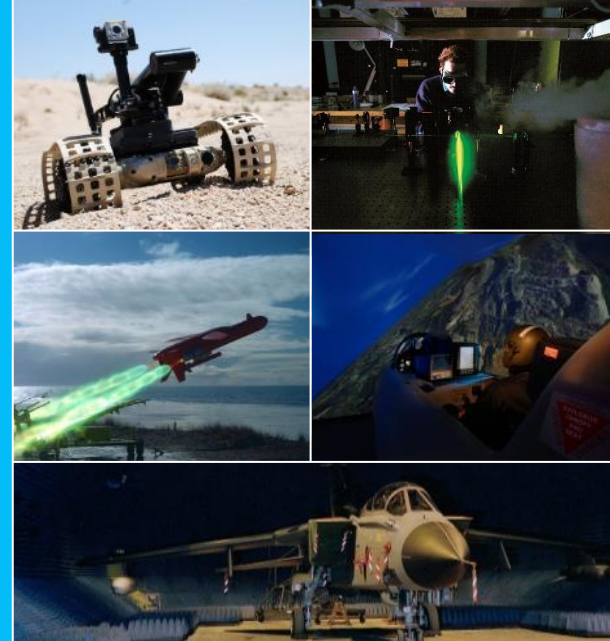


Continuing operational delivery and progress implementing strategy

QinetiQ Group plc
Interim results for half year ended 30 September 2016

17 November 2016



Introduction

Steve Wadey | Chief Executive Officer



Agenda



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Headlines

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Financial overview

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Strategic overview

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Q&A

- **Delivered solid operational performance in H1 FY17**
 - Stable revenue and profit with continued high cash conversion
 - 5% increase in interim dividend in line with commitment to a progressive dividend; £17m remaining of the share buyback programme
- **Focus on delivery of FY17**
 - 94% of FY17 revenue under contract, consistent with prior period (90%)
 - Maintaining expectations for Group performance in the current financial year
- **Progress implementing strategy**
 - Orders increase due to £109m 11-year renewal for UK Naval Combat System Integration Support Services (NCSISS) and \$28m US aircraft carrier orders
 - Transformation programme on track to improve customer focus and competitiveness

Financial overview

David Mellors | Chief Financial Officer



Summary financial headlines



	H1 2017	H1 2016
	£m	£m
Orders	376.8	228.4
Revenue	361.8	370.9
Operating profit*	51.9	49.8
Operating margin*	14.3%	13.4%
Earnings per share* (pence)	7.9	7.3
Net cash from operations (post capex)*	50.9	46.9
Cash conversion (post capex)*	98%	94%
Net cash	271.2	181.5
Dividend per share (pence)	2.0	1.9

* Underlying performance, before specific adjusting items, as defined in appendix.

Orders

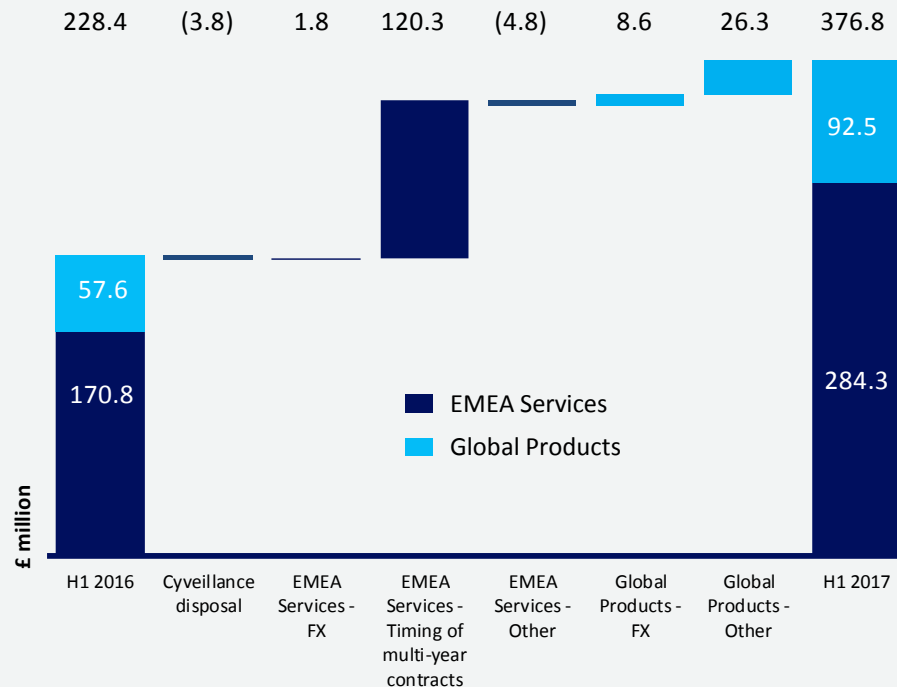


- **EMEA Services**

- Timing of multi-year awards
 - £137.2m H1 2017 v £16.9m H1 2016
 - H1 2017 £109m 11-year renewal for UK Naval Combat System Integration Support Services (NCSISS)

