

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.**

If you have sold or otherwise transferred all your Ordinary Shares in QinetiQ, please send this document, together with the accompanying Form of Proxy, as soon as possible, to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding, you should retain these documents.

The distribution of this document and accompanying documents in or into jurisdictions other than the United Kingdom may be restricted by local law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws or regulations of such jurisdictions.

---

## **QINETIQ GROUP PLC**

*(Incorporated and registered in England and Wales No. 04586941)*

Proposed disposal of QinetiQ's US Services division  
and  
£150 million capital return to shareholders  
by way of share buyback  
and  
Notice of General Meeting

---

**This document should be read as a whole. Your attention is drawn to the letter from the Chairman of QinetiQ which is set out on pages 2 to 7 of this document and recommends you to vote in favour of the resolutions to be proposed at the General Meeting referred to below. Your attention is also drawn to the risk factors set out in Part II (Risk Factors) of this document.**

Notice of a General Meeting of QinetiQ Group plc, to be held at 10.00 a.m. on 13 May 2014 at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA, is set out at the end of this document. The Form of Proxy for use at the meeting accompanies this document and, to be valid, should be completed and returned to the Company's registrars, Equiniti at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA as soon as possible and, in any event, so as to arrive by no later than 10.00 a.m. on 9 May 2014. Completion and return of the Form of Proxy will not preclude Shareholders from attending and voting in person at the General Meeting, should they wish to do so.

J.P. Morgan Limited (which conducts its UK investment banking business as J.P. Morgan Cazenove) ("**J.P. Morgan Cazenove**") which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting exclusively for QinetiQ and no one else in connection with the Disposal and will not be responsible to anyone other than QinetiQ (whether or not a recipient of this document) for providing the protections afforded to its clients or for giving advice in connection with the Disposal, the contents of this document or any of the transactions, arrangements or other matters referred to or contained in this document.

UBS Investment Bank which is authorised by the Prudential Regulation Authority and regulated in the United Kingdom by the Financial Conduct Authority and the Prudential Regulation Authority is acting exclusively for QinetiQ and no one else in connection with the Disposal and will not be responsible to anyone other than QinetiQ (whether or not a recipient of this document) for providing the protections afforded to its clients or for giving advice in connection with the Disposal, the contents of this document or any of the transactions, arrangements or other matters referred to or contained in this document.

Apart from the responsibilities and liabilities, if any, which may be imposed upon J.P. Morgan Cazenove and UBS Investment Bank by the Financial Services and Markets Act 2000 or the regulatory regime established thereunder, neither J.P. Morgan Cazenove nor UBS Investment Bank accepts any responsibility whatsoever nor makes any representation or warranty, express or implied, concerning the contents of this document, including its accuracy, completeness or verification, or concerning any other statement made or purported to be made by them, or on their behalf, in connection with QinetiQ or the Disposal and nothing in this document is, or shall be relied upon as, a promise or representation in this respect, whether as to the past or future. Each of J.P. Morgan Cazenove and UBS Investment Bank accordingly disclaims to the fullest extent permitted by law all and any responsibility and liability whether arising in tort, contract or otherwise (save as referred to herein) which they might otherwise have in respect of this document or any such statement.

The delivery of this document shall not imply that there has been no change in the Company's affairs or that the information set forth in this document is correct as of any date subsequent to the date hereof.

## DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Mark Elliott ( <i>Non-Executive Chairman</i> ) Leo Quinn ( <i>Chief Executive Officer</i> ) David Mellors ( <i>Chief Financial Officer</i> ) Michael Harper ( <i>Deputy Chairman and Senior Independent Non-Executive Director</i> ) Noreen Doyle ( <i>Non-Executive Director</i> ) Admiral Sir James Burnell-Nugent ( <i>Non-Executive Director</i> ) Paul Murray ( <i>Non-Executive Director</i> ) Susan Searle ( <i>Non-Executive Director</i> )
Company Secretary	Jon Messent
Registered Office	Cody Technology Park Ively Road Farnborough Hampshire GU14 0LX
Joint Sponsor and joint financial adviser	J.P. Morgan Limited 25 Bank Street London E14 5JP
Joint Sponsor and joint financial adviser	UBS Limited 1 Finsbury Avenue London EC2M 2PP
Joint financial adviser	Stone Key Partners LLC 2 Sound View Drive 2nd Floor Greenwich CT 06830
Legal Advisers to the Company as to English Law	Ashurst LLP Broadwalk House 5 Appold Street London EC2A 2HA
Legal Advisers to the Company as to US Law	Stroock & Stroock & Lavan LLP 180 Maiden Lane New York NY 10038
Legal Advisers to the Joint Sponsors	Herbert Smith Freehills LLP Exchange House Primrose Street London EC2A 2EG
Auditors and Reporting Accountants to the Company	KPMG LLP 15 Canada Square London E14 6GL
Registrar	Equiniti Limited Aspect House Spencer Road, Lancing West Sussex BN99 6DA

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

<u>Event</u>	<u>Expected time/date</u>
Announcement of the Disposal . . . . .	7.00 a.m. on 22 April 2014
Latest time and date for receipt of Forms of Proxy . . . . .	10.00 a.m. on 9 May 2014
General Meeting . . . . .	10.00 a.m. on 13 May 2014
Longstop date for completion of the Disposal . . . . .	20 August 2014

**Notes:**

Future dates are indicative only and are subject to change by the Company, in which event details of the new times and dates will be notified to the FCA and, where appropriate, to Shareholders.

References to times in this document are to London time.

## TABLE OF CONTENTS

	<u>Page</u>
PART I—LETTER FROM THE CHAIRMAN OF QINETIQ GROUP PLC . . . . .	2
PART II—RISK FACTORS . . . . .	8
PART III—PRESENTATION OF INFORMATION . . . . .	10
PART IV—FINANCIAL INFORMATION RELATING TO THE US SERVICES DIVISION . . . . .	12
PART V . . . . .	14
SECTION A—UNAUDITED PRO FORMA FINANCIAL INFORMATION . . . . .	14
SECTION B—ACCOUNTANTS’ OPINION ON PRO FORMA FINANCIAL INFORMATION . . . . .	17
PART VI—PRINCIPAL TERMS OF THE PROPOSED DISPOSAL . . . . .	19
PART VII—ADDITIONAL INFORMATION . . . . .	22
PART VIII—DEFINITIONS . . . . .	30
PART IX—DOCUMENTS INCORPORATED BY REFERENCE . . . . .	33
NOTICE OF GENERAL MEETING . . . . .	34

## PART I—LETTER FROM THE CHAIRMAN OF QINETIQ GROUP PLC

*Incorporated and registered in England and Wales, Registration No. 04586941*

Directors:  
Mark Elliott (*Non-Executive Chairman*)  
Leo Quinn (*Chief Executive Officer*)  
David Mellors (*Group Finance Director*)  
Michael Harper (*Deputy Chairman and Senior Independent Non-Executive Director*)  
Noreen Doyle (*Non-Executive Director*)  
Admiral Sir James Burnell-Nugent (*Non-Executive Director*)  
Paul Murray (*Non-Executive Director*)  
Susan Searle (*Non-Executive Director*)

Registered Office: Cody  
Technology Park  
Ively Road  
Farnborough  
Hampshire  
GU14 0LX

25 April 2014

Dear Shareholder

**Proposed disposal of QinetiQ's US Services division  
and  
£150 million capital return to  
shareholders by way of share buyback  
and  
Notice of General Meeting**

### Introduction

On 22 April 2014, the Board of QinetiQ announced that it had entered into a conditional agreement to sell its US Services division (excluding Cyveillance®) to The SI Organization, Inc. for an initial cash consideration of US\$165 million (approximately £100 million), together with a potential earnout of up to US\$50 million in cash. The earnout is based on the gross profit performance of the US Services division in the financial year ending 31 March 2015.

