

## Chair's letter



As one of the world's largest defence contractors, our technology, capabilities and global footprint ensure we play a leading role in supporting our government customers in meeting the elevated threat environment.

### Dear Shareholders

This is my first letter to you as Chair since taking over from Sir Roger Carr after the AGM in May last year. It has been a dynamic and rewarding year in which the Company has continued to perform strongly, both financially and operationally. During 2023, we have sadly seen geopolitical instability increase and, as one of the world's largest defence contractors, BAE Systems has continued to play a leading role in supporting our government customers in the elevated threat environment.

### First impressions

I have very much enjoyed getting to know the business better, visiting many sites and meeting colleagues across the business. It is a privilege to chair such an important Company that, in my view, has often understated its achievements and unique qualities. One of my strongest impressions has been the incredible sense of purpose that our people have across the Company. They understand the importance of the role that we play in national defence. "To serve, supply and protect those who serve and protect us" is a phrase I have heard often and it clearly defines what we do. This purpose is integral to our culture and values.

BAE Systems has a critical role to play in defence and cyber security in our core markets in the UK, US, Australia and the Kingdom of Saudi Arabia and in other countries where we operate through government relationships, such as in Ukraine. The case for defence is very clear; investment in defence is required to help to grow geopolitical stability and

prosperity, and it is also needed to protect countries and citizens from threats, and protect free trade. The defence sector also delivers economic prosperity, through creating jobs, building skills and investing in communities, as well as developing new technologies with varied applications.

Technology is at the heart of much of what we do; we continue to build on our portfolio of products for air, sea and land and also develop cutting-edge technologies fit for the challenges of a digital world where multi-platform communication is key.

Under the strong leadership of Charles Woodburn and the rest of the executive team, BAE Systems has evolved into a forward-looking, technology-led defence Company, with a unique international customer base. We have a strong base from which we are driving what we expect to be a period of sustained top-line growth. Our management continues to focus intently on operational excellence, especially in the execution of our key programmes.

### Progressing our strategy

2023 has been a busy year for the business with significant agreements on SSN-AUKUS and GCAP that will underpin the Company's long-term prospects. We announced the deal for Ball Aerospace, a leading company in the military and civil space domain, our largest ever M&A transaction. This acquisition will enable us to accelerate our growth in the expanding space market. We have also continued to support our key customers in their response to the invasion of Ukraine, and in their other activities.

Against this backdrop of strategic progress, we have delivered another year of strong financial performance with a record order book, 9% sales growth and profitability underpinned by good operational performance across all sectors, and strong cash flow. This has continued our good track record and is delivering on our value-compounding model.

As we expand to deliver new programmes, like SSN-AUKUS and GCAP, it is critical that we develop the right skills in our employee base. I am proud that, in 2023, we had c.5,500 graduates and apprentices in training in the UK alone, and we are one of the largest private sector apprentice and graduate hirers in the UK. We continue to develop new engineering, manufacturing and training facilities for our expanding workforce, and to invest in the local communities where we have major operations.

We remain focused on developing world-class future technologies to support our customers' needs, with total R&D spending increasing year-on-year.

Our ESG priorities dovetail with our overall mission. We are aware of the impact that our activities have on the environment, backed up by data we gather, and we remain focused on our journey to Net Zero. As one of the UK's largest manufacturers, and with operations in over 30 states in the US, we have a major social and economic impact in both countries. All of our activities take place within a clear governance framework led by the Board.

Across my site visits, I have been impressed by the sense of mission and purpose amongst our employees, and the positive role we play in the communities we operate in.

Cressida Hogg CBE  
Chair



## Capital allocation

Financial and operational discipline has contributed to strong performance and allowed the Board to balance investing for long-term growth with allocating capital for shareholder returns. The ongoing share buyback programme and dividend payments distributed significant capital to shareholders through the year. Capital allocation remains a key focus for the Board and is regularly discussed in our strategic planning and budget approval sessions.

With the business well positioned for the future, the Board has recommended a final dividend of 18.5 pence per share, making a total dividend of 30.0 pence per share for the full year. This is an increase of 11.1% on last year and represents the 20th year of dividend growth for the Company.

## Governance

Good governance is fundamental to the long-term success of the Company and is covered in more detail in the annual report on pages 80 to 140.

A change of Chair allows for a proper review of the governance structures and processes already in place. Overall, our existing governance practices are robust and continue to evolve. A key ongoing project is refreshing our approach to risk management and assurance, in line with changes in governance standards.

A fundamental responsibility for any Board is planning for orderly management succession. I am very much enjoying working with Charles and his management team. However, all companies must have resilience and be able to maintain momentum through management change. I am working with the Board to refresh our succession planning processes to ensure we identify potential and talent internally and externally.

## Board changes

The composition and evolution of our Board are important and activity is focused on ensuring we continue to be well positioned to support the business in what should be a period of sustained growth, even as the Board evolves.

Sir Roger Carr, who retired as Chair in May 2023, had led the Board for over nine years. There have already been many tributes paid to Sir Roger and the legacy he has left here. I would like to thank him again on behalf of the Company for all he achieved. His experience, knowledge and passion for what we do were evident to all who met him and we wish him the best for the future.

We also sadly said farewell to Chris Grigg, our Senior Independent Director (SID), at the end of 2023 after nearly a decade on the Board. I am personally grateful to Chris for extending his tenure to provide continuity through the Chair transition, and would like to thank him for the outstanding contribution he has made on our Board. I am pleased that Nicole Piasecki has agreed to take on the role of SID in addition to chairing the Remuneration Committee. As a significant proportion of our turnover and shareholder base is in the US, it seems timely to have a US citizen as SID.

I am delighted that Angus Cockburn joined the Board at the end of 2023. Angus brings deep financial and commercial expertise to the Board from his executive career (see page 82 for more detail).

Finally, I would like to thank all of our colleagues for their contribution to our strong performance this year. The dedication and skills of our workforce are at the heart of the Company's culture and success.

Cressida Hogg CBE  
Chair