- **Global Products**

- QinetiQ North America awarded \$28m US aircraft carrier orders



- **Cyveillance business contributed £5.7m revenue and small loss in H1 FY16**
- **Revenue down 1% on an organic[^] basis**
- **Underlying operating profit flat**
 - Margin includes £4.3m (H1 2016: £4.2m) of letting income
- **Approximately 70% of EMEA Services revenue is derived from single source contracts**
 - SSRO is developing a new methodology for calculating the baseline profit rate in future years, potentially introducing multiple profit rates

	H1 2017 £m	H1 2016 £m
Orders	284.3	170.8
Revenue	293.3	301.4
Underlying operating profit*	43.0	42.7
Underlying operating profit margin*	14.7%	14.2%
Book to bill ratio [†]	1.5x	0.8x
Funded backlog [†]	780.2	631.3

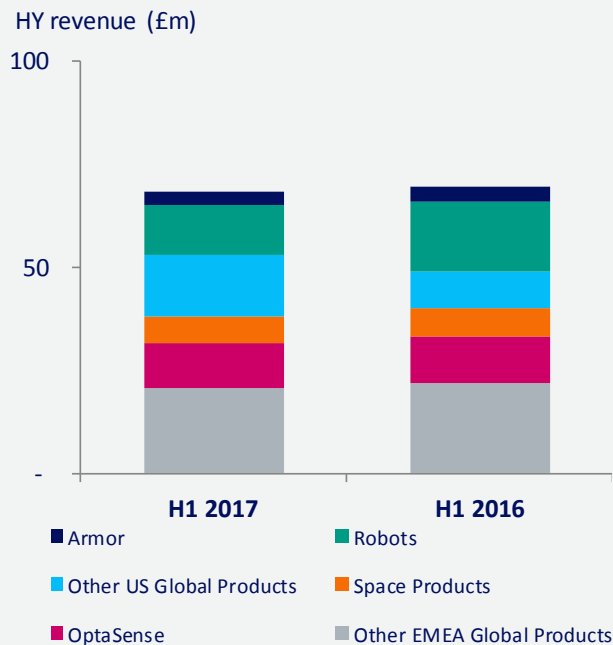
93% of FY17 revenue under contract at 30 September 2016, consistent with the prior year

* Underlying performance, before specific adjusting items, as defined in appendix.

[^] Adjusted for the impact of acquisitions and disposals and presented on a constant currency basis, as defined in appendix.

[†] Excludes the third term £998m renewal of the LTPA contract. Book to Bill ratio is orders won divided by revenue recognised excluding the LTPA contract.

