

Another year of progress



Mark Elliott

Non-executive Chairman

Key highlights

- Strong demand for QinetiQ's highly differentiated capabilities
- Steve Wadey appointed as CEO – an outstanding leader with a track record of driving growth
- £150m share buyback well advanced
- 17% increase in full year dividend reflecting upgrade at the half year and the Group's progressive dividend policy
- Maintaining expectations for Group performance in the current financial year

Results

In today's world, where threats to our security are many and varied, demand for QinetiQ's highly differentiated capabilities is strong and we are pleased to be able to report another year of progress.

In the year to 31 March 2015, Group revenue was £763.8m (2014: 782.6m[^]), and underlying operating profit* was £111.3m (2014: £113.7m[^]). Full year underlying earnings per share* were 15.2p (2014: 13.8p[^]). Total Group profit after tax was £104.7m (2014: loss of £12.7m). Underlying operating cash conversion remained strong at 103% (2014: 93%[^]) with net cash increasing to £195.5m (31 March 2014: £170.5m).

The Board is maintaining its expectations for Group performance in the year to 31 March 2016.

Employees, customers and shareholders

The expertise and domain know-how of our people is our key competitive advantage. We prioritise the safety and development of highly skilled employees because they underpin the relationships with our customers that build mutual trust and deliver unique benefits. We are pleased to report further progress with employee engagement and customer satisfaction scores this year and that we remain committed to customer service excellence.

At QinetiQ, our most prized possession is trust. Our leaders are responsible for ensuring that ethical and responsible business practices are embedded in our culture. We would like to thank the leadership team for continuing to drive a more open and empowered culture across the Group.

QinetiQ has many sites distributed across the UK. We recognise and support the important role our employees play in local communities and their environmental stewardship of those sites.

Along with customers and employees, shareholders are key stakeholders as the owners of the company. QinetiQ operates across many platforms and contracts, so we set ourselves the target of providing information to shareholders that is timely, clear and concise. We would like to thank our shareholders for their continued support and the time that they commit to a constructive dialogue with our Board and executive team.

Strategy

We are encouraged that the Group's strategy has delivered further progress this year, with increased demand for the capabilities provided by our core businesses and further development of our pipeline of new opportunities, all underpinned by continued financial discipline.

The sale of US Services, completed in May, was a key step in transforming QinetiQ into a Group that is differentiated by the expertise of its people and by its innovation, which provides a dynamic source of potential future revenue streams. We now have a new leadership team and Proxy Board in North America which is starting to reshape our US products business.

The Group is cash generative and disciplined about capital allocation. This supports ongoing investment in growth opportunities, a progressive dividend policy and the maintenance of the balance sheet strength necessary in an uncertain trading environment.

Dividend and shareholder returns

The Board proposes a final dividend of 3.6p per share for the year ended 31 March 2015 (2014: 3.2p), making the full year dividend 5.4p (2014: 4.6p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 4 September 2015 to shareholders on the register at 7 August 2015. The full year dividend represents an increase of 17%, reflecting the Group’s progressive dividend policy and upgrade at the half year.

In May 2014, we were pleased to be able to initiate a £150m capital return to shareholders by way of a share buyback. We believe the scale of the return reflects the strong cash generative characteristics of the Group, as well as its confidence in its strategy, while taking into account the continuing uncertainty in QinetiQ’s end markets, its pension obligations and the strength of its working capital position. By 15 May 2015, the Group had bought back 63 million shares at a cost of £128m. The Board remains committed to maintaining an efficient balance sheet.

The Board

The priorities that I have set for the Board are strategic growth balanced with capital discipline, succession planning and to ensure the effective stewardship of QinetiQ through appropriate governance processes and systems of control. Good governance is pivotal in the relationship of trust between QinetiQ, its customers, its employees and other key stakeholders.

In June 2014, we announced the appointment of Ian Mason as Non-executive Director and the retirement of Noreen Doyle after nearly nine years on the Board.

On 15 October 2014, Leo Quinn tendered his resignation as CEO of QinetiQ to take up a new role as CEO of Balfour Beatty. Leo arrived at QinetiQ in 2009 at a difficult point in the Company’s history with a downturn in defence spending on the horizon. Under his leadership, QinetiQ has been transformed into the strong, competitive company it is today, and on behalf of the Board, we wish him every success in his new role.

Following Leo’s departure, Chief Financial Officer David Mellors took over as interim CEO in addition to his existing responsibilities. We would also like to place on record the Board’s appreciation for David’s outstanding leadership during this period.

In January 2015, we were pleased to announce the appointment of Steve Wadey as our new CEO, with effect from 27 April 2015. We were looking for an outstanding leader with a track record of driving growth, a deep understanding of the defence industry and the technological know-how to lead QinetiQ in the next stage of our Organic-Plus strategy. Steve fits all these criteria and is respected across the MOD and European defence sector; we look forward to working with him on the next stage of our strategic journey.

Mark Elliott

Non-executive Chairman
21 May 2015

Current Board Committee members

Audit Committee

Paul Murray, Committee Chairman
Admiral Sir James Burnell-Nugent
Michael Harper
Ian Mason
Susan Searle

Nominations Committee

Mark Elliott, Committee Chairman
Admiral Sir James Burnell-Nugent
Michael Harper
Ian Mason
Paul Murray
Susan Searle
Steve Wadey

Remuneration Committee

Michael Harper, Committee Chairman
Admiral Sir James Burnell-Nugent
Mark Elliott
Ian Mason
Paul Murray
Susan Searle

Risk & CSR Committee

Admiral Sir James Burnell-Nugent, Committee Chairman
Mark Elliott
Michael Harper
Ian Mason
David Mellors
Paul Murray
Susan Searle
Steve Wadey

Security Committee

Admiral Sir James Burnell-Nugent, Committee Chairman
Michael Harper
Ian Mason
David Mellors
Paul Murray
Susan Searle
Steve Wadey

Key governance highlights

- Continuity in governance structures put in place at the end of 2013, with the Operating Committee overseeing operational management and the Governance Committee overseeing risk management
- Continued focus on succession planning, with changes at Executive and Non-executive Director level during the year
- Good working relationship established with the new Proxy Board in the USA following the US restructuring in 2014
- Continued focus on strategy and greater measurement of progress against targets



* Definitions of underlying measures of performance can be found in the glossary on page 141.
^ Restated to reflect continuing/discontinued operations (see note 1 to the financial statements on page 97).