Delivering our strategy and investing for growth

QinetiQ Group plc
Interim results for half year ended 30 September 2017

16 November 2017

Agenda

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2 Financial overview

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Headlines

- Solid operational delivery in H1 FY18
  - Stable orders performance and strong backlog
  - 8% revenue growth, with 3% on an organic basis
  - Operating profit includes £6.5m non-recurring items
  - 5% increase in interim dividend

	H1 2018	H1 2017
Revenue	**£392.5m**	£361.8m
Operating profit*	**£57.5m**	£51.9m
EPS*	**9.0p**	7.9p
Dividend	**2.1p**	2.0p
Total funded order backlog	**£2.0bn**	£1.3bn

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

- Strategic progress
  - Successful ballistic missile defence exercise for US Navy
  - First Test & Evaluation facilities contract in Australia
  - Announced joint venture in UAE for unmanned targets
  - International revenue grown from 21% to 26% of Group

- Focus on delivery of FY18
  - Trading environment continues to change rapidly
  - Driving pace of strategy implementation
  - 89% revenue under contract
  - Maintaining expectations for Group performance

Financial overview

David Smith | Chief Financial Officer

Summary financial headlines

	H1 2018 £m	H1 2017 £m
Total funded order backlog	**2,042.2**	1,270.6
Total orders in the period	**276.3**	376.8
Revenue	**392.5**	361.8
Underlying operating profit*	**57.5**	51.9
Underlying operating margin*	**14.6%**	14.3%
Earnings per share* (pence)	**9.0**	7.9
Net cash inflow from operations	**35.7**	60.6
Net cash inflow from operations (post-capex)	**4.7**	50.9
Cash conversion (post-capex)*	**8%**	98%
Net cash	**194.7**	271.2
Dividend per share (pence)	**2.1**	2.0

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

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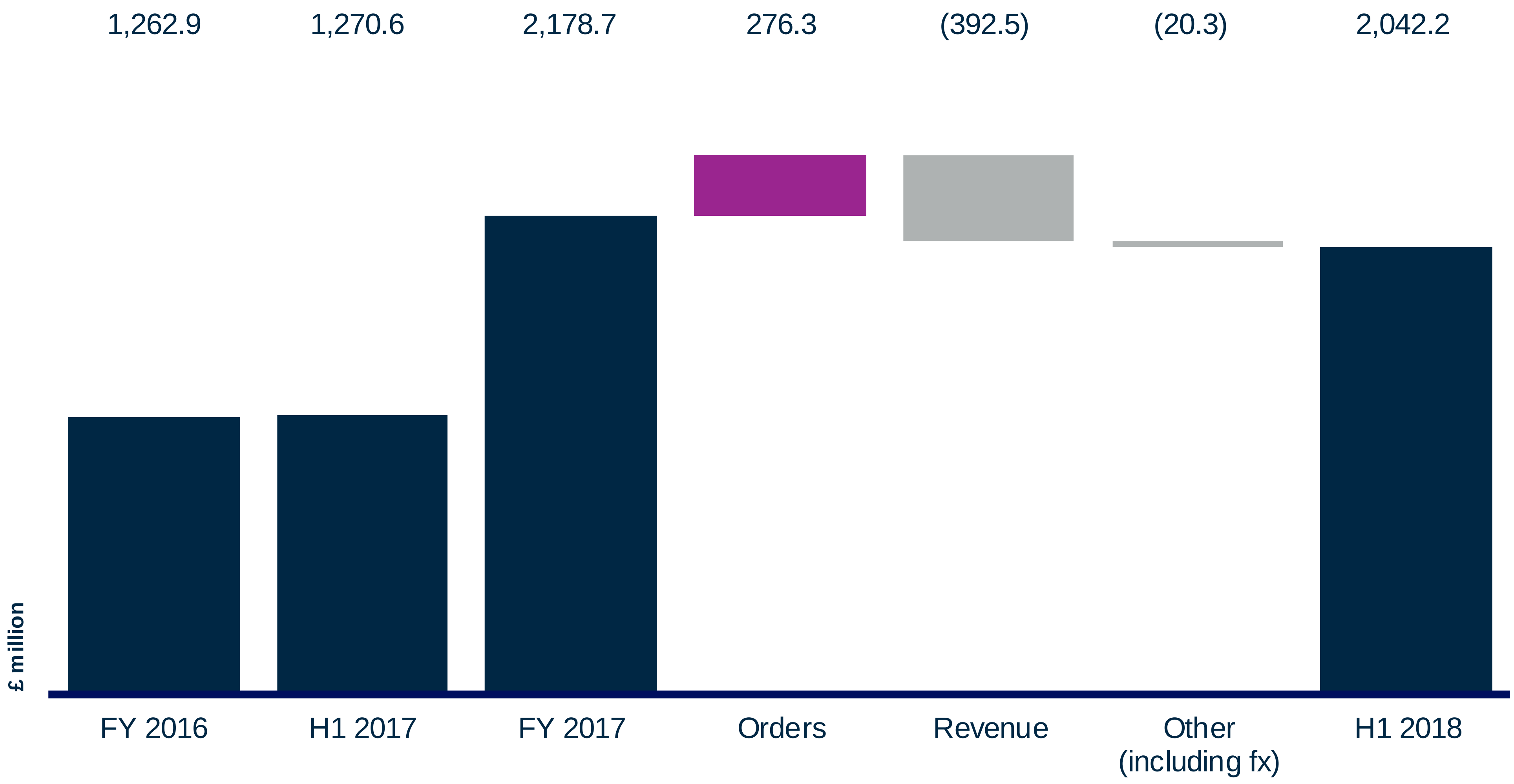
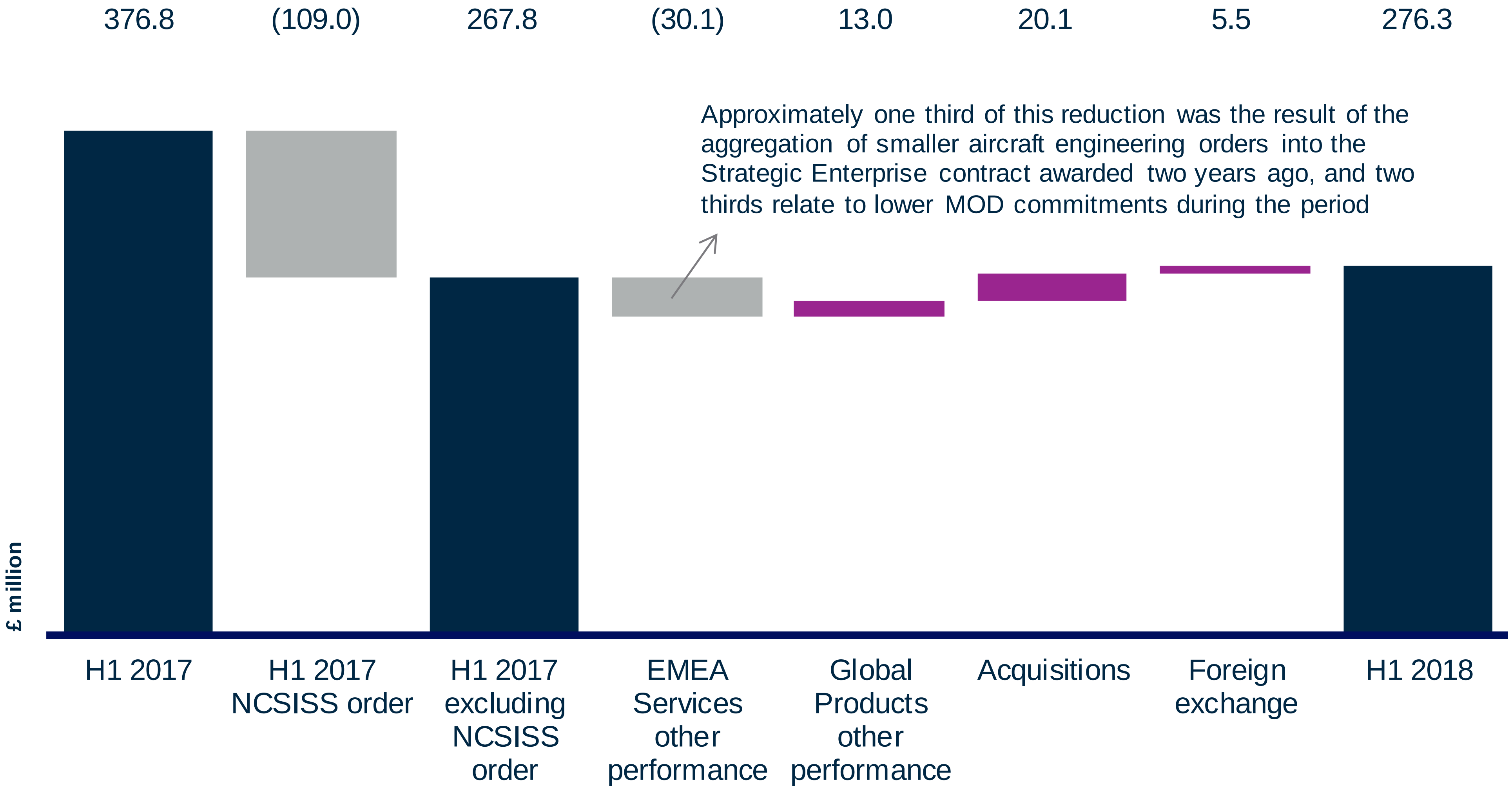
Total funded order backlog