Global Products

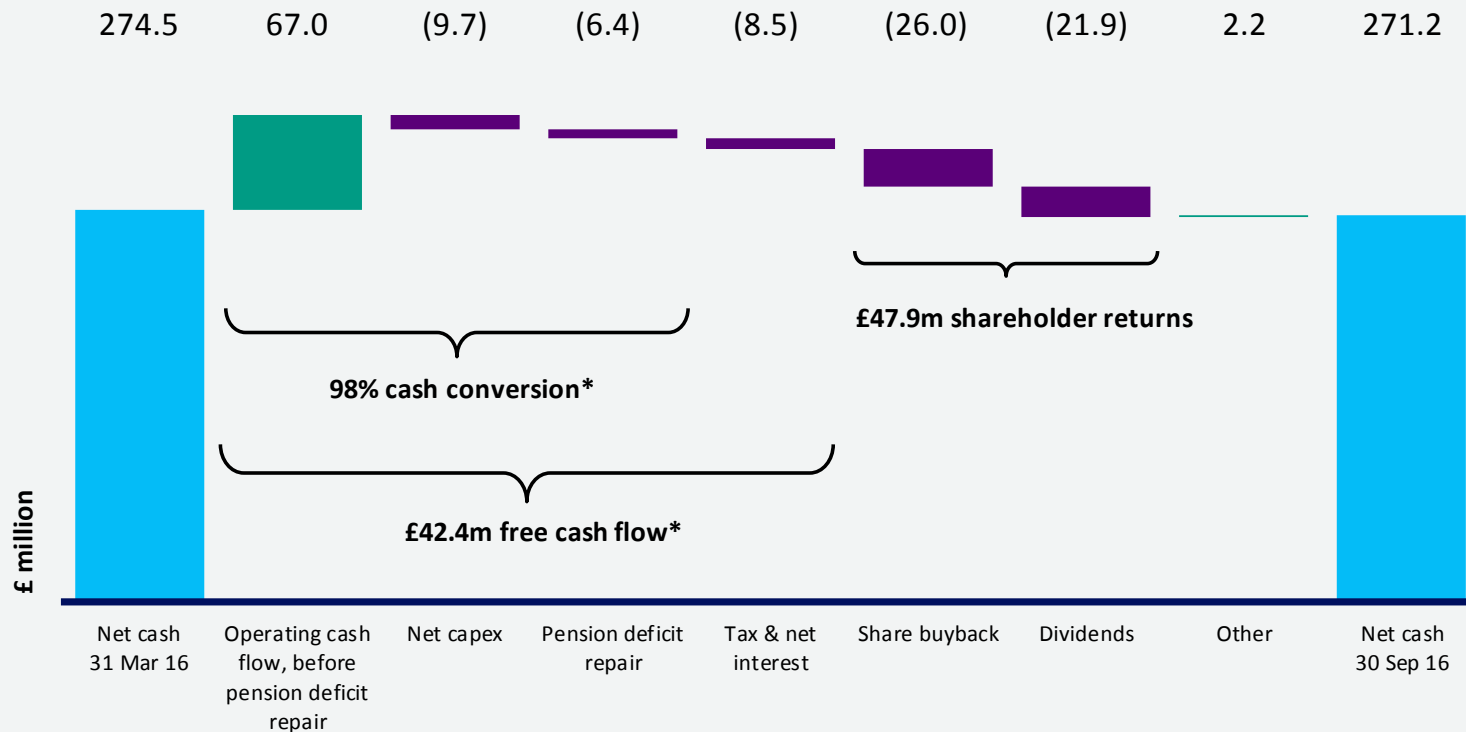


	H1 2017 £m	H1 2016 £m
Orders	92.5	57.6
Revenue	68.5	69.5
Underlying operating profit*	8.9	7.1
Underlying operating profit margin*	13.0%	10.2%
Book to bill ratio	1.4x	0.8x
Funded backlog	171.8	101.4

98% of FY17 revenue under contract at 30 September 2016, compared to 81% in the prior year

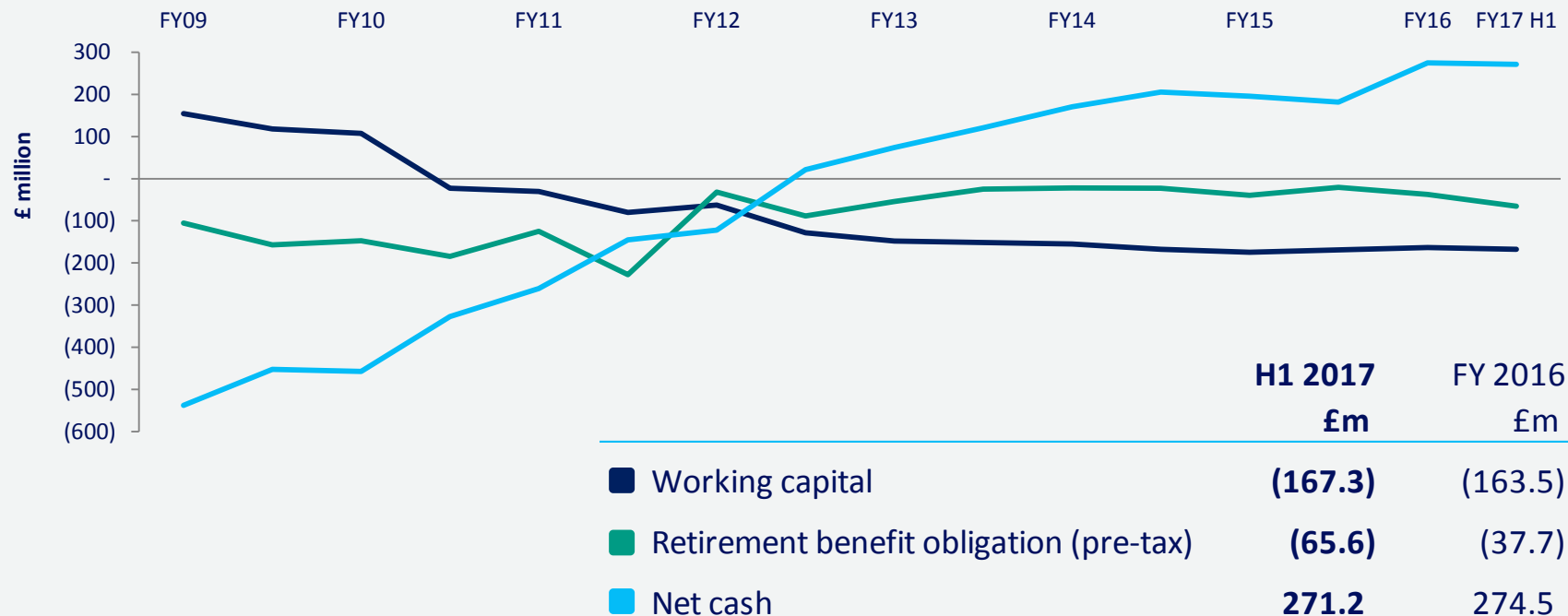
* Underlying performance, before specific adjusting items, as defined in appendix.