Following completion of the Disposal and subject to prevailing equity market conditions, it is the Company's intention to return £150 million to Shareholders by way of an on-market share buyback. This return of capital is equivalent to 10.2 per cent of the Company's market capitalisation as at 17 April 2014.

The Disposal, because of its size in relation to the Group, is a Class 1 transaction for QinetiQ under the Listing Rules and is therefore conditional, amongst other things, upon the approval of Shareholders. A General Meeting is to be held on 13 May 2014 for the purpose of seeking such approval. Shareholder approval will also be required to provide authority for the Company to implement the intended share buyback. A notice convening the General Meeting, at which the Resolutions will be proposed, is set out at the end of this document.

The purpose of this document is to provide details of the Disposal and the proposed share buyback and to explain why the Board considers the Disposal and the share buyback to be in the best interests of QinetiQ and its Shareholders as a whole.

Shareholders should read the whole of this document and not just rely on the summarised information set out in this letter.

### Background to and reasons for the Disposal

On 23 May 2013, in conjunction with its preliminary results for the year ended 31 March 2013, the Group announced it had initiated a strategic review of the US Services division to determine the best route to maximise its value. The strategic review excluded Cyveillance®, which provides open source threat intelligence and remediation and which was formerly reported as part of the US Services division. It also excluded the US element of the Global Products division, which delivers technology-based solutions and contract funded research and development.

The strategic review was initiated because the US Services division was not delivering on its role in the portfolio, which, as a small player in a large market, was to grow profitably by building market share. At its current size (£463.8 million revenue in the year ended 31 March 2013, excluding Cyveillance®) the US Services division is not large enough to benefit from economies of scale. Since scale and revenue growth are important factors in achieving both competitive rates and profitability, the underperformance was also impacting the division's profit contribution to the Group.

As competition has increased and lowest-price-technically-acceptable purchasing criteria have become more prevalent in the US federal services market, costs in the US Services division have been controlled tightly in order to maintain competitive rates. However QinetiQ, as a UK-listed company operating in the US defence and security market, faces additional administrative obligations and costs associated with the US National Industrial Security Program to which the Purchaser, as a US-domiciled company, will not be subject.

In addition, synergies of the US Services division with the broader Group have proved to be limited. The US Services division is focused predominantly on the domestic US market with many of its security-cleared employees working on federal customers' sites.

The Board recognises that with ongoing reductions in US federal government expenditure, there is likely to be consolidation in the US federal services market and believes that there are clear benefits to being at the forefront of this trend.

The Group has worked with its advisers to evaluate its options, including a market testing exercise announced in November 2013. Following completion of the strategic review, the Board concluded that a sale of the US Services division provided the best route to maximise value for Shareholders.

The market testing process that was conducted as part of the strategic review attracted a number of interested parties. The Board believes that this competitive process has ensured that the initial cash consideration of US\$165 million (approximately £100 million), plus a potential earnout of up to US\$50 million in cash, recognises the market position and future prospects of the US Services division and that the Disposal will maximise value for Shareholders.

### Information on the US Services division

The US Services division is a provider of technical services and solutions to the US federal government. The division has a broad customer base both within and beyond defence. As at 30 September 2013, the US Services division employed approximately 3,000 people.

The businesses in the US Services division comprise:

- Defence Solutions, which provides engineering, fleet management and software development services to defence agencies, and modelling and simulation for training;
- Aerospace Operations and Systems, which is one of the largest contractors to NASA, providing spaceflight and launch support, mission analytics, satellite integration, scientific data analysis and independent launch verification; and
- Mission Solutions, which provides enterprise IT and integrated software solutions to defence, federal, civil and intelligence customers and delivers systems to national and homeland security customers.

The Disposal does not include Cyveillance®, which is based in the US and was formerly reported as part of the US Services division. The US element of the Group's Products division was also excluded from the strategic review and does not form part of the Disposal.

