 103
Governance		
13. Advanced technologies and innovations		<ul style="list-style-type: none"> ➤ Innovation and Technology Committee report page 103
14. Our approach to sales	Legal risk	<ul style="list-style-type: none"> ➤ Audit and risk Committee report page 96 ➤ Environmental, Social and Governance Committee report page 101
15. Data privacy and cyber security	Cyber security and other security risks	<ul style="list-style-type: none"> ➤ Principal risk – Cyber security and other security risks page 67
16. Corporate culture	Legal risk	<ul style="list-style-type: none"> ➤ Audit and risk Committee report page 96 ➤ Environmental, Social and Governance Committee report page 101
17. Management of relationships with suppliers	Legal risk	<ul style="list-style-type: none"> ➤ Environmental, Social and Governance Committee report page 101
18. Material and resource vulnerability	Contract risk, execution and supply chain	<ul style="list-style-type: none"> ➤ Environmental, Social and Governance Committee report page 101

Other information *continued***Task Force on Climate-related Financial Disclosures (TCFD)**

The following tables summarise our disclosures relating to the four TCFD Recommendations and 11 Recommended Disclosures pursuant to the UK Listing Rule 6.6.6R(8). We have considered our obligations in respect of climate-related disclosure under the UK Listing Rules and confirm that these disclosures are consistent with the relevant Listing Rules and the TCFD Recommendations and Recommended Disclosures (including the implementing guidance set out in the 2021 TCFD Annex).

Governance

Pillar/recommendation	Overview	Where can information be found?
Disclose the organisation's governance around climate-related risks and opportunities		
a) Describe the Board's oversight of climate-related risks and opportunities.	<p>The Board has overall responsibility for climate-related risks and opportunities impacting the Group, including consideration of climate-related matters when setting the Group's strategy. The Board is supported by a number of Committees, including the Nominations Committee, Audit and Risk Committee, Environmental, Social and Governance (ESG) Committee, Innovation and Technology Committee and Remuneration Committee. For more information on these Committees, their roles and responsibilities, please see page 225.</p> <p>The Board, through the ESG 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. The Committee provides feedback to the Board at each quarterly meeting regarding the progress of the decarbonisation strategy and environmental programmes enabling the Board to monitor and oversee progress and consider climate-related matters when setting the Group's strategy.</p> <p>Our Strategy & Planning team provides external market global context, trends and analysis to the Board to support development of the corporate strategy. We consider the impact of climate effects and the need to adapt capabilities to maintain operational effectiveness as part of this.</p>	<ul style="list-style-type: none">  Oversight and management of climate-related risk and opportunity page 225  Committee reports page 93
b) Describe management's role in assessing and managing climate-related risks and opportunities.	<p>Our Executive Committee is responsible for managing climate-related risks and opportunities, climate-related expenditure and investments and for delivering the decarbonisation strategy through our business and value chain.</p> <p>The Director for Climate, Environment and Infrastructure actively engages, directly and indirectly, the ESG Committee and Executive Committee, Sustainability Council and the Climate and Environment Working Group on the progress of our climate and environmental programmes, enabling two-way discussion and oversight. Climate-related risks and opportunities are embedded across our Operational Framework, including how climate-related matters are managed and implemented and embedded in key policies and processes.</p>	<ul style="list-style-type: none">  Oversight and management of climate-related risk and opportunity page 225

Strategy

Pillar/recommendation	Overview	Where can information be found?
Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning where such information is material		
<p>a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term; and</p> <p>b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning.</p>	<p>An overview of our climate-related transition and physical risks and opportunities are explained on pages 56, 72 and 231 of this report. Our decarbonisation strategy aims to mitigate the potential impacts of the material transition risks we have identified by decarbonising our operations and product and service portfolio, while supporting our customers and suppliers, as a minimum in line with a science-based target. Our decarbonisation strategy supports our purpose and strategic framework underpinning business operations, growth and resilience and delivery of capability to our customers. The decarbonisation strategy encompasses material climate-related risks and opportunities that have the potential to impact our business model and strategy over the short-, medium- and long-term, taking into consideration our assets and infrastructure. Our business continuity mitigations respond to climate-related physical risks. Our decarbonisation strategy and business continuity mitigations are embedded in our sectors' five-year business plans and our ongoing Business Continuity Management systems. The Group's decarbonisation strategy and activities; and business continuity measures are embedded in our financial reporting, forecasting and governance processes. The impact of climate-related transition and physical risk and opportunity is also considered in preparing the consolidated financial statements – see page 147. In putting together the decarbonisation strategy we have considered the commitments made by the UK Government.</p>	<ul style="list-style-type: none"> ➤ Our strategic framework page 16 ➤ Our business model page 14 ➤ Climate and the environment page 56 ➤ How we manage risk page 62 ➤ Our principal risks page 65 ➤ Impact of climate on the consolidated financial statements page 147 ➤ Other supplementary information online: 2024 cdp – baesystems.com/en/sustainability/sustainability-reporting ➤ Other information – scenario planning page 227
<p>c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.</p>	<p>During 2025, we refreshed our scenario planning analysis, building on the work we had progressed in 2021 and 2022. This explored what climate-related risks and opportunities the Group is most exposed to and how they might affect the Group's revenue, costs and asset values over a range of time horizons and hypothetical future scenarios, taking into consideration our key markets and operations. The four most material climate-related physical and transition risks and opportunities identified for the Group and its operational activities were prioritised for analysis. The climate scenarios selected included: 1.5C warming equivalent (Net Zero scenario); 2.5C warming equivalent (Delayed transition scenario); and 4C warming equivalent (No further policy scenario). See page 226 for further details.</p> <p>We considered our decarbonisation strategy and approach to business continuity in light of the outputs of this refreshed analysis. Our current assessment is that our strategy and approach take into account the material climate risks identified and their potential impacts over the short, medium and long-term in all scenarios assessed and that the financial risk associated with the potential impact of climate risks on our operations is appropriately managed and mitigated.</p>	<ul style="list-style-type: none"> ➤ How we manage risk page 62 ➤ Our principal risks page 65 ➤ Impact of climate on the consolidated financial statements page 147 ➤ Other information – scenario planning page 227 ➤ Decarbonising our operations page 56

