

BAE Systems Pension Scheme Climate Disclosure Report

31 March 2026

BAE SYSTEMS

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Executive Summary

The Department for Work and Pensions has provided recommendations for UK pension scheme trustees for integrating the Task Force on Climate-related Financial Disclosures ("TCFD") framework into their investment and governance processes. This report is for the BAE Systems Pension Scheme ("the Scheme"), covering the Scheme's financial year ending 31 March 2026. It outlines how all four elements of the TCFD framework – Governance, Strategy, Risk Management and Metrics and Targets – have been applied to the Scheme.

Continued →

Executive Summary

01



1. Governance →

The Trustee has overall responsibility for the governance of climate-related risks and opportunities affecting the Scheme's two defined benefit ("DB") Sections: the BAE Systems DB Section and the Airbus DB Section. This includes potential impacts on the Scheme's investments, funding position and the employers that support the Scheme. The Trustee is supported by the Funding and Investment Committee ("the FIC"), its advisers, its fiduciary manager, Goldman Sachs Asset Management ("GSAM"), and other parties. The Trustee also receives regular training and updates on climate-related risks and evolving industry practice.

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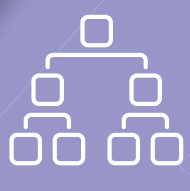


2. Strategy →

The Trustee considers how climate change could affect the Scheme's investment and funding strategy over the short (three years from now), medium (the next decade) and long term (to 2050). The Trustee considers two main types of climate risk: transition and physical risks.

As part of this process, the Trustee commissions analysis to help understand how different climate scenarios could affect the Scheme in future; the Scheme's analysis was refreshed this year across its assets, liabilities and employer covenant. Overall, the Scheme's investment and funding strategy appears relatively resilient across the scenarios assessed, although the Trustee recognises the limitations of climate modelling.

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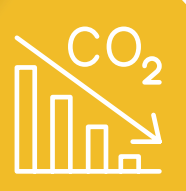


3. Risk Management →

Climate-related risks are incorporated in the Trustee's risk register and are monitored through the Scheme's governance framework, including regular oversight by the Trustee Board and the FIC.

Stewardship and engagement continue to be important tools used by the Trustee to manage climate risks. Through its fiduciary manager, the Trustee encourages companies in which the Scheme invests to manage climate-related risks effectively, alongside other factors that could affect their performance, such as corporate governance and human rights.

04



4. Metrics & Targets →

The Trustee uses climate-related metrics to help identify, assess and monitor risks and opportunities over time. These include measures of emissions, alignment with the transition to a lower-carbon economy, and the quality of emissions data. These are disclosed in the full report.

The Trustee also has a target to reduce the scope 1 and 2 carbon footprint of the Scheme's public corporate credit assets by 50% by 2030 relative to its 2021 baseline. The carbon footprint fell over the year but remains above the 2021 baseline. The Trustee will continue to monitor progress towards the target and keep the suitability of the target under review.

1. Governance

This report covers the defined benefit ("DB") sections of the Scheme: the BAE Systems Section and the Airbus Section. The Scheme also holds assets in relation to Additional Voluntary Contributions ("AVCs") arrangements, which members may use to enhance their retirement benefits. Most AVCs are invested through a master trust arrangement with Mercer, selected by the Company.

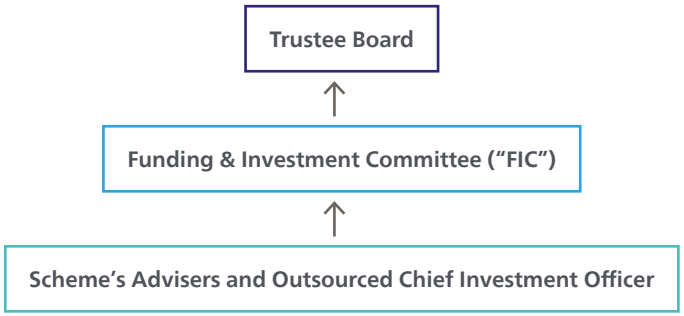
Given the small size of the Additional Voluntary Contribution ("AVC") assets that remain outside of the master trust (c.£1m as at 31 March 2026) relative to the wider Scheme and the limited scope for changing how they are invested, these are excluded from this report.

As at 31 March 2026:

> the BAE Systems Section had c.£17.9bn of assets;

> the Airbus Section had c.£2.7bn of assets.

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



Trustee Board

The Trustee Board has overall responsibility for the governance of climate-related risks and opportunities across the Scheme. Climate change is recognised as a financially material consideration for the Scheme's investment and funding strategy, and is therefore embedded within the Trustee's responsible investment, climate change and stewardship policies.

Funding & Investment Committee ("FIC")

The Scheme has a FIC, a sub-committee of the Trustee Board, which oversees funding, investment and covenant matters and which makes related recommendations to the Trustee Board. This includes the consideration of actuarial matters and the investment strategy, and monitoring investment risks and opportunities, including climate-related and broader Environmental, Social and Governance ("ESG") matters, where relevant. The FIC is supported by Goldman Sachs Asset Management ("GSAM"), the Outsourced Chief Investment Officer ("OCIO"), and Gallagher as investment consultant, plus other external advisers.

The Trustee understands the importance of allocating sufficient time to climate-related issues to ensure effective oversight. As such, climate matters are covered in most FIC meetings. During the Scheme year, five FIC meetings were held with external advisers in attendance and, where relevant, climate-related FIC discussions were reported at Trustee Board meetings.

Advisers

The Trustee ensures effective administrative coordination through the BAE Systems Trustee Pensions team, comprising Trustee & Member Services and Pensions Finance, which supports the FIC and Trustee Board including managing agendas and papers, liaising with advisers and the OCIO, and ensuring follow-up actions are tracked and reported back for oversight and challenge.

Gallagher is the Scheme's investment consultant, providing advice on investment strategy and the integration of climate and broader ESG risks and opportunities, including strategic asset allocation and manager oversight.

The Scheme's actuary changed part-way through the Scheme year, with Hymans Robertson being replaced by Lane Clark & Peacock ("LCP"). LCP advises on funding strategy, liabilities and longevity risks.

The Trustee's covenant adviser, PwC, assesses financial exposure to the sponsors, including climate-linked risks to the covenant.

Continued →

1. Governance

Outsourced Chief Investment Officer (OCIO) - GSAM

The OCIO manages the Scheme's DB assets; this includes responsibility for appointing and overseeing external managers. The OCIO integrates responsible investment considerations, including climate change and broader ESG factors, into its portfolio management and stewardship, alongside traditional financial analysis. This includes engagement with external managers and investee companies. The OCIO provides annual climate-related data and reporting and reports quarterly to the Trustee Board and the FIC.

Service Review Board ("SRB")

The Trustee is supported by a Service Review Board ("SRB"), comprising the OCIO, Gallagher, Pensions Finance and Trustee & Member Services. The SRB provides a forum to review OCIO service delivery and to facilitate discussion and challenge ahead of formal consideration by the FIC or Trustee Board. The SRB covers climate-related matters as part of its remit.

Ongoing assessment of the Scheme's advisers

As part of its adviser review process, the Trustee considers how effectively advisers support its consideration of climate change:

> The Trustee assesses the performance of its advisers on a regular basis across all areas, including climate and broader ESG matters. The Scheme's investment consultant (Gallagher) is assessed quarterly against strategic objectives (including ESG objectives) with feedback provided on any areas of concern.

> There is regular monitoring of the OCIO, covering responsible investment integration, stewardship, climate data and reporting, with any areas falling outside of expectations discussed and actions agreed where needed.

Trustee Knowledge and Understanding

The Trustee and those supporting it maintain appropriate knowledge and understanding of climate-related risks and opportunities through ongoing training and self-learning. During the year, training and wider responsible investment ("RI") discussions covered:

> Responsible investment covering the clean energy transition, stewardship and policy advocacy.

> Updating the responsible investment policies, covering the RI Policy, Stewardship Policy and the Net Zero Statement.

> A stewardship overview including the OCIO's stewardship approach.

> A FIC Training Day explored climate-related risks and opportunities, decarbonisation and physical risk.

> Climate benchmark monitoring covering the potential use of benchmarks to aid the Trustee's climate risk management.

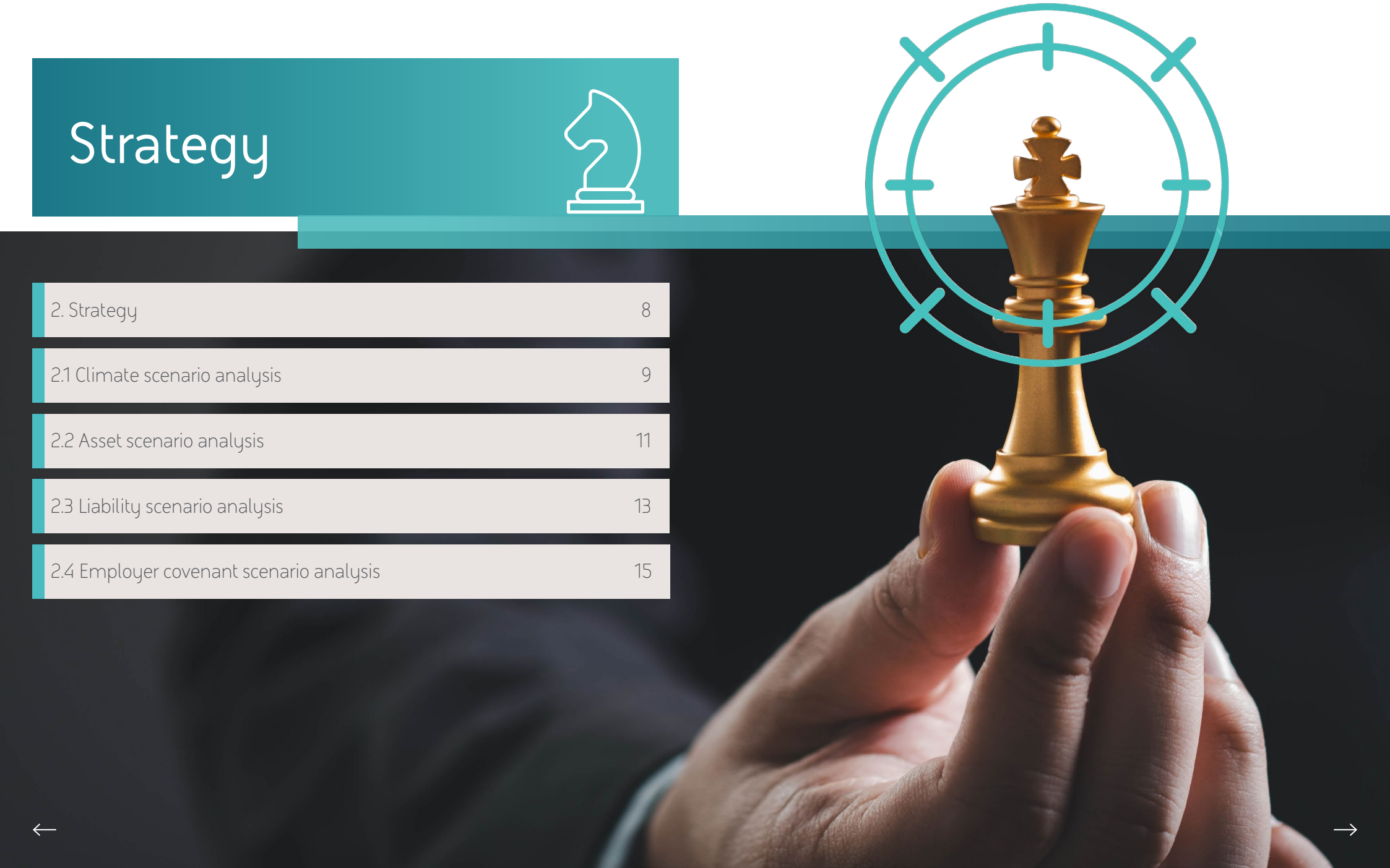
The Trustee (and those supporting the Trustee) also undertakes self-learning related to climate risk management via seminars, reading pension newsletters and regulatory articles. Training needs are reviewed on an ongoing basis to support effective oversight and challenge



Key takeaway:

The Trustee retains overall responsibility for climate-related governance, with the FIC considering relevant information and input from Scheme advisers before making recommendations to the Trustee Board. The consideration of climate matters is embedded in the Scheme's investment and funding strategy and ongoing monitoring.

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2. Strategy

The Trustee integrates climate-related factors into the Scheme's funding and risk management processes, considering the assets, liabilities, and employer covenants.

Climate-related risks and opportunities

Pension schemes face both transition and physical risks (and opportunities) from climate change:

- **Transition risks** arises from the global shift to a low-carbon economy, including changes in policy, regulation, technology and market sentiment.
- **Physical risks** arises from acute and chronic climate-related events, such as extreme weather events and rising temperatures.

These risks can affect schemes' 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.

The Trustee considers climate risks and opportunities over different time horizons, as the time periods may affect the Scheme's investment and funding strategy differently:

Table 1: The time horizons monitored by the Trustee

Horizon	Definition
Short term	**0-3 years from now**, aligned with the three-year actuarial valuation cycle and reflecting more immediate risks faced by the Scheme.
Medium term	**The next 10 years**, given the importance of significant changes being made this decade to limit global warming.
Long term	**2050**, aligned with the Trustee's net-zero ambition and the long-term nature of the Scheme's liabilities and investments.

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

	Short term (0-3 years from now)	Medium term (the next 10 years)	Long term (2050 and beyond)
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

Whether these factors present a risk or an opportunity will depend on the investments held and their circumstances. For example, carbon pricing could increase costs for a carbon-intensive company. Conversely, a company offering lower-carbon products or operating with lower emissions than its competitors may benefit from stronger demand or a relative cost advantage.

The analysis that follows considers the potential impact of risks and opportunities like those identified above on the DB Sections' investment and funding strategies.

