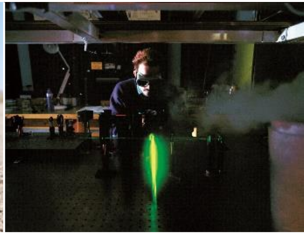
Preliminary results for year ended 31 March 2016

QinetiQ Group plc

26 May 2016



QinetiQ

Introduction

Steve Wadey | Chief Executive Officer

Agenda

QinetiQ

1	Headlines
2	Financial overview
3	Strategic overview
4	Q&A

Headlines

QinetiQ

- **Solid operating performance in FY16**
  - 8% increase in orders due to a multi-year contract renewal
  - Stable revenue and profitability with continued high cash conversion
  - Disposal of non-core Cyveillance business for £22m
  - 6% increase in the full year dividend; £47m remaining of current share buyback programme
- **Focus on delivery of FY17**
  - Markets continue to be challenging with some de-scoping and delay to orders
  - 74% of FY17 revenue under contract, broadly consistent with previous year (77%)
  - Board expectations for Group performance in FY17 remain unchanged
- **Creating the conditions for growth**
  - Set out vision and strategy
  - Reorganised the company
  - Launched a transformation programme to improve customer focus and competitiveness

Financial overview

David Mellors | Chief Financial Officer

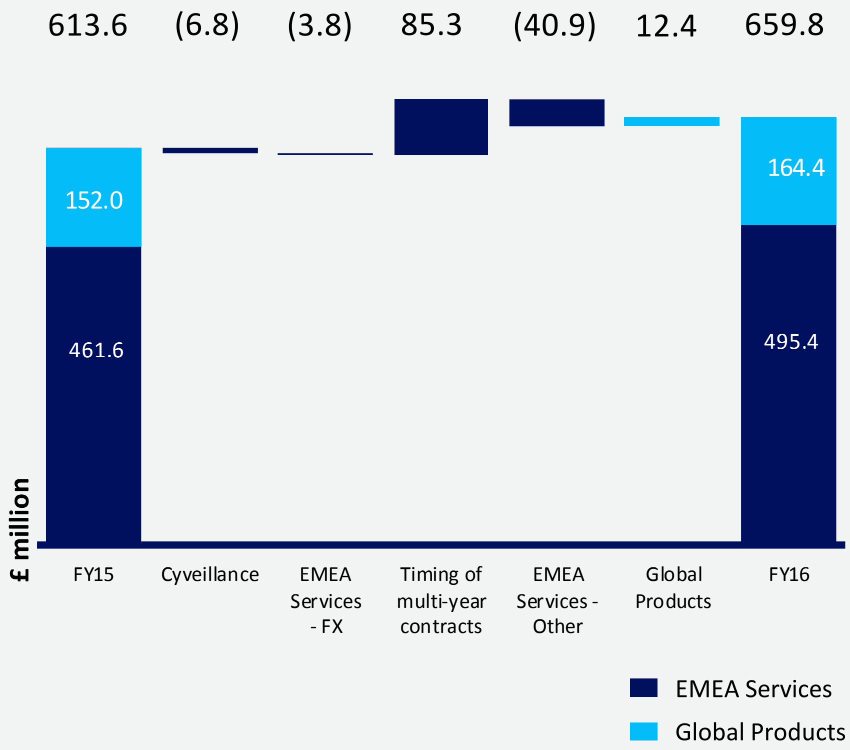
Summary financial headlines

Continuing operations	FY16 £m	FY15 £m
Orders	**659.8**	613.6
Revenue	**755.7**	763.8
Operating profit*	**108.9**	111.3
Operating margin*	**14.4%**	14.6%
Earnings per share* (pence)	**16.3**	15.2
Net cash from operations (post capex)*	**103.6**	114.9
Cash conversion (post capex)*	**96%**	103%
Net cash	**274.5**	195.5
Dividend (pence)	**5.7**	5.4

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

Orders

- **Challenging markets generally**
- **EMEA Services**
  - Timing of multi-year awards
    - £194.6m FY16 v £109.3m FY15
    - FY16 £153m five-year aircraft engineering contract
  - £40.9m other variance
    - Some de-scoping and delays
    - Strong comparator period
- **Global Products**
  - New pipeline contract for OptaSense
  - Improved order flow in QinetiQ North America