Risk management

Pillar/recommendation	Overview	Where can information be found?
Disclose how the organisation identifies, assesses and manages climate-related risks		
<p>a) Describe the organisation's processes for identifying and assessing climate-related risks;</p> <p>b) Describe the organisation's processes for managing climate-related risks; and</p> <p>c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management.</p>	<p>We have assessed our material sustainability impacts, risk and opportunities (see our Double Materiality Assessment on page 228) which identified climate adaptation and climate mitigation as being a material sustainability issue and have conducted dedicated climate risk assessments.</p> <p>Our approach to identifying, assessing and managing environmental risks, including climate-related risk, is embedded within our approach to risk management.</p> <p>Climate and environmental risk is addressed within the Group's principal risks: climate change and environmental factors; business interruption; and legal risk (see pages 70 to 72).</p> <p>We consider current and emerging regulations as part of the environmental management system, including energy-related taxes and schemes.</p>	<ul style="list-style-type: none"> ➤ Climate and environment page 56 ➤ How we manage risk page 62 ➤ Our principal risks page 65 ➤ Oversight and management of climate-related risk and opportunity page 225

Other information *continued***Metrics and targets**

Pillar/recommendation	Overview	Where can information be found?
<p>Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material</p>	<p>We report against the following cross-industry metrics:</p> <ul style="list-style-type: none"> – GHG emissions – absolute Scope 1 and 2 emissions and carbon intensity measure. – Scope 3 estimated emissions. – Capital deployment – disclosure within ‘impact of climate ambitions on the consolidated financial statements’. – Remuneration – 10% ESG weighting for ESG metrics in the Performance Share metric. – We include revenue from alternative energy-related products within our Annual Report (see Power & Propulsion on page 38) and Sustainability Accountability Standards Board (SASB) disclosure – Resource Transformation: Aerospace & Defence sector disclosure. – We disclose our energy consumption within our Annual Report; We also disclose other key environmental metrics – electricity consumption. – We disclose our investment in R&D within our Annual Report (see page 15). 	<ul style="list-style-type: none"> ➤ Remuneration Committee report page 104 ➤ Impact of climate on the consolidated financial statements page 147 ➤ Other supplementary information online: sustainability accounting standards board (sasb) disclosure sustainability reporting sustainability bae systems
<p>b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 GHG emissions and the related risks.</p>	<p>We report our absolute GHG Scope 1, 2, 3 (employee business travel only) emissions in line with Streamlined Energy and Carbon Reporting (SECR) regulations. This data is externally assured, to a limited level of assurance, by Deloitte LLP.</p> <p>Reduction percentage in absolute Scope 1 and 2 emissions is a key performance indicator linked to executive remuneration.</p> <p>We estimated our scope 3 emissions based on financial revenues, one year in arrears. The Group’s total scope 3 emissions figure for all material categories for 2024 is 6,600,000 tCO₂e.</p> <p>Based on our current data processes we have a one-year lag in data, except for employee business travel, due to complete category data sets required to calculate scope 3 emissions, not being available until Q2 each year, therefore 2025 scope emissions data will not be available until the 2026 reporting year. We continue work to improve data accuracy and timeliness.</p>	<ul style="list-style-type: none"> ➤ Key performance indicators page 18 ➤ Value chain page 58 ➤ GHG emissions and methodology page 231
<p>c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.</p>	<p>Our near-term absolute target is to reduce GHG emissions across our operations (Scopes 1 and 2) by 44% by 2030, reducing operational emissions by 4.2% year-on-year. During 2025, our overall GHG emissions have decreased by 8.9%.</p> <p>Following the integration of SMS into our environmental data systems in 2024, we recalculated our 2020 GHG emissions baseline in 2025 to include the emissions from this business, in line with our GHG reporting methodology. Our updated 2020 baseline for scope 1 and 2 GHG emissions is 526,434 tonnes CO₂e. The integration of SMS has added 39,037 tonnes CO₂e and the impact of these emissions is not significant to our targets.</p> <p>Against our near-term absolute target, based on our recalculated 2020 GHG emissions baseline (explained above), we have reduced our absolute Scope 1 and 2 GHG emissions by 35% since 2020.</p> <p>We continue to work towards our long-term absolute target of achieving a net zero value chain by 2050.</p> <p>We continue to engage and collaborate with our suppliers to make progress towards decarbonisation of our supply chain.</p> <p>UK</p> <p>In the UK, our long-term energy strategy includes future business growth to 2040. To support our near-term absolute GHG reduction target, in the UK, we aim to have 90% of our UK electricity requirement met from renewable sources by 2030, subject to commercially reasonable availability. At the end of 2025, we had renewable energy source contracts in place to meet 60% of our future energy requirements.</p>	<ul style="list-style-type: none"> ➤ Remuneration Committee report page 104 ➤ Other supplementary information online: https://www.baesystems.com/en/sustainability/climate-and-environment