Orders bridge



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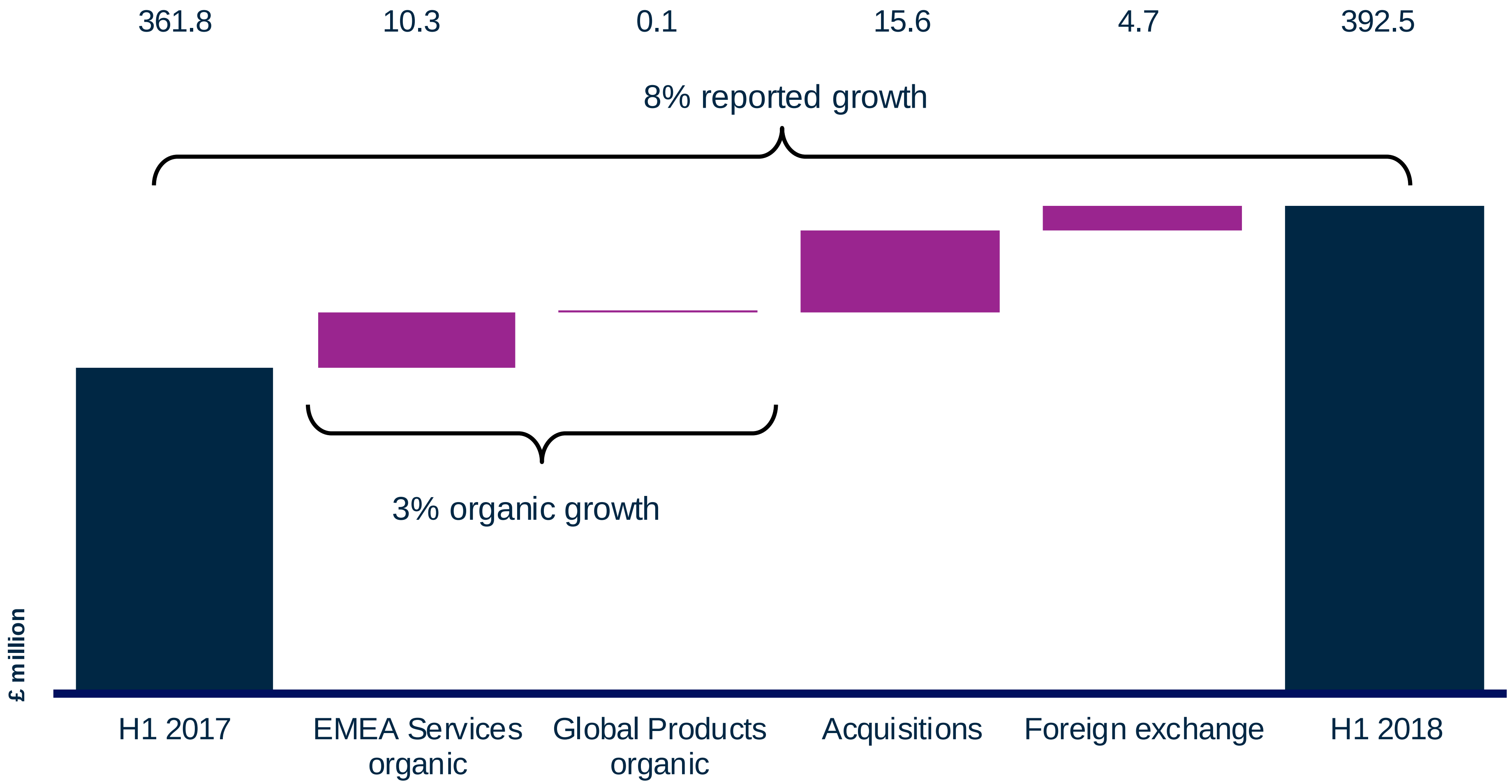
Revenue bridge