EMEA Services

QinetiQ

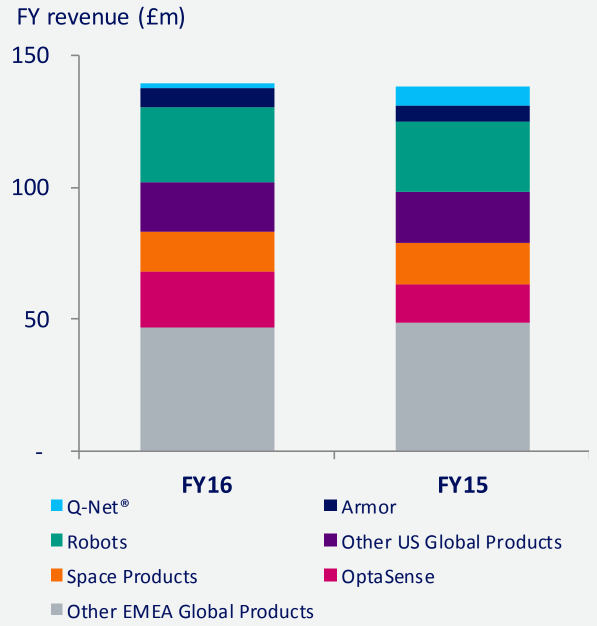
- **Revenue flat on an organic^ basis**
- **1% increase in underlying operating profit, assisted by a £3m credit due to the resolution of a historical overseas exposure**
- **Book to bill ratio and funded backlog enhanced by multi-year orders**

	FY16 £m	FY15 £m
Orders	**495.4**	461.6
Revenue	**616.4**	625.6
Underlying operating profit*	**93.8**	93.0
Underlying operating profit margin*	**15.2%**	14.9%
Book to bill ratio†	**1.2x**	1.1x
Funded backlog†	**719.1**	678.6

* 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.

77% of FY17 revenue under contract at 1 April 2016, compared to 80% at the beginning of the prior year

Global Products



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

	FY16 **£m**	FY15 £m
Orders	**164.4**	152.0
Revenue	**139.3**	138.2
Underlying operating profit*	**15.1**	18.3
Underlying operating profit margin*	**10.8%**	13.2%
Book to bill ratio	**1.2x**	1.1x
Funded backlog	**139.1**	116.7

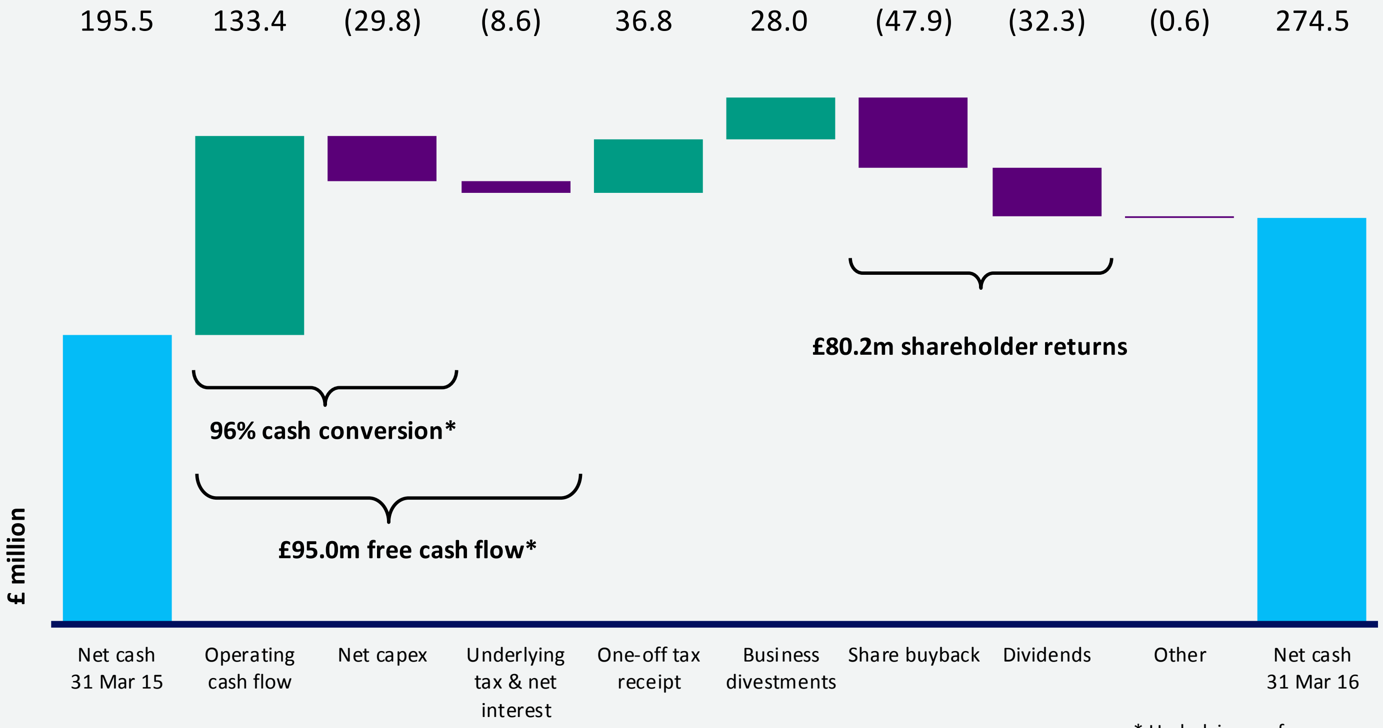
64% of FY17 revenue under contract at 1 April 2016, compared to 61% at the beginning of the prior year

