

Royal Ordnance Pension Scheme Climate Disclosure Report

31 March 2026

BAE SYSTEMS

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Executive Summary

This report has been prepared by the Trustee of the Royal Ordnance Pension Scheme (the "Scheme") in line with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021. It provides the Scheme's climate-related disclosures for the period from 1 April 2025 to 31 March 2026. Analysis was provided by the Scheme's responsible investment ("RI") adviser, Gallagher, together with investment and actuarial data from Hymans Robertson, and covenant analysis from PwC, the Scheme's covenant adviser.

Continued

Executive Summary

This report covers the following areas:

01



1. Governance →

Arrangements in place to oversee climate-related risks and opportunities

The Trustee remains responsible for the Scheme's investments but delegates oversight of climate policy and strategy to the Funding and Investment Committee ("FIC"), supported by its advisers. The Trustee expects investment managers to consider financially material environmental, social and governance ("ESG") factors when making investment decisions and engaging with companies. The Trustee and FIC meet investment managers annually to discuss investment and ESG matters, while advisers provide ongoing monitoring.

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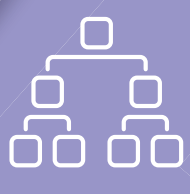


2. Strategy →

Potential impacts of climate-related risks and opportunities on the Scheme's strategy, covenant and financial plans

The Trustee considers climate-related risks and opportunities across time periods relevant to the Scheme's investment and funding strategy. These risks are assessed through climate scenario analysis which has been refreshed as at 31 March 2026 in line with regulatory requirements, alongside a refreshed assessment of the sponsoring company's exposure to climate-related risks and opportunities. Following this analysis, the Trustee considers the Scheme's investment and funding strategy to be broadly resilient, reflecting its diversified and low risk investment strategy as well as the strength of the employer covenant.

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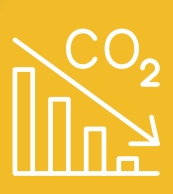


3. Risk Management →

Identification, assessment and management of climate-related risks andopportunities

Climate-related risks form part of the Scheme's wider risk management framework. The Trustee monitors these risks through climate reporting, scenario analysis and engagement with investment managers, who are expected to incorporate climate considerations into their investment processes. Annual climate reporting supports ongoing monitoring and decision-making.

04



4. Metrics & Targets →

Used to assess and manage climate-related risks and opportunities.

On an annual basis, the Trustee monitors and reports the Scheme's total carbon emissions[1], carbon footprint[2], the Partnership for Carbon Accounting Financials ("PCAF") Data Quality Score[3] and the Scheme's portfolio alignment metric, the Science Based Targets initiative ("SBTi") [4].

The Trustee has set an aspirational net-zero target, with an interim target to decrease the carbon footprint of the segregated Buy & Maintain credit portfolio by 50% by 2030 (subject to the Trustee's fiduciary and financial objectives) compared to a 2022 baseline. As at 31 March 2026, the carbon footprint of the Scheme's Buy & Maintain mandates has decreased by c.40%. The Trustee, however, appreciates this is in part influenced by broader market dynamics (e.g. sector allocation and valuation effects) and will continue to assess the appropriateness of the target going forward.

[1] Represents the total share of Scope 1, Scope 2 and Scope 3 carbon emissions a fund is responsible for.
[2] Measurement of the CO2e emissions of a fund per million pounds invested using Scope 1, Scope 2 and Scope 3 emissions.
[3] Data quality, quantified using the Partnership for Carbon Accounting Financials ("PCAF") Data Quality Score, which monitors the reliability of companies' emissions data, ranging from one (highest quality data) to five (lowest quality data).
[4] SBTi examines whether a voluntarily disclosed company's decarbonisation target is aligned with a relevant science-based pathway. The scores are binary with a "yes" or "no" assessment.

1. Governance

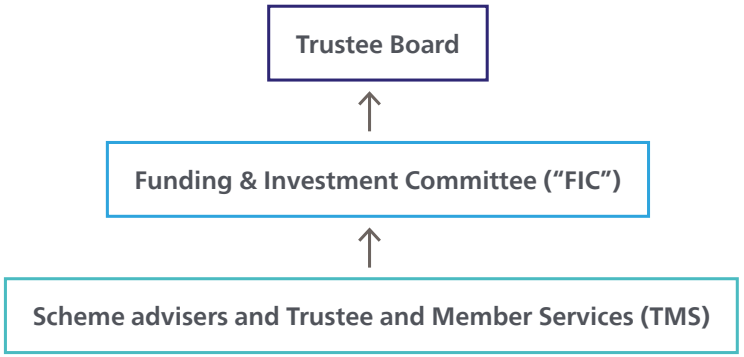
The Trustee is responsible for running the Scheme in the best interests of its members, including overseeing investment decisions and climate-related risks and opportunities. The Trustee recognises that ESG factors are financially material and should be considered within its fiduciary duties.

The FIC is a sub-committee of the Trustee Board with delegated responsibility for funding, investment and covenant matters including the oversight of climate-related risks and opportunities. The FIC provides recommendations to the Trustee, supported by the in-house Trustee and Member Services ("TMS") team and external advisers, meeting quarterly to review relevant investment and climate-related matters. The FIC's composition is determined by the Trustee.

The FIC has considered climate change risks and opportunities over the year and provides updates and recommendations to the Trustee. In doing so, it reviews climate-related reporting and analysis provided by the Scheme's advisers, including climate metrics, to support the identification, assessment and monitoring of climate-related risks.

As detailed in Section 2 "Strategy", the Trustee receives climate-related scenario analysis on the Scheme, which was refreshed this year in line with regulatory requirements, to support ongoing understanding of climate-related risks. The Scheme's Statement of Investment Principles ('SIP') is available online at: **pensions.baesystems.com/more-information/disclosure-of-information** and sets out the Scheme's approach to ESG and stewardship.

Figure 1: Roles and Responsibilities in Managing Climate-Related Risks and Opportunities



As detailed in Section 2 "Strategy", the Trustee receives climate-related scenario analysis on the Scheme.

Continued

1. Governance

The Trustee and FIC receive regular training on RI and climate-related topics from its adviser, supported by ongoing self-learning. During the year, training provided to, and discussion with, the FIC/Trustee covered:

> Clean energy transition, stewardship and policy advocacy

> Climate benchmark monitoring to enhance climate risk management

> TCFD updates, including revisions to the Scheme's time horizons over which climate-related risks and opportunities are assessed and refreshed scenario analysis

In addition to the Trustee and the FIC, other relevant people that support the Scheme, such as members of the TMS team, receive training on climate risks and opportunities, as necessary.

The Trustee encourages open communication across advisers and service providers, working closely to share climate-related data and analysis, including in the preparation of this report. Advisers support the Trustee and FIC by providing climate-related reporting, scenario analysis, investment manager oversight and stewardship-related advice. The Trustee monitors the Scheme's advisers through quarterly assessments, with specific climate-related objectives where appropriate, to ensure adequate consideration is being given to climate-related risks and opportunities, and that sufficient resources are in place. Climate-related risks continue to be included within the Scheme's risk register alongside other investment and funding risks.

Funding and Investment aspects of the risk register are reviewed by the FIC quarterly with a deep-dive review annually.

The FIC engages its advisers to ensure RI advice reflects the latest thinking and industry developments. For example, the FIC discussed, in September 2025, global progress towards net zero and the potential challenges this may pose for the Scheme's current metrics and targets over time. This then led to a FIC discussion and challenge on current metrics as well as the potential benefits and drawbacks of adopting a benchmark-relative approach to carbon footprint monitoring at its November 2025 FIC meeting.



Strategy



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2. Strategy

The Trustee considers climate-related risks and opportunities, and their potential impact on the Scheme's investment and funding strategy, over the short, medium and long term. Climate-related factors are incorporated throughout the Trustee's funding and risk management processes, including strategic asset allocation, manager selection, portfolio monitoring and consideration of the Scheme's covenant.

Climate scenario analysis is used to assess the potential impact of climate-related risks and opportunities and the resilience of the Scheme's assets, liabilities and funding strategy under different climate outcomes. Recognising the limitations and uncertainty inherent in climate modelling, the Trustee considers these results alongside other relevant information and does not rely on scenario analysis in isolation when making decisions, as outlined in previous reports.