How we manage climate-related risks and opportunities

BAE Systems Board Quarterly

Overall responsibility for climate-related risks and opportunities impacting the Group, including consideration of climate-related matters when setting the Group's strategy. The Board is supported by a number of Committees, as shown below.

Nominations Committee

Ensures the Board retains the required skills and experience, including climate-related matters.

[Read more Page 93](#)

Audit and Risk Committee

Reviews and approves TCFD disclosures, including analysis of any financial impact of climate-related risks.

[Read more Page 96](#)

Environmental, Social and Governance Committee

Monitors the Group's approach to, and relevant policies on, climate resilience and transition plans.

[Read more Page 101](#)

Innovation and Technology Committee

Oversees the Group's application of technological advancements through low- or zero-emission technologies.

[Read more Page 103](#)

Remuneration Committee

Determines the Group's Remuneration policy, including performance conditions linked to climate change and ESG-related matters.

[Read more Page 104](#)

Executive Committee Monthly

Responsible for managing climate-related risks and opportunities and for delivering the decarbonisation strategy, including climate-related expenditure and investments.

Our Group ESG, Culture & Business Transformation Director, who has day-to-day responsibility for climate and environmental issues and ownership of the Group's Environmental policy, sits on the Executive Committee and provides the Committee with regular updates on our environmental and decarbonisation strategy.

Core Business Processes and Policies

Chief Executive's Business Review Quarterly

Top-level review of progress against decarbonisation strategy and key sector deliverables.

Business Risk Annual

The identification, analysis, evaluation and mitigation of business risks, including those relating to the environment and climate change.

Quarterly Business Review Quarterly

Management review of the performance of each of the Group's businesses against decarbonisation objectives and targets.

Integrated Business Plan (IBP) Annual

Annual long-term strategy review and five-year plan for each sector, including investment case to decarbonise.

Sustainability Council Monthly

Reports to the Group ESG, Culture & Business Transformation Director, providing recommendations for areas of sustainability to be given priority and focus, as well as supporting the sectors in implementation of the Group's sustainability agenda.

Climate and Environment Working Group Monthly

Reports to the Director Environment, Climate & Infrastructure and coordinates the progression of our decarbonisation strategy. The Group is made up of functional representatives, business leads and environmental specialists.

Businesses/sectors

Each business/sector has climate and environment leads who progress the decarbonisation strategy for each business/sector.

Other information *continued*

Climate scenario planning

We use climate scenarios to assess the resilience of our business, decarbonisation strategy and our approach to managing potential future climate-related risk and opportunities, including their potential impact on our financial results. During 2025, we refreshed our previous scenario planning work and reviewed current material climate-related risks and opportunities of relevance to our operations and sector.

Climate scenarios demonstrate different possible future outcomes, based on expert peer-reviewed projections, but they are not forecasts. They are designed for companies to test their business resilience against a range of different future states to inform strategic decision-making. Scenario analysis supports our understanding of what parts of the business are exposed to, and impacted by, climate change.

Climate change and nature-related risks and opportunities extend beyond normal business strategic planning cycles and have the potential to impact BAE Systems over short (less than two years), medium (three to ten years) and long term (beyond ten years) time horizons.

We ranked climate-related risks and opportunities within the Group's wider risk management framework, using the categories of impact and probability/likelihood. Additionally, we used a third dimension – speed onset of risk (velocity). Speed refers to the expected time horizons for a risk to materialise.

Climate scenarios

We selected three distinct climate scenario narratives for analysis of transition risks and opportunities:

- 1.5°C warming equivalent – Net zero
- 2.5°C warming equivalent – Delayed transition
- >4°C warming equivalent – No further policy action

The scenarios selected supported an assessment of the Company's strategy in a wide range of hypothetical future scenarios.

We modelled transition risks and opportunities according to the Intergovernmental Panel on Climate Change's (IPCC) climate scenarios known as Representative Concentration Pathways (RCPs). We also used scenarios from IPCC's Sixth Assessment Report (AR6), which combines Shared Socioeconomic Pathways (SSPs) and RCPs, and public data sources including IEA, NGFS, and IPCC-aligned CMIP-6.