Specific adjusting items*

	FY16 **£m**	FY15 £m
Items with cash impact		
Profit on business divestments	**16.2**	-
Profit on disposal of property	**0.3**	-
Non-cash items		
Impairment of goodwill	**(31.9)**	-
Amortisation of acquired intangibles	**(2.0)**	(2.8)
Pension net finance expense	**(1.1)**	(0.6)
Other	**-**	1.0
Total specific adjusting items (pre-tax)	**(18.5)**	(2.4)
Tax impact of items above	**0.4**	(1.4)
Recovery of R&D expenditure credits (cash impact)	**36.8**	-
(Utilisation)/recognition of deferred tax asset in respect of UK tax losses (non-cash)	**(25.2)**	25.2
Other deferred tax movements (non-cash)	**9.2**	-
Total specific adjusting items - continuing operations	**2.7**	21.4
Total specific adjusting items - discontinued operations	**7.5**	(13.4)
Total specific adjusting items - total	**10.2**	8.0

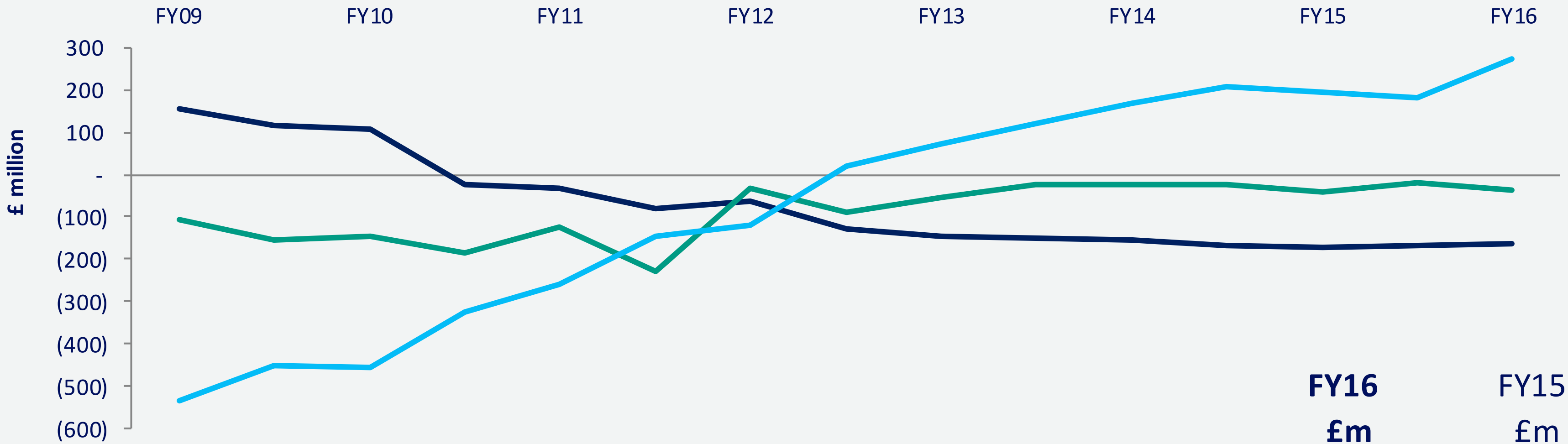
* Specific adjusting items are defined in appendix.