2.1 Climate scenario analysis

The climate scenario analysis has been refreshed for this year's TCFD report, in line with the regulatory requirements. This covers the DB assets, liabilities and sponsor covenants.

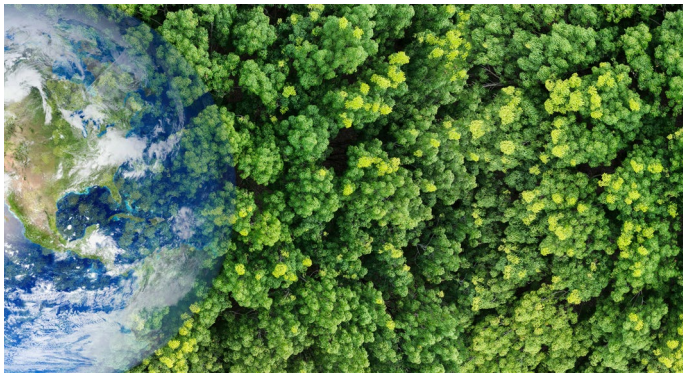
Climate scenarios used for the asset and liability analysis

The asset and liability analysis uses established climate scenarios from the Network for Greening the Financial System ("NGFS"). These scenarios provide a common framework for assessing climate risks and are widely used by investors, banks and regulators, including the Bank of England. The analysis uses three reference NGFS scenarios. These were selected as they represent a range of possible future climate scenarios, allowing the Trustee to assess potential impacts on the investment and funding strategy under different climate outcomes. These scenarios illustrate lower- and higher- risk outcomes relative to a baseline scenario[1].



Hot House World

Climate policies remain broadly unchanged, leading to an expected temperature increase of around 2.9°C by 2100 and higher long-term physical climate risks. Weaker economic growth, higher pollution and more severe climate impacts could adversely affect asset returns and life expectancy over time. Current global trajectories are closest to this scenario. This assessment is based on the NGFS 'Current Policies' scenario.



Orderly Transition

Climate policies are introduced early and tightened gradually, leading to an expected temperature increase of around 1.7°C by 2100. This results in a smoother transition, with lower long-term physical risks, improving pollution outcomes and more favourable assumptions for long-term economic and health outcomes than under the Hot House World scenario, although carbon-intensive sectors face increasing transition pressures. This assessment is based on the NGFS 'Below 2°C' scenario.



Disorderly Transition

Policy action is delayed for around ten years, before stronger measures are introduced, again leading to an expected temperature increase of around 1.7°C by 2100. This creates greater transition risk than under an orderly pathway, with more abrupt economic and market adjustments, although again long-term physical risks are lower than under the Hot House World scenario. This assessment is based on the NGFS 'Delayed Transition' scenario.

[1] Climate risks in each scenario are quantified relative to a 'baseline' pathway. For the assets, the baseline assumptions are derived from the OCIO's capital market assumptions, which reflect current macroeconomic conditions and are therefore likely to incorporate some degree of climate risk. The scenario analysis then considers how the different climate pathways may cause returns to differ from those baseline assumptions. For the liability analysis, the results have been expressed as changes relative to existing longevity assumptions, where LCP have interpreted the existing longevity assumptions as having an allowance for mortality changes due to climate change of broadly an average of the Orderly / Disorderly Transition and Hot House World scenarios.

Continued

2.1 Climate scenario analysis

The DB Sections use cashflow-matching strategies, where expected returns and liability present values are interlinked. The Trustee has therefore adopted a pragmatic approach to the climate scenario analysis, following consultation with its advisers.

The analysis comprises asset and mortality shocks, broadly consistent with previous years, with some differences in approach due to new providers carrying out the analysis. Asset results are shown as shocks to forward-looking returns (rather than asset values), while liability analysis continues to be performed as mortality shocks. This year, this has been supplemented with a qualitative assessment of the potential impacts on the Scheme's funding strategy.

The analysis has been tailored to the Trustee's chosen time horizons. Short-term (3- year) analysis has not been produced, as it was impractical to have comparable asset and liability analysis therefore concentrates on the Trustee's medium and long-term time horizons, with some observations also included about anticipated short-term impacts.

This analysis provides a useful basis for considering potential risks and opportunities for the Scheme. However, the Trustee recognises that scenario analysis is based on assumptions and that actual outcomes may differ, depending on factors such as the pace of climate change, the nature of the transition to a lower-carbon economy and how the Scheme evolves over time.



More detail on the methodologies for the asset and liability analysis can be found in the **Appendices**.

2.2 Asset scenario analysis

The results of the asset-side analysis are set out below. They aim to quantify how much better or worse the portfolio is expected to perform in different climate scenarios compared to the base-case scenario.

The results are expressed as changes in excess portfolio asset returns (per year, over the risk-free rate) in each scenario, compared to the base-case return assumptions. The latter are calculated based on current macroeconomic variables. Further detail on the methodology is provided in the Appendices. The analysis does not make any assumptions about how the asset allocation will change or be reinvested over time.

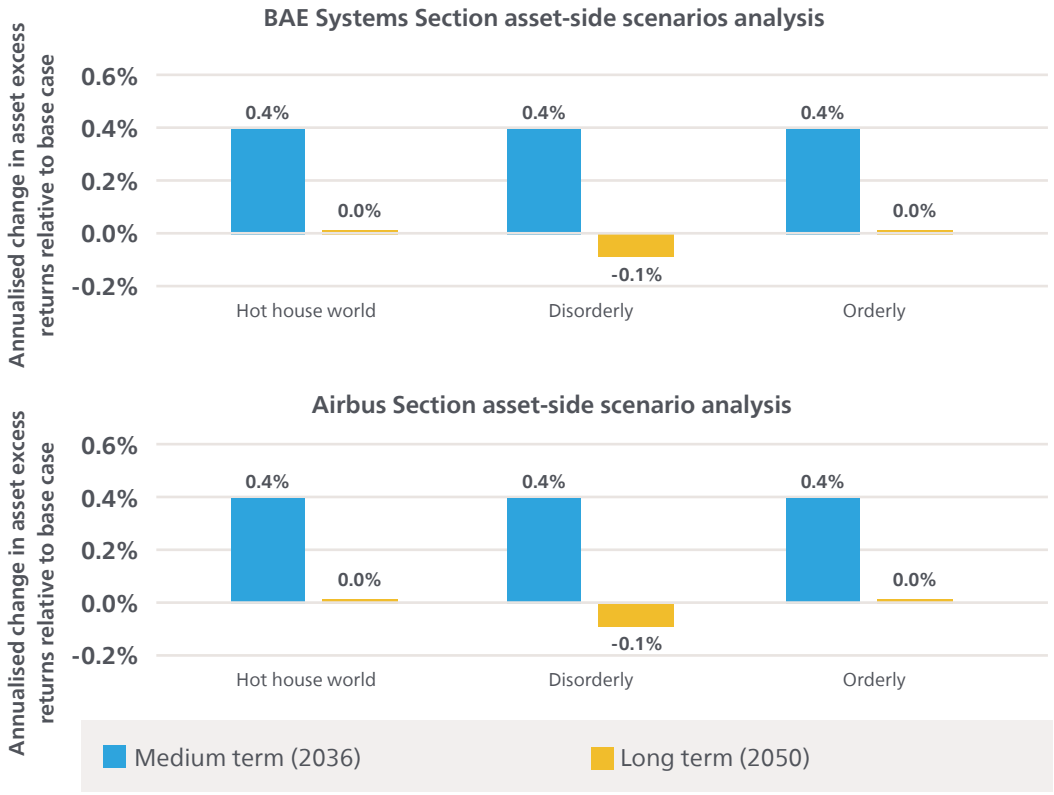
Key takeaway:

Over the next decade all three scenarios show improvements in projected excess returns relative to the base case. Climate risks are relatively modest over this period, either because policy changes are gradual (Orderly Transition) or have not yet been introduced (Disorderly Transition), or because the more severe physical impacts of climate change have not yet emerged (Hot House World).

Up to 2050, the only scenario with a negative impact is the Disorderly Transition scenario, where delayed action followed by a faster transition leads to higher costs and disruption for some asset classes. The impacts are more muted under the Orderly Transition scenario, where the transition has already occurred, and under the Hot House World scenario, where the most severe physical risks have not yet fully materialised by 2050.

Overall, the modelled impacts are relatively modest. The Trustee does not intend to make any changes to the investment strategy as a result of the analysis, also noting the well-documented limitations of quantitative climate scenario analysis methodologies. Nevertheless, the Trustee plans to consider action to better understand and mitigate the physical risks associated with a climate that is continuing to warm the planet.

Figure 2: Impact on forward-looking asset returns (over the risk-free rate) in the three climate change scenarios, relative to the base-case assumptions.



Source: GSAM as at 31 March 2026. Results show the impact on total portfolio forward-looking returns (in excess of the risk- free rate). Results shown are relative to the baseline scenario, which reflects the OCIO's base-case expected return assumptions. A 30-year asset-side climate shock has been used as a proxy for the 2050 horizon (based on the periods available for modelling this analysis). The 30-year projection is expected to closely resemble a 2050 projection.

Continued

2.2 Asset scenario analysis

Over the medium term (defined as the next decade), excess returns perform comparably across all scenarios, increasing by c.0.4% per year relative to the base case. This increase occurs because the base case represents an average view across a wide range of possible climate outcomes, including more severe transition scenarios where more substantial policy action could reduce returns.

In contrast, the three scenarios tested are relatively benign over the 10-year period, as they do not involve abrupt policy shocks or material physical climate impacts within this timeframe. As a result, they produce modestly higher asset returns relative to the base case. Whilst more benign, the scenarios used for this report have been selected as they are seen as more likely than the scenarios that involve more abrupt transitions (such as a transition aligned with a 1.5°C pathway).

Whilst 3-year analysis has not been carried out, across the scenarios tested, physical risk is generally less material over a short-term horizon. Whilst transition risk may be more pronounced, it is not expected to materialise in the short term under the scenarios with no near-term policy change (the Disorderly Transition and Hot House World scenarios). In contrast, an Orderly Transition scenario would entail a degree of short-term transition risk.

Over the longer term, to 2050, the Disorderly Transition scenario is the worst scenario, having a negative effect on projected excess returns relative to the base case. Portfolio excess returns are reduced by c.0.1% per year for both the BAE Systems Section and the Airbus Section. In this scenario, the transition is initially delayed but then accelerated through rapid policy intervention. This later and more abrupt transition weighs on excess returns for a number of asset classes over the longer term, as the costs and disruption associated with decarbonisation are reflected more sharply in asset return assumptions. Excess returns begin to recover towards the end of the period once the transition has been implemented; however, this is not sufficient by 2050 to offset the costs of the transition. This scenario does ultimately achieve a transition; it is therefore likely to enjoy a more stable macroeconomic environment post 2050, with stronger excess returns and lower long-run climate risk after mid-century as a result.

The Orderly Transition scenario has a broadly neutral impact on portfolio excess returns over the 2050 horizon.

In contrast, the Orderly Transition scenario has a broadly neutral impact on portfolio excess returns over the 2050 horizon. This suggests that the early and gradual implementation of climate-related policies has limited impact on the excess returns of the Scheme's assets by 2050 compared with the base case. Some return-seeking assets (such as equities) are projected to perform positively under this scenario; however, the overall portfolio-level impact remains close to neutral.

The Hot House World scenario also has a broadly neutral impact on portfolio excess returns up to 2050. This scenario sees none of the economic benefits delivered by decarbonisation seen in the transition scenarios. Instead, physical climate risks start to weigh more on asset returns, for example through their impact on real assets such as property. However, the impact up to 2050 is broadly neutral as these impacts have not yet become severe. Indeed, physical risks are likely to become even more significant in the latter half of the century, increasing the risks to the Scheme over the very long term. The Trustee therefore continues to consider action it can take to better understand and mitigate the physical risks posed by climate change.

2.3 Liability scenario analysis

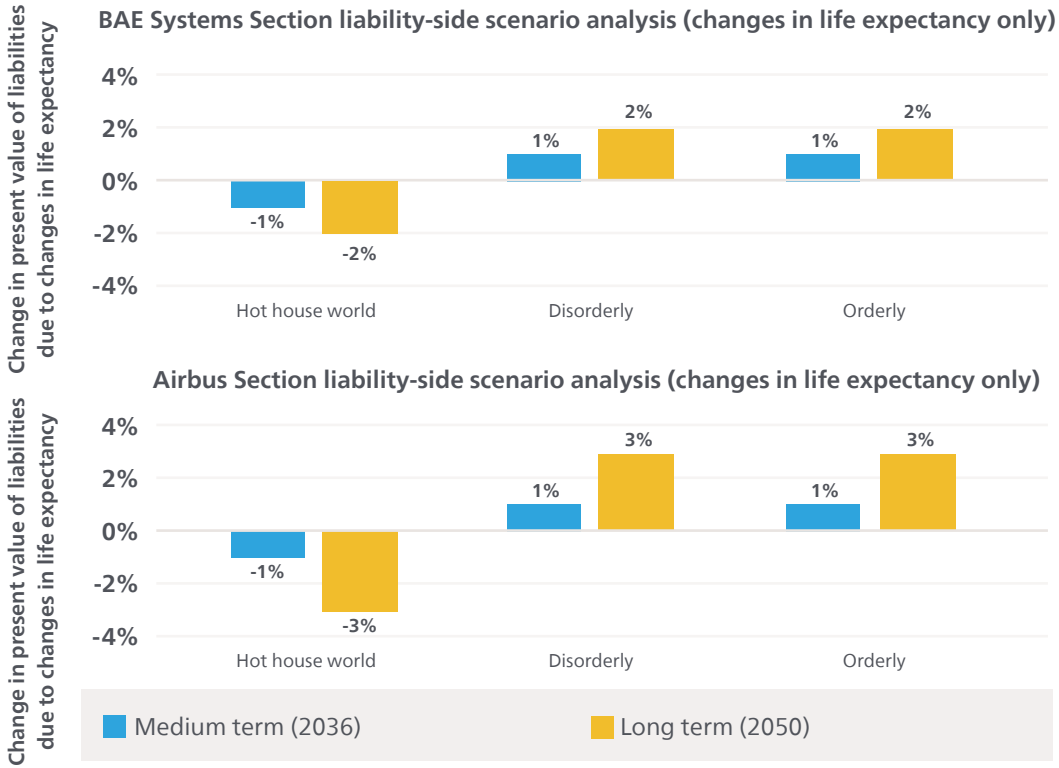
For the purposes of TCFD reporting, liability analysis has been restricted to mortality impacts only. In practice, the present value of liabilities could be impacted in other ways, such as the impact of climate change on discount rates, inflation or member behaviour.