Movements in net cash



* Underlying performance, before specific adjusting items, as defined in appendix.

Balance sheet position



Capital allocation policy



Priority 1	Priority 2	Priority 3	Priority 4
Invest in our organic capabilities, complemented by bolt-on acquisitions where there is a strong strategic fit	Maintain the necessary balance sheet strength	Provide a progressive dividend to shareholders	Return excess cash to shareholders

EMEA Services

In FY17, the UK Government's Strategic Defence and Security Review, together with ongoing defence transformation, are expected to continue to have an impact on the UK defence market. This will provide future opportunities for EMEA Services to build on its strong record of delivering more for less, while recognising that there may continue to be some uncertainty and the potential for interruptions to order flow. At 30 September 2016, revenue under contract for FY17 was in line with the prior year, and the division's performance as a whole is expected to remain steady this year.

Global Products

The Group's Global Products division has shorter order cycles than EMEA Services. At 30 September 2016, FY17 revenue under contract was above that of a year ago, but the performance of Global Products remains dependent on the timing of shipments of key orders.

Group performance

Overall, the Board's expectations for Group performance this financial year remain unchanged.

Strategic overview

Steve Wadey | Chief Executive Officer



Trading environment



UK

Brexit and new Government

Launch of Defence Innovation Initiative



US

Defence spending starting to increase

Presidential election



Australia

Government re-elected

Revitalising the defence industry

Key themes

- **Continuing political and economic uncertainty**
- **Increasing defence and security threats**
- **Faster pace and agility**
- **Drive for greater efficiency and innovation**

Our vision and strategy



***"The chosen partner around the world for mission-critical solutions,
innovating for our customers' advantage"***

UK

Lead and modernise the UK Defence Test & Evaluation enterprise, by working in partnership with Government and prime contractors

International

Build an international company that delivers additional value to our customers by developing our home markets, creating new home markets and exporting

Innovation

Invest in and apply our core competence for customer advantage in defence and commercial markets

Transformation programme

Improving customer focus and competitiveness

Transforming customer focus and competitiveness



Leadership and organisation

- **Strengthened leadership team**
- Reorganised the company
- Driving performance management

Business winning

- **Created an International business**
- **Focusing on campaigns**
- Upskilling teams

Operational excellence

- **Driving integrated business planning**
- Dynamic resource management
- Streamlining processes

Investing in our future

- **Increased Internal Research & Development**
- **Delivering savings to reinvest**
- **Focusing on organic and inorganic growth**

Delivering modern UK Defence Test & Evaluation



Air Strategic Enterprise

- £31m added to 5-year contract
- Six new platforms; Wildcat, Puma, Apache, Merlin, Gazelle, Tornado



New innovative service model performing

Naval Combat System Integration Support Services

- £109m 11-year contract renewal
- Developing and de-risking Royal Navy mission systems



Innovation to deliver more for less

Unmanned Warrior

- World's first multi-national demo
- Environment to experiment & test new disruptive capabilities



Shaping and enabling future capability

Building an international company



New International business unit

- Developing markets in Canada, Sweden and UAE
- Export team and campaigns



Customer focus

North America

- Strong order intake and good operational performance
- Developing team partnering



Stabilised and focusing on growth

Australia

- Continued growth in orders
- Defence Science and Technology Group (DSTG) strategic alliance