The Trustee refreshed the Scheme's scenario analysis during the year, in line with the requirement to undertake scenario analysis at least triennially and to review annually whether a refresh is appropriate. The updated analysis uses climate scenarios aligned with the Network for Greening the Financial System ("NGFS") scenarios. Asset-side analysis was provided by the Scheme's investment adviser, liability-side analysis by the Scheme actuary and covenant analysis by the covenant adviser.

Climate-related risks and opportunities may arise through:

- **Transition risks:** re-pricing that may occur as part of the transition to a low-carbon economy; and
- **Physical risks:** impacts from gradual changes in climatic conditions and extreme weather events.

These risks and opportunities can impact scheme assets and liabilities, for example through changes in the expected return on assets, interest rates, inflation and mortality rates. Climate risks may also affect the strength of sponsor covenants if not addressed.

The Trustee considers these over the following time horizons:

Table 1: Time horizons monitored by the Trustee

Horizon	Definition
Short term	**0-3 years**, aligned with the Scheme's actuarial valuation cycle and capturing more immediate risks and opportunities.
Medium term	**The next 10 years**, aligned with the Scheme's target full finding date of 2035 on a gilts + 0.3% p.a. basis and reflecting the importance of significant action this decade to limit warming.
Long term	**20-25 years**, broadly aligned with the mid-point of the Scheme's liability profile and allowing greater consideration of physical risks.

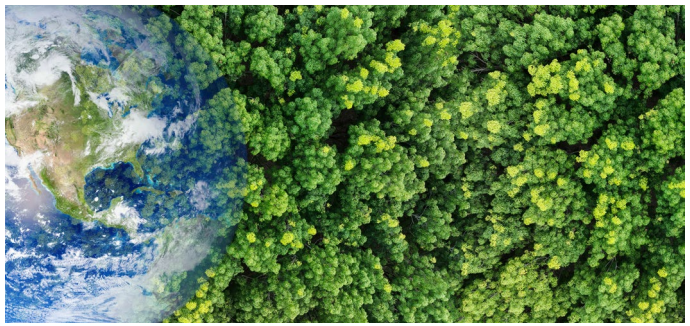
Examples of climate risks and opportunities are shown below. Over the short to medium term, the Trustee expects transition risks to be particularly relevant, while physical risks may become more material over the longer term.

Table 2: Examples of climate risks and opportunities over different time horizons

	Short term (0-3 years)	Medium term (the next 10 years)	Long term (20-25 years)
Examples of risks and/or opportunities	Carbon prices Regulation Changes in consumer behaviour Competitive pressures Extreme weather events	Carbon prices Regulation Changes in consumer behaviour Competitive pressures Extreme weather events	Extreme weather events Sea level rises Commodity scarcity Food price inflation Population migration Productivity loss

2.1 Climate scenarios

The refreshed scenario analysis covers the Scheme's assets, liabilities and employer covenant. The asset and liability analysis uses NGFS scenarios, which provide a common framework for assessing climate-related risks and allow the Trustee to consider a range of possible climate outcomes. These scenarios represent a range of possible future scenarios, allowing the Trustee to assess potential impacts under different climate outcomes.



2°C Orderly Transition

Climate policies are introduced early and become gradually more stringent. The scenario gives a 67% chance of limiting global warming to below 2°C.



2°C Disorderly Transition

Higher transition risk due to delayed or divergent policies across countries and sectors. Assumes annual emissions do not decrease until 2030 and CO2 removal is limited.



Hot House World 3°C

Some climate policies are implemented, but global efforts are insufficient to halt significant global warming, resulting in severe physical risk including irreversible impacts like sea-level rise.

The updated NGFS scenarios replace the older PRA scenarios and provide a more detailed, globally recognised framework, explicitly modelling different transition pathways with updated assumptions on policy action, technology adoption and physical climate risks.

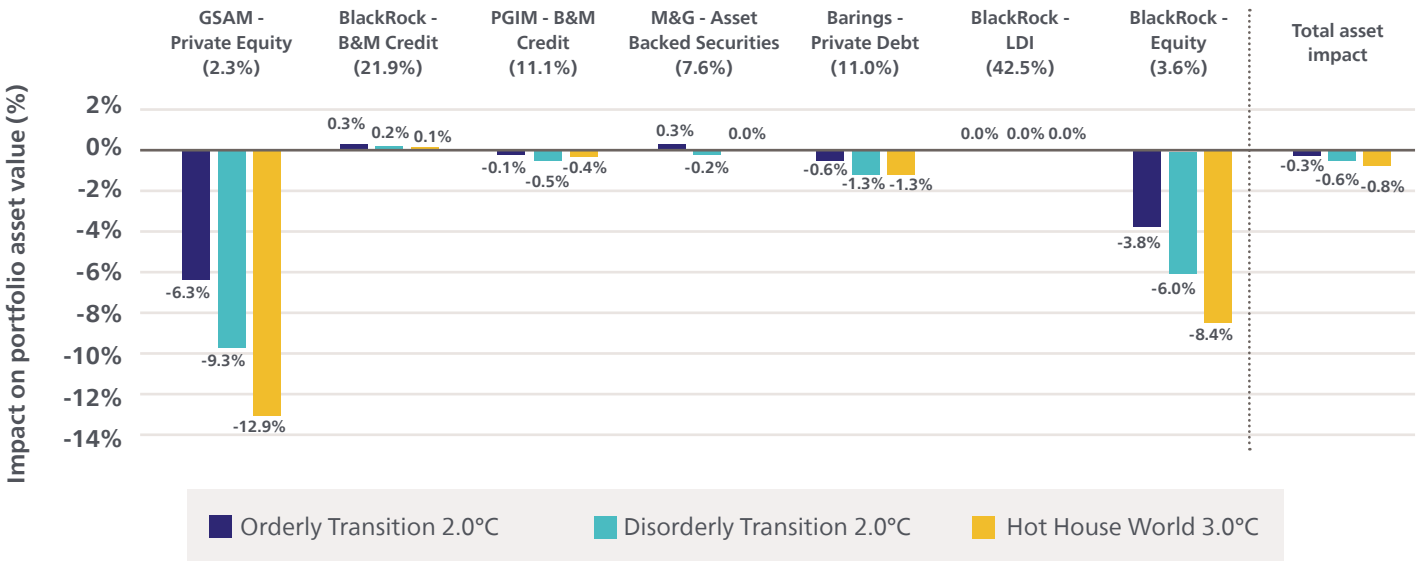
The analysis helps the Trustee assess the resilience of the Scheme's funding and investment strategy under different climate outcomes. The Trustee engaged with the Scheme actuary to understand the mortality impact on the Scheme's liabilities, allowing a funding level impact to be determined.

Given the prudent level of hedging in place, the analysis assumes interest rate impacts are offset on the asset and liability side. The Trustee reviews its scenario analysis annually, with input from its advisers, and will consider updates where changes to the investment strategy, data availability or modelling methodologies could materially affect the results. Further methodology detail is covered in Appendix A.

2.2 Asset, liability, and funding level scenario analysis results as at 31 March 2026

This analysis will be considered alongside other factors should the Trustee's advisers propose any changes to the Scheme's strategic asset allocation or funding strategy.

Figure 2. Change in asset value of the Scheme's assets (%) as at 31 March 2026[5]



While the assets are diversified across a range of asset classes, some exposures are modelled as being more prone to climate risk than others. The chart above shows the modelled impact of each climate scenario on the Scheme's individual asset portfolios and overall asset value.

The largest modelled downside impacts are within the growth-oriented assets, particularly the Private and Public Equity portfolios. In contrast, the Buy & Maintain credit portfolios result in limited sensitivity across the scenarios assessed. The Hot House World 3.0°C scenario is modelled to have the greatest adverse impact, with limited progress towards a lower-carbon economy resulting in higher long-term physical risks and therefore asset impact.

Despite this, the total asset impact remains modest, with the largest modelled reduction of c.0.8% under the Hot House World scenario. This limited impact reflects the Scheme's diversified asset allocation and significant allocation to "Matching" assets, including Liability Driven Investments and Buy & Maintain credit, which are modelled as having lower exposure to climate-related risks.