As shown below, the mortality impact differs across scenarios and time horizons, with the impacts being more material over a longer time horizon. Members' life expectancies are projected to be adversely affected by the impacts of climate change on health in the Hot House World scenario, leading to a fall in the present value of the liabilities. In contrast, both the Orderly and Disorderly Transition scenarios lead to potential improvements in life expectancy, due to factors such as higher UK GDP, better air quality relative to current levels and improved health conditions. This leads to an increase in the present value of the liabilities.

Key takeaway:

Both transition scenarios increase the present value of liabilities, as higher GDP, improved air quality and better health outcomes increase life expectancies. In contrast, the Hot House World scenario reduces the liability present value, as more severe climate-related impacts on health and economic conditions are expected to lower life expectancies. Whilst short-term analysis has not been undertaken, the primary impacts on mortality over the short term are expected to be more limited.

Figure 3: Impact of changing mortality trends on liabilities in the three climate change scenarios, relative to the baseline scenario.



Source: LCP as at 31 March 2026. The analysis has been expressed as changes relative to existing longevity assumptions, where LCP have interpreted the existing longevity assumptions as having an allowance for mortality improvements due to climate change of broadly an average of the Orderly / Disorderly Transition and Hot House World scenarios. Due to similarities between the assumptions used for the Orderly and Disorderly Transition scenarios, the analysis does not distinguish between them. LCP have not relied on the NGFS GDP projections for their analysis due to potential anomalies contained within the projections. Instead, they have applied tailored assumptions about UK (rather than global) GDP growth; the focus is on UK GDP given member mortality is more directly influenced by domestic (UK) economic conditions. They have also applied larger GDP shocks than those suggested by the NGFS.

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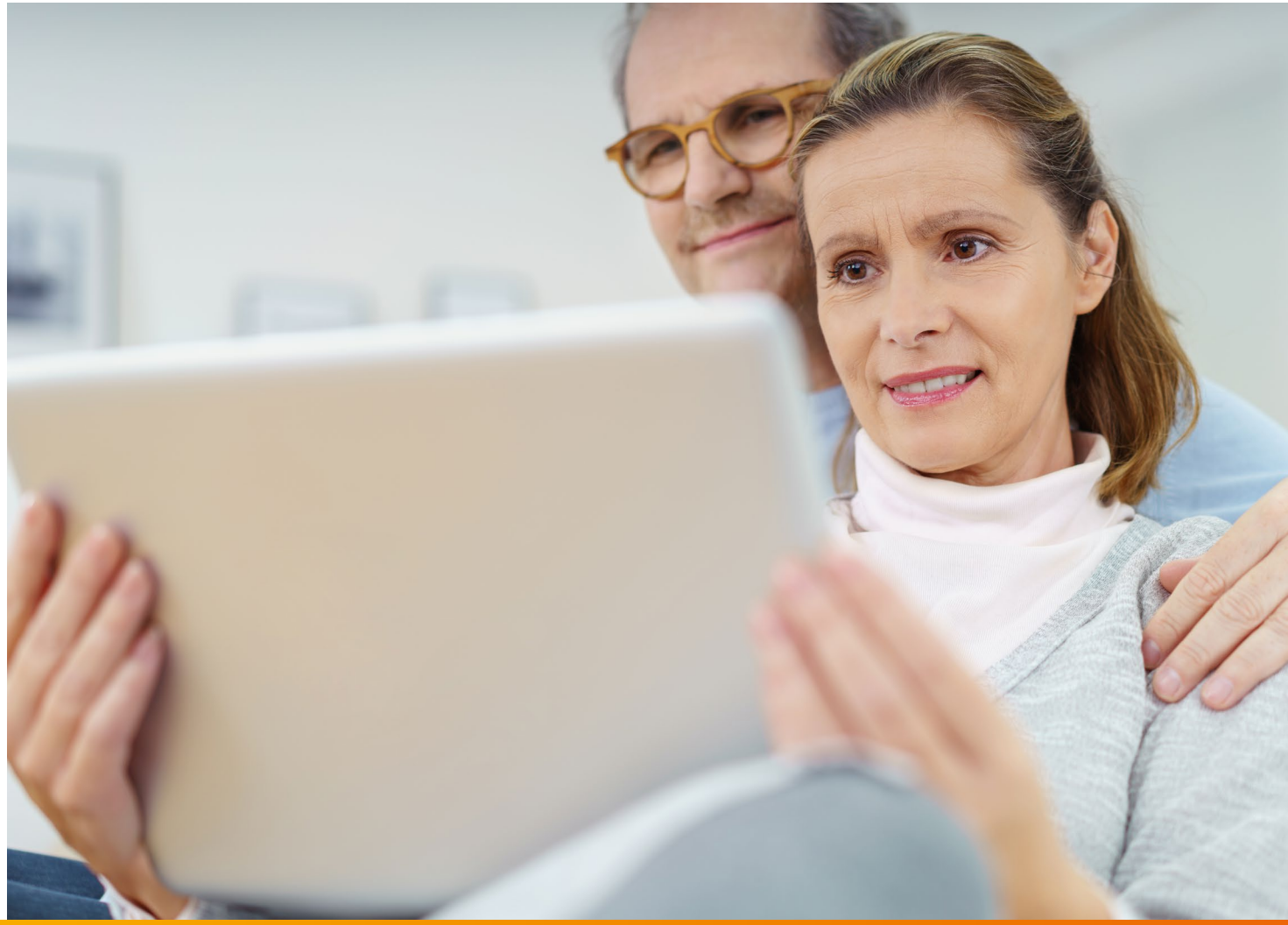
2.3 Liability scenario analysis

The Scheme's funding level is governed by assumptions set by the Trustee.

Funding level analysis

The Trustee's primary risk management process is a cashflow-matching approach where the funding strategy centres on how income from the Scheme's assets will be used to pay benefits and how the capital in the Scheme protects against downside risks. This is expressed as a relative position compared to a target position, where the value placed on future benefit payments and future asset income are intrinsically linked. As such, a change in liabilities does not necessarily translate into a change in the Scheme's position ahead or behind target.

However, there are other funding measures that are calculated based on liabilities, including the Scheme's statutory funding objective used to value the Scheme's funding position at least every three years. Funding measures such as these will see a deterioration in funding level when liabilities increase and an improvement in funding level when liabilities decrease (assuming that the assets remain unchanged). Where a scenario only impacts mortality, the impact on the primary risk management measure (i.e. the position relative to target) will likely be commensurate to the impact resulting from liability changes under other funding measures.



2.4 Employer covenant scenario analysis

The Trustee also considers climate-related risks and opportunities as part of its assessment of the employer covenants supporting the BAE Systems and Airbus Sections. The covenant adviser reviews the potential impact of climate risks and opportunities on the employers' ability to support the Scheme.

For both BAE Systems plc and Airbus SE ("the Groups"), the covenant adviser concluded that the employer covenants remain relatively resilient to climate-related risks over the short to medium term, based on the time horizons used in the Groups' disclosures, which while not identical to the Trustee's time horizons, are broadly comparable. Both employer groups have climate risk management frameworks, emissions reduction targets and mitigation plans to address material physical and transition risks. These include actions to improve energy resilience, reduce emissions, support supply chain resilience and invest in lower-carbon technologies and energy sources.

The impacts of climate change are inherently uncertain, particularly over longer time horizons. However, based on the Groups' current disclosures, mitigation plans and financial positions, the Trustee is satisfied that climate-related risks are not currently assessed as posing a material threat to the resilience of either employer covenant over the short to medium term. These risks and the Groups' progress against their climate-related objectives will continue to be monitored through future reviews and ongoing covenant monitoring.

Use and limitations of scenario analysis

The Trustee uses scenario analysis as a tool to support its understanding of potential climate-related risks and to inform risk management. However, it does not rely on this analysis in isolation when making strategic decisions; instead, it complements other tools, such as the risk register, and the use of engagement. The Trustee recognises several limitations in current modelling approaches (explained in previous reports), including:

- Uncertainty of climate pathways and policy responses;
- Challenges in capturing the risks associated with climate change in quantitative financial modelling; and
- The potential underestimation of systemic risks and tipping points[2].

As a result, the primary value obtained from the scenario analysis is in illustrating the range and nature of potential risks and opportunities, rather than providing precise forecasts of outcomes. The Trustee continues to monitor developments in climate scenario methodologies and will evolve its approach over time as industry practices improve.

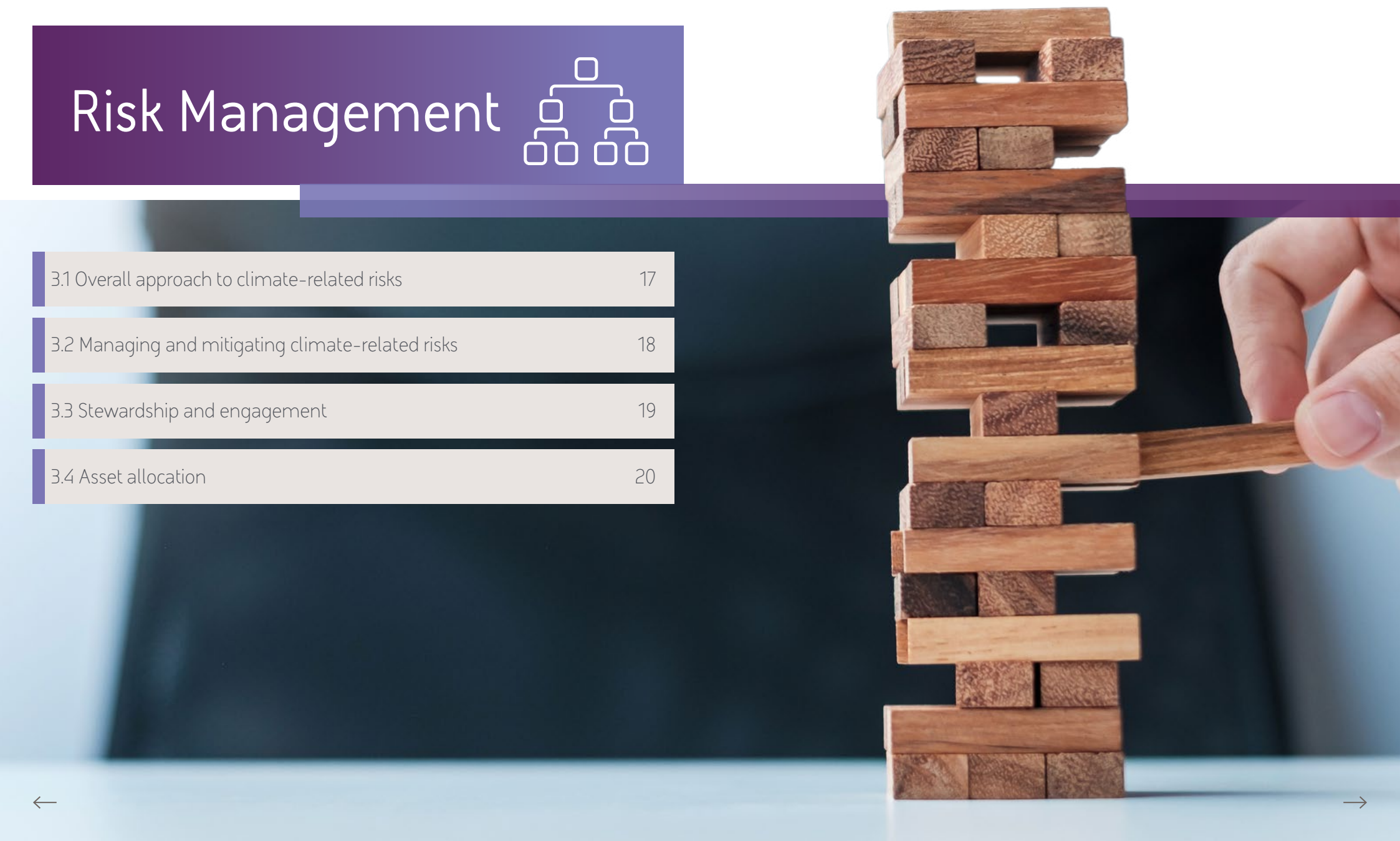
Key takeaway:

The Scheme's investment and funding strategy appears to be relatively resilient across the assessed climate scenarios. However, the Trustee acknowledges the limitations of current quantitative scenario analysis methodologies and therefore maintains a cautious risk management approach. The Trustee does not plan to change the Scheme's investment and funding strategy based on the current analysis but may instead use it to inform engagement efforts to improve the Scheme's climate risk profile where appropriate.

Scenario analysis helps the Trustee to consider various climate-related risks and opportunities, highlighting the significance of both physical and transition risks. From an investment perspective, while both physical and transition risks may negatively affect asset returns, physical risks could become more significant in the longer term, prompting further consideration by the Trustee of the portfolios' resilience looking ahead.

[2] Tipping points are critical thresholds that, when exceeded, can significantly accelerate climate change, often with an understanding that the change is irreversible.