Movements in net cash



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

Balance sheet position



	FY16 £m	FY15 £m
Working capital	**(163.5)**	(174.6)
Retirement benefit obligation (pre-tax)	**(37.7)**	(39.4)
Net (debt) / cash	**274.5**	195.5

Capital allocation policy

QinetiQ

A key part of building for the future will be capital discipline. We intend to maintain our priorities for capital allocation with a focus on investment in creating the conditions for growth:

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

“Orange Book” – single source contracts

- “Orange Book” in force since 1 April 2015
- Baseline profit rate for new contracts is 8.95% for FY17 (10.6% in FY16)
- SSRO published calculation in detail on 24 March 2016
- Baseline rate acts as the starting point for agreeing the profit rates of new contracts which can be adjusted by, for example, risk and capital servicing
- In FY17, SSRO will develop the methodology for calculating the baseline profit rate in future years, potentially introducing multiple profit rates
- SSRO will publish further clarifications/guidance on, for example, allowable costs

FY17 outlook

EMEA Services

The UK Government's Strategic Defence and Security Review has brought clarity to key defence programmes but will require further savings to be delivered from ongoing defence transformation. This will provide future opportunities for EMEA Services to build on its strong record of delivering more for less, whilst recognising that in the short term there will continue to be uncertainty and the potential for interruptions to order flow. Although revenue under contract for FY17 is slightly below that of a year ago, 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 the beginning of the financial year, FY17 revenue under contract was slightly above that of a year ago, but the performance of Global Products remains dependent on the timing and shipment of key orders.

Group performance

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

QinetiQ

Strategic overview

Steve Wadey | Chief Executive Officer

Trading environment

QinetiQ

UK

Strategic Defence Security Review (SDSR)

Single Sources Regulation Office (SSRO)