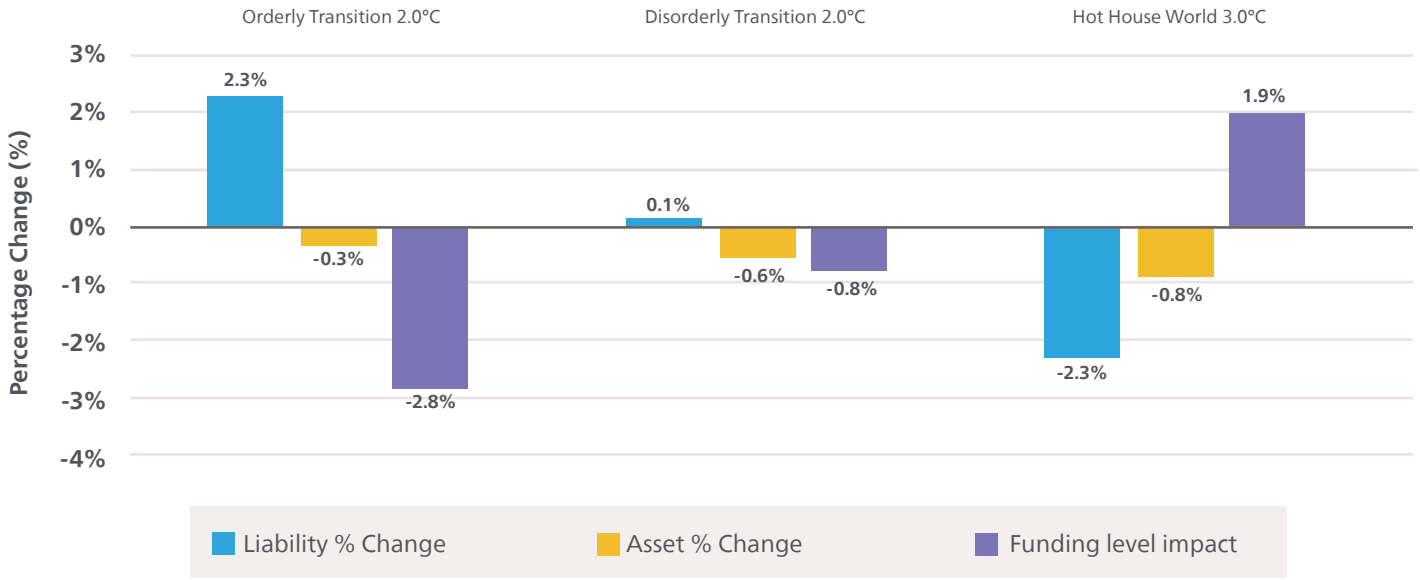
[5] Details on the assumptions used in the asset scenario analysis can be found in the appendices. The £ impacts are based on asset allocation weights as at 31 March 2026. The LDI portfolio has not been separately stressed; rates impacts are reflected through the liability-side stress and adjusted for the Scheme's hedge ratio. Buy & Maintain portfolios have been modelled using the duration of each currency segment.

Continued

2.2 Asset, liability, and funding level scenario analysis results as at 31 March 2026

The analysis indicates that the Scheme's funding level is most adversely affected under the Orderly Transition scenario, with a modelled reduction of c.2.8%. This scenario assumes earlier and more comprehensive policy action to reduce emissions, which increases transition costs, reducing asset values. Reduced physical risk improves life expectancy , increasing Scheme liabilities, resulting in the negative funding impact.

Figure 3. Change in asset value, liability value (mortality impact) and funding level (%) on a Gilts + 0.3% p.a. basis as at 31 March 2026[6]



Overall, the modelled impacts on the Scheme's funding level are modest across the scenarios assessed, indicating that the Scheme's investment and funding strategy remains broadly resilient to the climate risks captured by the analysis. The Trustee does not currently expect to make changes to the Scheme's investment or funding strategy as a result of these findings but will continue to monitor climate-related risks and opportunities as part of its ongoing risk management and decision-making processes.

Further detail on the assumptions and limitations of the scenario analysis is provided in the appendices.

[6] The funding level analysis assumes the liability interest rate and inflation impacts are hedged exactly by the LDI assets

2.3 Covenant scenario analysis

The Trustee also considers climate-related risks and opportunities as part of its assessment of the employer covenant supporting the Scheme. The Scheme's covenant is primarily supported by BAE Systems Global Combat Systems Munitions Limited ("Munitions") and BAE Systems plc ("the Group"), and the covenant analysis was refreshed during the year.

The covenant adviser reviewed the potential impact of climate-related risks and opportunities on the sponsoring employers. BAE Systems plc has a 2050 net-zero target across its value chain, targets a 44% reduction in Scope 1 and 2 emissions by 2030, and has identified a range of climate-related physical risks, transition risks and opportunities. These include risks associated with extreme weather, commodity availability and global energy market disruption, alongside opportunities arising from the transition to lower-emission energy sources. The Group has implemented a range of mitigation measures and assessed these risks and opportunities as having a low financial impact across the short, medium and long term.

The covenant adviser considers Munitions' climate-related risks and opportunities to be broadly aligned with those of the wider Group. While there remains inherent uncertainty in assessing climate-related covenant risks, particularly over longer time horizons, the covenant adviser notes that the Group's strong financial position, liquidity, access to capital markets and investment-grade credit rating support its ability to manage future transition costs. The covenant adviser concluded that both the Group and Munitions covenants remain fairly resilient to climate-related risks over the short to medium term, noting inherent uncertainty in assessing climate-related risks, particularly over the long term.

Based on the refreshed covenant analysis, the Trustee is satisfied that climate-related risks are not currently expected to materially weaken the employer covenant over the short to medium term and therefore sees no need to alter the Scheme's funding strategy. These risks and the sponsoring employers' responses to them will continue to be monitored through ongoing covenant reviews and future formal assessments.

Further detail on the covenant analysis may be found in the **Appendices**.

2.4 Conclusion

The Trustee considers the Scheme's investment and funding strategy to be resilient across the climate scenarios assessed, reflecting its allocation to matching assets, significant interest rate and inflation hedging, diversified growth assets as well as the strength of the employer covenant.

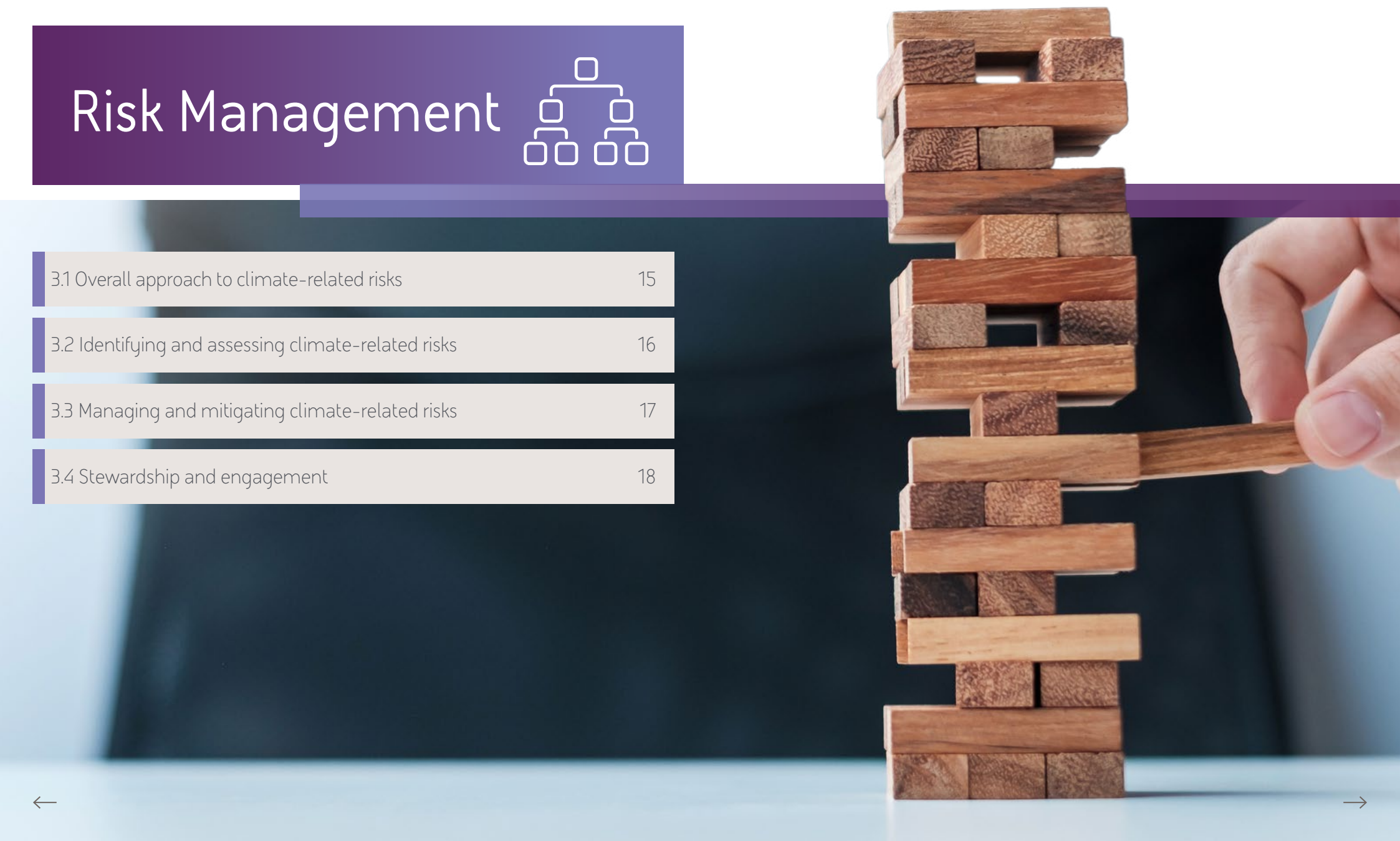
The Trustee expects transition risks to be most relevant over the short to medium term, particularly within equity assets, while physical risks are expected to become more material over longer time horizons and have been considered in the assessment of the Scheme's assets, liabilities and employer covenant.