Risk Management



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3.1 Overall approach to climate-related risks

Climate change presents both risks and opportunities that could impact the Scheme's investment outcomes. These risks and opportunities are therefore considered within the Trustee's ongoing risk management and investment processes.

The Trustee categorises climate-related risks into transition risks and physical risks. When the Trustee set its climate targets in 2021, the expectation was that transition risks would be more material in the near term, while physical risks would increase over the longer term. However, with global warming now projected to significantly exceed the goals of the Paris Agreement, and with physical impacts such as flooding and wildfires becoming more frequent and severe, the Trustee recognises that such risks may become financially material in the nearer term.



The Trustee categorises climate-related risks into transition risks and physical risks.

3.2 Managing and mitigating climate-related risks

Climate-related risks are captured within the Scheme's risk register, which is reviewed each quarter by the FIC and includes defined controls for each risk. This helps to integrate the assessment of these risks into the Scheme's wider risk-management process. During the Scheme year, the risk register was reviewed and updated to ensure continued focus and relevance for the Trustee. New or emerging climate-related risks identified by the Trustee's investment consultant and OCIO are brought to the FIC, which advises the Trustee Board if action is needed.

To support its risk management, the Trustee undertakes climate scenario analysis in relation to the Scheme's assets, liabilities and covenant and monitors key climate metrics (see the Metrics and Targets section), including emissions-based measures and portfolio alignment scores.

The Trustee has set decarbonisation targets and keeps these under regular review to ensure they remain an effective tool for managing financial risks.

In addition, the Trustee adopted a set of key performance indicators ("KPIs") for emissions, alignment, engagement and exclusion in Q1 2025, proposed by the OCIO to support the decarbonisation target and the management of climate-related risks and opportunities. These KPIs focus on monitoring the alignment of the public credit portfolio with a gradual decarbonisation pathway. The primary mechanism for achieving this alignment is typically active engagement with the underlying issuers. However, the KPIs also support limiting exposure to certain fossil fuels considered to be the most environmentally damaging. These KPIs are incorporated into the Scheme's existing reporting framework and are monitored annually.



These KPIs and related monitoring tools are considered within the broader context of the Trustee's fiduciary duty. Oversight is supported by reporting from the OCIO, which includes updates on climate- related metrics and on stewardship and engagement activity.

3.3 Stewardship and engagement

Stewardship and engagement are central to the Trustee's climate risk management approach. The Trustee has adopted a stewardship policy, which informs the OCIO's approach and supports transparency and alignment in investment decision-making and engagement activity. Disinvestment is considered a last resort only where companies fail to respond adequately to engagement, and where the financial risks of continuing to hold the investment are deemed too great.

The OCIO undertakes engagement on behalf of the Trustee, focusing primarily on climate-related risks and opportunities and, where relevant, broader environmental factors such as nature and biodiversity where these are financially material. To support the Trustee's monitoring, the OCIO identifies issuers of public corporate credit held by the Scheme that are significant contributors to the Scheme's financed emissions and reports annually on engagement activity with these and other companies. The OCIO's responsible ownership principles, together with the Trustee's stewardship policy, guide all engagement activities.

During the period 1 April 2025 to 31 March 2026, the OCIO engaged with 46 companies in the public corporate credit portfolio on behalf of the Scheme. 19 engagements related to climate change.

As an example, the OCIO has been engaging with a Swiss materials company on its climate transition strategy since 2022. During the reporting period, discussions focused on the company's transition strategy, including emissions targets, decarbonisation strategy, capital allocation and alignment with climate goals. In March 2026, the company outlined its planned shift towards sustainable building materials, featuring lower-carbon product lines. The company also reaffirmed its SBTi-validated 1.5°C targets. The engagement remains ongoing.

3.4 Asset allocation

Climate-related opportunities are considered by the FIC and Trustee Board alongside broader financial risk and return considerations, with input from advisers where appropriate. Opportunities are pursued where they are expected to improve the Scheme's long-term risk-return profile.

For example, the Scheme has an allocation to renewable energy assets (c.£2bn, or c.10% of assets as at 31 March 2026). This allocation reflects the Trustee's approach to identifying climate-related investment opportunities that are consistent with its fiduciary duties and long-term investment objective.

Key takeaway:

The Trustee integrates climate-related risks and opportunities into its approach to risk management, supported by regular monitoring and engagement with its advisers. Stewardship and targeted engagement are viewed as the primary tools for managing climate- related risk. The Trustee also seeks to identify climate-related opportunities, including through investment in renewable energy assets, where this is consistent with its wider fiduciary duties.

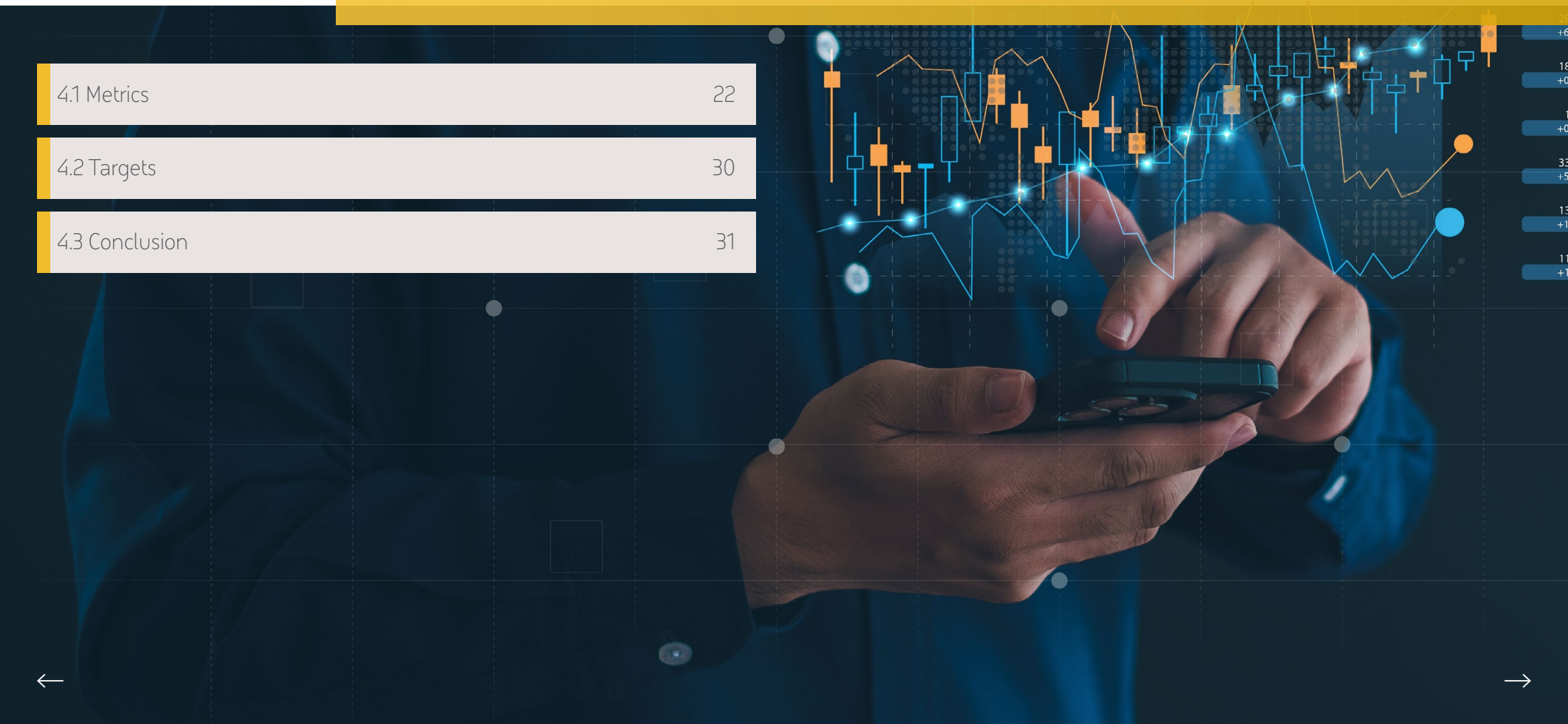


Metrics and Targets

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4.1 Metrics

The Trustee has selected the five climate-related metrics outlined below. These are reviewed annually and may be updated to reflect improvements in data quality and availability, evolving methodologies and wider industry developments. Data has been provided by the Scheme's OCIO. Detail on the methodologies used for the metrics can be found in the appendices.

Table 3. Metrics selected by the Trustee

DWP suggested metric	Metric selected	Rationale
Total financed emissions	Total financed emissions	This metric is recommended by the DWP.
Emissions intensity	Carbon Footprint Weighted average carbon intensity ("WACI")	Carbon footprint is recommended by the DWP, and WACI is optional. Both metrics provide complementary insights. Carbon footprint measures emissions per million pounds invested, while WACI measures emissions per million US dollars of revenue.
Additional metric	PCAF Data Quality Score	Measures the quality of underlying emissions data and supports improvements in data accuracy.
Portfolio alignment metric	Science Based Target initiative ("SBTi")	Provides a forward-looking view of alignment of company climate targets with net-zero pathways.

The Trustee has continued to work with the OCIO to improve data coverage and quality where possible over the year. This has included:

- Emissions data being sourced for private placements, which are bilaterally negotiated loans to companies rather than through a fund, for the first time.
- Improvements in data coverage for the property asset class.
- For renewables, data has been sourced directly from underlying investment managers, rather than being fully proxied, as was the case in previous years. This represents a significant improvement in the quality of the data.



Data coverage has improved over the year. The proportion of assets without data fell from 40% to 28% for the BAE Systems Section and from 44% to 29% for the Airbus Section.

The above improvements mean that certain data points for 2026 may not be directly comparable to those from 2025.

Where data is incomplete, emissions and intensity metrics have been scaled to represent 100% of relevant assets. The Trustee considers this to be a prudent approach, rather than assuming that missing data equates to zero emissions.

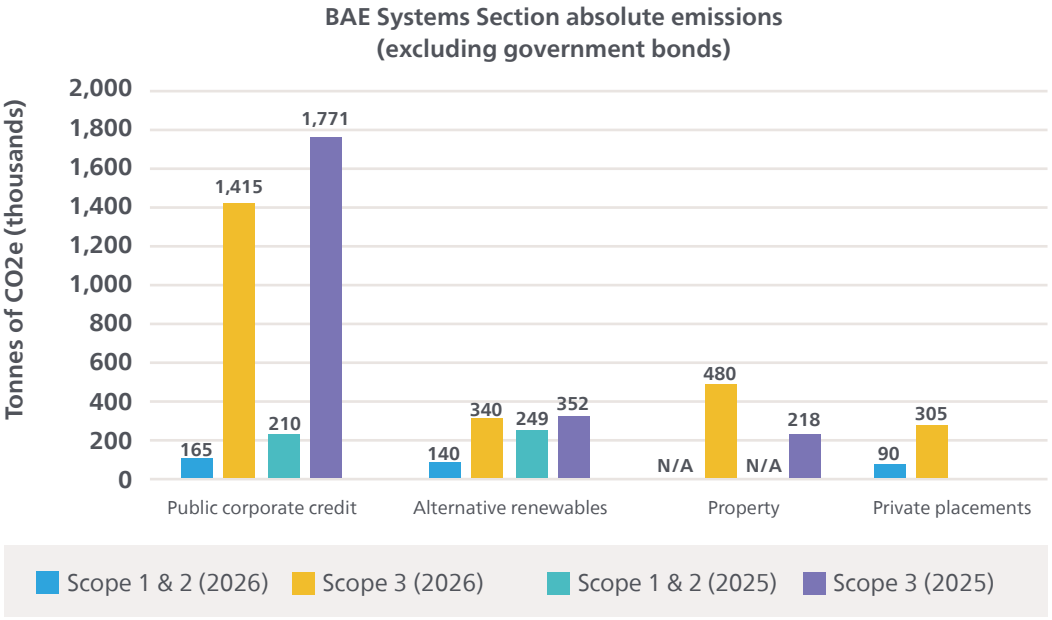
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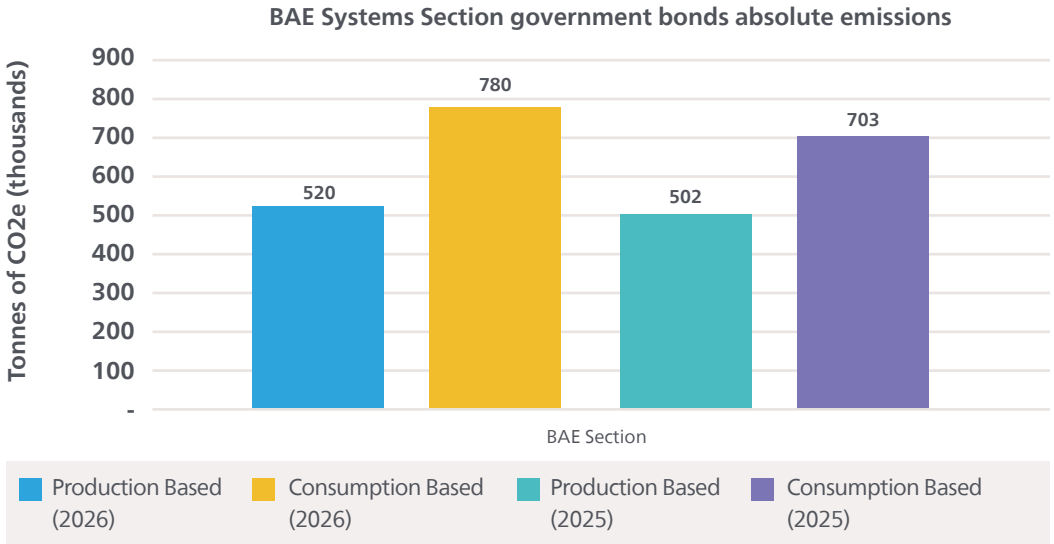
4.1 Metrics

1. Total financed emissions

The Trustee has chosen total financed emissions as its primary absolute emissions metric, representing the total greenhouse gas emissions financed by the Scheme's investments.