A summary of the trading results (on an IFRS basis) for the US Services division for the three years ended 31 March 2013 and the six months ended 30 September 2013 is set out below:

	US Services <sup>(1)</sup> trading results			
	FY11	FY12	FY13	Six months ended 30 September 2013
	£m	£m	£m	£m
Revenue . . . . .	577.2	523.7	463.8	222.2
Underlying operating profit . . . . .	43.7	37.1	23.7	10.1
Profit/(loss) before tax <sup>(2)</sup> . . . . .	33.7	28.0	(240.7)	6.0

(1) Restated to exclude Cyveillance®

(2) Includes impairment of goodwill and amortisation of intangible assets arising from acquisitions

The operating profit generated by the US Services division is subject to US corporation tax regulations and rates. As at 30 September 2013, the US Services division had gross assets (including goodwill) of £296.0 million and net assets (including goodwill) of £232.3 million.

Except where otherwise identified, the financial information in this paragraph has been extracted without material adjustment from the financial information contained in Part IV (Financial Information relating to the US Services division) of this document. Shareholders should read the whole of this document and not just rely on the summarised financial information set out in this Part I (Letter from the Chairman of QinetiQ Group plc).

### **Information on the profile and strategy of the Retained Group**

QinetiQ is a defence, aerospace and security company which offers high-end, technical expertise underpinned by world-class research and innovation. The Group supplies advice, assurance, test and evaluation, engineering solutions and training to governments and commercial organisations internationally. Following the Disposal it will operate two divisions: EMEA Services and Global Products.

Having delivered on the goals of its 24-month self-help programme, including the strengthening of its balance sheet, in May 2012 the Group set out the next phase of its development, the 'Organic-Plus' strategy, to continue growing sustainable earnings. The Directors believe that the Group will meet its goals of delivering an increase in sustainable earnings by investing in its strong 'Core' businesses which have the capabilities to win market share in both the UK and international markets. The intellectual property developed by the 'Core' businesses through working with customers provides the Group with a dynamic source of both domain knowledge and potential future offerings. The Group is nurturing a select number of established ('Explore') services and solutions, including OptaSense®, Cyveillance®, and Training and Simulation Services, to determine their ability to scale into significant future revenues particularly in new sectors, accelerated as appropriate by alliance and acquisitions. At the same time, early stage ('Test for Value') offerings, such as ALARM™, Integrated Warrior™ and Power Line Sensors are evaluated as they are generated to determine their potential for value and how best to realise this, including through partnerships and licensing.

Following the Disposal, the Board considers the Retained Group to be highly differentiated and better positioned to deliver an increase in sustainable earnings from its Organic-Plus strategy.

The Board also believes that the cash generative nature of the Retained Group will continue to support both ongoing investment in the business and a progressive dividend policy.

Following the Disposal, the retained US element of the Global Products division will remain subject to a new proxy agreement. The existing Proxy Agreement which applies to the US Services division is more particularly described at paragraph 5.1(e) of Part VII (Additional Information).

### **Financial effects and use of proceeds**

The Group is highly cash generative and disciplined about cash generation. As at 30 September 2013, the Group had £120.5 million of net cash.

The initial gross cash consideration from the Disposal is US\$165 million plus a potential earnout of up to US\$50 million in cash, based on the gross profit performance of the US Services division in the financial year to 31 March 2015.

The net cash proceeds from the Disposal, after transaction costs, are expected to be approximately US\$155 million (approximately £94 million), excluding the contingent, deferred consideration of up to US\$50 million.

Following completion of the Disposal, the Group will make a one-off cash payment of £6 million into its UK defined benefit pension scheme and an early repayment of its remaining private placement debt of approximately US\$248 million (£150.3 million), with associated accelerated interest costs of approximately US\$47.1 million (£28.5 million), subject to market rates on the date of repayment. This early repayment of private placement debt will improve the efficiency of the Group's balance sheet through the removal of borrowings which are no longer required. Following recognition of the accelerated interest costs on repayment of the private placement debt, future interest expense will be reduced by approximately £12 million per year. The Group retains revolving credit facilities with a total value of £272.5 million at its last balance sheet date which are undrawn.