Climate scenario analysis is considered alongside broader investment, funding and covenant assessments. Changes to the Scheme's investment strategy may be considered by the Trustee where climate-related developments are expected to materially affect funding outcomes, covenant strength or asset valuations.

No immediate changes to the Scheme's strategic asset allocation or funding strategy are expected, although climate-related risks and opportunities will continue to be monitored. Recognising the uncertainties inherent in climate modelling, the Trustee does not rely on scenario analysis in isolation when making strategic decisions.



Risk Management



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3.1 Overall approach to climate-related risks

The Trustee considers climate-related risks to be financially material to the Scheme's investments and therefore seeks to integrate these into the Scheme's wider risk management framework, alongside other key risks such as Scheme liquidity and sponsor risk.

The Trustee aims to invest in a way that is aligned with the goals of the Paris Agreement (limiting global temperature rises to well below 2°C above pre-industrial levels through reaching net zero emissions by 2050) and considers stewardship and engagement as primary tools for managing climate-related risks. The Trustee prioritises engagement with companies to encourage improved management of climate-related risks and opportunities.



Climate-related risks are considered in terms of both transition and physical risks. The Trustee recognises that both types of risk may become financially material over the short, medium and long term, and incorporates them into ongoing investment and risk management processes.

3.2 Identifying and assessing climate-related risks

Climate-related risks are captured within the Scheme's risk management framework and risk register, alongside wider investment, funding and covenant risks.

Identification and assessment of risks are supported by:

> Input from the Scheme's RI adviser and investment adviser on new or emerging risks;

> Climate scenario analysis to assess the resilience of the Scheme's investment and funding strategy under different pathways; and

> Monitoring of the Trustee's selected climate metrics.

Should a risk score increase materially between quarterly reviews or new risks be added, the rationale, controls and mitigants are discussed with the FIC in the first instance before determining any potential action or Trustee input.



3.3 Managing and mitigating climate-related risks

The Trustee manages climate-related risks through a combination of:

- Target setting and monitoring, including assessing annual progress against the Trustee's decarbonisation objectives and supporting metrics, as outlined in Section 4 "Metrics and Targets";
- Ongoing manager oversight, including assessment of RI capabilities, stewardship activity and integration of climate considerations. The Scheme's investment adviser monitors managers on behalf of the Trustee and provides regular updates. In its most recent review, all managers were signatories to the Principles for Responsible Investment (PRI), and the adviser is satisfied that ESG considerations are integrated into managers' investment processes;
- Integration of climate considerations into investment decision-making and strategic asset allocation;
- Review of climate-related reporting and climate scenario analysis to support ongoing monitoring.

Over the Scheme year, in Q4 2025, the Trustee chose to also monitor the Scheme's carbon footprint relative to an appropriate credit benchmark, to support more effective management of climate-related risks. To better understand the Scheme's progress towards the current interim target, the Trustee received, and discussed, a detailed breakdown of carbon footprint by fund, geography, and sector compared to the wider market.



The Trustee keeps its approach to managing climate-related risks under review to ensure it remains appropriate in the context of evolving risks and market developments. Climate-related opportunities are considered alongside risks where these support the Scheme's long-term risk-return profile and are consistent with the Trustee's fiduciary duty.

3.4 Stewardship and engagement

The Trustee considers stewardship a key tool for managing climate-related risks and expects its managers to:

> Engage with issuers to improve management of climate-related risks and opportunities; and

> Exercise voting rights in line with best practice and long-term value creation.

The Trustee monitors stewardship activity undertaken by managers at least annually and maintains ongoing dialogue with managers regarding engagement expectations and the management of climate-related risks. Disinvestment may be considered where engagement proves unsuccessful and risks are deemed financially material. The Trustee holds meetings with each of its investment managers on a periodic basis, typically once a year, where stewardship issues are discussed in further detail. Over the Scheme year, the Trustee achieved this via quarterly meetings of the FIC – meeting with GSAM, BlackRock and M&G over the period.

The Trustee also reviewed their investment managers' responsible investment (RI) policies in March 2026. The review considered the investment managers' compliance with the main industry governance standards, their broader approach to RI and ESG issues and any change in their approach over the period. At the end of the Scheme year, the Trustee implemented the BlackRock decarbonisation stewardship policy in the Scheme's segregated Buy and Maintain credit mandate, as an alternative to the manager's benchmark policy.

During the reporting period, the Trustee's managers undertook engagement activities focused on improving climate-related disclosures, supporting issuers' transition to net zero and enhancing data availability, including through industry initiatives.

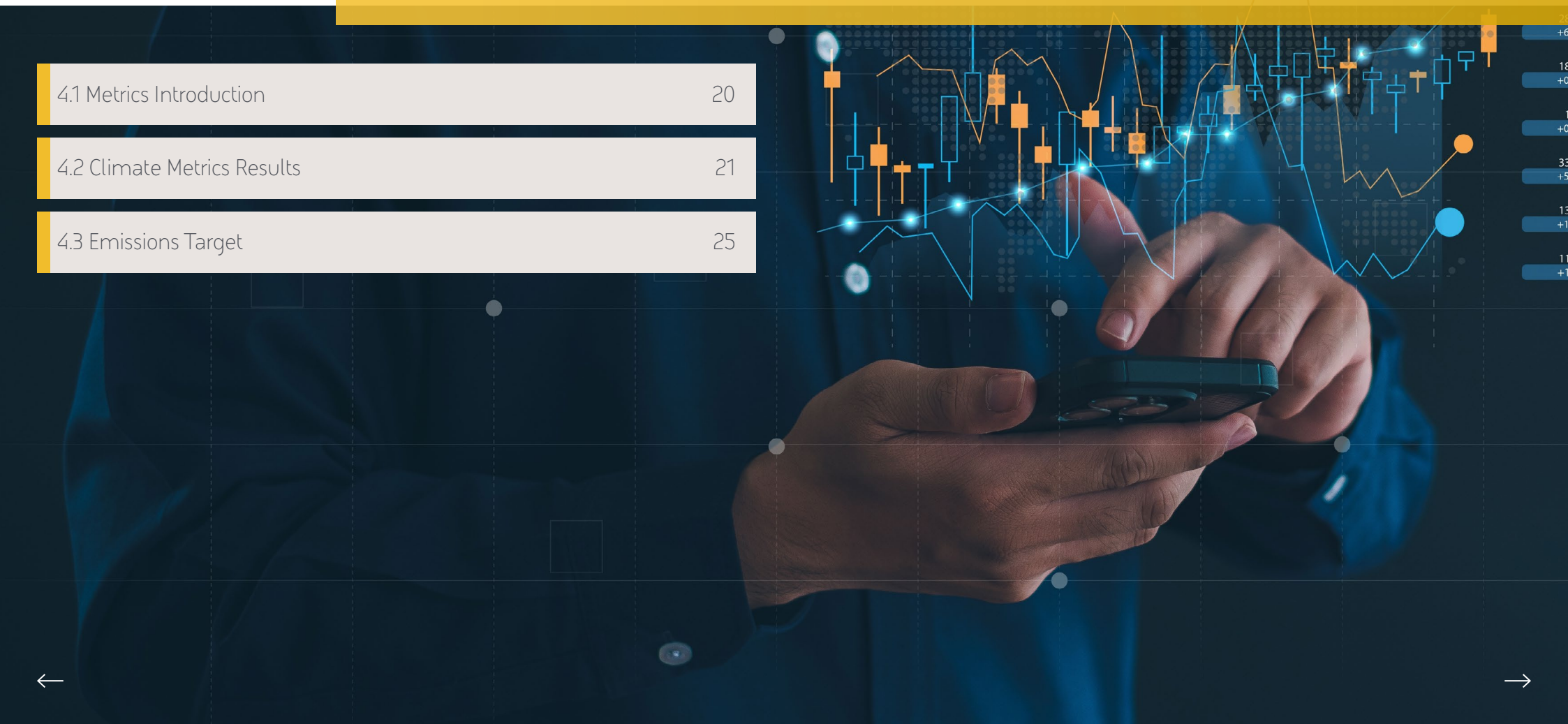


Metrics and Targets

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4.1 Metrics Introduction

The table below sets out the Trustee's chosen metrics and the rationale for selecting these.