For physical risk, we use output from climate modelling tools to model physical risks. Scenarios used include those defined by the Representative Concentration Pathways (RCP) 2.6, 4.5, and 8.5, with 4.5 reflecting the current predicted global warming trajectory. The tools are updated periodically to take account of new information about climate hazards and risks.

Climate risk and opportunity identification

In order to refresh our scenario planning, we assessed our current climate-related risk and opportunities and climate scenarios and conducted a peer and institutional review to benchmark the Group against current regulatory and market expectations and changes to the external environment. This enabled the Group to compile and rank a long list of climate-related risks and opportunities according to impact and likelihood.

We engaged internal stakeholders to test assumptions and methodologies in order to develop a shortlist of material climate-related risks and opportunities. We assigned the shortlist preliminary qualitative impact ratings based on their potential business disruption or financial loss and likelihood of occurrence. Based on this process, we took forward four climate-related risks and opportunities for climate scenario analysis.

Assumptions within scenarios

We have used the following key assumptions within our scenarios:

- Mitigation plans are incorporated into each risk assessed;
- Business activities include future forecast growth; and
- Impacts are not aggregated or offset.

Scenario planning – material climate-related risk and opportunity

Transition risk	Materiality of risk or opportunity/ timeframe ¹		
	Short, medium and long term		
Description	Potential impact without taking into account mitigation measures	Mitigation measures	Link to principal risk
Climate-related increased scarcity and restricted access to commodities due to increased demand on critical minerals stemming from energy transition (eg aluminium, chromium, graphite used for advanced military technology) resulting in delays in securing revenue.	BAE Systems is at risk of climate-related disruptions to global supply chains that may impact the availability of critical materials, such as aluminium, chromium and graphite, which are essential for the production of advanced military technology.	<p>The Group's supply chain function holds regular regional and global supply chain risk and disruption reviews to ensure that the latest risk data is appropriately shared and to identify emerging risks through horizon scanning. Critical materials are reviewed as part of this.</p> <p>We are expanding our understanding of climate-related impacts on material scarcity and supplier resilience – see page 58.</p> <p>We have work streams underway to review critical materials that are essential to the production of products. We have identified high-risk materials and targeted mitigations have been put in place. Specific workstreams have been established to identify and quantify the exposure to critical minerals across our programmes. Monthly briefs to the Executive Committee are undertaken articulating the exposure, mitigation activity and development of methodology to control the risk.</p> <p>We are researching how we can replace critical minerals with alternative materials and identifying opportunities to recover and recycle materials.</p> <p>In the UK, we have a number of collaborations underway, with academic institutions, focused on energy transition and materials resilience.</p> <p>We have collaborated with customers, trade groups and suppliers on key business impacts.</p> <p>Financial impact Low</p>	Contract risk, execution and supply chain

1. Short- (less than two years), medium- (three to ten years) and long-term (beyond ten years) time horizons. Time horizons are linked to the IBP process.

Other information *continued*

Transition risk		Materiality of risk or opportunity/ timeframe¹	
		Short, medium and long term	
Description	Potential impact without taking into account mitigation measures	Mitigation measures	Link to principal risk
Disruption in global energy markets (eg energy sources) leading to an increase in opex costs due to transfer of electricity sourcing to renewable energy.	BAE Systems may encounter risks stemming from disruptions in global energy markets, which may lead to increased energy costs.	<p>We have developed a long-term energy strategy mapped to future business growth to 2040, to address the potential transfer of electricity sourcing to renewable energy across our sites where prudent, providing energy security and future price certainty for the Group. We have included growth projections within the strategy, which we review regularly.</p> <p>We have power purchase agreements in place covering wind and solar projects, which have supported various transitions to renewable energy since 2024 and, in the UK and Australia, we also have local to private wire and self-generation renewable supplies at key industrial sites.</p> <p>In the UK, as at the end of 2025, 60% of our future energy requirements will be met by renewable sources. We plan to have 90% of our UK electricity requirement met from renewable sources by 2030.</p> <p>Financial impact Low</p>	Climate transition and environmental factors
Transition Opportunity		Materiality of risk or opportunity/ timeframe¹	
		Short, medium and long-term	
Description	Potential impact without taking into account mitigation measures	Mitigation measures	Link to principal risk
Switching to lower-emission energy sources (eg solar, wind, etc) and improving energy efficiency in operations resulting in a decrease in opex costs.	Switching to lower-emission energy sources, such as solar and wind, across the Group's defence estate can significantly reduce carbon emissions and enhance energy resilience. Additionally, we have the opportunity to enhance operational efficiency and decrease energy consumption across our global sites by optimising heating, ventilation and air conditioning (HVAC) controls and transitioning from inefficient fluorescent lighting to energy-efficient LED alternatives.	<p>We have developed a long-term energy strategy mapped to future business growth to 2040, to address the potential transfer of electricity sourcing to renewable energy across our sites where prudent, providing energy security and future price certainty for the Group. We have included growth projections within the strategy, which we review regularly. We have power purchase agreements in place covering wind and solar projects, which have supported our transition to renewable energy since 2024. And in the UK and Australia, we also have local to private wire and self-generation renewable supplies at key industrial sites.</p> <p>In the UK, as at the end of 2025, 60% of our future energy requirements was met by renewable sources. We plan to have 90% of our UK electricity requirement met from renewable sources by 2030.</p> <p>We have significant capital investment planned across our UK sites over the next 10 years and are integrating energy efficiency and decarbonisation considerations within our infrastructure programme.</p> <p>We have developed and rolled out a global energy efficient building standard, incorporating energy efficiency and modern building standards into both refurbishments and new buildings, to help us optimise and reduce our energy consumption. We also proactively manage our estate and have undertaken site consolidation across our markets.</p> <p>We are seeking to reduce energy use across our sites and, where possible and prudent, switch to low carbon alternatives to heat our buildings. Projects include: metering; LED lighting installations; energy switching for fleet vehicles; and initial investments in heat pump and other gas-alternative heating systems.</p> <p>Financial impact Low</p>	Climate transition and environmental factors

