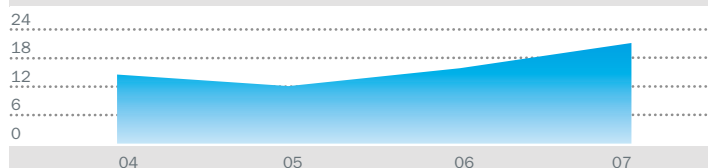


Key Performance Indicators (KPIs)

The Board uses a range of financial and non-financial performance indicators, reported on a periodic basis, to monitor the Group's performance over time. These include:

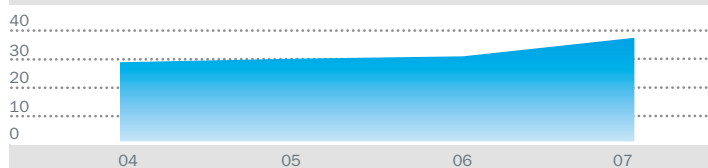
To measure growth:

Order intake (£bn) **2007: £21.2bn** +33%
2006: £15.9bn



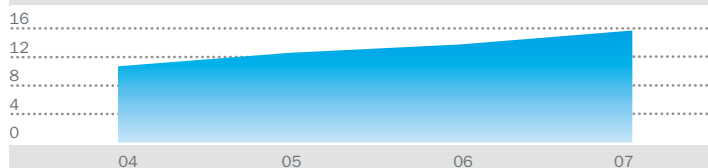
Order intake represents the value of funded orders received from customers in the period.

Order book (£bn) **2007: £38.6bn** +22%
2006: £31.7bn



Order book represents the balance of unexecuted, funded orders received from customers.

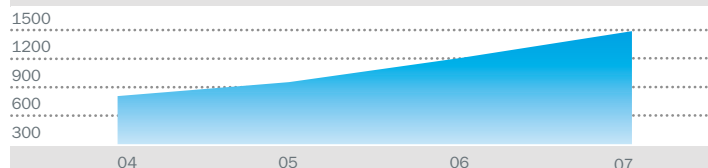
Sales (£bn) **2007: £15.7bn** +14%
2006: £13.8bn



Sales represents the amounts derived from the provision of goods and services, and includes the Group's share of the sales of equity accounted investments.

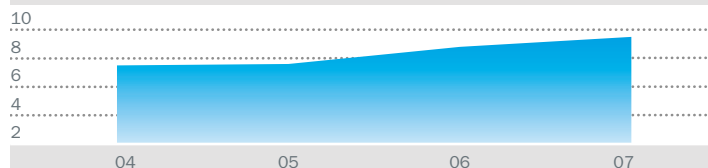
To measure financial performance:

Underlying EBITA¹ (£m) **2007: £1,489m** +23%
2006: £1,207m



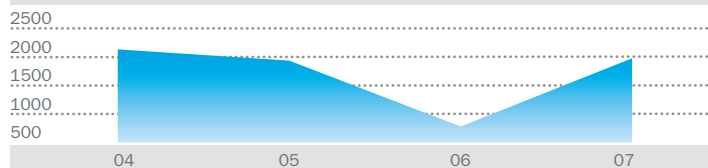
Underlying EBITA¹ is used by the Group for internal performance analysis as a measure of operating profitability that is comparable over time.

Return on sales (%) **2007: 9.5%**
2006: 8.8%



Return on sales represents underlying EBITA¹ divided by sales, expressed as a percentage.

Operating business cash flow (£m) **2007: £1,978m** +153%
2006: £782m



Operating business cash flow represents net cash flow from operating activities after capital expenditure (net) and financial investment and dividends from equity accounted investments.

Further explanation of many of these Group financial KPIs for the years ending 31 December 2007 and 2006 are included within the Financial review, together with information on underlying earnings per share – a metric used alongside underlying EBITA¹ to communicate underlying performance. Individual business group financial KPIs are included within the Business group reviews on pages 27 to 36.

¹ Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense adjusted for the uplift on acquired inventories. The directors consider this measure more appropriate to assess the ongoing performance of the acquired businesses. For 2007, this adjustment was £12m (2006 £nil).

Key Performance Indicators (KPIs) (continued)

Directors' report – Business review

Directors' report – Governance

Financial statements

Shareholder Information

In addition to the above, long-term contracts are managed through the application of mandated business processes. These processes include the reporting of the following metrics:

- Programme Margin Variation (outturn projections of and movements in margin of key customer-funded projects): to provide an indicator of our ability to effectively manage major programmes;
- Schedule Adherence (on time achievement of key milestones): to measure how well we are performing against our stated key contract commitments;
- Customer Satisfaction (customer opinions on key customer-funded projects): to provide an opportunity for the customer to share information on perceived performance levels and identify areas of strength and weakness; and
- Lifecycle Management (LCM) Application (the application of the core process BAE Systems uses to manage its projects): to provide assurance that we are applying a structured approach to managing the Group's projects.

These metrics are consistently used by the Board to provide oversight of contract performance. These metrics can only be fully interpreted and understood on a contract by contract basis.

The Board recognises its responsibilities to the Group's shareholders, employees, customers and suppliers, the wider community and to the environment. The following indicators are used by the Board, either directly or through the Corporate Responsibility Committee, to monitor the application of mandated policies with the objective of meeting the Group's responsibilities in these areas:

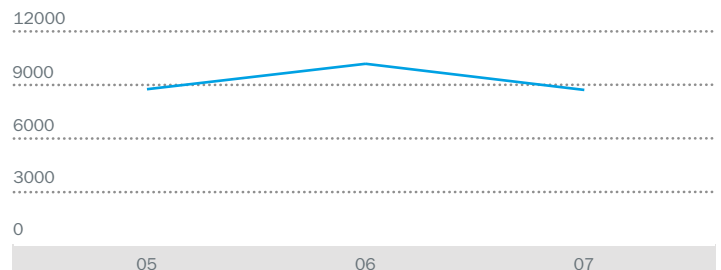
- Health and safety management (injuries and lost days): to minimise risk to our employees and our operations and drive continual performance improvement (see opposite and page 39);
- Environment (energy use, waste generation and greenhouse gas emissions): to ensure operational efficiency, regulatory compliance and minimising environmental impact (see page 40);
- Ethics (number of issues raised and investigated): to demonstrate that employees are aware of our ethical standards and that issues or concerns are being raised and addressed. Also, to measure how successful our ethics training is in ensuring that all employees are aware of the Group's ethical standards and policies (see page 39); and
- Workplace (employee opinion surveys and demographic information): to monitor the opinions of our employees as part of the development of a high-performance culture across the Group and to increase diversity and broaden the culture to drive innovation and performance (see page 39).

Directors' remuneration is linked to a range of measures, including certain of these financial and non-financial measures. Further information is given within the Remuneration report on pages 64 to 83 of this report.

The Board continues to adopt a progressive approach in the development of appropriate Group-wide metrics such that performance is monitored in a comparable and transparent way.

To measure corporate responsibility performance:

Days recorded lost to work-related injuries (per 100,000 employees)¹



Days recorded lost to work-related injuries down by 14% to 8,734 (2006 10,204).

2011 target – 2,000 days lost to work-related injuries. We are developing a four-year plan for improving our safety performance. Initial focus areas include visible senior leadership, establishing specific targets for improvement and linking safety performance to senior management bonuses. These have been incorporated into our 2008 leadership objectives (see page 38).

Further information on the Group's safety and environmental performance is given within the Corporate responsibility review on pages 37 to 43.

¹ This data is derived from internal recording systems and is not subject to external verification or audit.