

Chair's letter



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Cressida Hogg CBE
Chair



Dear Shareholders

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

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

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

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

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

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

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

Our strategy

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

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



Our people and culture

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

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

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

Capital allocation

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

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

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

Governance

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

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

Board changes

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

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

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

Cressida Hogg CBE
Chair