US

Third offset strategy

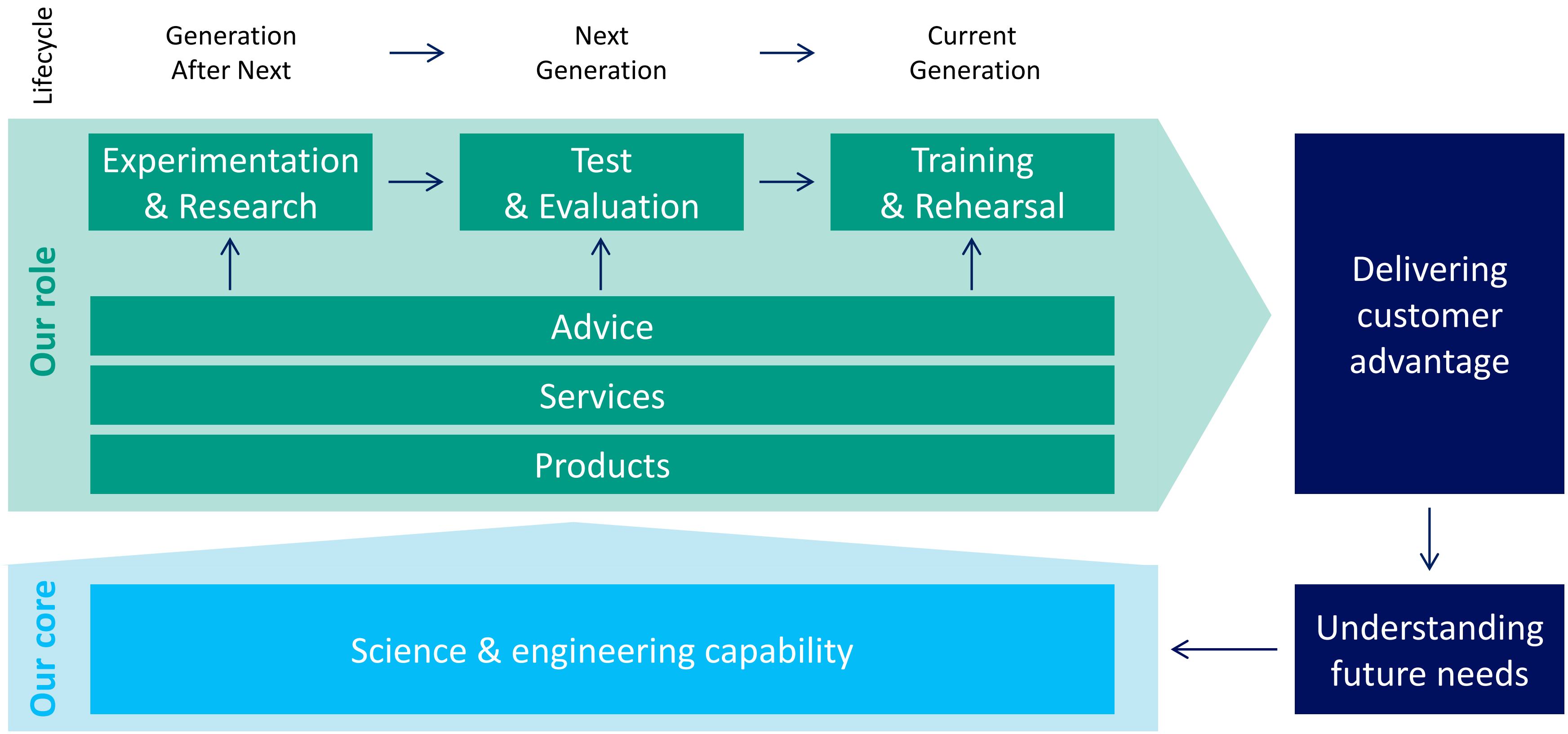
Australia

Military equipment modernisation

Key Themes

- **Increasing security threats**
- **Government budgets under pressure**
- **Drive for greater efficiency**
- **Need for innovation**
- **International partnerships**

Integrating and connecting our core capabilities



Our core capabilities in action

Our role

Experimentation & Research

£10m materials and structures programme for UK MOD

Test & Evaluation

Emergency Services Mobile Communications programme

Training & Rehearsal

At Sea Demonstration 2015 of multi-national task group

Advice

A$21m aircraft structural integrity for Australian Air Force

Services

£153m aircraft engineering services for the Royal Air Force

Products

US$44m robot systems and upgrades

Our vision and strategy

QinetiQ

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

UK	International	Innovation
Lead and modernise the UK Defence Test & Evaluation enterprise, by working in partnership with Government and prime contractors	Build an international company that delivers additional value to our customers by developing our home markets, creating new home markets and exporting	Invest in and apply our core competence for customer advantage in defence and commercial markets

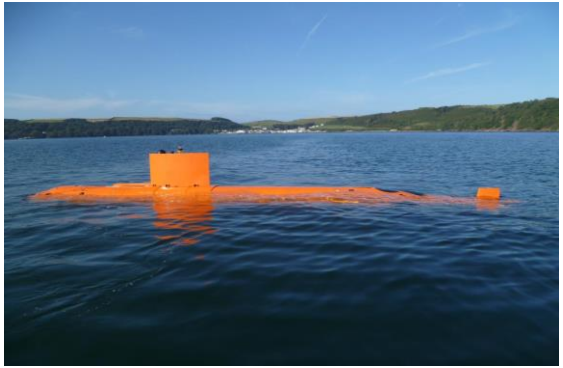
Transformation programme

Improving customer focus and competitiveness

Our strategy driving change

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

UK



Unnamed Warrior 2016:
enabling future capability

International

Team UK partnering:
competition in Chile

Innovation

Next generation:
robotics, OptaSense rail, T&E

Our transformation programme

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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

Summary

QinetiQ

Solid operating performance in FY16

Focus on delivery of FY17

Creating the conditions for growth

Improve customer focus and competitiveness

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

Available on the App Store

Definitions

QinetiQ

- **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
  - One-off recovery of research and development tax credits and associated write-off of deferred tax asset in respect of tax losses
  - 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