1. Short- (less than two years), medium- (three to ten years) and long-term (beyond ten years) time horizons. Time horizons are linked to the IBP process.

Physical Risk	Materiality of risk or opportunity/ timeframe		
	Short, medium and long-term		
Description	Potential impact without taking into account mitigation measures	Mitigation measures	Link to principal risk
Increase in frequency and severity of extreme weather events, including flood levels (water level rising) and windstorm, leading to increased repair costs, adaptation investments, and reductions in productivity, thereby decreasing revenue and increasing opex and capital expenditure costs.	Increases in frequency and severity of extreme weather events – including flood events (water level rising) and windstorm occurrences – potentially pose serious challenges to BAE Systems’ own operations. While the risk profile varies regionally, general impacts include damage to operational facilities and offices, delays in product testing, and disruptions to manufacturing and build rates.	<p>We proactively assess and manage climate-related physical risk, gaining an ongoing understanding of how physical risk will impact our current and future group strategy. Our business continuity plans includes physical risk mitigation plans, that support the Group to remain resilient and adapt to the impacts of climate change, while mitigating the financial impacts.</p> <p>The Group uses output from climate modelling tools to model physical risks. The hazards modelled include exposure to flood risk including pluvial, fluvial and storm surge, precipitation (low and high), windstorm, wildfire, heatwave, heat and cold stress.</p> <p>The analysis considers the impact of climate change on the frequency and severity of these hazards and models how this may change over time against different scenarios.</p> <p>We review our exposure to climate hazards on an annual basis and review the climate impact whenever new data is available and at least every three years. The time horizon we use for physical risk is different to transition risk – short term – 2030, medium term – 2050 and long term – 2085. We use this approach due to climate science representing an average of possible outcomes over a 30-year period.</p> <p>The financial impact to our business of climate related physical risk is considered low, as insurance is in place to respond to such events.</p> <p>Our greatest exposure is to flood and windstorm events. For sites where we have a high risk of flooding conditions, we prioritise activities including engineering assessments as appropriate to further evaluate these risks. For sites that are at high risk of windstorm events, we conduct assessments during ongoing building maintenance and development of new facilities to ensure resilience capability is built in. This enables the quantification of potential loss to determine the level of insurance cover to purchase. As a result, the insurance will provide coverage and, although the interruption may last weeks or even months, the financial impact on the company will remain minimal.</p> <p>Current and planned physical risk mitigation activities are embedded as part of the Group’s wider decarbonisation ambitions and activities and are embedded in our financial reporting, forecasting and governance processes through the Integrated Business Plan (IBP).</p> <p>Of our 510 sites globally, 70¹ have been identified as potentially having high exposure to physical climate risks. These risks are primarily concentrated in the US and UK, with a smaller number of exposed sites located in Australia, Sweden and the Kingdom of Saudi Arabia.</p> <p>During 2024, we assessed all major manufacturing sites and took several actions to make our sites and future developments more resilient.</p> <p>Following the assessments of major manufacturing sites, during 2025, site teams worked to prioritise additional mitigation actions required and incorporate them into site level and/or Business Continuity improvement plans. Concurrently, the business units are embedding the climate and natural hazard assessment process into their local business management systems. This integration will provide a consistent approach across the organisation and ensure that there is a mechanism for triggering a review and/or new assessments in response to changes, such as proposals for new site developments.</p>	Business interruption; climate transition and environmental factors
		<p>Financial Impact Low</p>	

1. Increased from 66 to 70 sites due to the integration of SMS acquisition during 2024.

Other information *continued***Greenhouse gas (GHG) emissions data****Absolute energy consumption**

	2025 ¹		2024	
	Global ² kWh	UK kWh	Global kWh	UK kWh
Energy consumption Scope 1 and 2	1,369,125,163	559,879,677	1,378,244,469	542,330,247

GHG emissions data¹

Scope definition	2025		2024	
	Global tonnes ² CO ₂ e	UK tonnes CO ₂ e	Global tonnes CO ₂ e	UK tonnes CO ₂ e
1 Emissions from activities which BAE Systems owns or controls (Scope 1)	114,074	51,878	104,948	52,662
2 Emissions from the electricity and steam purchased for BAE Systems' use (Scope 2 – location-based)	227,612	51,968	267,202	57,616
Total gross Scope 1 and 2 emissions	341,686	103,846	372,150	110,278
3 Emissions from employee business travel (Scope 3)	91,977	40,389	122,383	54,880