Table 3. Summary of the Scheme's chosen metrics

DWP suggested metric	Metric selected	Rationale
Absolute emissions	Total carbon emissions	This metric is recommended by the DWP.
Emissions intensity	Carbon Footprint	This metric is recommended by the DWP.
Additional metric	Data Quality[7]	Provides context for interpreting emissions-based metrics. Reviewing the data quality scores aids the degree of conviction the Trustee has in the data being used.
Portfolio Alignment	Science Based Target initiative ("SBTi")	Examines if a voluntarily disclosed company decarbonisation target is aligned with a science-based pathway. There is evidence that companies that have set science-based targets are delivering emissions reductions in line with their ambitions.

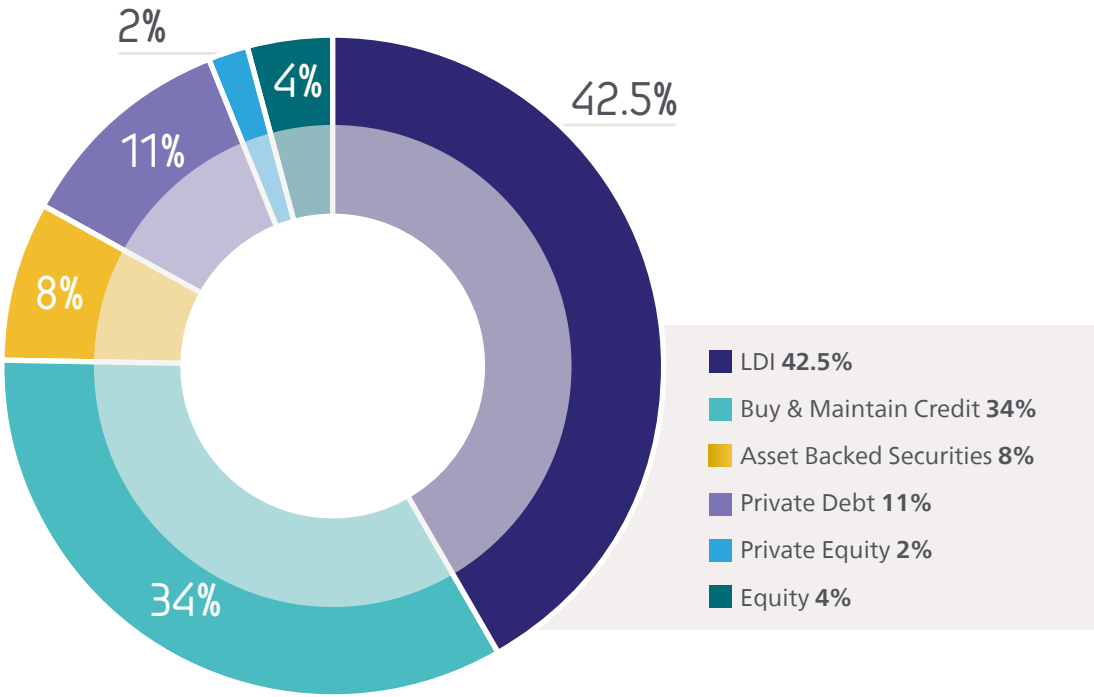
The chosen metrics are reviewed annually and, following this year's review, the Trustee agreed the metrics remain suitable and no changes were made.

Due to current modelling limitations, there is no clear consensus on LDI emission modelling and therefore, this analysis excludes emissions from gilts, cash, and derivatives. The Trustee is aware these exclusions may change in the future as best practices evolve. Detail on limits of the analysis is included in the appendices.

The emissions-based metrics have been calculated using line-by-line portfolio holding information from the Scheme's asset managers and climate data from the ESG data provider MSCI. Where this was not possible, such as with private funds or funds that are illiquid in nature, the metrics have been proxied. This approach was applied wherever line-by-line data coverage for a particular fund was below 50%.

The Trustee plans to use the following results to identify the climate-related risks and opportunities that are relevant to the Scheme. For example, engaging with relevant investment managers where the carbon emissions are highest within the portfolio. The Scheme's asset allocation as at 31 March 2026 is shown below.

Figure 4. Scheme asset allocation as at 31 March 2026



[7] Data quality, quantified using the Partnership for Carbon Accounting Financials ("PCAF") Data Quality Score, which monitors the reliability of companies' emissions data, ranging from one (highest quality data) to five (lowest quality data).

4.2 Climate Metrics Results

Metric 1: Absolute emissions (Scope 1 & 2, and Scope 3) – Total carbon emissions (tonnes CO2 equivalent)

The Trustee has chosen total carbon emissions, this is total greenhouse gas emissions financed by the Scheme's investments, known as category 15 (investment emissions) in the Greenhouse Gas ('GHG') Protocol. The Trustee uses this metric to identify which asset class contributes most to financed emissions and to prioritise engagement and monitoring activity.

There are three scopes of carbon emissions:

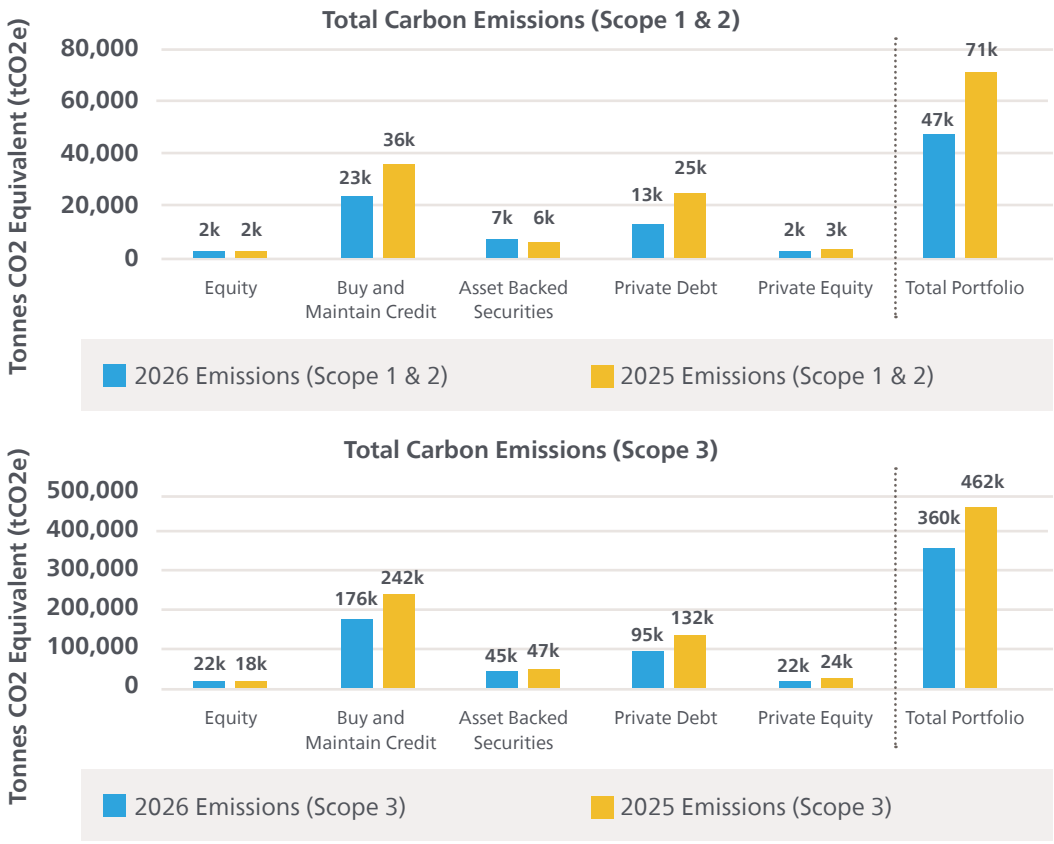
> **Scope 1** are direct emissions from an entity's owned or operationally controlled sources;

> **Scope 2** are those from the use of purchased energy by an entity;

> **Scope 3** are indirect emissions from the use of company's products, or emissions across its supply chain.