Figure 4. Total financed emissions across the DB Sections' public corporate credit, renewables, property, private placements and government bond allocations





Source: GSAM. Portfolio as at 31 March 2026. Emissions data is not available for all assets; metrics have therefore been scaled to provide an indication of what total emissions would be on a full-coverage basis. Data for renewables assets has been sourced from the underlying managers in 2026; in 2025, this data was proxied.

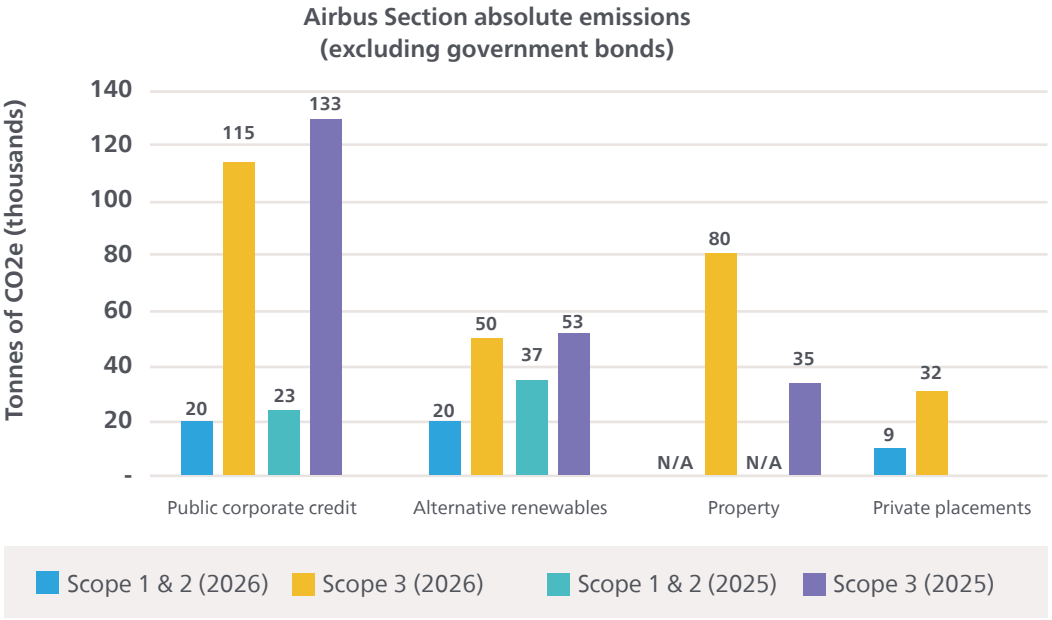
Key takeaway:

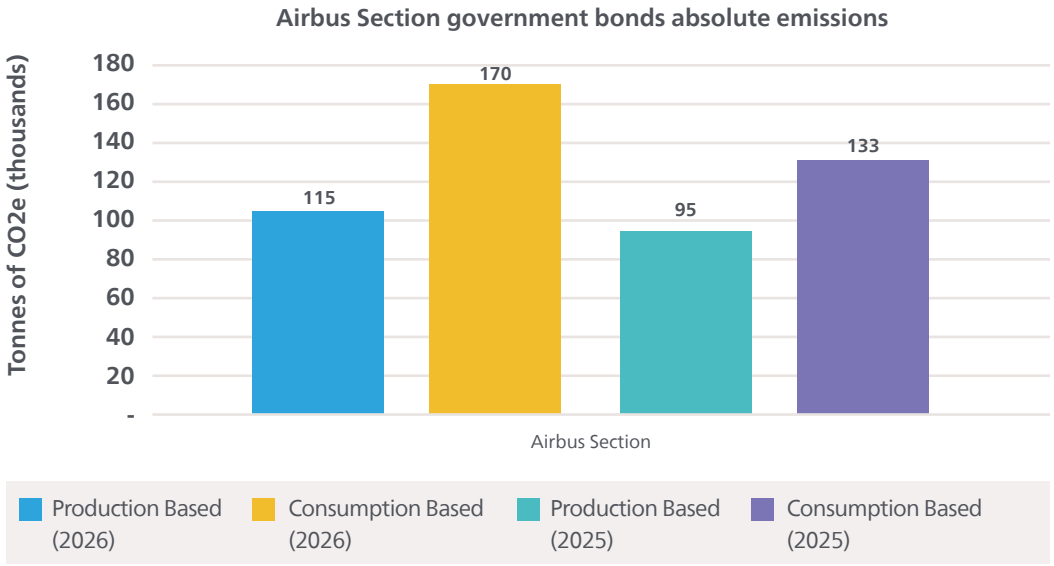
Total financed emissions for public corporate credit and renewables are lower than last year. For public corporate credit scope 1 and 2 emissions, this was driven in part by companies decarbonising. For renewables, this was driven by moving from proxied data in 2025 to data reported by the managers in 2026. Scope 3 property emissions have increased, driven primarily by power plant investments reporting a significant increase in emissions over the year. Private placements data has been reported for the first time.

Continued →

4.1 Metrics

Figure 4. Total financed emissions across the DB Sections' public corporate credit, renewables, property, private placements and government bond allocations





Source: GSAM. Portfolio as at 31 March 2026. Emissions data is not available for all assets; metrics have therefore been scaled to provide an indication of what total emissions would be on a full-coverage basis. Data for renewables assets has been sourced from the underlying managers in 2026; in 2025, this data was proxied.

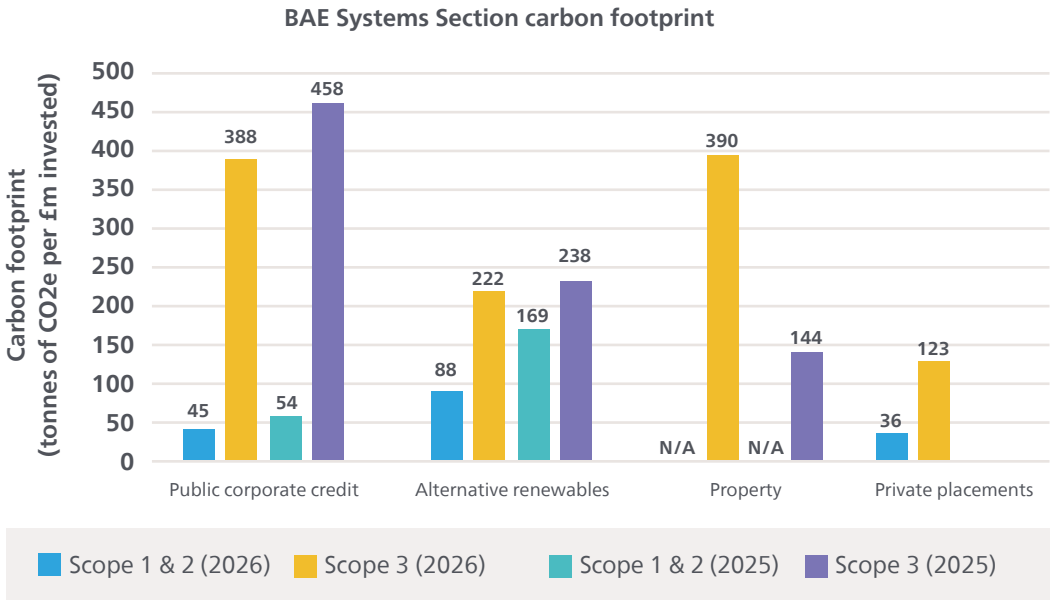
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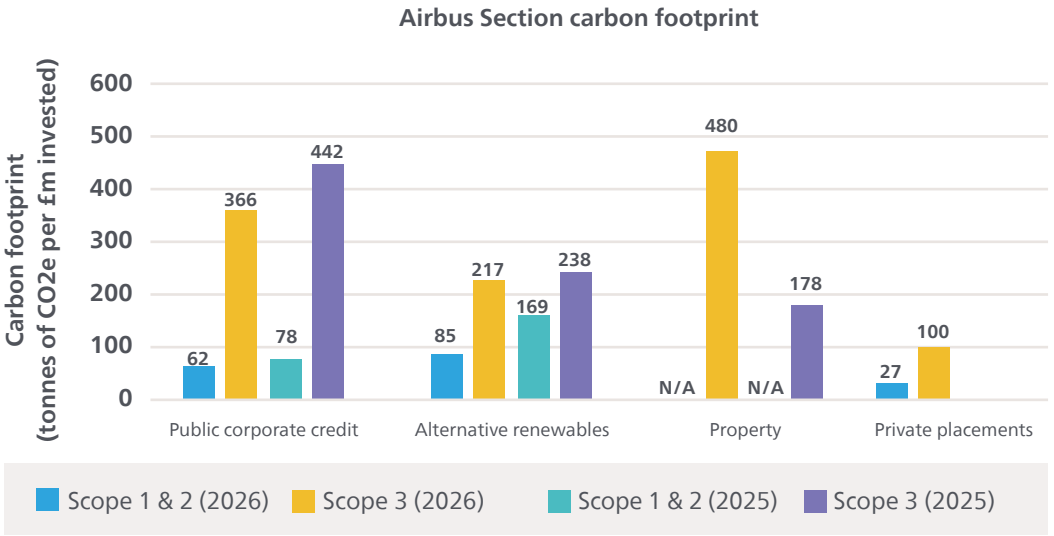
4.1 Metrics

2. Emissions intensity

The Trustee monitors two emissions intensity metrics: carbon footprint and weighted average carbon intensity ("WACI").

Figure 5. Carbon footprint across the DB Sections' public corporate credit, renewables, property and private placements allocations





Source: GSAM. Portfolio as at 31 March 2026. Emissions data is not available for all assets; metrics have therefore been scaled to provide an indication of what total emissions intensities would be on a full-coverage basis. Data for renewables assets has been sourced from the underlying managers in 2026; in 2025, this data was proxied.

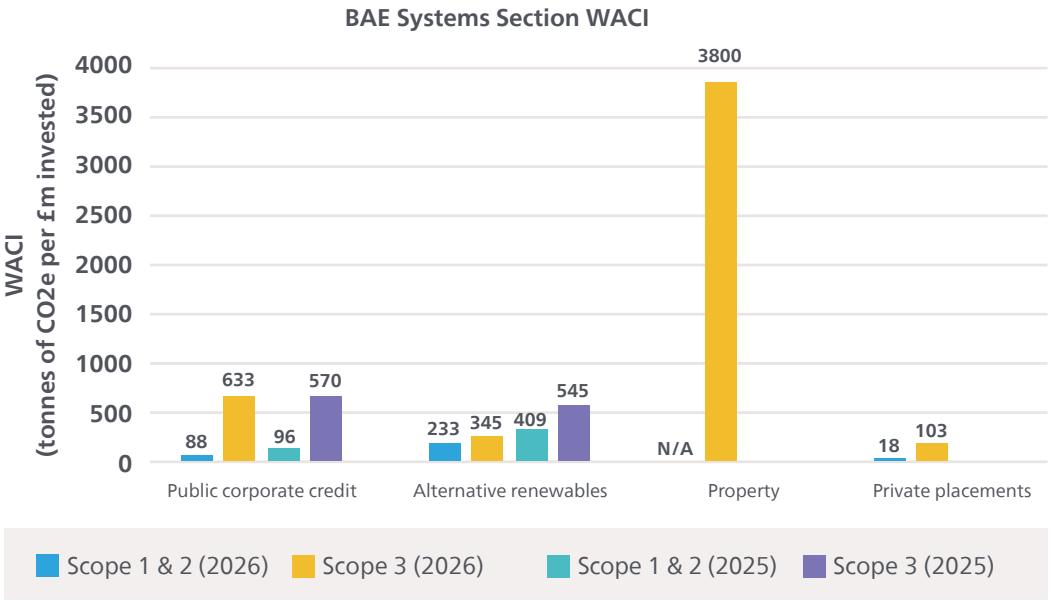
Key takeaway:

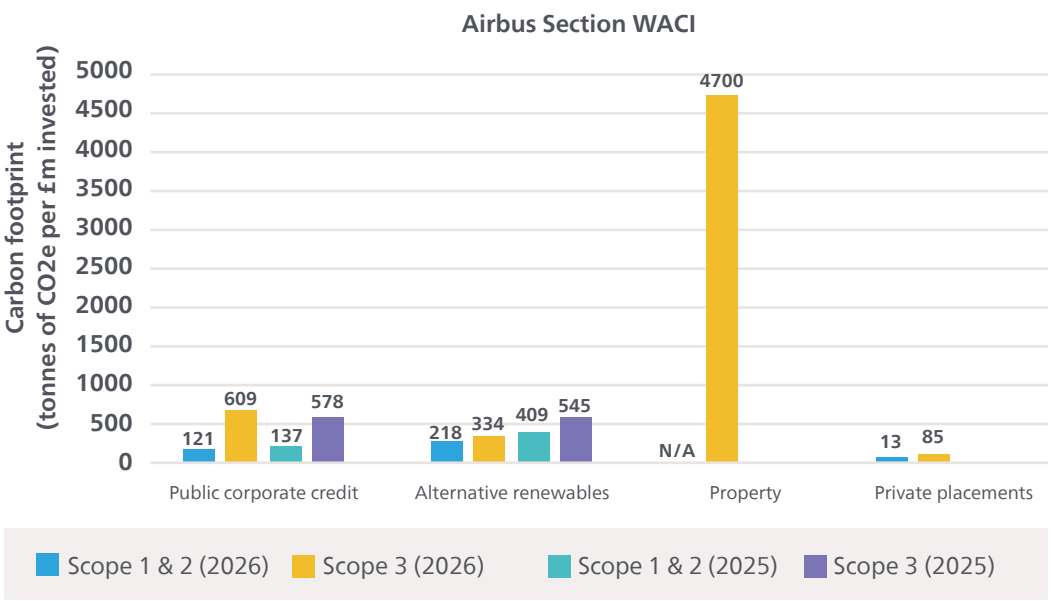
The alternative renewables portfolio has the highest scope 1 and 2 carbon footprint, largely due to a single higher-emitting energy utility asset. Excluding this holding, a substantial portion of the assets have a scope 1 and 2 carbon footprint close to zero. Property has the highest scope 3 carbon footprint, driven by investments in emissions-intensive assets such as power plants. The public corporate credit carbon footprint has decreased since last year; for scope 1 and 2 emissions, this primarily reflects changes in company valuations and portfolio companies in the utilities sector reporting lower emissions over the year (for both DB Sections), as well as the resizing of positions within the portfolio (BAE Systems Section).