Developing growth strategy

Innovating for our customers' needs



Over 30 major campaigns identified

Major government programmes

- Future Combat Air
- Next generation robots



QinetiQ strategic capability

- Test and Evaluation
- Cyber security



Major near-term competitions

- Laser capability
- Australian strategic support partner



Exploitation of investment

- Secure Navigation
- OptaSense



Strategic partnering and investment

**Delivered solid
operational
performance**

**Focusing on delivery of
FY17**

**Progress implementing
strategy**

Q&A



QinetiQ is a founding member of The 5% Club, an industry-led initiative to grow the number of young people on apprenticeships and graduate programmes.

www.5percentclub.org.uk

Appendices

**QinetiQ App
for tablets and
smart phones**



Underlying performance is stated before:

- Amortisation of intangibles arising from acquisitions
- Pension net finance expense
- Gains/losses on business divestments and disposal of investments and property
- Impairment of goodwill and other intangible assets
- Tax on the above items
- Significant non-recurring deferred tax movements

Organic growth:

- Is calculated at constant foreign exchange rates, adjusting the comparatives to incorporate the results of acquired entities and excluding the results for any disposals for the same duration of ownership as the current period

Income statement



	H1 2017 £m	H1 2016 £m
Revenue	361.8	370.9
Underlying operating profit*	51.9	49.8
Underlying net finance expense*	0.1	(0.1)
Underlying profit before tax*	52.0	49.7
Amortisation of acquisition-related intangibles	(0.2)	(1.1)
Pension net finance expense	(0.6)	(0.5)
Other	-	0.2
Profit before tax	51.2	48.3
Taxation	(1.7)	(6.3)
Statutory profit after tax	49.5	42.0

* Underlying performance, before specific adjusting items, as defined in appendix.

