

# Monitoring our performance

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. Directors' remuneration is linked to certain of these measures.

## Financial

[Link to strategy](#)

**Financial KPIs are used to measure financial performance which underpins the Group's Strategic Objectives, Business Portfolio Actions and Integrated Business Plans.**

[Link to 2008 Executive Committee top ten objectives](#)

**1. Meet 2008 financial targets 5. Progress development of security business 6. Grow our US business, including through investments 7. Progress the business in the Kingdom of Saudi Arabia 8. Continue to implement the UK Defence Industrial Strategy 9. Progress export opportunities**

Measure

### Order intake (£bn)

### Sales (£bn)

### Underlying EBITA<sup>1</sup> (restated) (£m)

Description

Order intake represents the value of funded orders received from customers in the year. It is a measure of in-year performance and supports future years' sales performance.

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

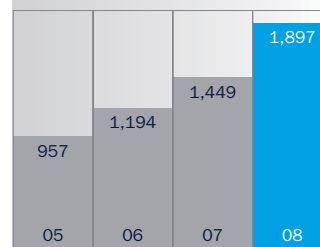
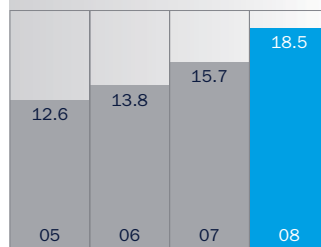
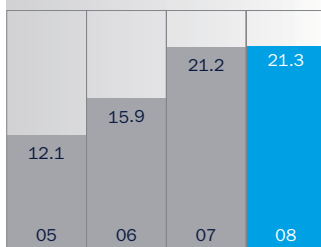
Underlying EBITA<sup>1</sup> is used by the Group for internal performance analysis as a measure of operating profitability that is comparable over time.

Performance

**2008: £21.3bn +0.5%**  
2007: £21.2bn

**2008: £18.5bn +18%**  
2007: £15.7bn

**2008: £1,897m +31%**  
2007: £1,449m



Comment

The year's intake has benefited from high demand for armoured wheeled vehicles in the US, awards for the new 15-year UK munitions capability contract and Saudi Tornado Sustainment Programme, and the Group's share of the Future Carrier award. Prior year intake included the Saudi Typhoon contract.

The significant increase in sales this year has primarily been driven by the Land & Armaments operating group due to high armoured wheeled vehicle volumes in the US and full-year impact of the Armor acquisition.

Underlying EBITA<sup>1</sup> increased in line with the improved 2008 sales performance and a 1.0 percentage point improvement in return on sales.

[Links to further information](#)

Further explanation of these Group financial KPIs for the years ended 31 December 2008 and 2007 are included within the Financial review on pages 28 to 32.

Individual operating group financial KPIs are included within the Operating group reviews on pages 36 to 44, and a reconciliation to the Group KPIs is presented on page 45.

Directors' remuneration is linked to certain of these measures. Further information is given within the Remuneration report on pages 75 to 93.

1 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding profit/(loss) on disposal of businesses and uplift on acquired inventories. Restated to exclude profit/(loss) on disposal of businesses. See page 29.  
 2 Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, profit/(loss) on disposal of businesses and uplift on acquired inventories. Restated to exclude profit/(loss) on disposal of businesses. See page 29.

Measure	<b>Underlying earnings<sup>2</sup> per share (EPS) (restated) (p)</b>	<b>Operating business cash flow (£m)</b>																				
Description	Underlying earnings <sup>2</sup> represent profit for the year attributable to equity shareholders from continuing operations excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, profit/(loss) on disposal of businesses and uplift on acquired inventories (see note 10 to the Group accounts). Underlying EPS provides a measure of shareholder return that is comparable over time.	Operating business cash flow represents net cash flow from operating activities after capital expenditure (net) and financial investments, and dividends from equity accounted investments.																				
Performance	<b>2008: 37.1p +23%</b> 2007: 30.1p	<b>2008: £1,595m -19%</b> 2007: £1,978m																				
	<table border="1"> <thead> <tr> <th>Year</th> <th>2005</th> <th>2006</th> <th>2007</th> <th>2008</th> </tr> </thead> <tbody> <tr> <td>Value</td> <td>18.5</td> <td>23.5</td> <td>30.1</td> <td>37.1</td> </tr> </tbody> </table>	Year	2005	2006	2007	2008	Value	18.5	23.5	30.1	37.1	<table border="1"> <thead> <tr> <th>Year</th> <th>2005</th> <th>2006</th> <th>2007</th> <th>2008</th> </tr> </thead> <tbody> <tr> <td>Value</td> <td>1,937</td> <td>782</td> <td>1,978</td> <td>1,595</td> </tr> </tbody> </table>	Year	2005	2006	2007	2008	Value	1,937	782	1,978	1,595
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Value	1,937	782	1,978	1,595																		
Comment	Underlying EPS has again increased mainly reflecting higher underlying EBITA <sup>1</sup> .	The 2008 reduction in operating business cash flow largely reflects utilisation of Saudi Typhoon advances received in 2007 and an agreed repayment to the UK Ministry of Defence in respect of the Astute programme.																				