Following completion of the Disposal, the Company also intends to return £150 million to shareholders (equal to approximately 10.2 per cent of the Company's market capitalisation as at 17 April 2014) by way of an on-market share buyback subject to prevailing equity market conditions and a resolution approving the buyback of shares up to a limit of 14.99 per cent of the Company's issued share capital is to be proposed at the General Meeting. The minimum price that may be paid for each Ordinary Share is 1 pence which amount shall be exclusive of expenses, if any, and the maximum price (exclusive of expenses) that may be paid for each Ordinary Share is an amount equal to the higher of: (i) 105 per cent of the average of the middle market quotations for the Ordinary Shares as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately preceding the day on which such share is contracted to be purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out, as stipulated by article 5(1) of the EU Buyback and Stabilisation Regulation 2003 (No. 2273/2003).

The Directors believe that, once complete, the net effect of the Disposal together with the share buyback and the early repayment of private placement debt will be earnings enhancing.

The Board believes that the scale of the proposed share buyback reflects the continuing strong cash-generative characteristics of the Group and its confidence in the Organic-Plus strategy, while taking into account the continuing uncertainty in QinetiQ's end markets, its pension obligations and its current working capital position. The Group is committed to maintaining an efficient balance sheet.

In the event that Ordinary Shares are purchased pursuant to the share buyback authority they may either be cancelled (and the number of Ordinary Shares in issue would be reduced accordingly) or, in accordance with the Companies Act 2006, be retained as treasury shares. The Company will consider holding repurchased Ordinary Shares pursuant to the authority conferred by the Buyback Resolution as treasury shares. This would give the Company the ability to re-issue treasury shares quickly and cost effectively and would provide the Company with additional flexibility in the management of its capital base.

As at 24 April 2014, the total number of options and awards over Ordinary Shares that were outstanding under all of the Company's share option and award plans was 18,085,376, which if exercised would represent 2.7 per cent of the Company's issued share capital at that date. If the Company were to purchase Ordinary Shares to the fullest possible extent of its authority from shareholders (existing and being sought), this number of outstanding options could potentially represent 3.2 per cent of the issued ordinary share capital of the Company.

### **Dividend Policy**

The Board is confident that the Group's Organic-Plus strategy will deliver value to shareholders over the medium term and retains its progressive dividend policy. The strength of the Retained Group means that the dividend per Ordinary Share will not be re-based as a result of the Disposal.

### **Terms of the Disposal**

Under the terms of the Share Purchase Agreement, which was signed on 22 April 2014, QinetiQ US Holdings Inc., an indirect subsidiary of QinetiQ Group plc, has conditionally agreed to sell the entire issued share capital of QinetiQ North America, Inc. The initial cash consideration for the Disposal is US\$165 million (approximately £100 million), which is subject to certain standard closing adjustments as described in more detail in Part VI (Principal Terms of the Proposed Disposal) of this document, together with a potential earnout of up to US\$50 million in cash. The earnout is scheduled to be payable no earlier than 1 April 2015 on a sliding scale between zero and US\$50 million based on gross profit generated by the US Services division between US\$100 million and US\$132 million in the financial year ending 31 March 2015. The gross profit of the US Services division, excluding Cyveillance®, was US\$67 million in the half year ended 30 September 2013.

Completion of the Disposal is conditional (among other things) upon (i) the Disposal Resolution being passed by the Shareholders at the General Meeting; (ii) the receipt of certain US Government approvals and/or authorisations (for example, a Hart-Scott-Rodino anti-trust filing) and there not being in effect any governmental order making the Disposal illegal, or otherwise restraining or prohibiting Completion; and (iii) there not having occurred any Material Adverse Effect within the US Services division between the date of the Share Purchase Agreement and the date of Completion. The Disposal is expected to



complete by no later than 20 August 2014. The parties may terminate the Share Purchase Agreement if these conditions are not satisfied on or before 20 August 2014.

