Cyber & Intelligence, with 7,700 employees¹, comprises the US-based Intelligence & Security business and UK-headquartered Applied Intelligence (formerly BAE Systems Detica) business, and covers the Group’s cyber, secure government, and commercial and financial security activities.

**2013 EXECUTIVE COMMITTEE OBJECTIVE**

Enhance and grow our positions in cyber, intelligence and security

**KEY CHARACTERISTICS**

**Intelligence & Security**
- Delivers real-time threat assessments that rapidly inform critical security actions. The business is a leading provider of specialised security and intelligence operational support and solutions in the US
- Delivers automated, efficient and reliable intelligence processing, data management systems and imagery mapping tools for the US intelligence and defence communities
- Delivers cost-effective IT solutions that solve complex problems of collaboration and security for the US national security community

**Applied Intelligence**
- Delivers solutions which protect and enhance clients’ operations across the areas of cyber security, financial crime, communications intelligence and digital transformation
- Portfolio of solutions which help governments and commercial enterprises to address threats to national security, detect sophisticated cyber attacks, counteract fraud, safeguard mobile communications, manage risk, ensure compliance and derive insight from data
- Provides managed services to help clients optimise and protect both mobile and fixed data networks

¹ Including share of equity accounted investments.

Applied Intelligence

Detica MobileProtect™ is a carrier-grade cloud-based service for enterprises and governments who need to secure smart devices. Using Applied Intelligence’s unique global cleaning hubs, the service scans inbound and outbound traffic with minimal effect on network speed. It filters traffic, scans for malware and known security threats, and blocks inappropriate, insecure or illegal content.
Funded order intake\(^1\) £1,247m £1,454m £1,443m
Order backlog\(^1,4\) £0.7bn £1.0bn £1.1bn
Sales\(^1\) £1,243m £1,402m £1,399m
Underlying EBITA\(^2\) £115m £124m £136m
Return on sales 9.3% 8.8% 9.7%
Cash inflow\(^3\) £118m £113m £123m

FINANCIAL KEY POINTS
- Order backlog\(^1,4\) reduced by 24% reflecting delayed awards in the US business. Order backlog\(^1\) in Applied Intelligence increased by 60%
- Sales\(^1\) reduced by 11% reflecting an 18% decrease in Intelligence & Security and a 9% increase in Applied Intelligence
- Return on sales of 9.3% includes continued high levels of spend to support organic growth in Applied Intelligence

OPERATIONAL KEY POINTS

Intelligence & Security
- Awarded a three-year follow-on contract to the Counter-Improvised Explosive Device programme
- Maintained a leadership position in activity-based intelligence
- Continued to invest in differentiating technologies to support a bid pipeline of $2.4bn (£1.4bn) at the end of 2013
- US business significantly impacted by US budget pressures and partial government shutdown

Applied Intelligence
- Named as cyber security partner to Vodafone for provision of secure mobile services
- Achieved launch of new product for detection of sophisticated cyber threats, CyberReveal™, adopted by one major investment bank
- A number of important customer wins for NetReveal® OnDemand services
- Awarded framework contracts for IT services to the Foreign & Commonwealth Office and Network Rail
- Awarded integrated cyber security services contracts to three Middle Eastern countries

SUSTAINABILITY KEY POINTS
- Reduced Recordable Accident Rate by 17%
- Reduced energy and water usage, and quantity of waste produced

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1. Including share of equity accounted investments.
2. Earnings before amortisation and impairment of intangible assets, finance costs and taxation expense (EBITA) excluding non-recurring items (see page 33).
3. Net cash inflow from operating activities after capital expenditure (net) and financial investment, dividends from equity accounted investments, and assets contributed to Trust.
4. Comprises funded and unfunded unexecuted customer orders.
Financial performance
Order backlog1,4 reduced to £0.7bn (2012 £1.0bn). The US business continued to be impacted by budget-induced delays to award decisions of competitive bids. At 31 December 2013, there were some $2.4bn (£1.4bn) of competitive bids of which more than half were overdue against decision timescales. In addition, some $320m (£193m) of backlog has been removed following customer de-scoping across a large number of programmes. By contrast, order backlog1 in the Applied Intelligence business grew by 60%.