Continued →

4.1 Metrics

Figure 6. Weighted average carbon intensity ("WACI") across the DB Sections' public corporate credit, renewables, property and private placements allocations





Source: GSAM. Portfolio as at 31 March 2026. Emissions data is not available for all assets; metrics have therefore been scaled to provide an indication of what total emissions intensities would be on a full-coverage basis. Data for renewables assets has been sourced from the underlying managers in 2026; in 2025, this data was proxied.

Key takeaway:

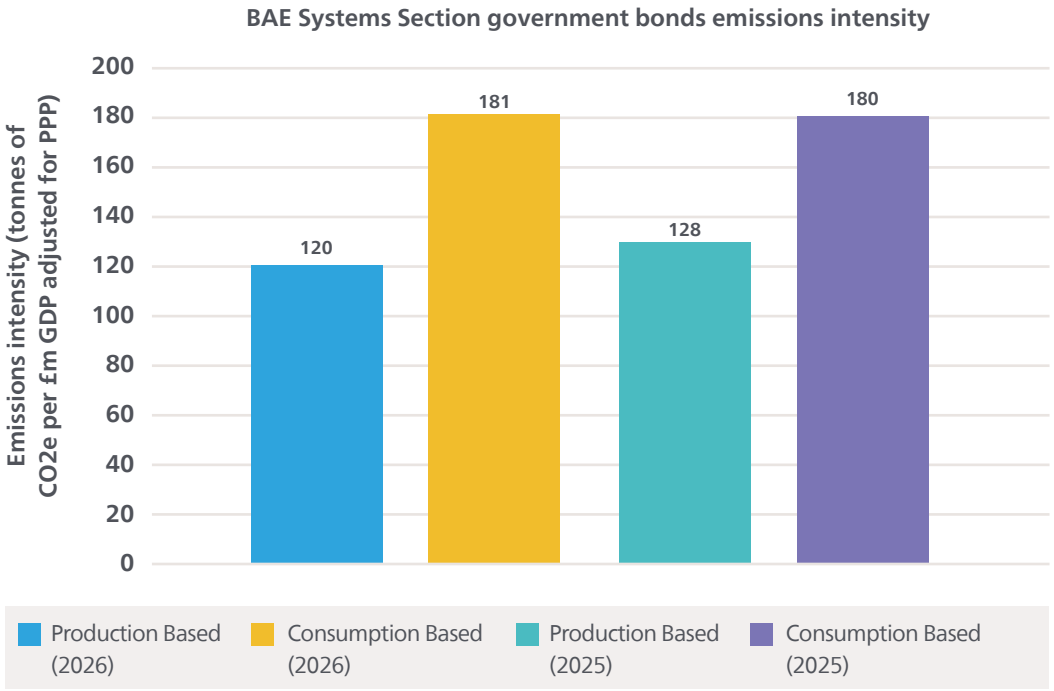
Per million dollars of revenue, the renewables assets have the highest scope 1 and 2 intensity; this is driven by a single investment in a high-emitting energy utility, which materially influences the overall portfolio metric. WACI has been shown for property for the first time. Property has the highest scope 3 WACI, driven by investments in more emissions-intensive assets such as power plants.

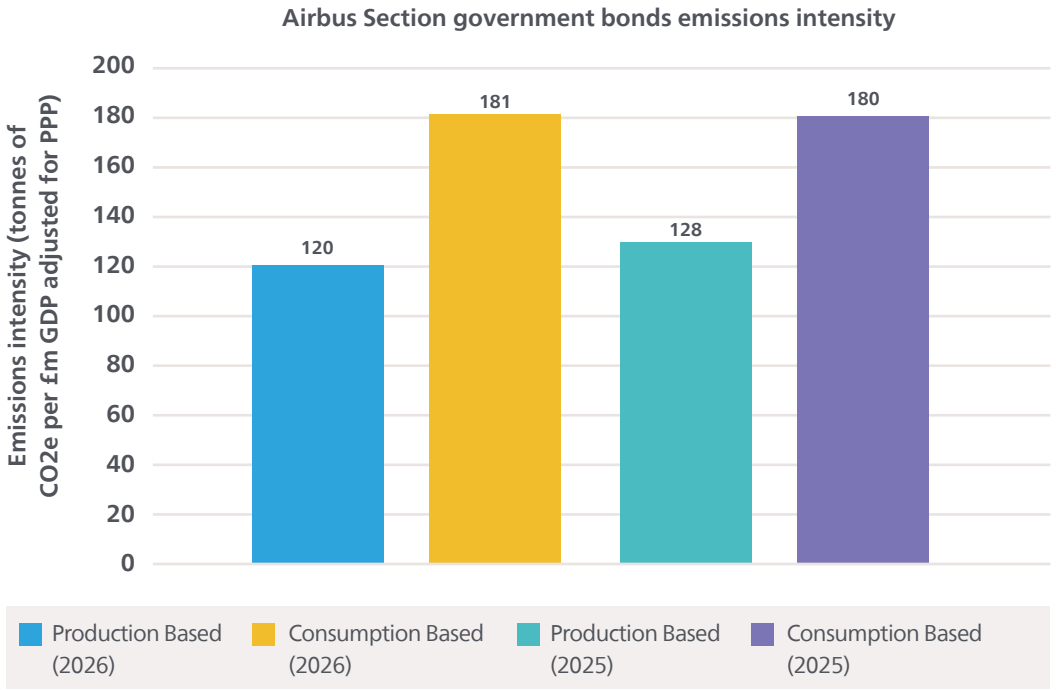
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4.1 Metrics

Figure 7. Emissions intensity of the DB Sections' government bond allocations





Source: GSAM. Portfolio as at 31 March 2026. Emissions data is not available for all assets; metrics have therefore been scaled to provide an indication of what total emissions would be on a full-coverage basis.

Key takeaway:

The consumption-based emissions intensity of the DB Sections' government bond allocations is the highest of the two emissions categories, reflecting the UK's reliance on carbon- intensive imported goods, especially manufactured products.

←

Continued →

4.1 Metrics

3. Additional metric

The Trustee monitors the PCAF data quality score, which assesses the reliability of emissions data for each fund. Scores range from 1 (highest-quality, independently verified data) to 5 (lowest-quality, estimated emissions data based on industry peers). Scores between 1 and 4 reflect the use of line-by- line data, whilst a score of 5 reflects the use of generic data or proxies.

The results across in-scope asset classes are set out below. Following a methodology update in 2026, MSCI has begun assigning a score of 1 to reflect verified emissions data, whereas previously the highest available score was 2 and no distinction was made for verified data. This change has contributed to an improvement observed in PCAF data quality scores over the year.

Government bonds have been assigned a PCAF score of 4. This reflects MSCI's methodology rather than indicating poor-quality underlying emissions data. Historical UK emissions data is sourced from official government reporting and is therefore considered high quality. However, the most recent year's emissions data is estimated by MSCI until official reported data becomes available. As a result, the government bond emissions score reflects the estimated nature of the latest data point, rather than a weakness in the overall data source or methodology.

For the alternative renewable investments, direct engagement was undertaken with managers to request PCAF data quality scores. However, managers' responses were not consistent, meaning PCAF data quality scores have not been included for renewables in this report. The OCIO will continue to engage with the underlying managers with the aim of improving consistency and enabling the inclusion of PCAF data quality scores in future reports.

Key takeaway:

Public corporate credit has the highest PCAF data quality scores, supporting greater confidence in the reported emissions figures. Data quality is weaker for private placements and more mixed for property scope 3 emissions, meaning results for these asset classes are subject to greater uncertainty. Government bond emissions receive a PCAF score of 4 for the reason outlined above.

Table 4. BAE Systems Section PCAF scores

Asset class	Emissions scope	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5
Public corporate credit	1 & 2	59%	30%	-	4%	7%
	3	-	73%	-	20%	7%
Government bonds	Production	-	-	-	99%	1%
	Consumption	-	-	-	99%	1%
Property	1 & 2	N/A	N/A	N/A	N/A	N/A
	3	-	47%	25%	3%	25%
Private placements	1 & 2	-	3%	-	97%	-
	3	-	3%	-	97%	-
Alternative renewables	1 & 2	N/A	N/A	N/A	N/A	N/A
	3	N/A	N/A	N/A	N/A	N/A

Table 5. Airbus Section PCAF scores

Asset class	Emissions scope	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5
Public corporate credit	1 & 2	66%	22%	-	5%	7%
	3	-	83%	-	10%	7%
Government bonds	Production	-	-	-	99%	1%
	Consumption	-	-	-	99%	1%
Property	1 & 2	N/A	N/A	N/A	N/A	N/A
	3	-	54%	14%	2%	30%
Private placements	1 & 2	-	-	-	100%	-
	3	-	-	-	100%	-
Alternative renewables	1 & 2	N/A	N/A	N/A	N/A	N/A
	3	N/A	N/A	N/A	N/A	N/A

Source: GSAM, as at 31 March 2026. Percentages reflect the proportion of market value, and may not sum to 100% due to rounding of the figures in the table. For property, in one specific instance, an asset manager provided direct, tenant-level meter data without an accompanying PCAF data quality score. In alignment with prevailing market practice and to maintain reporting consistency, the OCIO classified this direct consumption data as scope 3 emissions and assigned a PCAF data quality score of 2 (representing high-quality, non- verified physical activity-based data) for reporting purposes. PCAF scores have not been included for renewables assets due to the limitations of the data received from underlying managers.

Continued

4.1 Metrics

4. Portfolio-alignment metric

The Trustee has adopted the Science Based Targets initiative ("SBTi") metric as its portfolio-alignment metric, capturing the proportion of public corporate credit assets issued by companies that have set science-based decarbonisation targets. Whilst SBTi targets can be adopted by both listed and private companies, the data for this metric is currently only available for the Scheme's public corporate credit holdings. The Trustee recognises the limitations of the SBTi metric, including its reliance on voluntary corporate targets and broader policy support. The Trustee will therefore continue to review its usefulness.

Key takeaway:

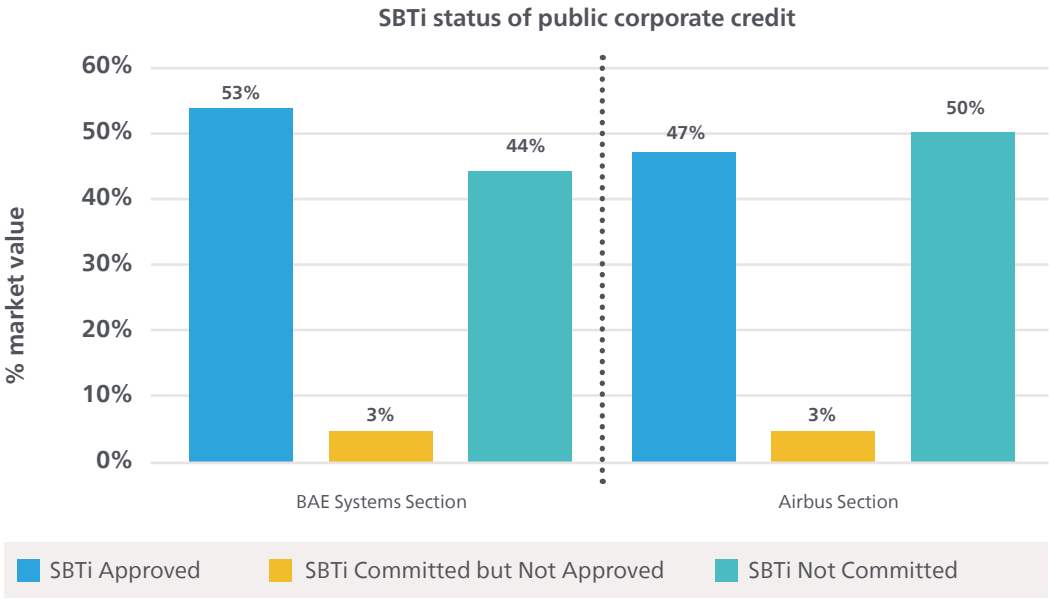
Public corporate credit exposure to issuers with approved SBTi targets remains broadly stable but has weakened slightly year on year across both Sections.

For the BAE Systems Section, 53% of public corporate credit assets now have approved SBTi targets, down from 55% in 2025, while the proportion of issuers that are "committed but not approved" has also fallen to 3% from 5%. This is consistent with the broader market context of a fall in the pipeline of companies progressing towards validated targets, as well as those retaining them. At the same time, the share of assets with no SBTi commitment has increased from 41% to 44%, indicating a modest deterioration in forward-looking climate alignment within the portfolio.

The Airbus Section shows a similar pattern, with approved SBTi coverage decreasing to 47% from 49%, "committed but not approved" exposure falling to 3% from 5%, and "not committed" exposure rising to 50% from 46%. This means that half of the Airbus Section's public corporate credit exposure is now invested in issuers without an SBTi commitment; this is a lower degree of alignment than the BAE Systems Section.