The Purchaser is a portfolio company of The Veritas Capital Fund IV, L.P. (“**Veritas**”), a US-based private equity fund. The Purchaser intends to fund US\$150 million of the initial consideration through bank borrowings in respect of which it has entered into facility commitment letters subject to a limited number of conditions and all of which the Purchaser has warranted it believes will be satisfied at or prior to Completion of the Disposal. With regard to the balance of the initial consideration, at completion, the Purchaser will fund this through existing resources or equity funding which has been committed by Veritas (such commitment being capped at US\$15 million).

The principal terms of the Share Purchase Agreement, together with certain ancillary agreements entered into in connection with the Disposal, are summarised in Part VI (Principal Terms of the Proposed Disposal) of this document.

### **Current trading and future prospects**

QinetiQ announced its unaudited interim results on 21 November 2013 for the half year ended 30 September 2013 which saw:

- an encouraging increase in order intake in EMEA Services with a growing international customer base;
- the US Services division stabilising post restructuring with visibility remaining limited;
- a decrease in US conflict-related product sales and profits against record first half of last year;
- balance sheet strength achieved by on-going high cash conversion;
- an increase in the interim dividend reflecting re-basing of last year’s final dividend and confidence in strategy; and
- the Group maintaining guidance for full year despite challenging markets.

The Group’s performance was described in the Chief Executive’s statement as follows:

*“We continue to reshape the Group through our Organic-Plus strategy. Of the ‘Core’ businesses, EMEA Services has generated a robust performance with encouraging order intake and is expected to remain steady this year. Despite heightened market uncertainty, US Services is stabilising and the strategic review of this division will determine the path to maximum value. As expected, Global Products has seen a decrease in conflict-related sales and continues to work on broadening its portfolio especially beyond defence. Our newer ‘Explore’ businesses are making good progress with several strategic wins building a foundation for future growth.”*

The outlook for the Group was described in the Chief Executive’s statement as follows:

*“Although the short-term range of possible outcomes remains wider than usual, particularly in Global Products, the Board is maintaining its expectations for overall Group performance in the current year absent any material changes in customer requirements. Over the medium term, our confidence that our ‘Core’ businesses and newer growth opportunities will drive an increase in sustainable earnings is reflected in the increased interim dividend.”*

The Group’s pre-close trading update, dated 28 March 2014, confirmed that the Group remained on course to deliver on its expectations for the financial year ended 31 March 2014. The Group will announce its preliminary results for the year ended 31 March 2014 on 22 May 2014.

### **Risk factors**

Shareholders should consider fully the risk factors set out in Part II (Risk Factors) of this document.

### **General Meeting**

A notice convening a General Meeting of the Company to be held at 10.00 a.m. on 13 May 2014 at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA is set out at the end of this document. A Form of Proxy to be used in connection with the General Meeting is enclosed. The purpose of the General Meeting is to seek Shareholders’ approval for the Disposal and authority for the Company to implement the intended share buyback.

**Action to be taken**

You will find enclosed a Form of Proxy for use at the General Meeting. Whether or not you intend to be present at that meeting, you are requested to complete the Form of Proxy (in accordance with the instructions printed thereon) and return it to the Company's registrars, Equiniti Limited at Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA as soon as possible and, in any event, so as to arrive by 10.00 a.m. on 9 May 2014. Completion and return of a Form of Proxy will not preclude you from attending the General Meeting and voting in person if you so wish.

**Further information**

Your attention is drawn to the further information contained in Parts III (Presentation of Information) to IX (Documents Incorporated by Reference) of this document.

You are advised to read the whole of this document and not to rely solely on the information contained in this letter.