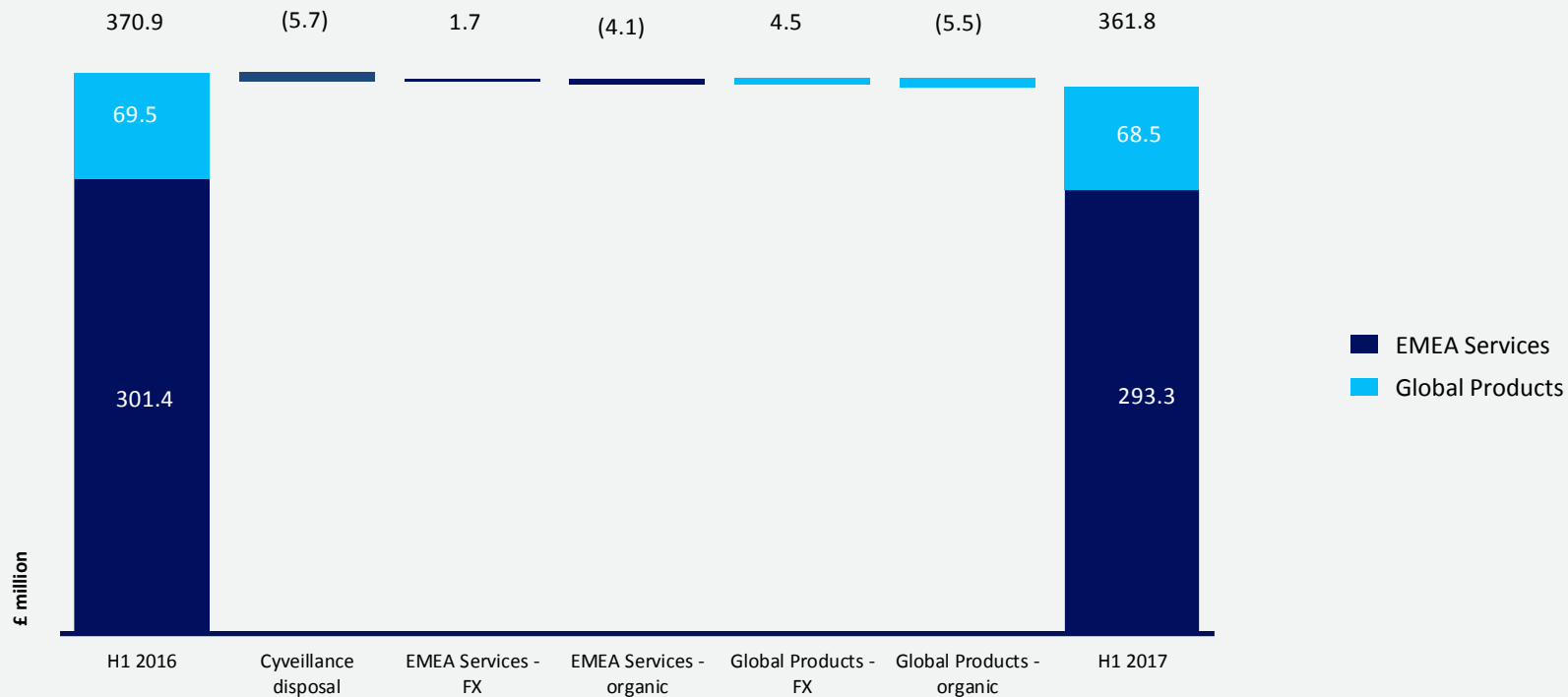
Specific adjusting items*



	H1 2017 £m	H1 2016 £m
Items with cash impact		
Profit on disposal of property	-	0.2
Non-cash items		
Amortisation of acquired intangibles	(0.2)	(1.1)
Pension net finance expense	(0.6)	(0.5)
Total specific adjusting items (pre-tax)	(0.8)	(1.4)
Tax impact of items above	0.1	0.2
Recognition of non-trading UK tax losses	4.1	-
Other non-trading deferred tax movement	0.6	-
Total specific adjusting items	4.0	(1.2)

* Specific adjusting items are defined in appendix.

Revenue



Revenue by sector and customer



Revenue by sector (%)

H1 2017

£361.8m

%

EMEA Services	81
Global Products	19

H1 2016

£370.9m

%

EMEA Services	81
Global Products	19



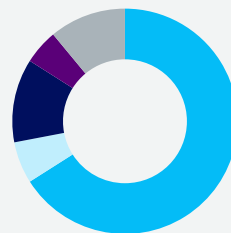
Revenue by customer (%)

H1 2017

£361.8m

%

MOD	66
DoD	6
Government agencies	12
Commercial Defence	5
Commercial	11

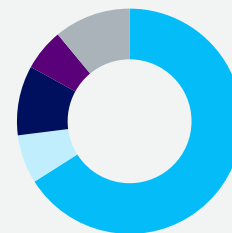


H1 2016

£370.9m

%

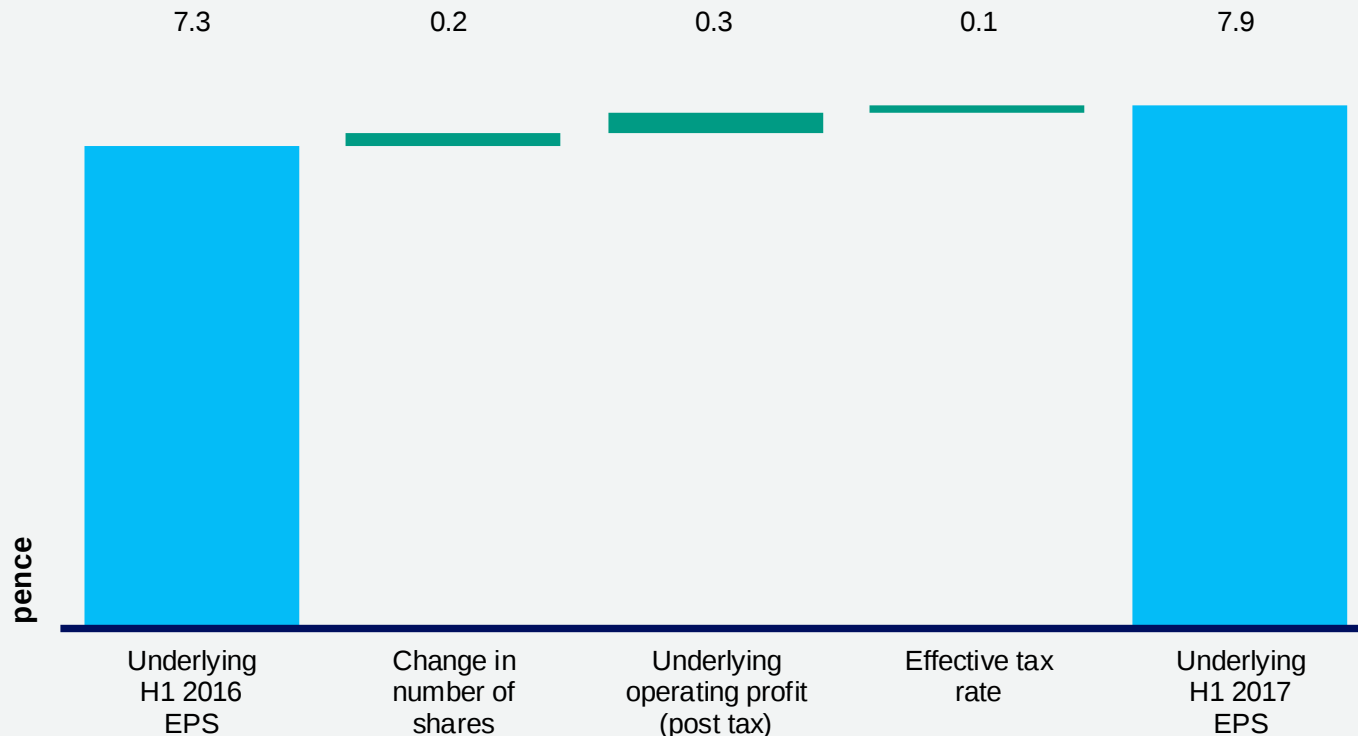
MOD	66
DoD	7
Government agencies	10
Commercial Defence	6
Commercial	11