GHG emissions per employee

	2025 ¹		2024	
	Global tonnes ² CO ₂ e	UK tonnes CO ₂ e	Global tonnes CO ₂ e	UK tonnes CO ₂ e
Per each full-time equivalent employee (Scope 1 and 2)	3	2	3	2

1. Relevant reporting period 1 January 2025 to 31 December 2025.

2. Deloitte has provided independent limited assurance in accordance with the International Standard for Assurance Engagements 3000 (ISAE 3000) and Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the IAASB over the selected metrics identified with a ². Deloitte's full unqualified assurance opinion, which includes details of the selected metrics assured, can be found at baesystems.com/annual-report.

To see our Basis of Reporting 2025 visit baesystems.com/annual-report

Methodology

Greenhouse gas emissions data is reported in line with an operational control method and in accordance with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard. Our reporting boundary for Streamlined Energy and Carbon Reporting (SECR) is consistent with our reporting boundary for the purposes of our financial statements. Data covers a 12-month period from 1 January 2025 to 31 December 2025. Pro-rated methods have been used where data does not cover the full 12-month period.

Under the GHG Protocol, organisational boundaries can be established using the equity share or the control approach. The business applies the control approach and, within this, uses the operational control method.

As a business, we use a tool called the Global Property Database (GPD) to record and monitor locations which we either own or lease. All locations listed on the GPD for the purpose of GHG emissions reporting falls within our organisational boundary. We do not report emissions from every location as some fall outside of our operational boundary. We assess each location using defined criteria to determine operational control. More information is available in the Basis of Reporting.

Regional-specific emissions factors are used where available. Where these are not available, we use emissions factors published by the UK Department for Energy Security and Net Zero (DESNZ).

Emissions factors for electricity consumed by commercial locations in the United States are published by the United States Environmental Protection Agency (US EPA). The most up-to-date Emissions and Generation Resource Integrated Database (eGRID) factors are published by US EPA.

Emissions factors for both electricity and natural gas consumption in Australia are published by the Department of Climate Change, Energy, the Environment and Water. Emissions factors for Sweden's (SWE) natural gas are published by Swedenergy and electricity emissions factors are taken from the European Residual Mix (AIB). Electricity emission factors for Saudi Arabia (KSA), Sweden (where not already covered), all other international locations and US residential are published by the IEA.

For this reporting cycle, the latest UK Government emissions factors published by the DESNZ have been used for majority of Scope 1 and 3 calculations.

Emissions factors published by both DESNZ and the US EPA are presented as CO₂e and cover all six applicable greenhouse gases listed under the Kyoto Protocol. For further information on the inclusion of HFCs in the reported inventory, please refer to the section on fugitive emissions.

Scope 2 greenhouse gas emissions using the GHG Protocol 'market-based' method are calculated in line with the GHG Protocol Guidance, using residual-mix emission factors where available for our UK, US and Swedish operations. For the KSA, Australia and International, 'location-based' emissions factors are used as supplier emissions factors or residual mix factors are not currently available. Sites that consume grid electricity backed by Renewable Energy Guarantee of Origin (REGOs) have been taken into consideration within the calculations. The Scope 2 greenhouse gas emissions¹ associated with the GHG Protocol 'market-based' method are 183,562 tCO₂e.

Greenhouse gas emissions related to business travel include air travel data for most of the global business, rail data for business units operating in the UK and US, and vehicle travel (including hire car, company car and personal car) data for business units operating in the UK, US and Australia. These data sets are taken from supplier procurement records. In 2025, due to data quality, 2024 data was used for 2025 and adjusted based on headcount. This has been resolved for 2026.

The principal record of the Group's worldwide facilities is the Legal department's GPD. The database holds records of all locations which are either wholly owned, leased or licensed sites.

Greenhouse gas emissions are primarily calculated from energy consumption records, eg invoiced data or meter readings. For the UK & International businesses, these are reported via the Group's global environmental database (CR Desktop). Data related to the US business is provided quarterly for internal use, in addition to a full annual data submission. Where consumption records are not available, estimates may be used; these are highlighted within the database.

Where actual usage data is not available for facilities and residences within the GPD, estimated consumption is based on the type and size of the building. If this data is unavailable, a default benchmark factor or alternative estimation method is used.

Emissions from non-wholly owned subsidiaries are included in the dataset if BAE Systems has operational control of the location. For most of these locations, the joint venture either operates from a CR Desktop reporting location or is included in benchmarked estimates. For the purposes of calculating emissions, we have excluded dormant companies as it has been assumed that they do not consume energy.

Equity accounted investments detailed in the Annual Report are not currently included. These investments represent BAE Systems Scope 3 emissions. Emissions from pension scheme properties not occupied by the Group are not included. Trading of emissions are not considered for the purposes of reporting. For example, where the business has a requirement to maintain compliance with trading schemes, eg UK ETS, the total energy consumed is reported regardless of emissions trading.