Sales1 in the year reduced by 11% to £1,243m (2012 £1,402m). The US business saw an 18% decrease, including the reduction from the Counter-Improvised Explosive Device programme, and the impacts from budget reductions were experienced more quickly than expected, with competitive award decisions continuing to be delayed. Growth in the Applied Intelligence business was at 9%.

The return on sales achieved of 9.3% (2012 8.8%) includes the continued organic investment in the Applied Intelligence business in support of targeted future growth in commercial and international markets.

Cash flow7 conversion of underlying EBITA2 for the year was at 103%.

Operational performance
Intelligence & Security
The US-based Intelligence & Security business delivers a broad range of solutions and services, including systems development, IT, cyber operations and intelligence analysis to enable the US military and government to recognise, manage and defeat threats.

The business is structured into three key business areas that provide specific domain expertise, whilst working closely together to provide enterprise-wide support to a range of customers and key agencies in the intelligence, defence, homeland security and civilian markets.

The business has been impacted by uncertainty in future programme budget levels, driven first by Sequestration and then by the partial US government shutdown in October, which had greater impacts on services and support programmes. Some customers have chosen to reduce contractor volumes significantly on existing programmes, delay award activity on pending programmes or simply cancel others. The level of impact has been much higher than anticipated.

Global Analysis and Operations provides mission-enabled analytic solutions and support to operations across the US homeland security, law enforcement, defence, intelligence and counter-intelligence communities.

The business won all task orders competed in the market for Full Motion Video Analysis during the year and continues to execute awarded contracts, which are worth over $400m (£242m), with over 300 analysts supporting mission critical activities.

In August, the $450m (£272m) Counter-Improvised Explosive Device programme ended and the follow-on programme, Combat Intelligence Augmentation Teams, began. Orders on the new programme totalling approximately $150m (£91m) are expected over the next three years. The business continues to provide almost 300 security-cleared intelligence analysts working alongside forward deployed US defence personnel in Afghanistan.

GEOINT-ISR (Geospatial Intelligence – Intelligence, Surveillance and Reconnaissance) develops and supports software systems and mission applications for geospatial tasking, including data collection, processing, exploitation and dissemination, as well as mission planning, Intelligence, Surveillance and Reconnaissance (ISR), precision targeting, and command and control for the US defence and intelligence communities.

In October, the business received authorisation to proceed on a $16m (£10m) M151 Engineering Change Proposal (ECP) that continues its leadership in activity-based intelligence. The scope of the ECP includes analytics automation for complex mission problems across the intelligence community.

In September, the business was awarded the first ECP on the Mobility Air Force Automated Flight Planning Service programme to develop and sustain a new air vehicle flight planning and route optimisation capability for the US Air Force’s Tanker Airlift Control Center under the $62m (£37m) contract awarded in April. The ECP focuses on the Aero Advisory Notification Tool capability in support of the Air Force’s transition to a consolidated mission planning architecture.
IT Solutions

Based on strong performance providing virtual desktop infrastructure and secure access capabilities, work increased on the Next Generation Desktop Environment programme for the US Defense Intelligence Agency by providing global networking solutions in US Korea Command and US Africa Command.

In January 2013, the business was awarded a $127m (£77m) contract to support the US National Security Agency’s High Performance Computing Infrastructure Group with architecture, installation and administration for a complex networking environment supporting multiple network enclaves and high-speed data centre access. Under the contract, both server and desktop computer support will be provided to more than 3,000 end users.

Applied Intelligence (formerly BAE Systems Detica)

The business continues to grow through selling its portfolio of products and services to domestic and international governments, financial institutions, communications service providers, energy and utility operators and other commercial enterprises.

The business is demonstrating its ability to win large, multi-year contracts. It has extended its portfolio of products and services, and is responding to demand for solutions which combine capabilities from across its portfolio, where client requirements are converging. Market awareness and recognition continue to grow, evidenced through a number of industry analyst and association awards during the year. The business has opened a Global Delivery Centre in Malaysia to augment capability alongside existing centres in the UK and Poland.

Cyber Security

New additions to the product portfolio in 2013 have included: CyberReveal™, an advanced cyber threat monitoring solution, already sold to a major global financial institution; MobileProtect™, a cloud-based service for securing smart mobile devices, launched alongside a five-year strategic partnership with Vodafone; and IndustrialProtect™, a military-grade solution to protect organisations’ industrial control systems. MobileProtect™ subscribers are expected to exceed 100,000 during 2014.