Overall, while both sections retain a meaningful allocation to issuers with approved science-based targets, the year-on-year movement is negative. Given the lack of policy support in many parts of the world, this warrants further monitoring and engagement where appropriate, particularly with higher-emitting issuers that have not yet committed to setting science-based targets.

Figure 8. Science Based Targets initiative alignment metric for the BAE Systems and Airbus Sections



Source: GSAM, as at 31 March 2026. Percentages reflect the proportion of the market value of the public corporate credit portfolios

4.2 Targets

The Trustee has a long-term ambition to aim to achieve net-zero greenhouse gas emissions across the DB Sections by 2050. This is supported by manager monitoring, climate analysis and reporting and active stewardship, as outlined above.

Regulations require trustees to set a target and report annually on progress. As an interim step towards its net-zero ambition, the Trustee has set the following target for the Scheme's DB Sections:

BAESPS 2030 Target

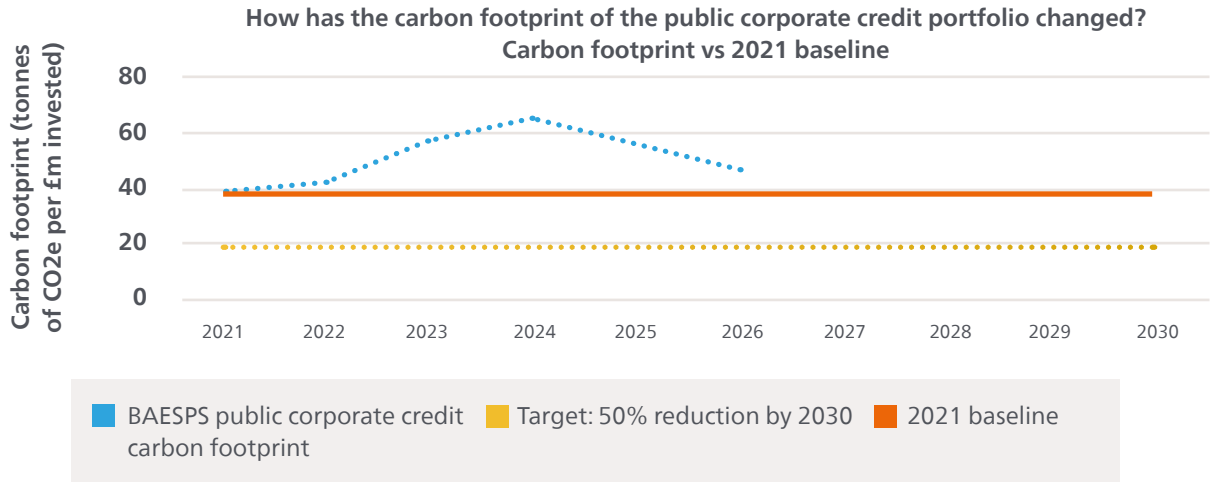
Aim to reduce the scope 1 and 2 carbon footprint of public corporate credit by 50% by 2030, compared to the Scheme's 2021 baseline.

Note that this target applies to the DB Sections (covering all final-salary benefits) and excludes the Scheme's small AVC holdings. The target does not currently cover scope 3 emissions due to the limitations associated with scope 3 emissions data.

This target reflects the Trustee's view that both transition and physical climate risks could impact investment outcomes and is aligned with the most ambitious goals of the Paris Agreement to limit global warming to 1.5oC above pre-industrial levels.[3]

Progress against the Trustee's 2030 decarbonisation target

Figure 9. DB Sections' public corporate credit carbon footprint relative to the 2021 baseline



Source: Gallagher, drawing on selected data provided by GSAM (and Planetrics for data from 2021-2023). Portfolio as at 31 March 2026. The 2021 baseline was calculated using emissions data as at 31 March 2022, scaled to the Scheme's holdings as at 31 March 2021. The Trustee considers this a reasonable method for estimating the 2021 baseline. As emissions data is not available for all of the assets, data that was obtained has been scaled to estimate total emissions intensities across the relevant asset classes as if there were no data gaps.

Despite the fall in the carbon footprint this year, it remains above the Scheme's baseline. Progress towards the target is expected to be non-linear, due to the volatility associated with carbon footprint as a metric. There has also been growing acceptance that a lack of sufficient progress on the global transition to meet net zero by 2050, and reducing policy support for it, also act as headwinds to continued progression against such targets in a way that is consistent with trustees' wider fiduciary duties. The Trustee will continue to review the suitability of its target within this wider context, with a focus on its fiduciary duty to the Scheme's members.

Nevertheless, the Trustee continues to prioritise engagement via the OCIO, focusing on the highest emitters in the portfolio. This includes, where relevant, direct engagement with companies to encourage emissions reductions, improved disclosure and credible transition planning, alongside the ongoing integration of climate risk considerations within the investment process. Progress is monitored through climate KPIs, which support the Scheme's decarbonisation targets and wider climate ambitions.

Key takeaway:

The DB Sections' public corporate credit carbon footprint has fallen over the scheme year but remains above the 2021 baseline. The reduction in 2026 was driven by changes in company valuations, and portfolio companies in the utilities sector reporting lower emissions over the year (for both DB Sections), as well as the resizing of positions within the portfolio (BAE Systems Section).

[3] While in 2024 global average temperature increases exceeded 1.5°C for the first time, a breach of the Paris Agreement relates to temperature increases exceeding 1.5°C consistently over a multi-decade period.

4.3 Conclusion

This report outlines the Trustee's approach to monitoring and managing climate-related risks and opportunities. A key development for this year's report has been the OCIO's engagement with underlying managers to further improve data coverage and quality.

While the public corporate credit carbon footprint has fallen over the year, the results continue to highlight the challenges of achieving portfolio-level decarbonisation targets in a global economy that is not decarbonising at the pace required to meet global climate goals aligned with the Paris Agreement. As a result, the Trustee remains focused on managing climate risk through active stewardship, working with its OCIO to engage with higher-emitting issuers.

The Trustee also takes comfort from the progress made by the sponsoring employers in developing strategies to manage climate-related risks, which aim to support the long-term resilience of the DB Sections' funding positions. Climate analysis in relation to assets, liabilities and covenant will continue to form part of the Trustee's broader risk management framework.

Recognising that climate-related risks, data availability and industry practice continue to evolve, the Trustee will continue to monitor developments and adapt its approach where appropriate.



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Appendices

DB asset scenario analysis methodology

The Trustee's climate scenario analysis was undertaken by its OCIO Goldman Sachs Asset Management ("GSAM") using its Climate-Adjusted Capital Market Assumptions ("Climate CMA") framework. The analysis draws on climate scenarios developed by the Network for Greening the Financial System ("NGFS") and assesses the implications of climate-related transition and physical risks for the Scheme's assets. These scenarios are supplemented by proprietary assumptions relating to transition and physical risks, including bottom-up abatement cost assumptions and a physical risk damage function from S&P Global Market Intelligence.

Each asset class is modelled using an appropriate benchmark-based proxy, resulting in 100% coverage of Scheme assets for both the BAE Systems and Airbus Sections for the climate scenario analysis.

The OCIO's Climate CMA framework incorporates a range of climate- and economy-related variables, including carbon prices, abatement costs, energy prices and physical climate damages. These are combined with macroeconomic variables such as inflation, policy rates and economic growth to derive climate-adjusted capital market assumptions across asset classes. Monte Carlo simulation techniques are used to capture uncertainty and generate climate-adjusted return projections over the analysis horizons.

Climate scenario analysis is subject to a number of limitations and should be interpreted with appropriate caution. These include the uncertainty inherent in long-term analysis, as well as assumptions around future drivers of returns, policy responses, industry responses to physical and transition risks, and the extent to which future market behaviour may be informed by historical relationships. Modelling capabilities are expected to improve over time.

There are also challenges in translating climate scenarios into macroeconomic variables and financial market impacts. Climate scenarios are based on theoretical pathways rather than historical empirical observations, which introduces significant uncertainty. In addition, the systemic nature of climate change means that feedback loops, non-linearities and tipping points may be difficult to capture fully within modelling frameworks.

DB liability scenario analysis methodology

Climate-related impacts on liabilities were assessed by Lane Clark & Peacock ("LCP"), who considered how mortality and life expectancy could evolve under different climate scenarios. The assessment was undertaken separately for the BAE Systems Section and Airbus Section and focused on the potential impact of the scenarios on the present value of future benefit payments. LCP's modelling was designed to be broadly consistent with the climate scenarios outlined in this report.

The analysis considered a range of factors that could influence future mortality outcomes, including changes in economic growth, air pollution, extreme weather, temperatures and the potential consequences of these factors for public health and healthcare provision in the UK. Given the similarity of the Orderly and Disorderly transition scenarios, LCP did not distinguish between these scenarios in the liability modelling

The analysis is subject to several assumptions and limitations:

- Climate change may affect mortality through a range of direct and indirect pathways, including economic growth, air pollution, temperature changes and extreme weather events. Many of these relationships are uncertain and difficult to quantify, and the analysis therefore relies on several assumptions regarding how climate-related changes may affect future mortality and life expectancy.
- The modelling assumes that economic growth is an important driver of long-term mortality outcomes and incorporates differences in future UK GDP per capita growth across climate scenarios. However, there is considerable uncertainty regarding the relationship between climate change, economic conditions, healthcare provision and mortality outcomes, and any assumed impacts are inherently speculative.
- LCP have not relied on the NGFS GDP projections for their analysis due to potential anomalies within the projections. Instead, they have applied tailored assumptions about UK (rather than global) GDP growth; the focus is on UK GDP given member mortality is more directly influenced by domestic (UK) economic conditions. They have also applied larger GDP shocks than those suggested by the NGFS.
- The analysis has been expressed as changes relative to existing assumptions, where LCP have interpreted the existing longevity assumptions as having an allowance for mortality improvements due to climate change of broadly an average of the Orderly / Disorderly transition and Hot House World scenarios
- The analysis focuses on deviations from the Scheme's current mortality assumptions due to changes in economic growth, extreme weather, temperature and air pollution, rather than providing a complete forecast of future mortality experience. There may be additional climate- related factors that emerge over time that are not reflected in the analysis.
- The timing and magnitude of any climate-related impacts on mortality are uncertain. Any deviation from current mortality assumptions is expected to emerge over time as climate- related effects become observable and future assumptions are updated to reflect evolving experience and understanding.

Continued →

Appendices

- The modelling does not allow for potential climate "tipping points"[4] or other extreme outcomes. Actual outcomes could therefore be materially more severe, or otherwise different, than those illustrated by the analysis.
- Climate scenario modelling remains an evolving area. Future developments in methodology, scientific understanding and data availability may lead to different conclusions, and there is significant model risk associated with simplifying the complex interactions between climate change, economic conditions and mortality outcomes. The analysis was prepared solely for the purposes of TCFD reporting.

DB employer covenant scenario analysis – BAE Systems plc and Airbus SE

The BAE Systems and Airbus Sections of the BAE Systems Pension Scheme are supported by employers from the BAE Systems plc group (the 'BAE Group') and the Airbus SE group (the 'Airbus Group') respectively. The covenant advisers assess the resilience of the employer covenants to climate-related risks by evaluating how such risks and opportunities could affect covenant prospects and employer cash flows, considering mitigating actions by both Groups. This informs Trustee conclusions on the resilience of the Sections' funding strategies.

Climate-related risks and opportunities are assessed in detail as part of each covenant review (reported to the Trustee Board at least triennially) and supplemented by biannual covenant monitoring. For the BAE Group, the covenant adviser has leveraged its 2024 covenant review, and subsequent monitoring based on publicly available information including the BAE Group's 2025 annual report to inform this report. For the Airbus Group, the covenant adviser has used its 2023 valuation discussions with management and subsequent monitoring based on publicly available information including the Airbus Group's 2025 annual report.

For the BAE Group, short-, medium-, and long-term time horizons for transition risks and opportunities are <2 years, 3–10 years and >10 years respectively, and to 2030, to 2050 and to 2085 for physical risks. For the Airbus Group, these are up to 2026, around 2030, and around 2030+. These are broadly comparable to the Trustee's own horizons of up to 3 years, 4–10 years, and >10 years (out to 2050).

The covenant adviser's own analysis of physical risks, transition risks and transition opportunities for both Groups is consistent with the respective Groups' disclosures. The Trustee is comfortable that these risks continue to be monitored at least annually, with detailed reviews at each triennial valuation. Sponsor risk management procedures are in place to identify and mitigate climate-related risks, and the covenant adviser engages with management on mitigation measures as part of each review.

BAE Systems

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

- Increases in the frequency and severity of extreme weather could result in higher costs and productivity reductions, which management notes could pose serious challenges to its operations and disrupt its 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.

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 for 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.

[4] Tipping points are critical thresholds that, when exceeded, can significantly accelerate climate change, often with an understanding that the change is irreversible.

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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 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 can significantly reduce carbon emissions and enhance energy resilience, as well 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.

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 BAE Group covenant remains 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 the BAE Systems Section and the diversified investment strategy.

Airbus

The Group set its science-based emissions reduction targets in 2022, committing to (vs a 2015 baseline year):

> **Scope 1 & 2**: ~63% absolute reduction by 2030, with neutralisation of residual emissions.
> **Scope 3:** ~46% reduction in emissions intensity from commercial aircraft by 2035, driven by new technologies and increased Sustainable Aviation Fuel ("SAF") uptake.
> **Energy:** Own operations: ~20% reduction in purchased energy from stationary sources.

In 2025, Airbus reported the following progress:

> **Scope 1 & 2**: -52% cumulative reduction (-0.2% YoY in 2025). Fell short of the yearly target (519kt vs 500kt) due to increased commercial aircraft production ramp-up, partially mitigated by a 21% increase in internal SAF usage and purchase of renewable energy certificates. The Company has formalised partnerships with leading energy specialists and is contracting Power Purchase Agreements to support the 2030 target.
> **Scope 3:** -32% reduction from the 2015 baseline (-1% YoY in 2025). The Company reiterated the importance of the expected increase in SAF use to meet the 2035 target.
> **Energy:** -14% reduction in purchased energy from stationary sources vs 2015 baseline. This was a marginal increase on 2024 levels, although below the increase in production levels.

