

Resources

The key resources and arrangements the Group uses to achieve its strategic objectives include:

- the people it employs;
- relationships with its customers, subcontractors and other suppliers;
- research and development;
- intellectual property; and
- its capital structure.

The Operational Framework (OF) (page 44) encompasses the mandated policies and core business processes that provide a common framework for how we do business. These mandated policies and core business processes together with our key resources help us to achieve the Group's strategic objectives.

People

Our employees are key to our success, both now and in the future. We invest extensively in education schemes to encourage an interest in science and education amongst school children and support higher levels of education through our apprentice programmes and graduate sponsorship schemes. The Group employs 88,000 people in its subsidiaries, with a further 9,500 employed in joint ventures. The workforce encompasses a broad range of skills and experience delivering a full range of products and services for air, land and naval forces as well as advanced electronics, information technology solutions and customer support services.

The Group aims to get the best from its employees by treating them with respect, creating a supportive workplace and giving them opportunities for development. This helps the Group attract and retain highly talented people who can deliver the products and services customers need.

Performance Centred Leadership (PCL), the Group's integrated approach to managing leadership performance, development and reward, is critical to the Group achieving its strategic objective of continuing to embed a high-performance culture. PCL addresses the setting of objectives and performance assessment together with the determination of reward, development needs and potential. The process was applied to 600 leaders at its launch in 2000 and is now deployed to over 6,200 executives globally across all of the Group's operations. It drives business success by linking individual's goals with the wider goals of the organisation, enabling employees to understand how their own success contributes to the success of the Group. PCL is a core business process mandated by the OF to be used across the Group.

All employment policies include a commitment to equal opportunities regardless of sex, race, colour, nationality, ethnic origin, religion, age or disability, subject only to considerations of national security. The Group's policy is to provide, wherever possible, employment opportunities for disabled people and to ensure that disabled people joining the Group and employees who become disabled whilst in our employment benefit from training and career development opportunities.

The Group has put into place a number of ways of consulting with employees and providing them with information on the performance of the Group and other matters that affect them. The effectiveness of the communication process is assessed regularly with the aim of ensuring continual improvement so as to provide employees with the information they want by the most effective means.

Employees are actively encouraged to become shareholders in the Company by way of all-employee share schemes.

Honours In the UK, the following individuals were honoured in Her Majesty the Queen's 2008 New Year Honours lists:

CBE: Murray Easton and Alan Garwood

OBE: Vic Emery

MBE: Dave Blacker

Further details on the approach to employee engagement and development are detailed on pages 37 to 43 in the Corporate responsibility section of this report.

Relationships with customers

The Group regards the relationship with its customers as a key discriminator in a competitive industry. Its core businesses are mostly defence related, selling products and services primarily to the US, the UK, the Saudi Arabian and other national governments, both directly and indirectly with other defence and aerospace companies. In many cases these relationships extend over decades and span the full product and service lifecycle from the initial concept definition, through the system development phase, into production and then on to support for the system in service.



Apprenticeships

The BAE Systems Advanced Apprenticeship programme is one of the largest such schemes in the UK. At any one time, the Group has up to 1,000 young people employed on its numerous training programmes.



BAE Systems wins Sun Microsystems' Supplier Award

BAE Systems was named Meritorious Performance Supplier in Sun Microsystems' 2007 Supplier Awards programme. The Supplier Awards recognise companies that make outstanding contributions to Sun Microsystems' record of delivering superior technology, quality service and excellent value to its customers.

Resources (continued)



UK Association for Project Management (APM) Awards
In 2007, ATTAC (the Availability Transformation: Tornado Aircraft Contract) (see page 16) was awarded 'Project of the Year' by the UK APM.

This lifecycle approach is used as the basis of one of the Group's core business processes.

Lifecycle Management (LCM) The OF mandates the use of LCM across the Group. LCM provides a structured approach to managing the Group's commitments and investments throughout product and project lifecycles, promoting the application of best practice management and facilitates continuous improvement.

Throughout this lifecycle the Group engages extensively with its customers and undertakes customer satisfaction surveys as part of its drive for continuous performance improvement.

Increasingly contracts are being awarded for the delivery of a capability, rather than just a product. Reflecting this new approach, traditional customer relationships are evolving into long-term partnerships with governments and their armed forces.

Managing subcontractors and other suppliers

Managing major subcontracts is a key strategic capability. Expenditure on subcontractors represents a significant portion of project cost and, therefore, effective management of this expenditure is a key value driver for our Group. The benefits of capability-based contracting, combined with ongoing budget pressures, are leading many customers to demand a more integrated, partnering, approach to meeting their requirements. Transforming relationships with suppliers is an essential part of developing systems integration and through-life management capabilities. BAE Systems is committed to improving supply chain relationships and working together with other companies, large and small, in each of the Group's home markets to deliver better value and innovation for its customers.

BAE Systems is a founder of the UK aerospace and defence 21st Century Supply Chain (SC21) programme, designed to coordinate multiple customers with suppliers in improving supplier management

and development through using common processes in a coordinated way, thereby reducing duplication. BAE Systems supports SC21 by providing the project director for the industrial programme, coordinating the 16 primes and tier one companies, managing the industrial implementation plan (including over 100 suppliers) and interfacing with the UK MoD. BAE Systems has also implemented the SC21 principles and processes across its own Supply Chain Excellence improvement programme, and is leading improvement work with 11 of the industrial plan suppliers. Several common improvement plans are in place, coordinating the improvement requirements of the supplier and its other aerospace and defence customers.

The Group's Centre for Performance Excellence has identified best practices in managing major subcontracts from across BAE Systems and industry. These best practices are being embedded in the Group's processes, guidance and training to help deliver on commitments to customers. This directly aligns with the Group's strategic objectives of enhancing programme execution capabilities, sharing of best practice between the Group's global businesses and embedding a high-performance culture.

Research and development (R&D) and intellectual property

The continued development of the Group's technological capabilities and expertise is key to achieving the Group's strategic objectives. The Group is engaged in a significant R&D programme in support of the platforms, systems and services that it provides to its customers. This covers a wide range of work and includes performance innovations, improvements to manufacturing techniques and technology to improve the through-life support of products.

The development and demonstration of capabilities in networked systems, and enabling interoperability, is an important area of focus in both the UK and the US. Long-term research is undertaken through partnerships with the academic sector and in the Group's Advanced Technology Centre and Systems Engineering Innovation Centre. Application of this research is managed by the Group's business units through business focused R&D programmes. Customers fund directly much of the near-term product development work undertaken by the Group. Total R&D expenditure for the Group amounted to £1,460m (2006 £1,248m), of which £176m (2006 £162m) was funded by the Group.

Intellectual property is created every day, in every part of the Group. It takes many forms, not only tangible products but also 'know how' developed over the years. The Operational Framework mandates a policy to protect the Group's intellectual property through appropriate use and observance of intellectual property law, so that returns made from the investment in R&D and technological innovation are protected.

The Group filed patent applications covering over 100 new inventions in 2007 in support of its global businesses, and has a total portfolio of patents and patent applications covering more than 1,500 inventions worldwide.