The absolute emissions of a mandate is naturally a function of the size of invested assets, with larger mandates likely to have larger total emissions. The analysis continues to demonstrate almost half of the Scheme's emissions are contributed by the two Buy & Maintain credit funds

Figure 5. Total (absolute) carbon emissions for the Scheme as at 31 March 2026[8]



Key takeaway:

The Buy & Maintain holdings remain the Scheme's largest source of emissions due to their size. Over the year, total non-LDI Scope 1 & 2 emissions have fallen c.33.5%, driven by a portfolio rebalance to its strategic targets in Q1 2026 (moving assets from Buy & Maintain to LDI) and lower Scope 1 & 2 emissions across the majority of Scheme assets. Scope 3 emissions also fell by c.22%, mainly due to reductions in the Buy & Maintain credit and private debt portfolios.

[8] Carbon metrics are proxied where there is insufficient data for funds. ESG and MSCI Carbon Metrics meet the current minimum UK DWP's TCFD-aligned "Metrics and Targets" regulations. However, regulations are subject to change. Gallagher monitors developments closely. Certain information ©2026 MSCI ESG Research LLC. Reproduced by permission.

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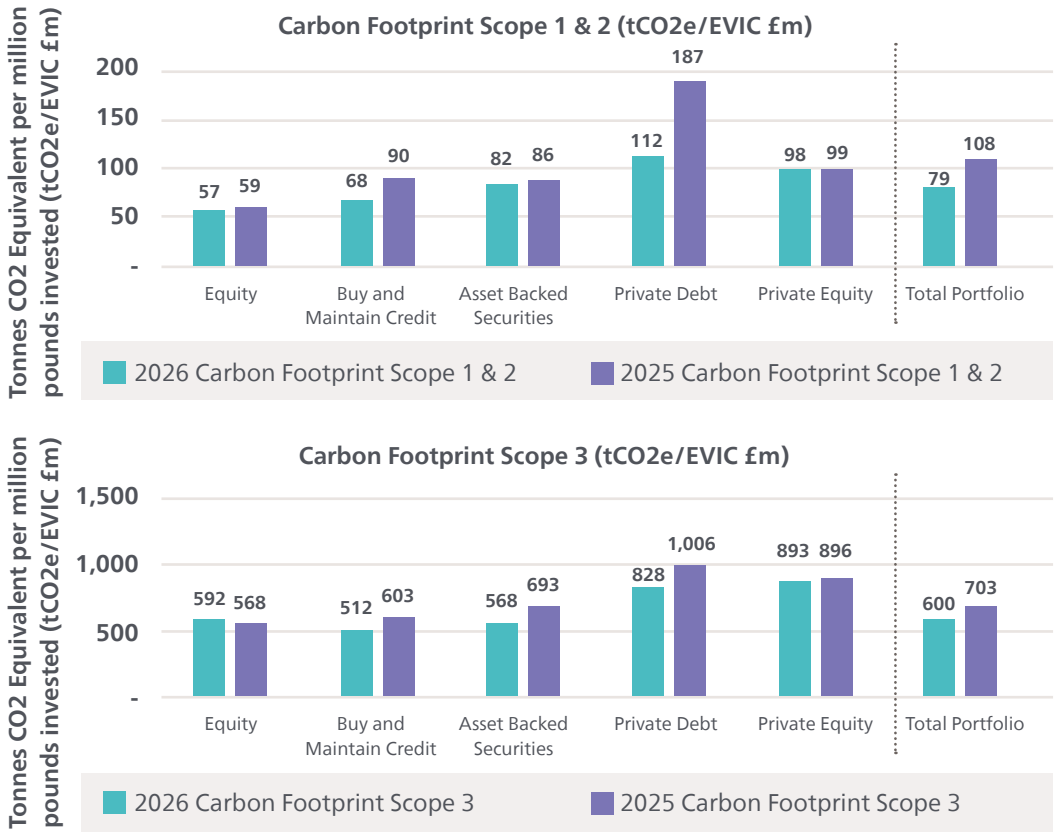
4.2 Climate Metrics Results

Metric 2: Emissions intensity (Scope 1 & 2, and Scope 3) – Carbon footprint (tonnes CO2 equivalent per million pounds invested)

The Trustee monitors as its emissions intensity metric, carbon footprint, the carbon efficiency of a portfolio in terms of emissions per million pounds invested. This allows the Trustee to compare between different sized investments and identify the most carbon intensive mandates to prioritise for engagement.

The emissions intensity measures are the average of the emissions intensity of the underlying holdings, weighted by the value of each holding. Differences in portfolio emissions intensities are driven by differences in sector and company exposure. Portfolios with higher exposures to high-carbon sectors such as utilities, non-energy materials, energy and industrials tend to exhibit higher emissions intensities.

Figure 6. Carbon footprint for the Scheme as at 31 March 2026[9]



Key takeaway:

Per £m invested, the Scheme's Private Debt and Private Equity holdings have the greatest carbon footprint, reflecting the carbon-intensive nature of the underlying holdings. However, the Private Debt carbon footprint has fallen materially over the year due to improvements to the proxy modelling process to better reflect the types of assets the Scheme has exposure to. As this asset class is proxied each year, changes to modelling can have an outsized impact given the sectoral balance in the underlying assumptions. The carbon footprint of the total portfolio has fallen, driven by decreases in the footprint of Buy & Maintain Credit and Private Debt.

[9] Carbon metrics are proxied where there is insufficient data for funds. ESG and MSCI Carbon Metrics meet the current minimum UK DWP's TCFD-aligned "Metrics and Targets" regulations. However, regulations are subject to change. Gallagher monitors developments closely. Certain information ©2026 MSCI ESG Research LLC. Reproduced by permission

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4.2 Climate Metrics Results

Metric 3: Data coverage – Percentage of Scheme assets with acceptable climate data available

The Trustee monitors the PCAF Data Quality Score as its additional metric. This allows the Trustee to monitor the reliability of emissions data with a scoring system from 1 to 5, with 1 representing the highest data quality, which involves independently verified emissions data, and 5 the lowest quality, characterised by estimated emissions data derived from industry averages. Where data is unavailable for funds or underlying holdings, these have been estimated using asset class proxies and they have been assigned a data quality score of 5.

Table 4. Data quality for the Scheme as at 31 March 2026[10]

Scope 1 & 2										
Asset Class	Grade 1 - Verified		Grade 2 - Unverified or estimated from energy consumption		Grade 3 – Estimated from company production		Grade 4 – Estimated from company revenue and sector		Grade 5 – Other estimated	
	2026	2025	2026	2025	2026	2025	2026	2025	2026	2025
Equities	76.6%	-	16.3%	88.2%	-	-	7.0%	9.9%	0.1%	1.9%
Buy & Maintain Credit	55.6%	-	28.4%	86.1%	-	-	6.8%	9.1%	9.2%	4.8%
Asset Backed Securities	-	-	-	-	-	-	-	-	100%	100%
Private Debt	-	-	-	-	-	-	-	-	100%	100%
Private Equity	-	-	-	-	-	-	-	-	100%	100%
Totals	**36.7%**	**0.0%**	**17.3%**	**56.7%**	**0.0%**	**0.0%**	**4.3%**	**6.0%**	**41.7%**	**37.3%**
Scope 3										
Equities	-	-	86.1%	80.9%	-	-	12.4%	17.2%	1.6%	1.9%
Buy & Maintain Credit	-	-	79.0%	78.4%	-	-	11.9%	16.8%	9.2%	4.8%
Asset Backed Securities	-	-	-	-	-	-	-	-	100%	100%
Private Debt	-	-	-	-	-	-	-	-	100%	100%
Private Equity	-	-	-	-	-	-	-	-	100%	100%
Totals	**0.0%**	**0.0%**	**50.7%**	**51.7%**	**0.0%**	**0.0%**	**7.6%**	**11.1%**	**41.8%**	**37.3%**

Key takeaway:

c.37% of the investments are grade 1 for Scope 1 & 2, meaning they have been verified by a third party. Previously grade 2 was the highest grade awarded; however, data quality improvements now allow grade 1 to be achieved. As expected, this is driven by the Equity and Buy & Maintain credit funds. ABS, Private Equity, and Private Debt, do not have any metrics coverage available, and 100% of the data is estimated.