## Key Performance Indicators (KPIs) *continued*

### Programme execution

[Link to strategy](#)

**Excellence in programme execution is at the core of the successful delivery of the Group's strategy. Partnering relationships with our customers are increasingly important to the long-term future and sustainability of the Group.**

[Link to 2008 Executive Committee top ten objectives](#)

**2. Develop our partnering approach 4. Further enhance programme execution through schedule and cost performance**

Measure

**Programme margin variation**

**Schedule adherence**

**Customer satisfaction**

Description

Programme margin variation measures outturn projections of and movements in margin of key customer-funded projects. It provides an indicator of our ability to effectively manage major programmes.

Schedule adherence measures the timing of achievement of key milestones. It shows how well we are performing against our stated key contract commitments.

Customer satisfaction surveys are used to collect customer opinions on key customer-funded projects. This provides an opportunity for customers to share information on perceived performance levels, and identify areas of strength and weakness.

Performance

The Group targets an aggregated year-on-year improvement in programme margin across its major contracts. The targeted improvement was achieved.

The Group targets an aggregated improvement in schedule adherence metrics relating to milestones across its major contracts. This targeted improvement was achieved.

The Group targets an aggregated year-on-year improvement in customer satisfaction across its major contracts. This targeted improvement was not achieved.

Comment

Contract management 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 and, therefore, aggregated data is not presented.

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Plans to improve the performance on those contracts reporting a deterioration in customer satisfaction are being implemented on a contract-by-contract basis.

[Links to further information](#)

Programme margin variation, schedule adherence and customer satisfaction are regularly reviewed under Lifecycle Management (LCM), which is a mandated core business process under the Operational Framework. It provides a structured approach to managing commitments and investments throughout project and product lifecycles. Further information on LCM is given on pages 21 and 67.

## Mandated policies and processes

## Corporate responsibility

Link to strategy

Having a high-performance culture underpins the Group's ability to achieve its strategy.

High standards of corporate responsibility are essential to the Group's strategy of delivering sustainable growth.

Link to 2008 Executive Committee top ten objectives

3. Ensure continued application of business policies and processes

10. Continue to drive performance in safety, ethics and diversity

Measure

### Operational Assurance Statement (OAS)

### Performance Centred Leadership (PCL)

### Safety

Description

The OAS requires that each part of the business completes a formal review of its compliance against the Operational Framework, including operational and financial controls, and risk management processes, every six months.

PCL addresses the setting of objectives and performance assessment, together with the determination of reward, development needs and potential, of the Group's employees.

Days lost to work-related injuries is monitored to minimise the risk to our employees and our operations, and drive continual performance improvement.

The level of application of mandated policies is assessed against defined scoring criteria. Where scores are below the minimum standard, action plans to achieve the minimum standard are implemented.

Performance

**47%**

Improvement

**562**

Additional employees

	10,204	10,084 <sup>1</sup>	9,336
8,774			
05	06	07	08

The Group targeted an improvement in scores below the minimum by 20% during 2008. The actual improvement in scores during 2008 was 47%. Newly acquired businesses are targeted to reach minimum standard in 75% of mandated policies within 12 months of acquisition. The ex-Armor Holdings business achieved 88% compliance.

The Group target was to increase the roll-out of PCL from 6,200 to 6,700 executives across the Group.

PCL was deployed to 6,762 employees across the Group.

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

Comment

The Tenix, Detica and ex-VT Group businesses acquired during the year have been excluded from the analysis. The 2008 OAS submissions for these businesses will be used to measure achievement of this objective in 2009.

The 2008 target was exceeded. Roll-out of PCL to the newly acquired businesses will continue in 2009.

The Group targeted a 10% reduction in the gap between Group performance and the external benchmark of 2,000 days lost per 100,000 employees. The target was not met as the actual reduction was just over 9% during 2008.

Links to further information

OAS is a mandated policy under the Operational Framework. Further information on the Operational Framework is given on page 18.

PCL is a mandated core process under the Operational Framework. Further information on PCL is given on page 20 and in the Corporate governance section on page 67.

Further information on the Group's performance is given within the Corporate responsibility review on pages 48 to 55. Directors' remuneration is linked to certain of these measures. Further information is given within the Remuneration report on pages 75 to 93.

1 Restated.