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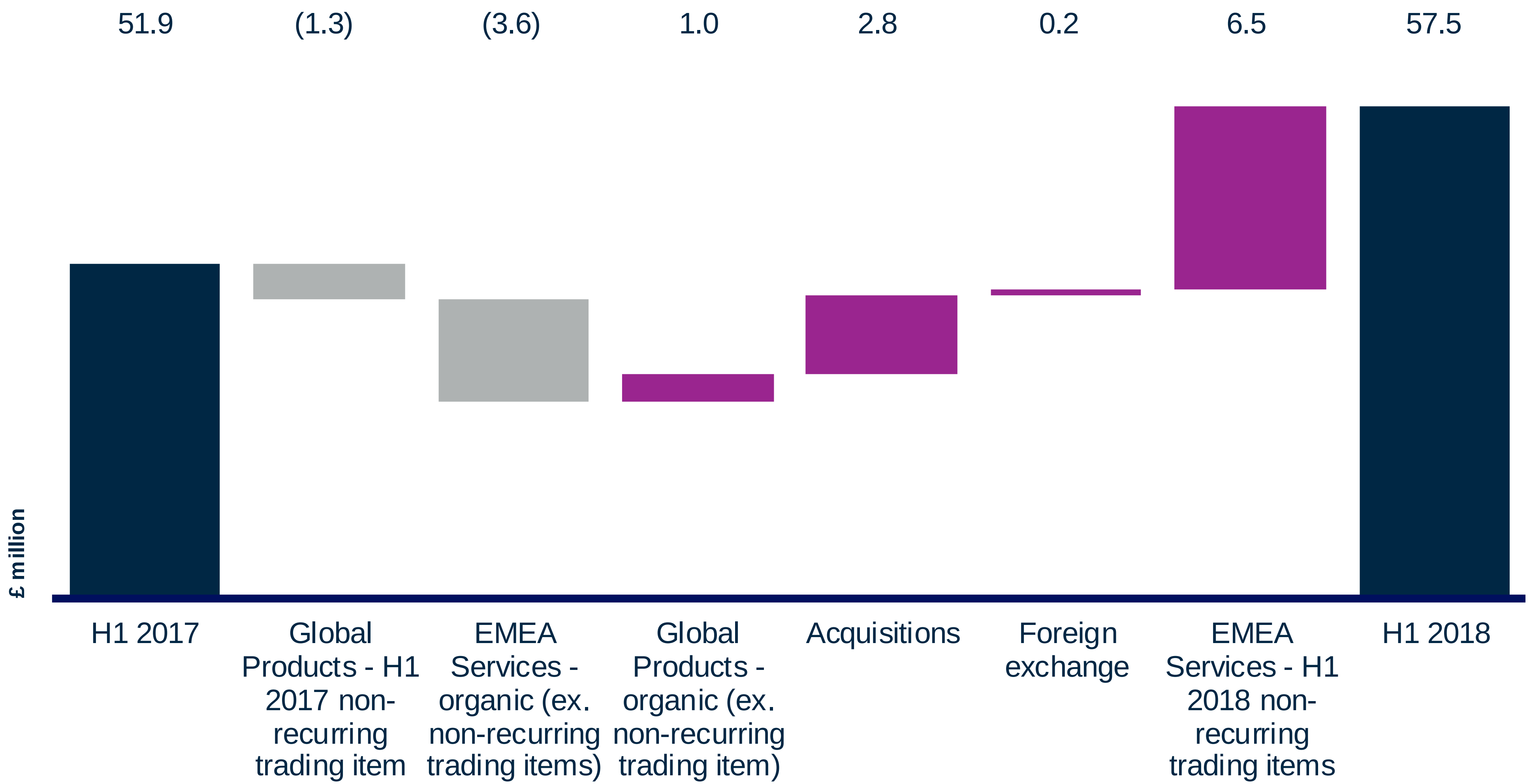
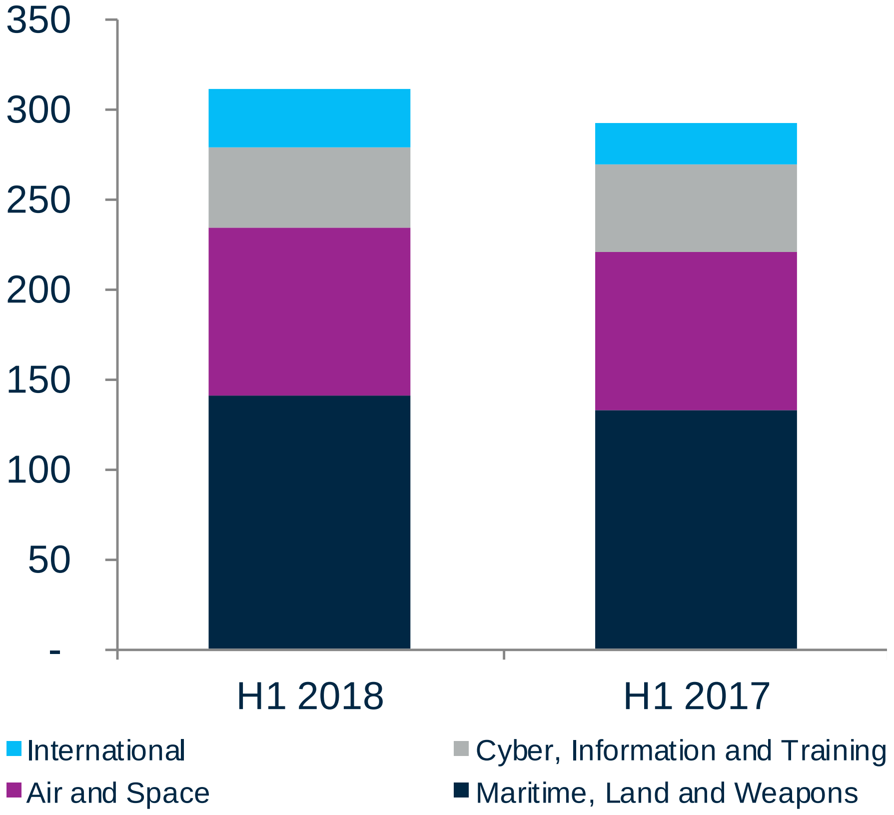
Underlying operating profit* bridge



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

EMEA Services

H1 revenue (£m)



	H1 2018 £m	H1 2017 £m
Total orders in the period	**153.9**	284.3
Revenue	**311.6**	293.3
Underlying operating profit*	**47.3**	43.0
Underlying operating profit margin*	**15.2%**	14.7%
Book to bill ratio†	**0.8x**	1.5x
Funded order backlog†	**750.3**	780.2
Total funded order backlog	**1,847.7**	1,098.8
Full year revenue under contract	**91%**	93%

- Orders down due to eleven-year £109m NCSISS contract awarded in H1 2017
- Revenue up 4% on an organic^ basis
- Operating profit assisted by around £6.5m of non-recurring trading items
  - Excluding the non-recurring trading items, the RubiKon acquisition and foreign exchange, underlying operating profit fell by £3.6m, approximately half of which was driven by the lower baseline profit rate for single source contracts, in line with our expectations

* 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 £998m third-term of the LTPA contract and £1bn contract amendment announced in December 2016.
Book to Bill ratio is orders won divided by revenue recognised excluding the LTPA contract.