Continued

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4.2 Climate Metrics Results

Metric 4: Portfolio alignment – Science-based target initiative ("SBTi")

The Trustee has agreed to adopt SBTi as the Scheme's portfolio alignment metric, which captures a company or issuer's progress against a self-developed decarbonisation target using science-based methodology. The Trustee uses this metric to understand the extent to which the Scheme's assets are aligned with the goals of the Paris Agreement, and therefore, aligned with the Scheme's net-zero ambition. Companies with an approved decarbonisation pathway may be in a better position to avoid being as exposed to climate-related risks.

The higher the percentage, the more companies within the portfolio have approved decarbonisation targets. Currently the SBTi is voluntary and only available for publicly listed assets. Therefore, the Trustee will expand this metric to wider parts of the portfolio as the methodology improves over time.

Table 5. SBTi for the Scheme as at 31 March 2025 and 31 March 2026[11]

Fund	Valuation (Q1 2026)	% of portfolio that has set an SBTi approved target (31 March 2026)	Valuation (Q1 2025)	% of portfolio that has set an SBTi approved target (31 March 2025)
Private Equity	£24.3m	-	£26.6m	-
Equities	£37.1m	50.5%	£30.9m	42.2%
Asset Backed Securities	£79.6m	-	£67.7	-
Private Debt	£114.4m	-	£131.0m	-
Buy & Maintain Credit	£344.2m	41.3%	£401.6m	41.0%
Total excluding LDI	**£599.6m**	**26.9%**	**£657.9m**	**27.1%**

Key takeaway:

The Scheme had an SBTi rating of 26.9% for all non-LDI assets, remaining broadly flat over the year, driven by asset allocation rebalancing to strategic targets in Q1 2026. Alignment within the Scheme's public assets (Equity and Buy & Maintain Credit) has increased over the year.

[11] Where presented, SBTi scores are all based on look through data where it is available and never proxied. MSCI Carbon Metrics meet the current minimum UK DWP's TCFD-aligned "Metrics and Targets" regulations. However, regulations are subject to change. Certain information ©2026 MSCI ESG Research LLC. Reproduced by permission.

4.3 Emissions Target

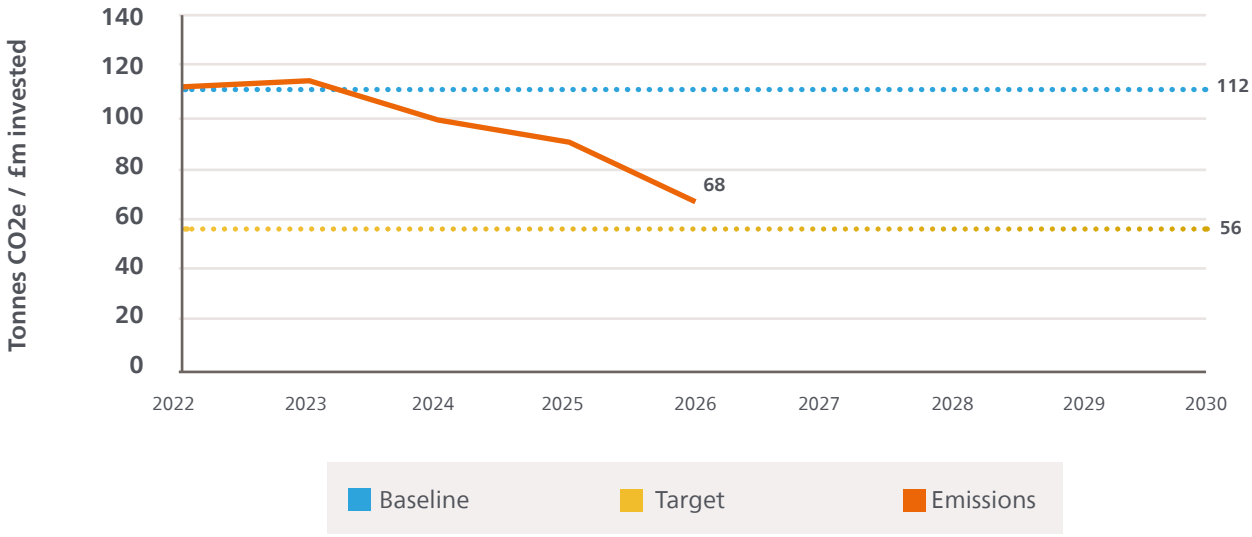
The Trustee has set a long-term target of net-zero emissions by 2050, with an interim target of a 50% reduction in the Scheme's segregated Buy & Maintain Credit Scope 1 & 2 emissions intensity by 2030 compared to 31 March 2022.

The Buy & Maintain holdings were selected as, due to their segregated nature, there is more scope to directly influence the manager's actions to reduce emissions.

The Trustee notes that these targets were originally set on the assumption that the low-carbon transition would occur at a reasonable pace, and that the most ambitious goals of the Paris Agreement would remain achievable. As the global transition is currently not on track and, given the Trustee's fiduciary duties and the prevailing policy environment, these targets may need to be recalibrated going forward. However, the Trustee remains supportive of the transition to net zero, believing that this is in the best long-term interest of the Scheme's members.

The Trustee intends to continue to engage with its Buy & Maintain Credit managers to apply limits on the carbon intensity of the portfolio where this is consistent with the investment risk and return objectives of the mandate and wider portfolio. On an annual basis, the Trustee will measure performance against this target and determine whether this target remains appropriate.

Figure 7. The Scheme's Buy & Maintain credit Scope 1 & 2 emissions intensity against the target as at 31 March 2026



Key takeaway:

The carbon footprint of the Scheme's Buy & Maintain mandates has decreased by c.40% from the baseline to 31 March 2026. The Trustee appreciates this is influenced by broader market dynamics (e.g. sector allocation, index composition and valuation effects) but will continue to engage with the Scheme's Buy & Maintain managers for further progress.

Appendices

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Appendix A: Unabridged Employer Climate Scenario Analysis

The Trustee also considers climate-related risks and opportunities as part of its assessment of the employer covenant supporting the Scheme. The covenant analysis has been refreshed this year and is summarised below, with fuller detail included in the appendices.

The Scheme's covenant is primarily supported by BAE Systems Global Combat Systems Munitions Limited and BAE Systems plc. The covenant adviser's analysis considers climate-related risks and opportunities for the wider BAE Systems group and, where relevant, for Munitions.

The analysis notes that BAE Systems plc has a 2050 net-zero target across its value chain and targets annual reductions in Scope 1 and 2 emissions to 2030. The Group has identified and assessed climate-related physical risks, transition risks and opportunities, including risks relating to extreme weather, commodity availability and energy market disruption, as well as opportunities from lower-emission energy sourcing.

The covenant adviser considers that climate-related risks and opportunities for Munitions broadly align with those of the wider Group. While there is inherent uncertainty in assessing climate-related covenant risk, particularly over longer time horizons, the covenant adviser concluded that both the Group and Munitions covenants are fairly resilient to climate-related risks over the short to medium term.

Based on the refreshed covenant analysis, the Trustee is currently satisfied that climate-related risks are not expected to materially weaken the employer covenant over the short to medium term. The Trustee does not currently expect to change the Scheme's funding strategy as a result of the covenant analysis, but will continue to monitor developments through future covenant reviews.

The Scheme's covenant is driven primarily by two sponsoring employers: BAE Systems Global Combat Systems Munitions Limited ("Munitions"), which accounts for the majority of the liabilities based, and BAE Systems plc. As the ultimate parent, BAE Systems plc has access to all the value generated from its subsidiaries, collectively referred to here as "the Group". This section covers the Group, followed by Munitions, consistent with the covenant adviser's approach.

The covenant adviser has leveraged its 2025 review, and subsequent monitoring based on publicly available information including the Group's 2025 annual report. The covenant adviser will continue to regularly assess climate-related risks and opportunities, reporting to the Trustee Board no less frequently than triennially, using publicly available disclosures supported by conversations with management when appropriate.

BAE Systems plc

The BAE Group targets a 4.2% annual reduction in Scope 1 & 2 emissions through to 2030 (aligned with the Paris pathway). In 2025, it reported an 8.9% reduction, taking the overall reduction versus the 2020 baseline to 35% (against a target of 44% by 2030). The Group retains a 2050 net-zero target across its value chain.