	H1 2017 £m	H1 2016 £m
Underlying tax charge*	(6.5)	(6.5)
Tax on non-recurring items	4.8	0.2
Headline tax charge	(1.7)	(6.3)
Underlying tax rate*	12.5%	13.1%

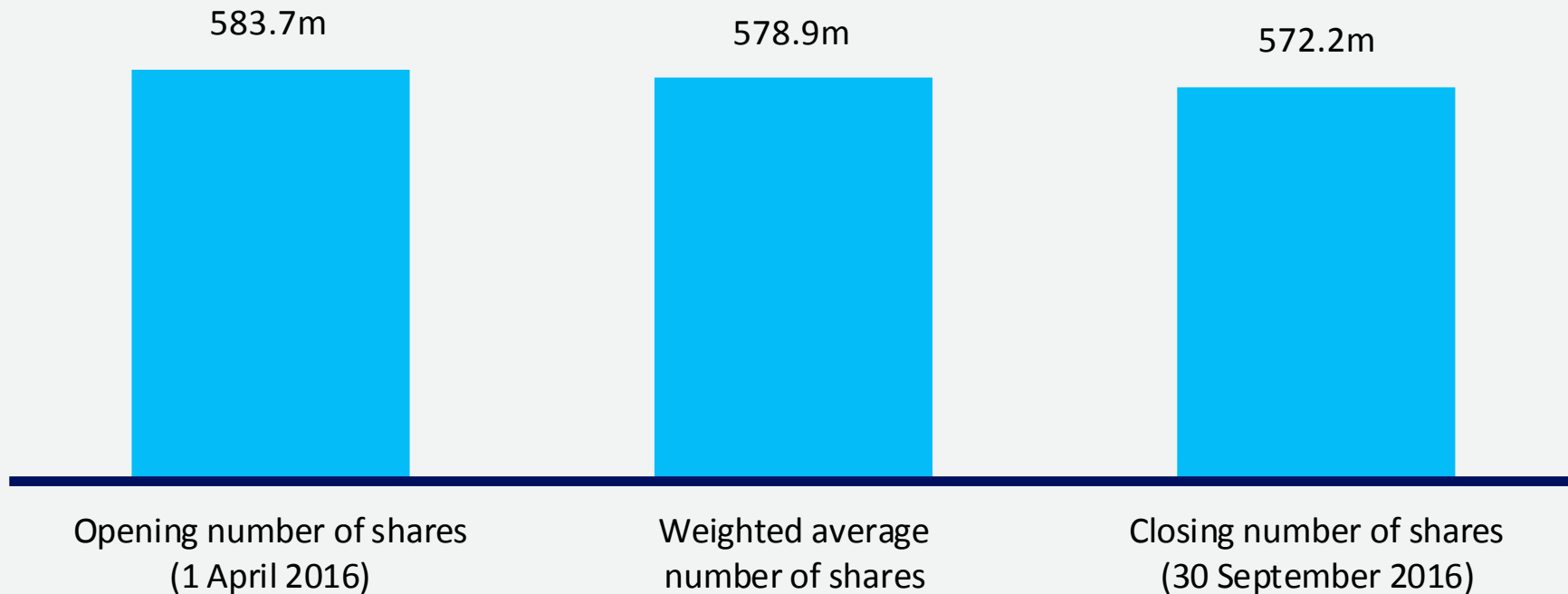
* Underlying performance, before specific adjusting items, as defined in appendix.

Underlying earnings per share* (pence)



* Underlying performance, before specific adjusting items, as defined in appendix.

Number of shares in issue*



* Net of treasury shares.