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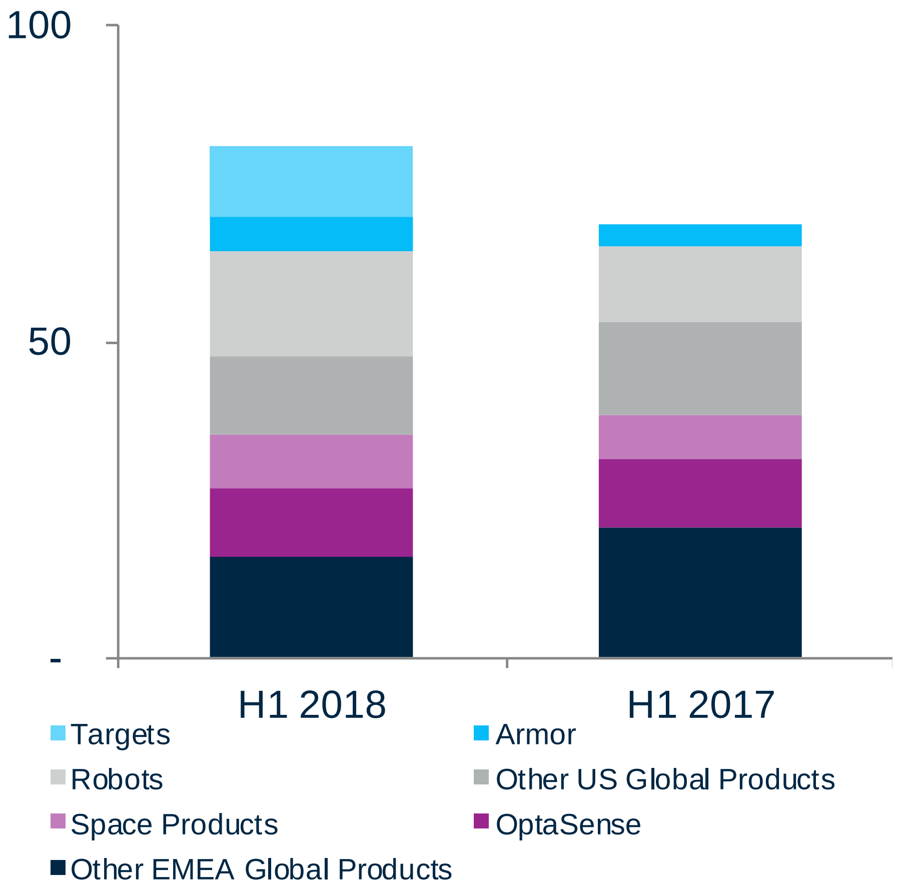
Global Products

H1 revenue (£m)



	H1 2018 £m	H1 2017 £m
Total orders in the period	**122.4**	92.5
Revenue	**80.9**	68.5
Underlying operating profit*	**10.2**	8.9
Underlying operating profit margin*	**12.6%**	13.0%
Book to bill ratio	**1.5x**	1.4x
Funded order backlog	**194.5**	171.8
Full year revenue under contract	**80%**	98%

- Orders include €24.2m spacecraft docking mechanism order with the European Space Agency
- 18% revenue growth driven by QinetiQ Target Systems acquisition. Revenue flat on an organic^ basis
- Operating profit up £1.0m, after adjusting for acquisitions, foreign exchange and £1.3m non-recurring trading item in the prior period

* 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.

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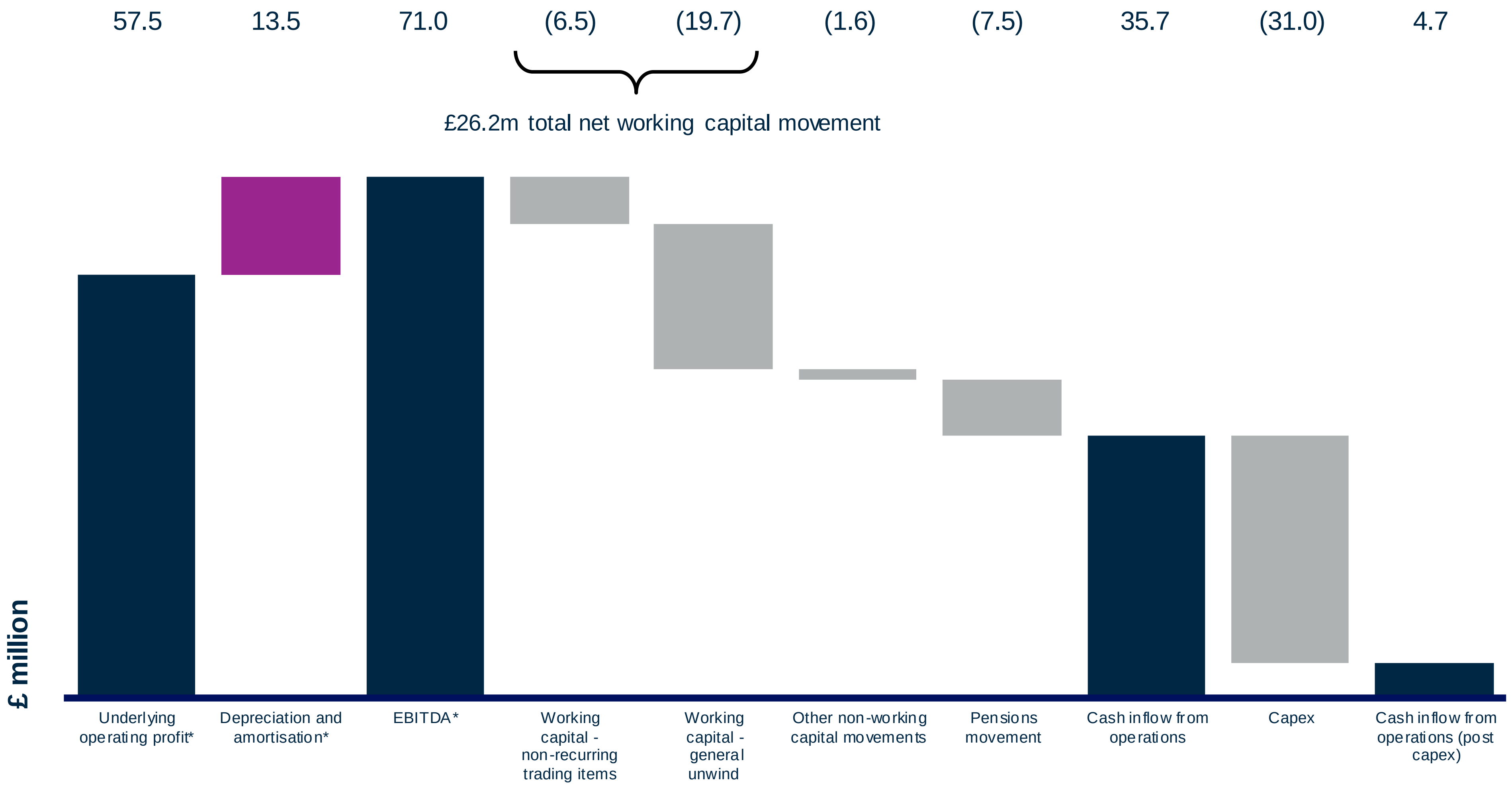
Specific adjusting items*

