

Chair's letter

Events this year have underscored how the success of our business is underpinned by its continued evolution in the face of change. Your Company now has a unique portfolio of international defence and security businesses.

Dear Shareholders

2024 was another year of strong operational and financial performance for the Group, and also a year in which significant progress was made in key strategic areas.

This has been achieved against a backdrop of global uncertainty, with elections and changes in government in our key markets in the UK and US, and continued conflict in Ukraine and elsewhere. Our management team has shown resilience and leadership this year, focusing on providing our customers with the products and services they need and helping them to adjust to rapidly changing environments.



Our strategy

Events this year have underscored how the success of our business is underpinned by its continued evolution in the face of change. Our current footprint has been created through past mergers and acquisitions in our key markets, and through our own research and product development initiatives. Your Company now has a unique portfolio of international defence and security businesses.

The strategy review process is an integral part of the Board's work through the year, with deep dive sessions and discussions that inform and shape the business plans approved for following years. Our focus is both on ensuring that strong operational performance continues to translate into excellent financial results and also on shaping our technological and strategic focus in a changing environment. This longer-term focus is also key for workforce planning and recruitment to ensure that we have the best talent available to execute on our plans.



Over the course of this year, I have been fortunate to visit many of our sites across our core markets. I am proud of the world-class products and services we create and the talent, dedication and sense of purpose of our employees is clear wherever I go.

The Board is pleased with the milestones met this year in our ongoing key strategic projects. Towards the close of the year, we celebrated reaching agreement with our industry partners in Italy and Japan to form a new joint venture company, subject to regulatory approvals, to design and develop next-generation fighter jets under the Global Combat Air Programme (GCAP). Earlier in the year, we were formally selected to deliver a fleet of nuclear-powered submarines for Australia, alongside our local partner, as part of the wider AUKUS security pact.

During the year, a key area of focus was the completion and integration of the acquisition of Ball Aerospace in the US, now known as Space & Mission Systems (SMS). The Board very much enjoyed the visit it made to SMS in the autumn. We have also completed acquisitions in the UK to strengthen our electronic warfare and counter-uncrewed air system (UAS) capabilities.

Our people and culture

Over the course of this year, I have been fortunate to visit many of our sites across our core markets. I am proud of the world-class products and services we create, and the talent, dedication and sense of purpose of our employees is clear wherever I go.

Our employee base has grown during the year to 107,400, partly through acquisitions but also through recruitment focused on building key skills for the future. This year, in the UK, we hired around 2,300 graduates and apprentices, who joined our early careers training programmes. I am always impressed by the attitude and determination of our early careers trainees. Working in defence is not universally appreciated as a career choice, but we can offer young people a structured and opportunity-rich environment to start their careers.

Remuneration policy

Since I took over as Chair after the Annual General Meeting (AGM) in 2023, I have been fortunate to meet with many shareholders and other stakeholders. It is very clear to me that our current senior team, led by Charles Woodburn, is universally held in high regard. This year we are proposing changes to our Remuneration policy, in particular to the long-term incentives that are designed to retain and reward our senior leaders over the longer term. We compete for top talent in a restricted international market and our focus on engineering skills and nationality requirements for our leaders makes recruitment especially challenging. It is therefore important that our remuneration remains comparable to UK-based multi-national peers. We will continue to set stretching targets to ensure that bonus payments and LTIP vesting are delivered when performance and shareholder value creation are strong.

The proposed changes to our Remuneration policy are outlined in more detail in the remuneration report on page 101.

Capital allocation

This year has again been one of strong free cash flow, underpinned by our growing order backlog. The Company has continued to distribute significant capital to shareholders through our ongoing share buyback programmes and through dividends. Strong cash generation has allowed the Company to continue to invest in research and development (R&D) and make some strategically important acquisitions. The Board has recommended a final dividend of 20.6p per share, making a total dividend for the full year of 33.0p. This is an increase of 10% on last year and the 21st year of dividend growth for your Company.

Governance

During the year, a focus for the Board and Audit and Risk Committee has been on refreshing our approach to risk to make it more consistent across the business. As you will see from the summary of principal risks on page 56, the Board's assessment of principal risks has remained consistent, although risk identification and mitigation is now more aligned to the business planning process. The Board has also continued its focus on succession planning and talent management. There is more detail on governance in the report on page 83.

Board changes

During the year, Lord Sedwill stood down from the Board because of his evolving parliamentary and other commitments. We will miss his insight and perspective, especially on security and defence matters, and I would like to thank him for his contribution.

To manage the evolution and skills profile of the Board, the search for new non-executive directors is well advanced. As you will see from the Board profiles on pages 69 to 71, Dame Elizabeth Corley is our most experienced non-executive director, having joined the Board in 2016. To ensure that we can benefit from her deep understanding of the Group during this year's strategic review, Elizabeth has kindly agreed to remain on the Board until the end of 2025. This should also ensure a smooth transition for her committee memberships.

In closing, I would like to thank our colleagues across the world for all they have done to make 2024 another strong year for the Company. The culture and commitment of our workforce is at the heart of the success of your Company.

Cressida Hogg CBE
Chair