

## Key performance indicators

### Non-financial KPIs

#### Key performance indicators (KPIs)

Work is under way led by David Smith, our newly appointed Chief Financial Officer, to review the key performance indicators and other metrics that we use to monitor the performance of the Company and measure the progress of the implementation of our strategy. We expect to update our KPIs during FY18 to reflect this review and that changes will be reflected in next year's Annual Report and Accounts.

The objective of our strategy is to grow QinetiQ, delivering a sustainable increase in quality earnings to our shareholders. Progress is measured through a range of financial and non-financial key performance indicators. Measurements of customer satisfaction, health and safety and employee engagement underpin sustainability.

Measures such as orders, organic revenue growth, profitability and cash flow track financial performance.

Similar indicators are used to review performance in each of the Group's businesses.

➔ **Page 30**  
People and relationships

➔ **Page 33**  
Resources and environment

#### Customer satisfaction (score out of 10)

## 8.2

2016: 8.1



#### Description

QinetiQ's customer satisfaction survey asks all UK customers with contracts over £200,000 about QinetiQ's delivery and engagement. In the US, customer satisfaction metrics are reviewed on a contract-by-contract basis.

#### Rationale

Using an independent third party we annually survey around 100 of our largest projects to help us understand our performance and what we need to be doing to continuously improve. We also gather qualitative feedback through structured interviews.

#### Performance this year

Of those surveyed, we received an average rating for our performance overall of 8.2 out of 10, up from 8.1 out of 10 in 2016 which shows progress. We saw an upward trend for most metrics and for bidding in particular.

#### Link to strategy

Achieving our ambition of becoming the chosen partner requires a relentless focus on meeting the needs of customers in both our home markets and overseas. Customer satisfaction is a metric used for the Bonus Banking Plan.

➔ **Page 68**  
Directors' Remuneration Report

#### Health and safety (LTI)

## 5.7

2016: 5.0



#### Description

The Lost Time Incident (LTI) rate is calculated using the total number of accidents resulting in at least one day taken off work, multiplied by 1,000 divided by the average number of employees in that year.

#### Rationale

Health and safety performance is monitored to drive continual improvement in minimising risks to employees and reducing harm.

#### Performance this year

The LTI rate and the absolute number of lost time incidents resulting in at least one day off work have increased from the previous year. Safety is a top priority of all our businesses. A collective objective for FY18, used for remuneration, is to implement Safe for Life across the whole Group and in terms of how we operate with our supply chain. This programme focuses on improving safety behaviours.

#### Link to strategy

The safety, health and well-being of our people are intrinsically linked to our strategic success.

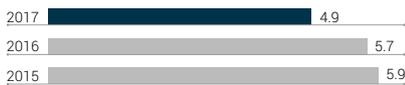
➔ **Page 68**  
Directors' Remuneration Report

➔ **Page 30**  
People and relationships

**Apprentices and graduates (%)**

**4.9%**

2016: 5.7%



**Description**

The number shown is the total number of apprentices, graduates and sponsored students as a percentage of our UK workforce.

**Rationale**

Provides a measure of QinetiQ's ability to attract and develop new employees. It is also a measure of our commitment to The 5% Club, an industry-led initiative of which we are a founding member, to grow the number of young people on apprenticeships, graduate programmes and student sponsorships.

**Performance this year**

There was a reduction in FY17 due in part to the acquisition of QinetiQ Target Systems and changes to how we recruit as a result of our reorganisation. We will increase our investment in Early Careers programmes across the Group in FY18.

**Link to strategy**

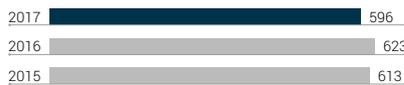
As a business whose reputation and achievements are centred on our people, our future success is primarily dependent on our ability to recruit, develop, engage and retain exceptional employees.

Employee engagement is a metric used for the Bonus Banking Plan.

**Employee engagement (Score out of 1,000)**

**596**

2016: 623



**Description**

A measure of employee engagement (excluding QNA) on a scale of 0–1,000, based on the Best Companies Employee Survey. A separate survey is conducted in the US.

Through this survey, employees share their views about working at QinetiQ under the headings of management, leadership, Company, personal growth, my team, giving something back, fair deal and well-being.

**Rationale**

The annual survey enables comparison between QinetiQ and other UK companies. The primary purpose of the survey is to provide guidance to Team Leaders about how they can improve employee engagement.

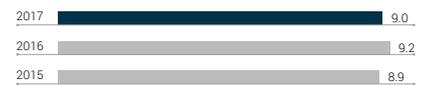
**Performance this year**

FY17 was a year of significant change for many employees as we transform the Company and this is reflected in the fall in the overall score. We are committed to acting on the feedback we received in the survey during FY18.

**Voluntary employee turnover (%)**

**9.0%**

2016: 9.2%



**Description**

This is a measure of the number of employees leaving the Company not at QinetiQ's instigation.

**Rationale**

Provides a measure of the Group's ability to retain employees.

**Performance this year**

Despite the reorganisation of the Company and the adoption of a new way of working, voluntary employee turnover reduced during the year.

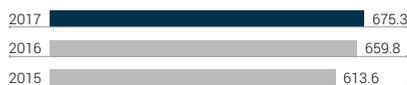
## Key performance indicators continued

### Financial KPIs

#### Orders (£m)

£675.3m

2016: £659.8m



#### Description

The level of new order (and amendments to existing orders) booked in the year. Although new multi-year contracts can impact the reported orders number, the level of orders booked in the year is an important indicator of future financial performance.