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	FY16 £m	FY15 £m
Revenue	**755.7**	763.8
Underlying operating profit*	**108.9**	111.3
Net finance expense	**(0.2)**	(3.5)
Underlying profit before tax*	**108.7**	107.8
Amortisation of acquisition-related intangibles	**(2.0)**	(2.8)
Pension net finance expense	**(1.1)**	(0.6)
Gain on disposal of property	**0.3**	-
Gain on disposal of business	**16.2**	-
Impairment of goodwill	**(31.9)**	-
Other	**-**	1.0
Profit before tax	**90.2**	105.4
Taxation	**8.4**	12.0
Profit from continuing operations	**98.6**	117.4
Profit/(loss) from discontinued operations	**7.5**	(12.7)
Statutory profit after tax	**106.1**	104.7

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

Revenue by sector and customer

QinetiQ

Revenue by sector (%)

FY16

£755.7m

	%
EMEA Services	82
Global Products	18

FY15

£763.8m

	%
EMEA Services	82
Global Products	18

Revenue by customer (%)

FY16

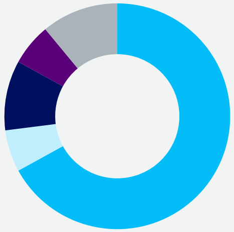
£755.7m

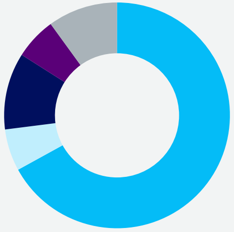
	%
MOD	67
DoD	6
Government agencies	10
Commercial Defence	6
Commercial	11

FY15

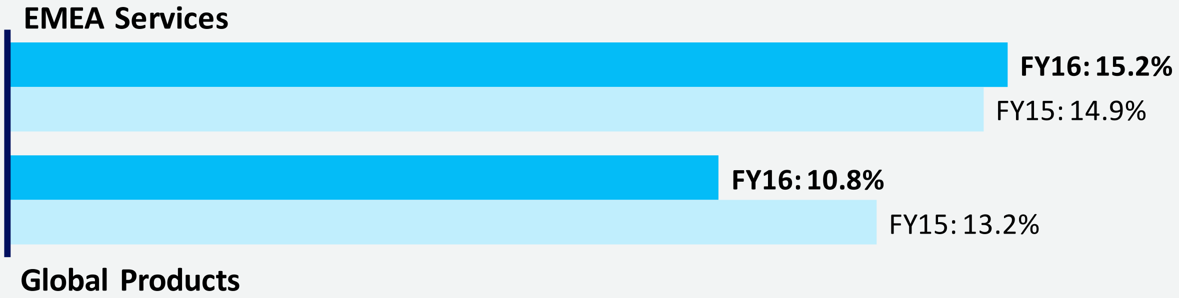
£763.8m

	%
MOD	67
DoD	6
Government agencies	11
Commercial Defence	6
Commercial	10





Segmental analysis of profit and margin



Operating profit*

	FY16 £m	FY15 £m
EMEA Services	**93.8**	93.0
Global Products	**15.1**	18.3
Continuing Group	**108.9**	111.3