In 2025, management refreshed its approach to climate risk and opportunity identification. A shortlist was developed based on qualitative impact ratings based on their potential business disruption or financial loss and the likelihood of occurrence.

Based on this process, four climate-related risks and opportunities were taken forward for scenario analysis, which are summarised below. The scenario analysis assumes mitigation plans are incorporated, business activities include future forecast growth and impacts are not aggregated or offset (note, a threshold is not provided to define the 'low' financial impact assessment):

Physical risks

- Increased frequency and severity of extreme weather may result in higher cost and productivity reduction, which management notes could pose serious challenges to its operations and disrupt build rates.
- Management mitigates this by proactively assessing physical risk and developing business continuity plans.
- The BAE Group assesses physical risk as being relevant over the short, medium and long term, with a low financial impact primarily because mitigation measures can be factored into site maintenance and longer-term site planning and new build. Insurance is in place to respond to unforeseen events.

Continued →

Appendix A: Unabridged Employer Climate Scenario Analysis

Transition risks - Commodity availability

> Management notes the risk of climate-related increased scarcity and restricted access to commodities and critical materials due to elevated demand on critical minerals. This stems from the energy transition and could result in delays in securing revenue.

> Management mitigates this risk through regular supply chain reviews, identification of critical materials with dedicated monitoring workstreams, and conducting research and collaborating with third parties to understand how critical materials can be replaced with alternatives.

> The BAE Group assesses this risk as being relevant over the short, medium and long term, with a low financial impact.

Transition risks - Global energy market disruption

> Management notes that disruption in global energy markets (e.g. energy sources) could lead to increased operational costs due to the transfer of electricity sourcing to renewable energy.

> To mitigate this risk, management has developed a long-term energy strategy mapped to future business growth to 2040 to address to potential energy sourcing concerns, which is regularly reviewed.

> Management also has power purchase agreements in place and at the end of 2025 60% of its future energy requirements will be met by renewable sources. Management plans to have 90% of its UK electricity requirement to be met by renewable sources by 2030.

> The BAE Group assesses this risk as being relevant over the short, medium and long term, with a low financial impact.

Transition opportunity

> Management notes that switching to lower-emission energy sources, such as solar and wind, across the BAE Group's defence estate ell as reducing operational costs through long-term power purchase contracting.

> In response, management has developed a long-term plan to 2040 to try to maximise these opportunities (consistent with the transition risk above) and has significant capital investment planned over the next 10 years, as well as having developed and rolled out energy efficiency building standards.

> The BAE Group assesses the opportunity as being relevant over the short, medium and long term, with a low financial impact.

BAE Systems Global Combat Systems Munitions Limited

In its Group assessment, the convenant adviser noted that ESG and climate-related risks and opportunities are more medium/long-term in nature, and as confirmed with management, that assessment also applies to Munitions. The covenant adviser considers Munitions' climate-related risks and opportunities to broadly align to the wider Group, with limited threats to covenant strength. The covenant advisers notes the considerations relating to Munitions and broadly unchanged from last year's TCFD, including:

1. Munitions implements the requirements of the wider Group's Environmental Policy as part of its emission reduction targets and it has not been set any specific net-zero ambitions/targets.
2. There may be limited changes undertaken in Munitions if greater returns can be realised elsewhere in the Group, and the reverse is also true.
3. Munitions' key contracts do not currently contain any ESG or climate-related clauses, but management notes this may change in the future.

The covenant adviser notes inherent uncertainty in assessing climate-related risks, particularly over the long term. The covenant adviser also notes that the data to assess the impact of climate-related risk on the BAE Group remains limited, but its 2025 annual report highlights strong financial results and liquidity, good access to capital markets, and an investment-grade credit rating, supporting its ability to meet transition costs.

The covenant adviser has concluded that both the Munitions and Group covenants are fairly resilient to climate-related risks over the short to medium term. This should continue to be monitored within the context of the strong funding position of ROPS.

Having reviewed the analysis provided in both covenant sections above, the Trustee is currently satisfied that the sponsoring employers are developing strategies to address the anticipated risks and opportunities arising from climate change. Therefore, the Trustee sees no reason at present to alter the Scheme's funding strategy as a result of this covenant analysis. The Trustee will continue to review the approaches of the sponsoring employers, performing formal analysis triennially or sooner following meaningful changes that could affect the covenant or the Scheme's funding strategies.

Appendix B: Carbon Footprint Analysis

Where possible, emissions metrics are calculated using 'line-by-line' holdings data for underlying assets within funds. Specific line-by-line modelling of emissions is currently available only for publicly listed equity and credit assets. Where line-by-line data coverage is below 50%, or where assets are private or illiquid in nature, emissions metrics are estimated using asset class proxies. While these proxies are less precise than reported holdings-level data, they provide a more complete view of the Scheme's climate-related risks and opportunities and help identify areas where further engagement may be appropriate.

Asset class modelling of emissions is provided by Gallagher and is based on representative asset class 'building blocks'. These are either calculated directly using a given index's underlying holdings emissions (such as using MSCI All Country World Index ("ACWI") as a proxy for a broad equity fund) or in some cases these indices are used and extrapolated to other asset classes based on given assumptions (such as using the emissions of infrastructure firms within an index to proxy an infrastructure fund).

Emissions metrics are calculated in line with the Greenhouse Gas Protocol ("GHG Protocol"), the globally recognised framework for measuring and reporting greenhouse gas emissions.

Limitations of Carbon Metrics:

The Trustee recognises that emissions-based metrics are subject to limitations, including reliance on estimated or modelled data, asset valuation effects, reporting time lags and incomplete coverage across certain asset classes. These factors can introduce volatility into reported results. The Trustee therefore interprets these metrics with caution but believes they remain a useful tool for understanding and monitoring climate-related risks and opportunities alongside qualitative analysis and engagement insights.

Emissions data is generally reported within a one-to-two-year lag and therefore reflects the latest available data at the time of reporting rather than current-year emissions. Metrics are updated annually as improved underlying company and asset-level data becomes available.

Appendix C: Hymans Robertson's output of impact of climate change on liabilities

Methodology for liability impact

- Liability figures have been calculated using the Scheme's liability from the 31 March 2025 valuation and membership data as at 31 March 2025 and membership data as at 31 March 2025, rolled forward to 31 March 2026. The analysis is based on the Scheme's technical provisions basis as at 31 March 2026.
- Consistent with DWP guidance, the analysis focuses on the potential impact of climate change on member longevity, and therefore, the Scheme's liabilities. Other liability assumptions were not stressed.
- Hymans Robertson used the longevity scenarios from Club Vita's 'Still Hot and Bothered?' analysis as proxies for the Scheme's climate scenarios. As Club Vita does not publish scenarios directly aligned to the NGFS framework, the scenarios were mapped as follows:
  - Rapid Response → Orderly transition 2.0°C
  - Turbulent Times → Disorderly transition 2.0°C
  - Sustained Stagnation → Hot House World 3.0°C

The analysis estimates how climate-related changes in life expectancy could affect the value of the Scheme's liabilities. The resulting longevity stresses were applied to the liabilities and longevity swap valuation to estimate the net impact under each climate scenario.

The liability analysis applies longevity stresses using a simplified methodology based on Scheme-level assumptions and membership characteristics, rather than recalculating individual member cashflows under each scenario.

Scenario	Club Vita proxy	Changes in life expectancy (Male)	Changes in life expectancy (Female)	Net liability impact (£m)
Orderly transition 2.0°C	Rapid Response	+ 1.8 years	+ 1.7 years	+ 23.9
Disorderly transition 2.0°C	Turbulent Times	+ 0.2 years	+ 0.1 years	+ 1.3
Hot House World 3.0°C	Sustained Stagnation	- 1.4 years	- 1.7 years	- 23.6

Impacts shown are for members currently aged 65 and are relative to future improvements based on the CMI 2024 mortality model with a long-term improvement rate of 1.5% p.a.

Key limitations

- The analysis should be interpreted as indicative rather than a forecast.
- The longevity stresses have been applied at a single point in time and do not capture the full complexity of how climate-related impacts on mortality may emerge over time.
- Different age groups may experience materially different longevity impacts under each scenario.

The liability analysis uses climate scenarios that are proxies for the NGFS scenarios used in the asset modelling and there may be some inconsistency between the asset-side and liability-side results.

For more information use the QR code to be directed to the BAE Systems website.

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