Climate-related data, models and methodologies are often relatively new, are rapidly evolving and are not of the same standard as those available in the context of other financial information, nor are they subject to the same or equivalent disclosure standards, historical reference points, benchmarks or globally accepted accounting principles. In addition, we may face challenges in relation to our ability to access data on a timely basis and the lack of consistency and comparability between data that is available.

Some of the data, models and methodologies used to prepare the information set out in this report may derive from third parties over which BAE Systems plc has no control, and may have been based on different or unknown methodologies. The underlying assumptions, interpretations or methodologies may not have been independently verified and could therefore be inaccurate.

As these challenges and the market's response to them evolve, we may re-evaluate our approach, update methodologies and data we use, and may amend, update and recalculate certain sustainability disclosures in the future.

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

Glossary

A

ACV	Amphibious Combat Vehicle
ADR	American Depositary Receipts
AGM	Annual General Meeting
AI	Artificial Intelligence
AMPV	Armored Multi-Purpose Vehicle
APKWS	Advanced Precision Kill Weapon System
APM	Alternative Performance Measure
AUKUS	Trilateral agreement between Australia, the UK and the US

B

BEC	Bose-Einstein Condensate
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C

C4ISR	Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance
C5ISR	Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance and Reconnaissance
CGU	Cash-Generating Unit
CMI	Continuous Mortality Investigation
CPI	Consumer Prices Index

D

DEI	Diversity, Equity and Inclusion
DESNZ	Department for Energy Security and Net Zero
DRIP	Dividend Reinvestment Plan
DSEI event	Defence and Security Equipment International Event
DTR	Disclosure Guidance and Transparency Rule

E

EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
eGRID	Emissions and Generation Resource Integrated Database
EPA	Environmental Protection Agency
EPS	Earnings per Share
ERP	Enterprise Resource Planning
ES	Electronic Systems
ESG	Environmental, Social and Governance
ESOP	Employee Share Option Plan
ExSOP	Executive Share Option Plan

F

FCA	Financial Conduct Authority
FCF	Free Cash Flow
FIFO	First in first out
FRC	Financial Reporting Council
FRS	Financial Reporting Standard

G

GAAP	Generally Accepted Accounting Principles
GCAP	Global Combat Air Programme
GHG	Greenhouse gas
GPD	Global Property Database

H

HVO	Hydrogen vegetable oil
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I

IAASB	International Auditing and Assurance Standards Board
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IAS	International Accounting Standard
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IBP	Integrated Business Plan
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IEA	International Energy Agency
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IFRS	International Financial Reporting Standard
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IPO	Initial Public Offering
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IRS	Internal Revenue Service
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ISAE	International Standard for Assurance Engagements
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ISAs (UK)	International Standards on Auditing (UK)
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IT	Information Technology
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J

JAIEC	Japan Aircraft Industrial Enhancement Co. Ltd
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JORN	Jindalee Operational Radar Network
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K

KPI	Key Performance Indicator
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KSA	Kingdom of Saudi Arabia
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L

LCM	Lifecycle Management
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LEAP	Learn, Engage, Apply & Progress
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LLM	Large Language Models
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LTI	Long-Term Incentive
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LTIP	Long-Term Incentive Plan
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M

MES	Marconi Electronic Systems
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MoD	Ministry of Defence
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MSR	Minimum Shareholding Requirement
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N

NGAA	Next Generation Adaptable Ammunition
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NGMS	Next Generation Munitions Solution
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NOAA	National Oceanic and Atmospheric Administration
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O

OAS	Operational Assurance Statement
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OCF	Operating Cash Flow
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OEM	Original Equipment Manufacturer
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P

PBT	Profit before tax
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PPA	Power Purchase Agreement
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PSP	Performance Share Plan
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R

R&D	Research and Development
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RBSL	Rheinmetall BAE Systems Land
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RCF	Revolving Credit Facility
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RCP	Representative Concentration Pathway
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REGO	Renewable Energy Guarantee of Origin
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RMWT	Resilient Missile Warning & Tracking
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ROCE	Return on Capital Employed
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RPI	Retail Prices Index
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RSP	Restricted Share Plan
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Glossary continued

S

SASB	Sustainability Accountability Standards Board
SCOD	Sovereign Capability and Option Deed
SDG	Sustainable Development Goal
SECR	Streamlined Energy and Carbon Reporting
SID	Senior Independent Director
SIF	Significant injury or fatality
SIP	Share Incentive Plan
SIPS	Shipbuilding Industries Pension Scheme
SME	Small and medium-sized enterprise
SMS	Space & Mission Systems
SSA	Special Security Agreement
SSP	Shared Socioeconomic Pathway
STEM	Science, Technology, Engineering and Mathematics

T

TCFD	Task Force on Climate-related Financial Disclosures
TSR	Total Shareholder Return

U

UAS	Uncrewed Air System
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Shareholder information

Registered office

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Telephone: +44 (0)1252 373232

Company website: [baesystems.com](https://www.baesystems.com)

Registered in England and Wales, No. 01470151

Registrars

Equiniti Limited (0140)
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Lancing
West Sussex
BN99 6DA
United Kingdom

If you have any queries regarding your shareholding or need to notify any changes to your personal details, please contact Equiniti.