Balance sheet



	30 September 2016 £m	31 March 2016 £m
Goodwill	77.7	73.1
Intangible assets	7.9	8.3
Property, plant and equipment	230.6	233.4
Working capital	(167.3)	(163.5)
Retirement benefit obligation (net of tax)	(58.8)	(36.2)
Other assets and liabilities	(52.5)	(64.8)
Net cash	271.2	274.5
Net assets	308.8	324.8

Cash conversion



	H1 2017 £m	H1 2016 £m
Underlying operating profit*	51.9	49.8
Cash flow from operations*	60.6	62.9
Net capex	(9.7)	(16.0)
Cash flow from operations (post capex)*	50.9	46.9
Cash conversion %*	98%	94%
Net interest	0.3	0.1
Taxation	(8.8)	(0.4)
Free cash flow*	42.4	46.6

* Underlying performance, before specific adjusting items, as defined in appendix.

Movements in net cash



	H1 2017 £m	H1 2016 £m
Free cash flow*	42.4	46.6
Business divestments	-	6.2
Purchase of own shares	(26.3)	(45.3)
Dividends	(21.9)	(21.2)
Other	(0.6)	0.3
Change in net cash before FX	(6.4)	(13.4)
FX translation impact	3.1	(0.6)
Change in net cash	(3.3)	(14.0)
Opening net cash - 1 April	274.5	195.5
Closing net cash - 30 September	271.2	181.5

* Underlying performance, before specific adjusting items, as defined in appendix.

Defined benefit pension scheme – IAS 19 balance sheet position



	30 September 2016 £m	31 March 2016 £m
Equities - quoted	408.2	347.9
Equities - unquoted	71.7	66.1
LDI investment	626.2	362.8
Liquidity fund	69.9	-
Corporate bonds	345.4	314.2
Alternative bonds	124.3	176.6
Property	124.0	126.6
Cash and other	6.7	16.2
Market value of assets	1,776.4	1,410.4
Present value of scheme liabilities	(1,842.0)	(1,448.1)
Net pension liability before deferred tax	(65.6)	(37.7)
Deferred tax asset	6.8	1.5
Net pension liability	(58.8)	(36.2)

Defined benefit pension scheme – IAS 19 balance sheet position (continued)



Assumptions	30 September 2016 %	31 March 2016 %
Discount rate	2.3%	3.4%
Inflation (CPI)	2.2%	2.1%

Sensitivity of Scheme liabilities to main assumptions:

Assumption	Change in assumption	Sensitivity
Discount rate - small inc/dec	Increase / decrease by 0.1%	Decrease / increase by £37m
Discount rate - large inc*	Increase by 1.0%	Decrease by £341m
Discount rate - large dec*	Decrease by 1.0%	Increase by £453m
Inflation	Increase / decrease by 0.1%	Increase / decrease by £33m
Life expectancy	Increase by 1 year	Increase by £50m

*Due to a compounding effect, it would not be accurate to extrapolate the 0.1% discount rate sensitivity to estimate a large increase or decrease in discount rates. Therefore, the table above also sets out the impact of a larger change in the discount rate (+1.0% and -1.0%), allowing for the compounding effect. The impact of movements in Scheme liabilities will, to an extent, be offset by movements in the value of Scheme assets.

Credit facilities



	Maturity date	Denomination	Value in denomination	Value £m
Revolving credit facility	August 2019	£m	166.0	166.0
Revolving credit facility	August 2019	\$m	100.0	76.8
Total committed facilities				242.8

This document contains certain forward-looking statements relating to the business, strategy, financial performance and results of the Company and/or the industry in which it operates. Actual results, levels of activity, performance, achievements and events are most likely to vary materially from those implied by the forward-looking statements. The forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words 'believes', 'expects', 'predicts', 'intends', 'projects', 'plans', 'estimates', 'aims', 'foresees', 'anticipates', 'targets', 'goals', 'due', 'could', 'may', 'should', 'potential', 'likely' and similar expressions, although these words are not the exclusive means of doing so. These forward-looking statements include, without limitation, statements regarding the Company's future financial position, income growth, impairment charges, business strategy, projected levels of growth in the relevant markets, projected costs, estimates of capital expenditures, and plans and objectives for future operations. Forward-looking statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nothing in this document should be regarded as a profit forecast.

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- Defence budgets which are subject to review and change from time to time and the level of available funding open to private contractors in the United Kingdom and United States;
- The winning of new business or retention of previous business through a competitive bidding process;
- The level of pension liability the Company accrues, given market conditions and actuarial factors;
- Material adverse changes in economic conditions in the markets served by the Company; and
- Future regulatory actions and conditions in the Company's operating areas, including competition from others.

Most of these factors are difficult to predict accurately and are generally beyond the control of the Company. Any forward-looking statements made by, or on behalf of, the Company speak only as of the date they are made. Save as required by law, the Company will not publicly release the results of any revisions to any forward-looking statements in this document that may occur due to any change in the Directors' expectations or to reflect events or circumstances after the date of this document.