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

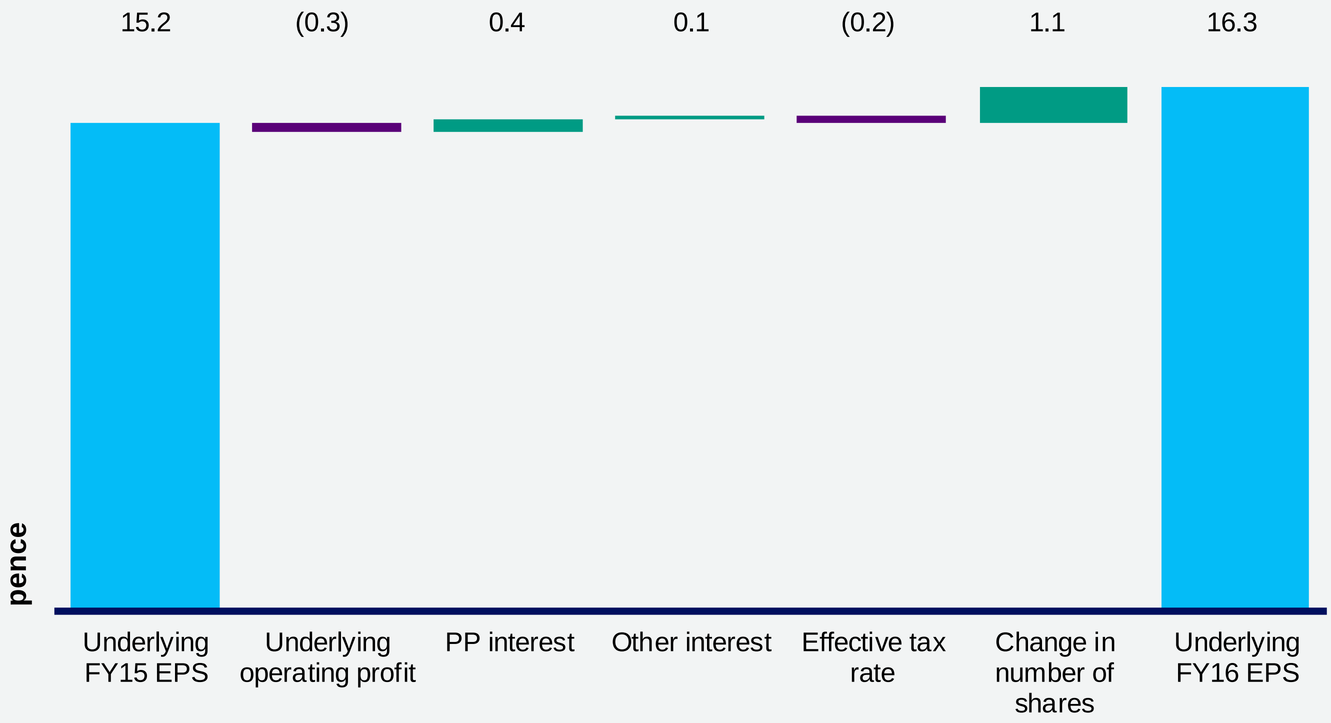
Taxation

QinetiQ

	FY16 £m	FY15 £m
Underlying tax charge*	**(12.8)**	(11.8)
Tax on non-recurring items	**21.2**	23.8
Headline tax charge	**8.4**	12.0
Underlying tax rate*	**11.8%**	10.9%

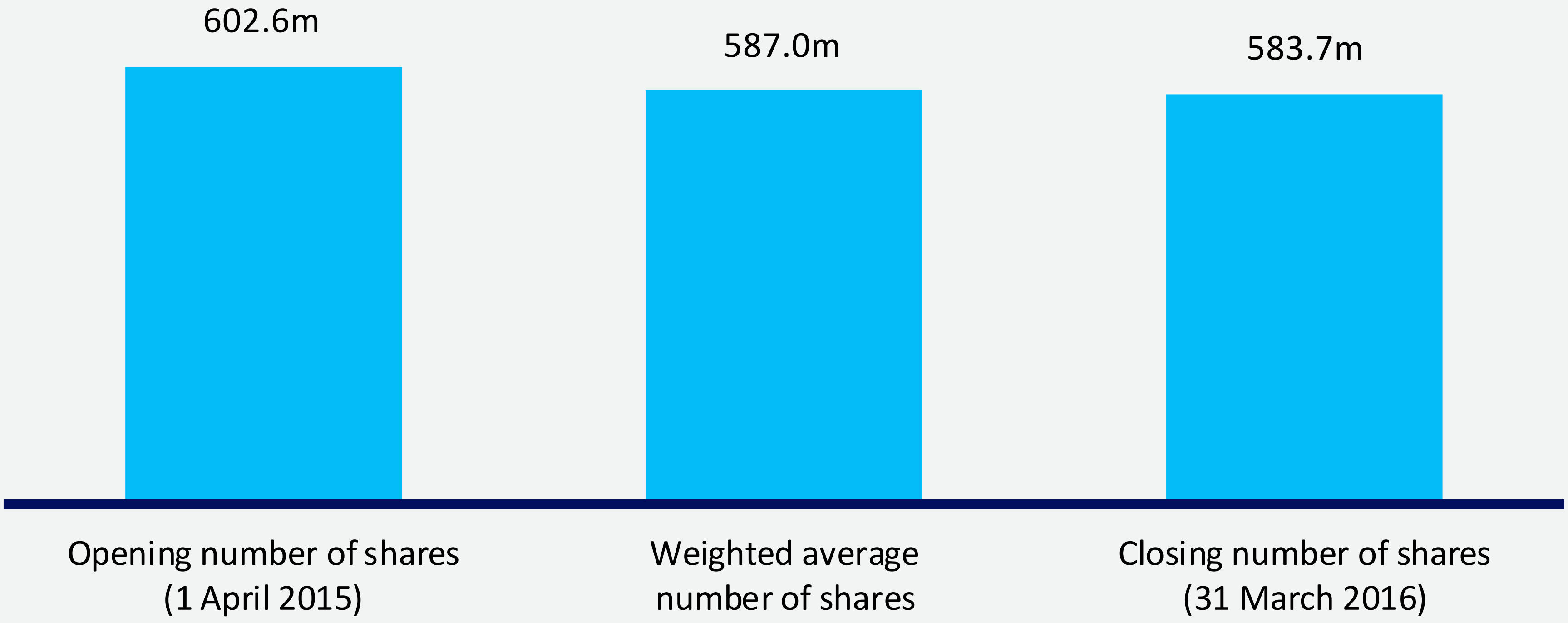
* Underlying performance, before specific adjusting items, as defined in appendix.