	H1 2018 £m	H1 2017 £m
Items with cash impact		
Gain on sale of property	**5.2**	-
Gain on sale of intellectual property	**6.2**	-
Non-cash items		
Amortisation of acquired intangibles	**(1.4)**	(0.2)
Pension net finance income/(expense)	**2.1**	(0.6)
Total specific adjusting items (pre-tax)	**12.1**	(0.8)
Specific adjusting items - tax	**0.9**	4.8
Total specific adjusting items	**13.0**	4.0

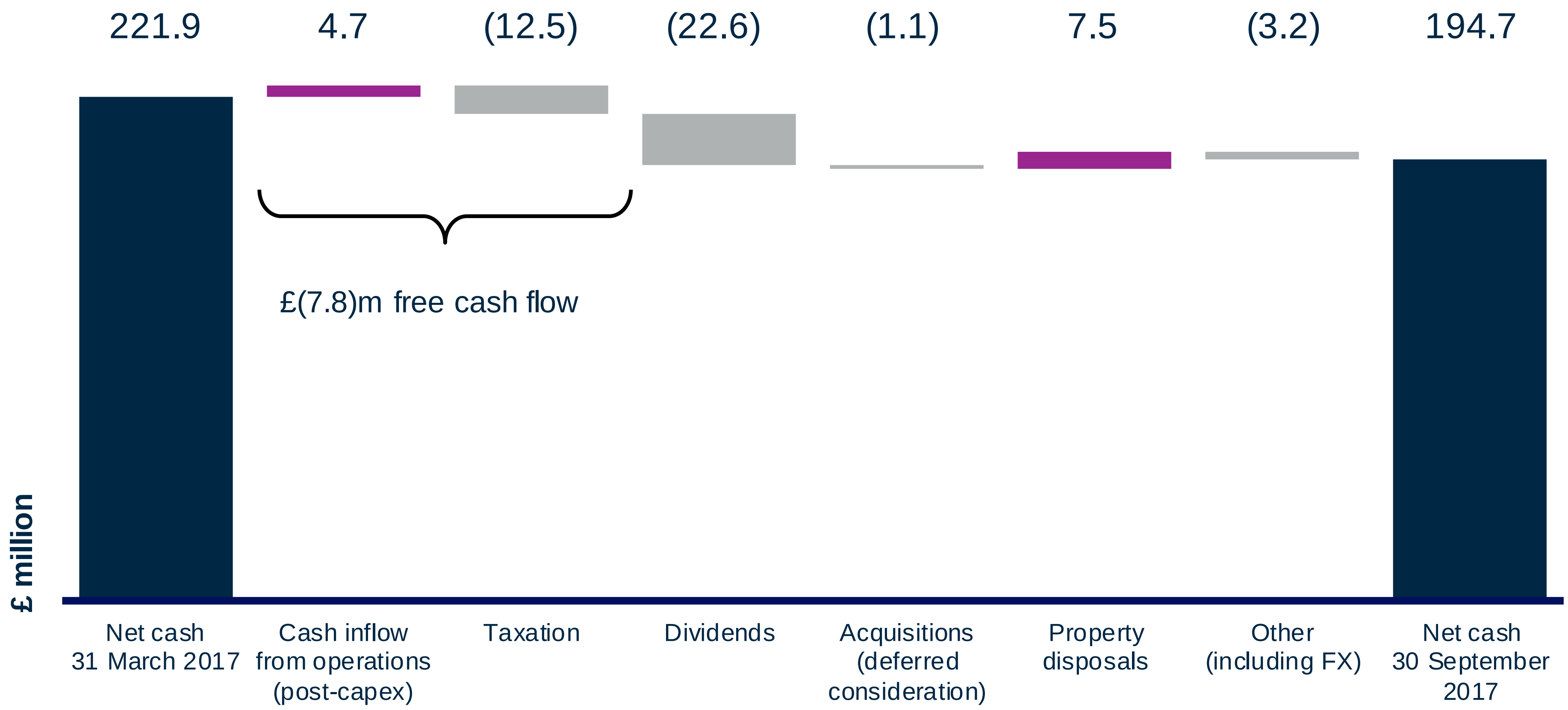
* Specific adjusting items are defined in the appendix.

Operating cash conversion



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

Movements in net cash



Defined benefit pension scheme – balance sheet position

	30 September 2017 £m	31 March 2017 £m
Equities	**301.5**	355.4
LDI investment	**920.5**	968.2
Liquidity fund	**76.0**	-
Bonds	**473.9**	472.9
Property	**131.3**	126.7
Cash and other	**10.1**	3.1
Market value of assets	**1,913.3**	1,926.3
Present value of scheme liabilities	**(1,665.6)**	(1,770.3)
Net pension asset before deferred tax	**247.7**	156.0
Deferred tax liability	**(47.0)**	(31.4)
Net pension asset	**200.7**	124.6

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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

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FY18 Outlook – technical factors

	FY17	FY18	
Net finance costs*	£0.2m	→	Net finance costs expected to be flat
Effective tax rate*	10.6%	→	Effective tax rate expected to be flat
Tax cash outflow	£3.0m	↗	Tax cash outflow expected to increase
Net working capital unwind (excluding non-recurring items)	£14.9m	↗	We continue to expect to see a partial unwind of net working capital and anticipate a full year unwind, excluding non-recurring items, of £15m to £25m
Pension deficit repair	£13.0m	→	Company cash contributions required under the recovery plan are £10.5m per annum until 31 March 2018 with an additional c.£2.5m per annum (increasing at CPI) until 2032. c.£1.5m included as a cost within underlying operating profit*
Capital expenditure	£32.9m	↑↑	FY18 cash flow will reflect increasing investment, with capital expenditure of £70m to £90m, including capex to support the amendment to the Long Term Partnering Agreement announced in December 2016