Physical risks

> Management notes that increased frequency and severity of extreme weather events could affect Airbus operations, infrastructure, and supply chains. Sustained high temperatures and altered precipitation may degrade industrial assets and disrupt logistics. Airbus may face rising insurance and operational costs.
> While one-off events could impact the short-term covenant, chronic climate changes are more likely to have long-term implications.
> The most imminent physical risks (extreme heat and floods) have been mitigated through the installation of flood barriers and establishment of the Corporate Environment Health & Safety department at the most at-risk sites.
> The Airbus Group considers physical risks to be medium and long term, with medium potential financial impacts (before mitigation).

Transition risks – Customer priorities and competitors' progress

> Management also notes that disruptive technologies from competitors could affect market share. Chinese manufacturers may leverage domestic hydrogen technologies.
> The Company estimates that approximately two hundred million euros per year may be required for Scope 1 & 2 decarbonisation. Risks remain around the availability and affordability of renewable energy.

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- The Airbus Group's analysis of transitional risks has not changed materially since last year.
- Mitigated by a strong order book (8,754 commercial aircraft as at 2025, covering c.11 years at current production rates).

Transition risks – Renewable and low-carbon energy

- Aviation regulations are implemented at regional / national levels, creating risks of divergent standards and competitive disadvantages. Rapidly changing environmental policies may require significant investment.
- This is managed through Airbus' plan to invest in new aircraft types, SAF (target: 30% of global fuel mix by 2030) and carbon offsets to reach net-zero by 2050.
- A mitigation plan has been implemented to reduce Scope 1 & 2 energy use, through buildings and industrial processes efficiency, as well as continued investment in decarbonisation in next generation aircraft through technology investment, SAF uptake and hydrogen investment.

Transition opportunity

- Airbus could leverage its market position to generate new revenue from carbon-efficient products and market-leading technologies.
- Airbus signed a Memorandum of Understanding with a key partner in June 2025 to advance hydrogen fuel cell propulsion. The first Airbus-designed and built hydrogen fuel tank was manufactured. The scaling up of the hydrogen ecosystem is challenging and is progressing more slowly than anticipated. Scalability will take time and a commercial product is expected to come later than 2035.
- SAF is seen as a critical lever to achieve the aviation sector's long-term aspirational decarbonisation goal of reaching net-zero carbon emissions by 2050, with Airbus intensifying its investment in SAF initiatives.

The covenant adviser concludes that the Airbus covenant is fairly resilient to climate-related risks over the short to medium term. This should continue to be monitored within the context of the funding position of the Airbus Section. They will revisit the Group's emissions and sustainability progress in more detail as part of the upcoming valuation (presented in summer 2026).

DB asset metrics

Disclaimer: This section of the appendices sets out Goldman Sachs Asset Management's ("GSAM") input into the Trustee's climate disclosure report for the Scheme Report and Accounts for the year ending 31 March 2026. As requested by the Trustee, GSAM has provided information relating to the Defined Benefit assets of the Scheme managed by GSAM, the "fund manager", on behalf of the Trustee.

For the avoidance of doubt, the information provided pertains to the Defined Benefit section of the Scheme and GSAM provides no advice and takes no responsibility for the other sections of the Scheme.

Please note that where GSAM relies on the accuracy of the information being provided to it by third parties, it accepts no responsibility or liability in case of errors or mistakes in such information.

Whilst GSAM has used reasonable efforts to provide this information for inclusion into the climate disclosure report, this document does not constitute advice to the Trustee, nor has the input been prepared on the basis that the content of the information is in line with or satisfies the legal and regulatory obligations of the Trustee in this regard. The legal responsibility for the climate disclosure report is with the Trustee. Therefore, the Trustee should take their own advice on the content and format of the climate disclosure report, in particular legal advice, in case they have any concerns about the information provided by GSAM.

Total financed emissions

The Trustee has chosen total financed emissions as its primary absolute emissions metric, representing the total greenhouse gas emissions financed by the Scheme's investments. Emissions are categorised into three scopes:

- **Scope 1:** direct emissions from an entity's owned or operationally controlled sources;
- **Scope 2**: emissions from the use of energy purchased by an entity (e.g. electricity);
- **Scope 3**: indirect emissions from the use of a company's products, or any other emissions across its supply chain.

Scope 3 emissions are less consistently reported due to their complexity and are estimated using MSCI's methodology. To avoid double counting[5], scope 3 emissions are calculated and presented separately from scope 1 & 2, in line with industry practice. The Trustee continues to focus on scope 1 & 2, reflecting these current data limitations associated with measuring scope 3 emissions. This approach will be developed as industry practice evolves.

Financed emissions are calculated based on the Scheme's proportional share of each company's emissions, using enterprise value including cash ("EVIC"). EVIC is a measure of a company's total value.

For government bonds, emissions are reported separately, in line with PCAF guidance, and are categorised in terms of production-based emissions and consumption-based emissions. "Production- based emissions" reflect scope 1 emissions generated within a country, excluding land, land use change and forestry ("LULUCF"). "Consumption-based emissions" include scope 1 (excluding LULUCF), 2 and 3 emissions, subtracting emissions related to exports.

[5] Estimated scope 1 & 2 financed emissions for a given investment may be captured within scope 3 financed emissions of another; aggregating all scopes would therefore result in double counting

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Emissions intensity

The Trustee monitors two emissions intensity metrics: carbon footprint and weighted average carbon intensity ("WACI"):

- Carbon footprint measures the carbon efficiency of the underlying companies held within the portfolio by assessing emissions relative to the companies' enterprise value including cash ("EVIC") (expressed in tonnes of CO2e per million pounds invested).
- WACI measures the carbon efficiency of companies by assessing emissions per unit of revenue (expressed in tonnes of CO2e per million US dollars of revenue), enabling comparisons of the carbon intensities of different companies' operations.

At a portfolio level, both metrics are calculated as weighted averages of the underlying holdings. Emissions intensities vary by sector and company exposure, with higher allocations to carbon-intensive sectors such as utilities, energy and industrials typically exhibiting higher intensities.

For government bonds, emissions intensity is calculated using PPP-adjusted GDP[6], providing a consistent basis for measuring and comparing different economies.

Data coverage and quality

The tables that follow set out the asset allocation and data coverage for the DB Sections as at 31 March 2026 for the emissions-based metrics. The Trustee acknowledges current data limitations and recognises the work undertaken by the OCIO to provide the most robust information available given current data constraints.

Table 6. BAE Systems Section data coverage

Asset class	Value as at 31 March 2025 (£m)	% of overall portfolio	Scope 1 & 2 emissions coverage	Scope 3 emissions coverage	Sovereign emissions coverage
Public corporate credit	3,700	21%	93%	93%	N/A
Government bonds	4,300	24%	N/A	N/A	99%
Alternative renewables	1,500	8%	97%	91%	N/A
Property	1,400	8%	N/A	75%	N/A
Private placements	2,000	11%	100%	100%	N/A
Assets with no emission data	5,000	28%	N/A	N/A	N/A

Metrics show coverage for all emissions metrics; for property, the scope 3 value shown is for carbon footprint and absolute emissions only. For WACI, scope 3 coverage for property is 62%. PCAF Data Quality scores are only available from MSCI where line-by-line data is available for the fund in question. Figures may not sum to 100% due to rounding (figures are rounded to two significant figures).

Table 7. Airbus Section data coverage

Asset class	Value as at 31 March 2025 (£m)	% of overall portfolio	Scope 1 & 2 emissions coverage	Scope 3 emissions coverage	Sovereign emissions coverage
Public corporate credit	320	12%	93%	93%	N/A
Government bonds	940	35%	N/A	N/A	99%
Alternative renewables	230	9%	97%	91%	N/A
Property	190	7%	N/A	70%	N/A
Private placements	240	9%	100%	100%	N/A
Assets with no emission data	780	29%	N/A	N/A	N/A

Metrics show coverage for all emissions metrics; for property, the scope 3 value shown is for carbon footprint and absolute emissions only. For WACI, scope 3 coverage for property is 54%. PCAF Data Quality scores are only available from MSCI where line-by-line data is available for the fund in question. Figures may not sum to 100% due to rounding (figures are rounded to two significant figures).

SBTi Metric

Permitted targets can be aimed at one or all of: the short term, long term or net zero. Companies are assessed on a binary basis across SBTi categories ("SBTi Approved 1.5oC", "SBTi Approved Well Below 2oC" or "SBTi Approved 2oC"), which reflect the implied global temperature increases associated with their targets. Where scope 3 emissions account for 40% or more of total emissions, these must be included in the company's near-term science-based targets. Whilst the Trustee is aware that the "SBTi Approved 2oC" categorisation will be gradually phased out in line with the initiative's raised ambition to 1.5oC, the Trustee will continue to report under the "SBTi Approved 2oC" categorisation to capture companies currently on a 2oC path until they increase their target ambition to 1.5oC in the next few years.

[6] PPP-adjusted GDP refers to gross domestic product that is expressed on a purchasing power parity ("PPP") basis to enable comparison between different economies.

Further information

Data sources

- Public corporate credit and government bond portfolio: Corporate carbon emissions and SBTi status, sovereign emissions data and PCAF quality scores are sourced from a third party, and have been calculated using the OCIO's proprietary tool.
- Property: managers where available. Where emissions data is unavailable, the OCIO applies a scaling approach based on other portfolio investments with similar emissions profiles. Consistent with the OCIO's methodology, certain assets are excluded from the scaling approach where they are not considered comparable to the remainder of the portfolio.
- Alternative renewables: Emissions data is sourced directly from underlying investment managers where available. Where emissions data is unavailable, the OCIO applies a scaling approach based on other portfolio investments with similar emissions profiles. Consistent with the OCIO's methodology, certain assets are excluded from the scaling approach where they are not considered comparable to the remainder of the portfolio.
- Private placements: Emissions data is sourced through the OCIO, Metrics are calculated using the outstanding amount of each security, consistent with the PCAF financed emissions technology.

Data calculation approaches

Financed emissions (including sovereign financed emissions), carbon footprint, WACI and sovereign emissions intensity metrics are scaled to represent the full portfolio where data is incomplete.

Public corporate credit portfolio

- "Public corporate credit" reflects the publicity traded credit securities in the portfolio that are issued by either public or private company issuers.
- The portfolio carbon footprint is derived from available company data. The measure is calculated relative to the enterprise value including cash ("EVIC"), expressed in sterling (GBP) for the purposes of the Scheme's metrics[7].
- The portfolio WACI is derived from available company data. The measure is calculated relative to company revenues, expressed in US dollars (USD), for the purposed of the Scheme's metrics. Corporate scope 3 emissions are all estimated by MSCI, using its proprietary methodology.

Government bonds portfolio

- Carbon data is derived from available sovereign data.
- Production-based and consumption-based emissions intensities are greenhouse gases excluding land use, land-use change and forestry normalised by purchasing-power-parity- adjusted GDP, and expressed in sterling (GBP), in line with the PCAF methodology.

Alternative renewables

- Emissions data is sourced directly from underlying managers where available.
- Where data was incomplete, emissions metrics were estimated by scaling reported emissions data to improve portfolio coverage. As part of this process, the activities of the investments for which no emissions data was available were reviewed from an emissions perspective. Based on this review, no obvious outliers were identified. It was therefore concluded that the covered alternative renewable investments provided a reasonable proxy for estimating the missing data.
- PCAF data quality scores are not reported for renewables because manager responses were not sufficiently consistent to allow meaningful aggregation

[7] For non-listed fixed-income issuers, EVIC is calculated as the sum of total equity and total debt.

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Further information

Property

- Property investments are managed by third-party managers and emissions data availability varies across the portfolio.
- Where data is incomplete, emissions metrics are estimated by scaling reported emissions data to improve portfolio coverage. Missing data was estimated by scaling emissions based on available data from properties with similar operational profiles and purposes within the portfolio.
- Property managers may use different methodologies and assumptions when calculating emissions, which can affect data consistency and comparability across investments.
- Any immaterial scope 1 and 2 emissions have been aggregated into the reported scope 3 figures.

Private Placements

- Financed emissions are calculated using the outstanding amount of each security, consistent with the PCAF financed emissions methodology.

Other

- Cash, derivatives, private credit and real assets other than property are out of scope for emissions calculations, due to insufficiently robust methodologies and emissions data coverage.
- Asset values and foreign exchange rates when used are as at 31 March 2026.

Formulas used

- Enterprise value including cash ("EVIC") is calculated as the sum of market capitalisation of shares and book values of total debts and minority interests at fiscal year-end.
- Financed emissions are calculated as Σ (investment size in GBP * (company's emissions / EVIC £m)), scaled for coverage.
- Carbon footprint is calculated as (Σ wgt avg (company's emissions / EVIC £m)), scaled for coverage.
- Carbon intensity by revenue (i.e. weighted average carbon intensity ("WACI")) is calculated as (Σ wgt avg (company's emissions / revenue in $m)), scaled for coverage.
- Sovereign production-based intensity is calculated as the scope 1 emissions of greenhouse gases excluding land, land use change and forestry ("LULUCF"), for the country/ territory in tons of CO2 equivalent per year per PPP-adjusted GDP (tCO2e / £m GDP-PPP), scaled for coverage.
- Sovereign consumption-based intensity is calculated as scope 1 emissions (excluding LULUCF) + scope 2 + scope 3 – exported emissions; in tons of CO2 equivalent per year per PPP-adjusted GDP (tCO2e / £m GDP-PPP) for the country/ territory, scaled for coverage.
- Sovereign absolute emissions are calculated as (sovereign carbon intensity * market value £m of the sovereign portfolio), scaled for coverage.



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

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