Managed security services continue to gain traction, with the business named as official cyber security partner to McLaren in April. In December, the business won new cyber security and services contracts totalling £48m in the Middle East.

Financial Crime

The business continues to provide enterprise risk, fraud and compliance solutions internationally.

NetReveal® has been selected by CANATICS (Canadian National Insurance Crime Services) to provide a five-year managed analytics service to detect auto insurance claims fraud. It has been selected as preferred vendor by an Eastern European government to detect tax fraud and non-compliance, and has been selected by HMRC to extend its risk and fraud system to cover VAT repayment transactional fraud. The business has also broadened its offering to tackle emerging risks, such as unauthorised trading, including a significant sale to the investment banking division of a major global banking group. Other customer wins during the year include Commerzbank and Home Trust, contributing to a total order intake of £102m.

Communications Solutions

The business is a provider of end-to-end communications intelligence solutions internationally. It is addressing changes in market conditions which presented operational challenges in 2013. However, in 2014, it is pursuing opportunities in the Middle East and Asia Pacific regions and, in late 2013, won strategically important deals with both governments and communications service providers in Europe and North America.
Applied Intelligence has launched IndustrialProtect™ to the market. The military-grade solution is designed to protect the industrial control systems of organisations, such as power plants, oil refineries or automated manufacturing plants, from cyber attack, allowing them to modernise their legacy systems as well as improving their security.

UK Services
The consulting, systems integration and managed services business had a successful year. It signed a framework contract with the Foreign & Commonwealth Office (FCO) to deliver service management integration services across the FCO’s global IT estate, worth around £40m over a five-year period. The business also signed a framework agreement with Network Rail to provide IT solutions and systems integration over a four-year period.

The business continues to expand its relationships with communications service providers, including Vodafone and EE, providing solutions from across its portfolio.

Sustainability performance
Safety
The Intelligence & Security business experienced a decrease in its injury rates as a result of direct leadership engagement and active employee involvement.

Diversity and inclusion
Applied Intelligence has increasingly focused on diversity and inclusion to understand, and raise awareness of, the merits of a genuinely diverse team and inclusive working environment. One example is the introduction of diverse panels for employment interviews.

Environment
Intelligence & Security has four LEED (Leadership in Energy and Environmental Design – US Green Building Council) sites and has implemented water reduction measures at three facilities. The business also removed hundreds of desktop printers across its US locations to reduce costs related to paper, ink and maintenance.

Engagement
Intelligence & Security launched an internal skills and training programme for employees. The business benefits from this investment by ensuring employees have the skills necessary to solve customers’ toughest challenges. Around 70 different courses were offered in 2013 with nearly 2,000 employees completing over 22,000 hours of training.

Applied Intelligence conducted an awareness campaign in September focused on improving understanding about health issues faced by individuals within the business, including stroke, muscular dystrophy, diabetes and cystic fibrosis.

Looking forward
Efforts to reduce the US government’s budget deficit are expected to continue to impact government spend. A bipartisan budget proposal was approved in December 2013 that mitigates the full impact of the Sequester for 2014 and 2015. The Group expects lower defence spending than previously programmed, but the cuts are not expected to be as significant or indiscriminate as they would have been under Sequestration.

The US market continues to experience delays in procurement awards. Customers will continue to look for opportunities to achieve efficiencies in IT services through consolidation and cloud computing, areas in which the US business has deep domain expertise and experience. Big data continues to pose a challenge for the US government and commercial businesses, which also provides an opportunity for growth.

Intelligence & Security is well-positioned to pursue opportunities in cyber, special operations and Intelligence, Surveillance and Reconnaissance, which remain priority activities in the US. Other avenues for growth exist across the intelligence analysis spectrum. The US business is also exploring international opportunities where its IT, cyber and analysis capabilities can be implemented by governments or in commercial markets.

Applied Intelligence expects continued growth both in the UK and internationally, with increasing demand from government and commercial sector customers for products and services which protect and enhance operations in the areas of cyber security, financial crime, communications intelligence and digital transformation.