



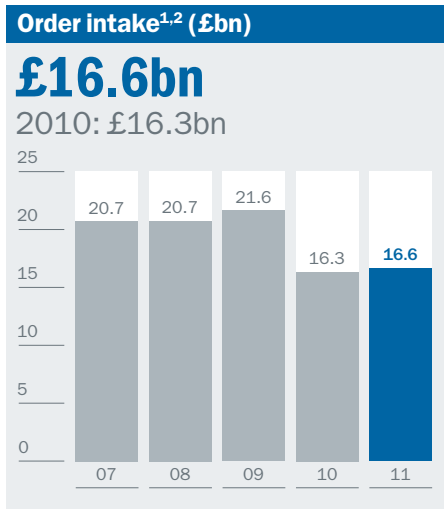
KEY PERFORMANCE INDICATORS (KPIs)



The Board uses a range of quantitative financial and non-financial performance indicators, reported on a periodic basis, to monitor the Group's performance against its Total Performance and Executive Committee key objectives. Executive directors' remuneration is linked to certain of these measures.

Financial Performance

The Group sets itself challenging financial targets through the Integrated Business Planning process to improve financial performance and drive shareholder value.

-  13 2011 Executive Committee key objectives
-  62 Principal risks



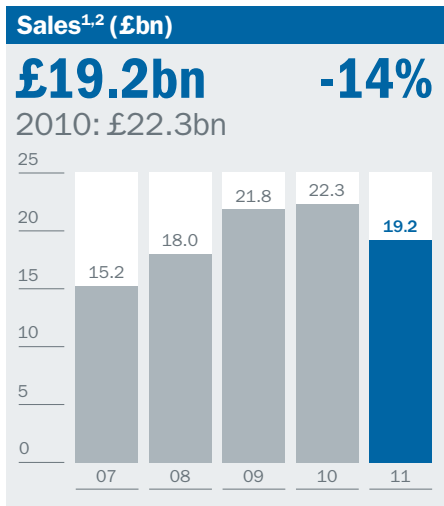
-  Target⁶ not achieved
-  Part of the executive directors' 2011 annual incentive

Definition
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.

Comment
Whilst order intake² is marginally above the prior year, the target assumed significant contract awards for changes to the Salam Typhoon programme and the next phase of support on the Saudi British Defence

Co-operation Programme (SBDCP), and for the supply of Typhoon aircraft to Oman.

Budgets were approved in 2011 on SBDCP and Salam Typhoon, with the exception of price escalation, and formal contracts under these budgets are being progressed. Contract award on Typhoon for Oman is expected during 2012 following receipt of the formal request for proposal.



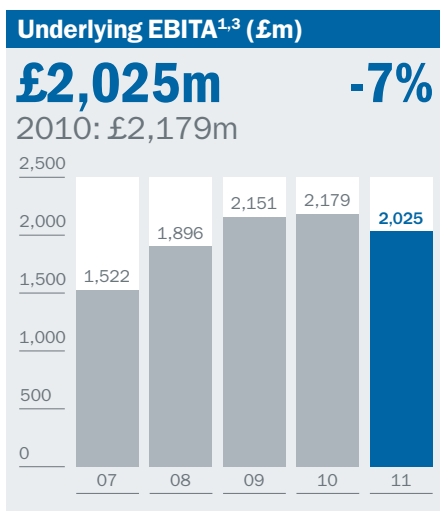
Definition
Sales represents the amounts derived from the provision of goods and services, and includes the Group's share of sales of its equity accounted investments.

Comment
The 15% like-for-like decrease in sales² this year has primarily been driven by the lower level of Bradley reset/remanufacturing activity and completed Family of Medium Tactical Vehicles programme in the Land & Armaments business, and the impacts of the Strategic Defence and Security Review on the UK business.

Sales² in 2011 have been impacted by the deferral of trading relating to the formalisation of price escalation on the Salam Typhoon programme.

 47 Sales² bridge chart

1 Restated following the classification of the Regional Aircraft line of business as a discontinued operation (see note 7 to the Group accounts).
 2 Including share of equity accounted investments.
 3 Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 47).



Definition

Underlying EBITA is used by the Group for internal performance analysis as a measure of operating profitability that is comparable over time. It excludes amortisation and impairment of intangible assets, finance costs and taxation expense, and non-recurring items (these are profit/loss on disposal of businesses, pension accounting gains and regulatory penalties).

Comment

Underlying EBITA³ in 2011 includes:
– a £160m charge in the first half on the Omani Offshore Patrol Vessel (OPV) programme;

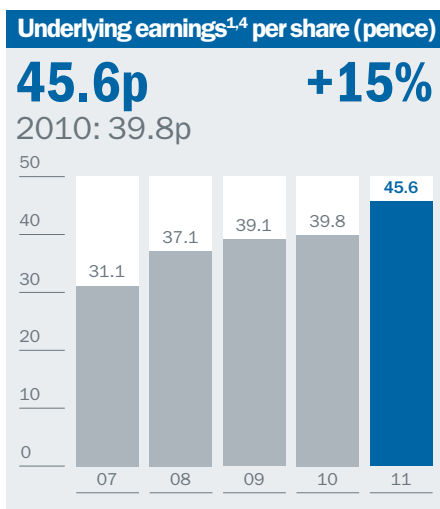
– a £125m benefit from a UK Ministry of Defence settlement agreement relating to the recovery of rationalisation costs charged to the income statement in prior years; and
– a £60m benefit from the increase in the carrying value of the Trinidad and Tobago OPVs upon agreement of a sale to the Brazilian Navy.