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

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FY18 Outlook – trading

- EMEA Services
  - In EMEA Services, revenue under contract for FY18 is broadly in line with the prior year, and the division is expected to deliver modest revenue growth this year although the lower baseline profit rate for single source contracts represents a continued headwind for operating margins

- Global Products
  - The Group's Global Products division has shorter order cycles than EMEA Services and its performance is dependent on the timing of shipments of key orders. As a result of its contracted orders and pipeline of opportunities, as well as the anticipated full year contribution from the Target Systems acquisition, the division is expected to continue to grow in FY18

- Group performance
  - Overall, we are maintaining expectations for Group performance in FY18

Strategic update

Steve Wadey | Chief Executive Officer

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Trading environment

US
- Defence spending expected to increase
- Industrial base review underway
- Well positioned with key technologies

UK
- Defence spending under pressure
- National Security Capability Review underway
- Presenting both challenges and opportunities

Rest of World
- Defence and security spending increasing, particularly in the Middle East and Asia-Pacific
- In-country capability through partnerships

Australia
- Defence budget increasing to 2% GDP
- Development of indigenous industry
- Investing to grow

Pace of change accelerating - our inherent strengths and strategy enable us to respond positively

How we create value

Lifecycle

Generation After Next → Next Generation → Current Generation

Core offerings

Capability Generation & Assurance - *integrated*

Research & Development | Test & Evaluation | Training & Rehearsal
e.g. agile experimentation, threat representation, live-synthetics, evidence, analysis

Services & Products - *distinctive*

e.g. advice, intelligence, information systems, protection, unmanned systems, space systems

Technology - *disruptive*

e.g. advanced materials, sensing, communications, autonomy, analytics, directed energy

Inherent strengths

Academic & industrial partnerships

Science & engineering expertise

Domain knowledge & experience

Delivering operational advantage to defence, security and critical infrastructure customers

Understanding future needs

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Defining our addressable market

- Focus on core offerings
  - RDT&E[1] + Training - integrated capability generation & assurance
  - Services & Products - distinctive
  - Technology - disruptive
- Focus on target markets
  - Primary sectors: Defence, Security, Critical Infrastructure
  - Home countries: UK, US, Australia
  - Selected new countries in Europe, Middle East and Asia-Pacific
- Addressable market > £8bn pa
  - Increasing share in existing markets
  - Leveraging strengths into attractive near-adjacent markets

Significant growth potential

[1] RDT&E = Research & Development and Test & Evaluation.

SERVICES & PRODUCTS
(defence, security and critical infrastructure)

Size	£££bn pa
Growth	+2-5% CAGR
Share	<1% (£250m)

UK TRAINING

Size	£1bn pa
Growth	+1% CAGR
Share	~5% (£50m)

INTERNATIONAL TRAINING

Size	££bn pa
Growth	+1-3% CAGR
Share	<1% (£5m)

UK RDT&E

Size	£1.5bn pa
Growth	+1% CAGR
Share	~30% (£450m[2])

[2] ~£300m pa via Long Term Partnering Agreement (LTPA) with UK MOD.

INTERNATIONAL RDT&E

Size	£5.9bn pa[3]
Growth	+4% CAGR
Share	<1% (£25m)

[3] Australia, Canada, New Zealand, France, Germany, Sweden, Saudi Arabia, UAE, Qatar, Turkey included. USA ($73bn pa) excluded above.

Source: Jane's Market Forecast, FY18 market sizing (USD/GBP exchange rate of 0.76), UK MOD. QinetiQ market share based on FY17 revenue.

current market share   future market potential

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Delivering our vision and strategy

Vision

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

Strategy

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 countries, creating new home countries and exporting

Innovation
Invest in and apply our inherent strengths for customer advantage in defence, security and critical infrastructure markets

Objectives

- Improve customer focus and competitiveness
- Modernise and reinvigorate the LTPA for UK MOD
- Build agile, competitive Test & Evaluation services for industry
- Improve business winning approach through campaigns
- Grow our Cyber, Information & Training business
- Accelerate growth in our US and Australian businesses
- Establish key partnerships in the Middle East
- Win new export sales

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Delivering modern UK Defence Test & Evaluation

- Type 26 added to Naval Combat System Integration Support Services contract

- LTPA contract with UK MOD delivers critical skills and facilities to enable the generation and assurance of defence and security capability
  - First Brimstone 2 firing from Typhoon
  - First Sea Ceptor firing from T23 frigate

- LTPA capital expenditure programme on track to modernise and deliver world-class air ranges and test aircrew training to meet future customer needs
  - £180m for new aircraft, radars and instrumentation recovered over life of contract

- Formidable Shield 2017 ballistic missile defence live-fire exercise delivered
  - Improving NATO defence capability with eight nations at Hebrides range

Strong foundation to secure UK customers and grow international users

Building an international company

- Australian business growing with record order intake
  - Contract for mine warfare facility represents major Test & Evaluation milestone
  - RubiKon acquisition integrated and expanding longer-term contracts

- North America business continues to perform and grow
  - Significant order for US Navy carrier aircraft launch & recovery equipment
  - Delivered TALON robot upgrade, continuing to compete for significant programmes

- Announced joint venture in UAE for manufacture of unmanned targets
  - Building on QinetiQ Target System (QTS) acquisition and wider Group capabilities

- Focus on leveraging strengths into attractive near-adjacent markets
  - Enhancing export sales team

International revenue grown from 21% to 26%

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Innovating for our customers' advantage

- Over 30 business winning campaigns underway to drive growth
  - Based on major government funded programmes
  - Supported by strategic partnering and investment