#### Rationale

This provides a measure of the Group's ability to replace completed contracts/business with new contracts/business.

#### Performance this year

Orders grew 2% to £675.3m (2016: £659.8m), which included the award of the £109m, 11-year renewal from the UK Ministry of Defence (MOD) for the Naval Combat System Integration Support Services (NCSISS).

The £1bn LTPA amendment signed during the year significantly increased the Group's order book. As in previous years this was not included in reported orders to avoid distortion.

The contribution from businesses acquired during 2017 was £3.9m.

#### Link to strategy

Order intake is an important measure of progress of the implementation of our strategy, the objective of which is to grow the Group, and is used for the Bonus Banking Plan. For Executive remuneration it is adjusted to exclude businesses acquired in the year.

#### Page 68

Directors' Remuneration Report

#### Organic revenue growth/decline (%)

1%

2016: (1)%



#### Description

The Group's organic revenue growth is calculated by taking the increase in revenue over prior year pro-forma revenue, at constant exchange rates. Prior year pro-forma revenue excludes the impact of acquisitions and disposals.

#### Rationale

Organic revenue growth demonstrates the Group's capability to grow market share and sources of revenue within its chosen markets before the effect of acquisitions, disposals and currency translation.

#### Performance this year

Revenue grew 4% to £783.1m (2016: £755.7m). Organic revenue growth, excluding the impact of foreign exchange and acquisitions, was 1% compared to a 1% decline in 2016. Global products grew 8% organically, with EMEA Services stable.

#### Link to strategy

Organic revenue growth is an important measure of progress of the implementation of our strategy, the objective of which is to deliver sustainable growth.

#### Underlying operating profit\* (£m)

£116.3m

2016: £108.9



#### Description

The earnings before interest and tax, excluding all specific adjusting items\*.

#### Rationale

Underlying operating profit is used by the Group for performance analysis as a measure of operating profitability that is tracked over time. Specific adjusting items are excluded because their size and nature mask the true underlying performance year-on-year.

#### Performance this year

Underlying operating profit\* increased to £116.3m (2016: £108.9m). EMEA Services benefited from a £5.2m credit relating to the release of engine servicing obligations as we invest in new aircraft for test aircrew training. Global Products benefited from favourable foreign exchange movements and £2.2m of credits relating to historical overseas contractual disputes.

The contribution from businesses acquired during 2017 was £1.2m.

#### Link to strategy

This measure is a reflection of the productivity of the Group's activities and is used for both the Bonus Banking Plan and the Deferred Share Plan. For Executive remuneration it is adjusted to exclude businesses acquired in the year.

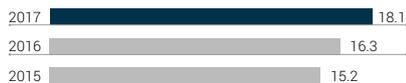
#### Page 68

Directors' Remuneration Report

\* Definitions of the Group's 'Alternative performance measures' can be found in the glossary on page 151.

**Underlying earnings per share (EPS)\* (p)****18.1p**

2016: 16.3p

**Description**

The underlying earnings, net of interest and tax, expressed in pence per share.

**Rationale**

Underlying EPS provides a measure of the earnings generated by the Group after deducting tax and interest. Specific adjusting items are excluded because their size and nature mask the true underlying performance year-on-year.

**Performance this year**

Underlying EPS grew 11% due to the increase in operating profit and the reduced share count, following the completion of the £50m share buyback.

**Link to strategy**

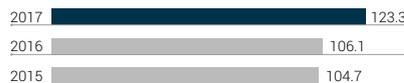
This is a measure of growth in quality earnings for our shareholders. It is used for the Performance Share Plan incentive scheme.

**Page 68**

Directors' Remuneration Report

**Total Group profit after tax (£m)****£123.3m**

2016: £106.1m

**Description**

This is the total Group profit, net of interest and tax, including all specific adjusting items\* and including discontinued operations.

**Rationale**

This shows the overall financial performance of the Group reflecting both underlying and specific adjusting items of income and expenditure. It is a key financial measure used to reflect overall financial performance for the year.

**Performance this year**

Total Group profit after tax increased due to the higher underlying operating profit and an £18.4m profit on the disposal of property. The prior year included a £31.9m impairment charge and £16.2m profit on the sale of the Cyveillance business.

**Link to strategy**

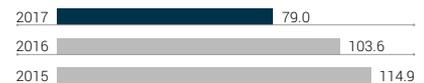
This measure reflects the impact of all aspects of Group performance. As well as the underlying operating performance it incorporates the financial impact of tax, treasury, property disposals and the Group's mergers and acquisitions.

**Page 114**

Note 4: Specific adjusting items

**Underlying operating cash flow\* (£m)****£79.0m**

2016: £103.6m

**Description**

This represents net cash flow from operations before cash flows of specific adjusting items, less net cash outflows on the purchase/sale of intangible assets, plant and equipment, and pension deficit repair payments.

**Rationale**

This provides a measure of the Group's ability to generate cash from its operations and gives an indication of its ability to make discretionary investments and pay dividends to shareholders.

**Performance this year**

Underlying operating cash flow was £79.0m (2016: £103.6m) and included a £7m payment for a very old overseas dispute, an increase in capital expenditure and some working capital unwind.

**Link to strategy**

This is a measure of the cash-generative characteristics of the Group and is used for executive remuneration (adjusted to exclude businesses acquired in the year and capex on certain long-term contracts).

**Page 68**

Directors' Remuneration Report

\* Definitions of the Group's 'Alternative performance measures' can be found in the glossary on page 151.