

Non-financial KPIs

Key performance indicators (KPIs)

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 order intake, organic revenue growth, profitability and cash flow track financial performance.

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

Continuing operations

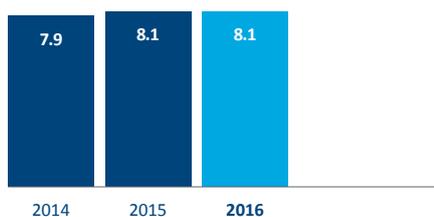
All KPIs have been restated to reflect the continuing operations only.

➔ **Page 26** – Corporate responsibility

Customer satisfaction (Score out of 10)

8.1

2015: 8.1



Description

QinetiQ's customer satisfaction survey asks all UK customers with contracts over £200,000 about QinetiQ's delivery, and engagement. This year, on the recommendation of our independent supplier, we moved from last year's "top three supplier" score to a measure out of 10 which improves comparability. 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 8.1 out of 10, consistent with 2015. Our top three supplier score, used previously, was 77% in 2016 compared to 85% in 2015 and 77% in 2014.

Link to strategy

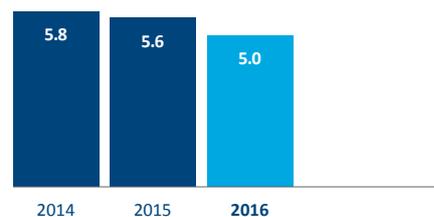
Achieving our ambition of becoming the chosen partner will require a relentless focus on continuing to meet our customers' needs.

➔ **Page 80** – Directors' remuneration report

Health and safety (LTI)

5.0

2015: 5.6



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 reduction in LTI rate has continued from the previous year. The absolute number of lost time incidents resulting in at least one day off work has also reduced slightly on last year.

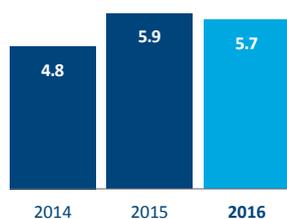
Link to strategy

The safety, health and wellbeing of our people are intrinsically linked to our strategic success.

➔ **Page 28** – Corporate responsibility

Apprentices and graduates (%)**5.7%**

2015: 5.9%

**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

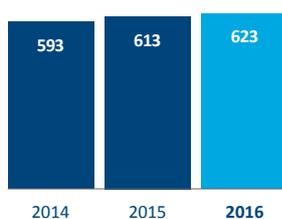
We continue to provide opportunities for young people through our apprenticeship and graduate programmes. Including sponsored students, this equals 5.7% of our UK workforce.

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 (Score out of 1,000)**623**

2015: 613

**Description**

A measure of employee engagement (in the UK) on a scale of 0–1,000, based on the Best Companies Employee Survey.

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 wellbeing.

Rationale

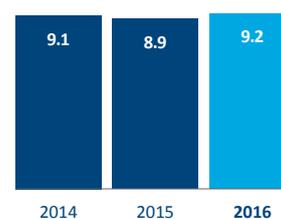
The annual survey enables comparison between QinetiQ and other UK companies.

Performance this year

We have again seen an improvement in our overall engagement score, retaining our position in the Best Companies 'ones to watch' category, which recognises companies with good employee engagement that are progressing towards best practice.

Voluntary employee turnover (%)**9.2%**

2015: 8.9%

**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

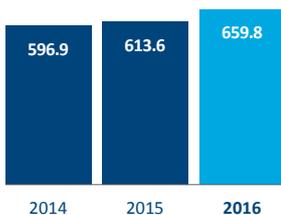
Voluntary employee turnover has increased slightly to 9.2% reflecting a more competitive market place.

Financial KPIs

Orders (£m)

£659.8m

2015: £613.6m



Description

The level of new orders (and amendments to existing orders) booked in the year.

Rationale

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

Performance this year

Orders grew 8% due to the award of a £153m five-year renewal from the UK MOD in an otherwise challenging market.

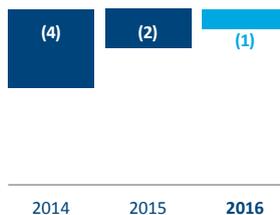
Link to strategy

Order intake is an important measure of progress of the implementation of our strategy, the objective of which is to grow the Group.

Organic revenue growth/decline (%)

(1)%

2015: (2)%



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

Continuing operations recorded a 1% decline in revenue, after adjusting for foreign exchange and the divestment of the non-core Cyveillance business.

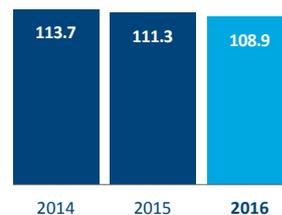
Link to strategy

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

Underlying operating profit* (£m)

£108.9m

2015: £111.3m



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

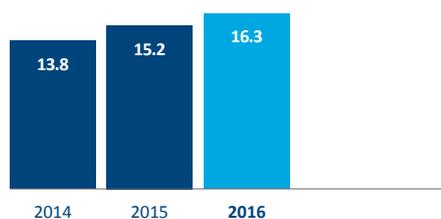
Growth in EMEA Services was offset by a reduction in Global Products. See Operating review on page 34.

Link to strategy

This measure is a reflection of the productivity of the Group's activities and is used for executive remuneration.

Underlying earnings per share (EPS)* (p)**16.3p**

2015: 15.2p

**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 by 7%, benefiting from a reduction in net finance expense (following repayment of private placement debt in the prior year) and a reduced share count as a result of the Group buying back shares.

Link to strategy

This is a measure of growth in quality earnings for our shareholders and is used for executive remuneration, determining the level of pay-out for certain of the Group's long-term incentive plans.

 **Page 80** – Directors' remuneration report

Total Group profit after tax (£m)**£106.1m**

2015: £104.7m

**Description**

This is the total Group profit/(loss), net of interest and tax, including all specific adjusting items and including discontinued items*.

Rationale

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

Performance this year

The increase in the total Group profit after tax primarily results from business divestments and a net tax credit following election into the RDEC regime, partially offset by an impairment of goodwill in Global Products.

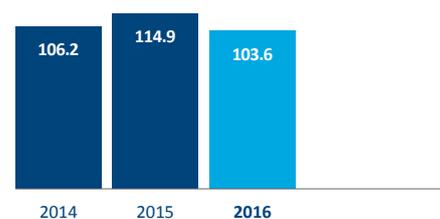
Link to strategy

This is a key financial measure of overall financial performance for the year.

 **Page 115** – Note 4: Specific adjusting items

Underlying operating cash flow* (£m)**£103.6m**

2015: £114.9m

**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 and property, plant and equipment.

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 decreased marginally from the prior year but remains strong, representing a cash conversion ratio of 96%.

Link to strategy

This is a measure of the cash-generative characteristics of the Group and is used for executive remuneration.

 **Page 80** – Directors' remuneration report

* Definitions of underlying measures of performance and specific adjusting items can be found in the glossary on page 149.