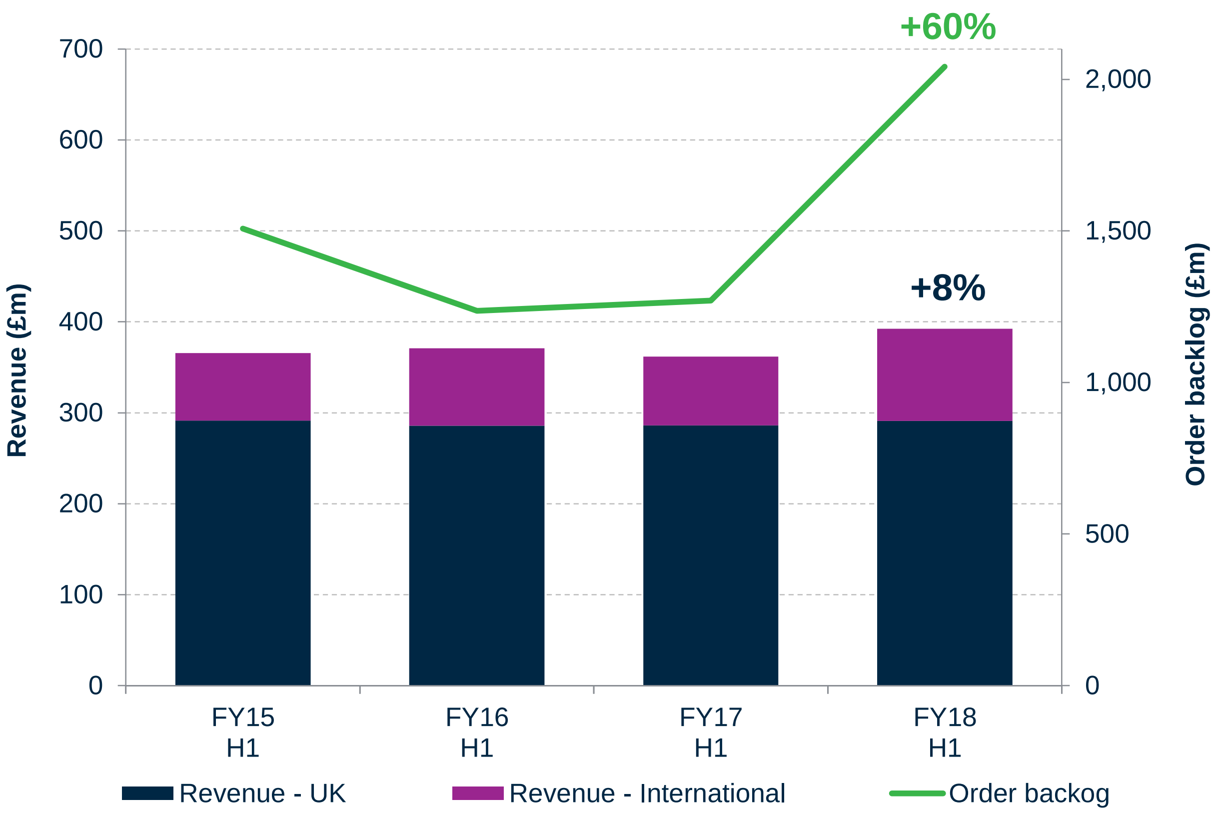
- £10m Internal Research & Development (IRAD) programme aligned with business winning opportunities and creation of disruptive technology
  - Breakthrough technology for underwater data and communication networks
  - New test facility for £30m laser directed energy programme with UK MOD

- Won €24m International Berthing & Docking Mechanism (IBDM) contract
  - European Space Agency funded product development
  - Baselined docking mechanism for Sierra Nevada's Dreamchaser
  - Establishes new product line for future sales into space supply missions

Investing to win longer-term programmes

Group performance developing in line with strategy

- Growth in order backlog from £1.3bn to £2bn through focus on longer-term programmes and contracts
  - Underpinned by investment discipline
- Revenue increased 8% through focused organic and acquisition actions
  - Driven by strategy and operational excellence
- International revenue grown from 21% to 26% through focus on core offerings and target markets
  - Leveraging strengths into attractive near-adjacent markets



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Appendices

Definitions

- Underlying performance is stated before:
  - Amortisation of intangibles arising from acquisitions
  - Pension net finance income/(expense)
  - Gains/losses on business divestments and disposal of investments, property and intellectual property
  - Transaction costs in respect of business acquisitions
  - Impairment of property, goodwill and other intangible assets
  - Tax impacts of the above items
  - Significant non-recurring deferred tax movements

- Organic revenue growth:
  - The level of year-on-year growth, expressed as a percentage, calculated at constant prior year foreign exchange rates, adjusting for business acquisitions and disposals to reflect equivalent composition of the Group

Income statement

	H1 2018 £m	H1 2017 £m
Revenue	**392.5**	361.8
Underlying operating profit*	**57.5**	51.9
Underlying net finance (expense)/income*	**(0.3)**	0.1
Underlying profit before tax*	**57.2**	52.0
Gain on sale of property	**5.2**	-
Gain on sale of intellectual property	**6.2**	-
Amortisation of intangibles	**(1.4)**	(0.2)
Pension net finance income/(expense)	**2.1**	(0.6)
Profit before tax	**69.3**	51.2
Taxation	**(5.2)**	(1.7)
Profit after tax	**64.1**	49.5

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

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Revenue by customer and country

Revenue by customer (%)

H1 2018

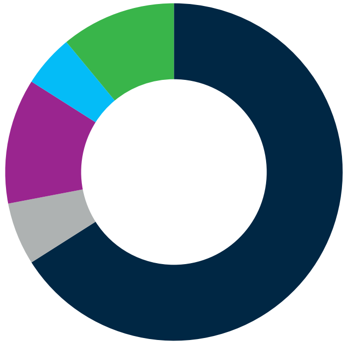
£392.5m

	%
MOD	63%
DoD	8%
Government agencies	14%
Commercial Defence	7%
Commercial	8%

H1 2017

£361.8m

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

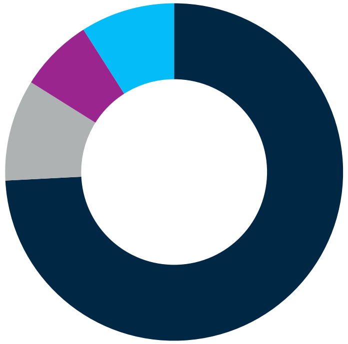


Revenue by destination country (%)