Equiniti's website (help.shareview.co.uk) includes a comprehensive set of answers to many frequently asked questions relating to managing a shareholding. If you cannot find the answer to your question, there is an online email form, which will help to ensure your question is directed to the most appropriate team for a response. Alternatively, you can call the BAE Systems Helpline on 0371 384 2044 or, from outside the UK, +44 371 384 2044. Lines are open from 8.30am to 5.30pm Monday to Friday, excluding UK bank holidays.

In addition, the following services are offered to shareholders:

- Shareview – online access to your shareholding, including balance movements, indicative share prices and information on recent payments.
- Dividend mandates – have your dividends paid directly into either your UK bank/building society account or an overseas bank account.
- Dividend reinvestment plan (DRIP) – a DRIP is provided by Equiniti Financial Services Limited. The DRIP enables the Company's shareholders to elect to have their cash dividend payments used to purchase the Company's shares. More information can be found at shareview.co.uk/info/drip.

More information on all these services can be found on Equiniti's website (shareview.co.uk).

American Depositary Receipts

BAE Systems plc American Depositary Receipts (ADRs) are traded on the over-the-counter market under the symbol BAESY. One ADR represents four BAE Systems plc ordinary shares.

JP Morgan Chase Bank N.A. is the depository. If you should have any queries please contact:

JP Morgan Chase Bank N.A.
PO Box 64504
St Paul
MN 55164-0504, USA

Email: jpmorgan.adr@eq-us.com

Telephone (toll free from within US and Canada): +1 800 990 1135

Telephone from outside US and Canada: +1 651 453 2128

ShareGift

ShareGift, the share donation charity (registered charity number 1052686), accepts donations of small parcels of shares which may be uneconomic to sell. Details of the scheme are available from ShareGift at sharegift.org, by telephone on 020 7930 3737 or by email: help@sharegift.org

Share price information

The middle market price of the Company's ordinary shares on 31 December 2025 was 1,714p and the range during the year was 1,146p to 2,060p.

For more information

Visit the Shareholder information section of our website: investors.baesystems.com

Financial calendar

Annual General Meeting	7 May 2026
2025 final ordinary dividend payable	4 June 2026
2026 half-yearly results announcement ¹	30 July 2026
2026 interim ordinary dividend payable ¹	2 December 2026
2026 full-year results ¹	February 2027
2026 final ordinary dividend payable ¹	June 2027

1. These dates are indicative and subject to change.

Beware of share fraud

Investment scams are often sophisticated and difficult to spot.

Spot the warning signs

Fraudsters will often:

- contact you out of the blue;
- apply pressure to invest quickly;
- downplay the risks to your money;
- promise tempting returns that sound too good to be true; and
- say that they're only making the offer available to you or even ask you to not tell anyone else about it.

If you're suspicious, report it

You can report the firm or scam to the FCA by contacting their **Consumer Helpline** on **0800 111 6768** or using the reporting form using the link shown below.

If you've lost money in a scam, contact Action Fraud on **0300 123 2040** or www.actionfraud.police.uk

How to avoid investment scams



Reject unexpected offers

Scammers usually cold call, but contact can also come by email, post, word of mouth or at a seminar. If you've been offered an investment out of the blue, chances are it's a high-risk investment or a scam.



Check the FCA Warning List

Use the FCA Warning List to check the risks of a potential investment – you can also search to see if the firm is known to be operating without its authorisation.



Get impartial advice

Get impartial advice before investing – don't use an adviser from the firm that contacted you.



Be ScamSmart and visit www.fca.org.uk/scamsmart

Cautionary statement

All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and businesses of BAE Systems plc and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. Such forward-looking statements, which reflect management's assumptions made on the basis of information available to it at this time, appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of BAE Systems plc concerning, among other things, its results in relation to operations, financial condition, liquidity, prospects, growth, commitments and targets (including environmental, social and governance commitments and targets and the methodologies it uses to assess its progress in relation to these), strategies and the industry in which it operates. Forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "intends", "will", "will continue", "should", "would be", "seeks", "anticipates" or similar expressions or the negative thereof or other variations thereof or comparable terminology. Forward-looking statements can be made in writing but may also be made verbally by directors, officers, and employees of BAE Systems plc (including during presentations) in connection with this document. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

Forward-looking statements are not guarantees of future performance and the actual results of operations, financial condition and liquidity of BAE Systems plc, the development of the industry in which it operates and the ability of BAE Systems plc to meet its commitments and targets may differ materially from those made in or suggested by the forward-looking statements contained in this document. In addition, even if results of operations, financial condition and liquidity of BAE Systems plc, the development of the industry in which it operates and/or performance against commitments and targets are consistent with the forward-looking statements contained in this document, those results, developments or performance may not be indicative of results, developments or performance in subsequent periods.

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Website references

None of the websites referred to in this document (including where a link is provided), and none of the information contained on such websites, are incorporated by reference into this document.



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