Underlying EBITA³ in the prior year included a charge of £100m taken in respect of the terminated Trinidad and Tobago OPV contract.

Underlying EBITA³ in 2011 has been impacted by the deferral of trading relating to the formalisation of price escalation on the Salam Typhoon programme.

Return on sales increased to 10.6% (2010 9.8%).

47 Underlying EBITA³ bridge chart



✓ Target⁶ achieved

▶ Part of the executive directors' 2011 annual incentive

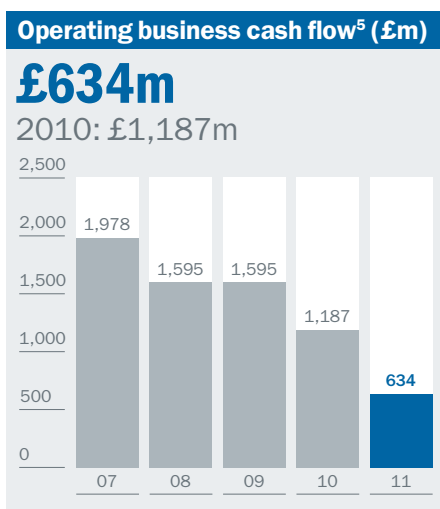
Definition

Underlying earnings represent profit for the year attributable to equity shareholders excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, and non-recurring items (see note 8 to the Group accounts). Underlying earnings per share provides a measure of shareholder return that is comparable over time.

Comment

The 5.8p increase in underlying earnings⁴ per share includes a 5.9p tax benefit arising as a result of an agreement with the UK tax authorities addressing a number of items, including research and development tax credits.

48 Underlying earnings⁴ per share bridge chart



✓ Target⁶ achieved

▶ Part of the executive directors' 2011 annual incentive

Definition

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

Comment

The reduction in operating business cash flow⁵ reflects the lower activity in the Land & Armaments business, and utilisation of advance funding in Platforms & Services (UK) and Platforms & Services (International). A significant cash receipt expected on the Salam Typhoon programme has been deferred until ongoing negotiations regarding price escalation have been concluded.

4 Earnings excluding amortisation and impairment of intangible assets, non-cash finance movements on pensions and financial derivatives, and non-recurring items (see note 8 to the Group accounts).
5 Net cash inflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.
6 The target is the Group's budget for the year, which represents the first year of the five-year Integrated Business Plan (see page 7).

KEY PERFORMANCE INDICATORS *(continued)*

Customer Focus

The Group's priority is to understand its customers' needs and expectations, and deliver on its commitments throughout the life of its products and services.

 13 2011 Executive Committee key objectives

 62 Principal risks

 105 Lifecycle Management

Schedule adherence

Performance

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

Schedule adherence metrics can only be fully interpreted and understood on a contract-by-contract basis and, therefore, aggregated data is not presented.

 Target achieved

 Part of the executive directors' 2011 annual incentive

Definition

Schedule adherence measures the timing of achievement of key milestones. It shows how well the Group is performing against key contract commitments to its customers.

Comment

The data for the schedule adherence metric included 100 (2010 91) contracts reported in Contract Reviews prepared under Lifecycle Management (LCM).

The year's target was achieved.

Customer satisfaction

Performance

The Group targets an aggregated year-on-year improvement in customer satisfaction across its major contracts.

Customer satisfaction metrics can only be fully interpreted and understood on a contract-by-contract basis and, therefore, aggregated data is not presented.

 Target achieved

 Part of the executive directors' 2011 annual incentive

Definition

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.

Comment

The data for the customer satisfaction metric included 89 (2010 90) contracts reported in Contract Reviews prepared under LCM.

The year's target was achieved.

Programme Execution

The Group's performance is dependent on the successful execution of projects. It is important that the Group wins and contracts for high quality new programmes, and delivers on its projects within tight

tolerances of quality, time and cost performance.

 13 2011 Executive Committee key objectives

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Programme margin variation

Performance

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

Programme margin variation metrics can only be fully interpreted and understood on a contract-by-contract basis and, therefore, aggregated data is not presented.

 Target achieved

 Part of the executive directors' 2011 annual incentive

Definition

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

Comment

The data for the programme margin variation metric included 101 (2010 105) contracts reported in Contract Reviews prepared under LCM, representing over 66% of the Group's order book.

The year's target was achieved.

Responsible Behaviour¹

High standards of business conduct are essential to the Group's mission to deliver sustainable growth.

 13 2011 Executive Committee key objectives

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 55 Corporate responsibility review

Safety

Performance

In 2011, the Group continued to demonstrate year-on-year improvement in the Lost Work Day Case Rate. The number of injuries resulting in days lost per 100,000 employees reduced by 11%.

 24 Performance by reporting segment

 Target achieved

 Part of the executive directors' 2011 annual incentive²

Definition

The number of injuries resulting in days lost per 100,000 employees is monitored, and actions taken to minimise the risk to the Group's employees and its operations, and drive continual performance improvement.

Comment

The Lost Work Day Case Rate is one of the metrics used across the Group to monitor performance in safety. The Group also uses a five-level Safety Maturity Matrix to help its businesses around the world work towards consistently high safety standards and to improve their performance.

1 In the Annual Report 2010, a KPI was presented relating to the Group's target to provide Responsible Business Conduct Awareness Training to all employees during the period May 2010 to May 2011. More than 50% of employees were trained by 31 December 2010 and all employees were trained by the targeted date of 31 May 2011.

2 Whilst the Group met its target of year-on-year improvement in the Lost Work Day Case Rate, it did not meet the executive directors' annual incentive-related reduction target of 20% set by the Corporate Responsibility Committee (see page 87).