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

	31 March 2016	31 March 2015
	£m	£m
Goodwill	**73.1**	107.2
Intangible assets	**8.3**	15.3
Property, plant and equipment	**233.4**	229.6
Working capital	**(163.5)**	(174.6)
Retirement benefit obligation (net of tax)	**(36.2)**	(37.8)
Other assets and liabilities	**(64.8)**	(37.1)
Net cash	**274.5**	195.5
Net assets	**324.8**	298.1

Cash conversion

	FY16 £m	FY15 £m
Underlying operating profit*	**108.9**	111.3
Share of JVs & associates	**(0.5)**	0.1
Operating profit before JVs & associates*	**108.4**	111.4
Cash flow from operations*	**133.4**	143.9
Net capex	**(29.8)**	(29.0)
Net cash flow from continuing operations post capex	**103.6**	114.9
Cash conversion %*	**96%**	103%
Net interest	**0.3**	(6.6)
Underlying taxation*	**(8.9)**	8.8
Free cash flow*	**95.0**	117.1

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

Movements in net cash

QinetiQ

	FY16 £m	FY15 £m
Free cash flow*	**95.0**	117.1
One-off tax receipt	**36.8**	-
PP accelerated interest	**-**	(28.8)
Reorganisation costs	**-**	(0.6)
Disposal related pension contribution	**-**	(6.0)
Business divestments	**28.0**	79.6
Acquisition of business	**(0.6)**	(3.7)
Purchase of own shares	**(48.6)**	(106.8)
Dividends	**(32.3)**	(31.7)
Cash generated from discontinued operations	**-**	1.8
Other	**(0.1)**	2.0
Change in net cash before FX	**78.2**	22.9
FX translation impact	**0.8**	2.1
Change in net cash	**79.0**	25.0
Opening net cash - 1 April	**195.5**	170.5
Closing net cash - 31 March	**274.5**	195.5

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

Defined benefit pension scheme – IAS 19 balance sheet position

	FY16 £m	FY15 £m
Market value of assets	**1,410.4**	1,454.6
Present value of scheme liabilities	**(1,448.1)**	(1,494.0)
Net pension liability before deferred tax	**(37.7)**	(39.4)
Deferred tax asset	**1.5**	1.6
Net pension liability	**(36.2)**	(37.8)

Assumptions	FY16 %	FY15 %
Discount rate	**3.4%**	3.2%
Inflation (CPI)	**2.1%**	2.1%

Sensitivity of deficit to main assumptions:

Assumption	Change in assumption	Sensitivity
Discount rate	Increase / decrease by 0.1%	Decrease / increase by £27m
Inflation	Increase / decrease by 0.1%	Increase / decrease by £25m
Life expectancy	Increase by 1 year	Increase by £36m

Credit facilities

QinetiQ

	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	69.6
Total committed facilities				**235.6**

Disclaimer

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.

The forward-looking statements, including assumptions, opinions and views of the Company or cited from third party sources, contained in this 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;
- 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.