H1 2018

£392.5m

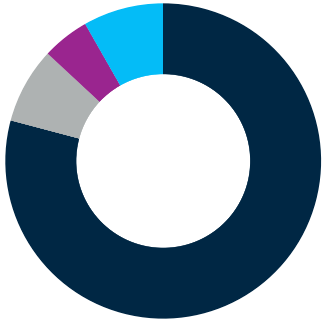
	%
UK	74%
US	10%
Australia	7%
Other	9%



H1 2017

£361.8m

	%
UK	79%
US	8%
Australia	5%
Other	8%

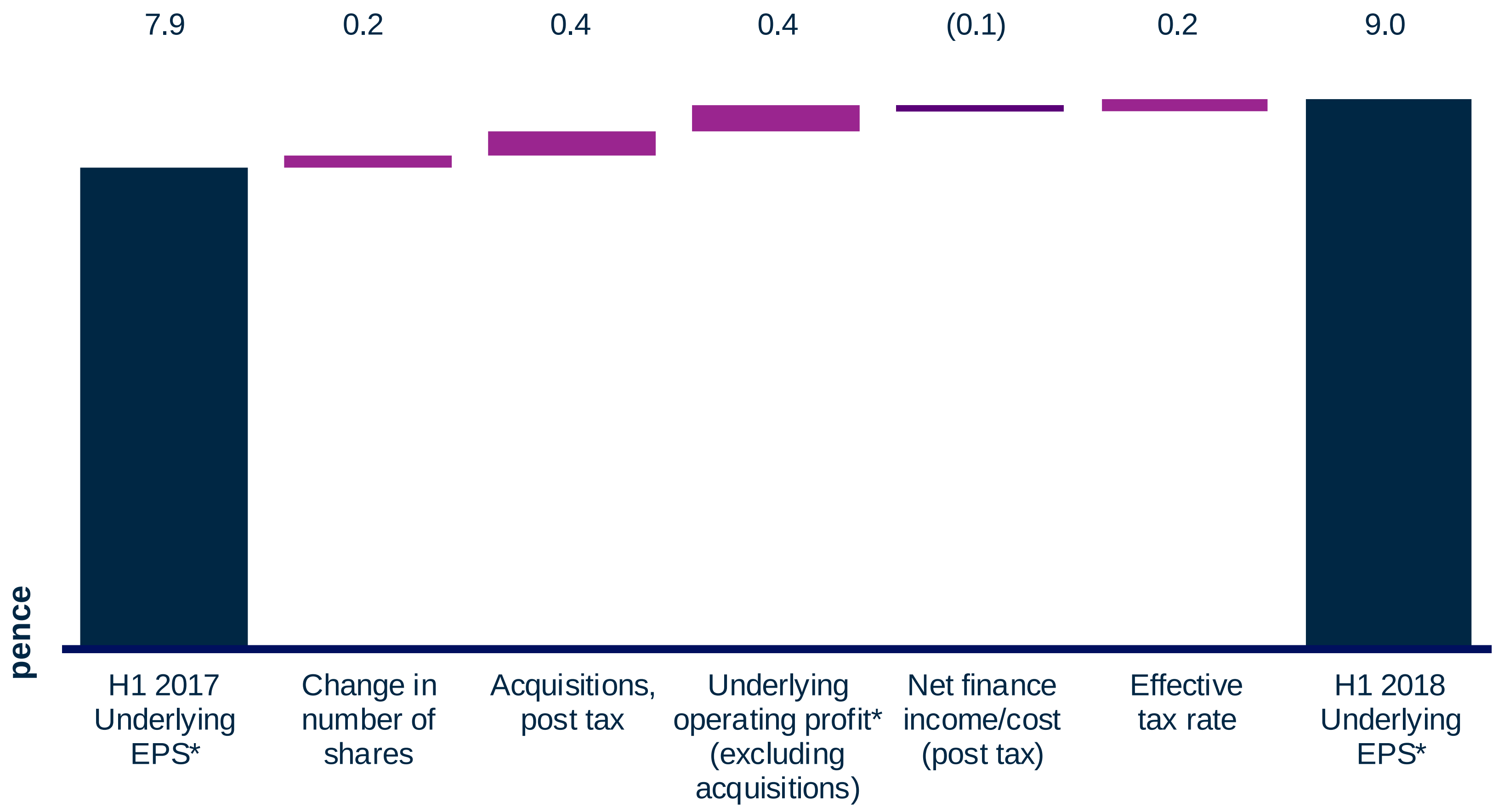


Taxation

	H1 2018 £m	H1 2017 £m
Underlying tax charge*	**(6.1)**	(6.5)
Tax on specific adjusting items	**0.9**	4.8
Total tax charge	**(5.2)**	(1.7)
Underlying tax rate*	**10.7%**	12.5%

* 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.

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Cash conversion

	H1 2018 £m	H1 2017 £m
Underlying operating profit*	**57.5**	51.9
Depreciation and amortisation	**13.5**	13.2
Loss on disposal of PPE	**0.1**	-
Share-based payments charge	**1.3**	1.2
Share of post-tax profit of equity accounted entities	**0.4**	-
Changes in working capital	**(26.2)**	(0.7)
Net movement in provisions	**(3.4)**	1.4
Retirement benefit contributions in excess of income statement	**(7.5)**	(6.4)
Net cash inflow from operations	**35.7**	60.6
Net capex	**(31.0)**	(9.7)
Net cash inflow from operations (post-capex)	**4.7**	50.9
Cash conversion %*	**8%**	98%
Net interest	**-**	0.3
Taxation	**(12.5)**	(8.8)
Free cash flow	**(7.8)**	42.4

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

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Movements in net cash

	H1 2018 £m	H1 2017 £m
Free cash flow	**(7.8)**	42.4
Disposal of property	**7.5**	-
Purchase of own shares	**(0.4)**	(26.3)
Dividends	**(22.6)**	(21.9)
Acquisition of business (deferred consideration)	**(1.1)**	-
Other (including FX)	**(2.8)**	2.5
Change in net cash	**(27.2)**	(3.3)
Opening net cash - 1 April	**221.9**	274.5
Closing net cash - 30 September	**194.7**	271.2

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Balance sheet

	30 September 2017 £m	31 March 2017 £m
Goodwill	**104.8**	107.8
Intangible assets	**40.7**	34.7
Property, plant and equipment	**245.9**	238.8
Working capital	**(83.2)**	(117.6)
Retirement benefit surplus (net of tax)	**200.7**	124.6
Other assets and liabilities	**(67.0)**	(77.6)
Net cash	**194.7**	221.9
Net assets	**636.6**	532.6

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Defined benefit pension scheme – key assumptions

Assumptions	**30 September 2017 %**	31 March 2017 %
Discount rate	**2.7%**	2.6%
Inflation (CPI)	**2.4%**	2.4%
Future male pensioners (currently aged 60)	**88**	89
Future female pensioners (currently aged 60)	**90**	91
Future male pensioners (currently aged 40)	**90**	91
Future female pensioners (currently aged 40)	**92**	93

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 £34m
Discount rate - large inc.*	Increase by 1.0%	Decrease by £303m
Discount rate - large dec*	Decrease by 1.0%	Increase by £401m
Rate of inflation	Increase / decrease by 0.1%	Increase / decrease by £32m
Life expectancy	Increase by 1 year	Increase by £43m

* 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.

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Credit facilities

	Maturity date	Denomination	Value in denomination	Value £m
Revolving credit facility	August 2019	£m (GBP)	166.0	166.0
Revolving credit facility	August 2019	$m (USD)	100.0	74.6
Total committed facilities				**240.6**

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This document contains certain forward-looking statements relating to the business, 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', and similar expressions. 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. Nothing in this document should be regarded as a profit forecast.

The forward-looking statements, including assumptions, opinions and views of the Company or cited from third party sources, contained in this Results Announcement are solely opinions and forecasts which are uncertain and subject to risks. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Actual results may differ materially from those expressed or implied by these forward-looking statements. A number of factors could cause actual events to differ significantly. These factors include, but are not limited to:

- 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;

- 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.

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