**Financial Advice**

**The Board has received financial advice from J.P. Morgan Cazenove, UBS Investment Bank and Stone Key Partners LLC in relation to the Disposal. In providing their financial advice to the Board, J.P. Morgan Cazenove, UBS Investment Bank and Stone Key Partners LLC have relied upon the Board's commercial assessment of the Disposal.**

**Recommendation**

**The Board considers the terms of the Disposal and the share buyback to be in the best interests of the Company and its Shareholders as a whole.**

**Accordingly, the Board unanimously recommends that Shareholders vote in favour of the Resolutions to be proposed at the General Meeting, as the Directors intend to do in respect of their own beneficial holdings amounting (as at 24 April 2014, being the latest practicable date prior to the posting of this document) to an aggregate of 2,279,906 Ordinary Shares, representing approximately 0.35 per cent of the Ordinary Shares in issue.**

Yours faithfully,

**Mark Elliott**  
*Chairman*

## PART II—RISK FACTORS

*The following risk factors, which the Directors believe include all known material risks relating to the Disposal, should be carefully considered by Shareholders together with all information included or incorporated by reference into this document when deciding what action to take in relation to the Disposal. If any or a combination of the following risks actually occurs, the business, financial condition, results of operations or prospects of the Retained Group (or the Group if the Disposal does not take place) could be adversely affected. In such case, the market price of the shares could decline and you may lose all or part of your investment. Additional risks and uncertainties relating to the Disposal that are not currently known to the Directors, or that the Directors currently deem immaterial, could also have a material adverse effect on the Retained Group (or the Group if the Disposal does not take place).*

### 1. RISKS RELATING TO THE DISPOSAL

#### 1.1 The Retained Group's operations will be smaller and less diversified

Following the Disposal, although the fact that the Retained Group will no longer include the US Services division is not in itself expected to result in material disruption to its operations, the Retained Group will be smaller and its overall financial performance will depend to a greater extent on the performance of each of its remaining continuing operations.

For the year ended 31 March 2013, the US Services division contributed revenue of £463.8 million and underlying operating profit of £23.7 million which represented 35 per cent and 14 per cent of Group revenue and underlying operating profit respectively.

Should any one of its continuing operations underperform, this would have a larger relative impact on the Retained Group than would have been the case prior to the Disposal and may materially adversely affect the Retained Group's business, financial condition, results of operations and prospects.

Furthermore, following the Disposal the Retained Group will become more dependent on the MOD which in the year ended 31 March 2013, represented 35 per cent of revenue. Excluding the US Services division, the MOD would have represented 54 per cent of revenue for the same year.

#### 1.2 The Company may not realise all of the perceived benefits of the Disposal

The Company may not realise all of the anticipated benefits of the Disposal set out in Part I (Letter from the Chairman of QinetiQ Group plc) of this document. The Company may encounter unforeseen substantial difficulties in achieving these anticipated benefits and/or these anticipated benefits may not materialise.

#### 1.3 The SPA contains indemnities that will survive Completion

The SPA contains certain indemnities given by the Seller in favour of the Purchaser that will survive Completion. The Seller may be required in the future to make payments under such indemnities in the SPA (in certain cases, subject to certain caps). If so, this may materially adversely affect the Retained Group's business, financial condition, results of operations and prospects.

Further details of the SPA are set out in Part VI (Principal Terms of the Proposed Disposal) of this document.

#### 1.4 Pre-Completion changes in the US Services division

During the period from signing of the SPA on 22 April 2014 to Completion, events at or developments in the US Services division may occur, such as a material improvement in the current trading of the US Services division. Such events or developments could make the terms of the SPA less attractive for the Company. If the conditions to Completion in the SPA are satisfied, the Seller will be obliged to complete the Disposal notwithstanding such events or developments.

The above events and/or developments may have an adverse effect on the business, financial condition and results of the operations of the Retained Group.

#### 1.5 Earnout

The consideration for the Disposal includes a potential earnout of up to US\$50 million in cash. The amount received will be dependent upon gross profit generated by the US Services division in the

financial year ending 31 March 2015. Consequently the sums actually realised by way of the earnout arrangements may be less than the maximum entitlement. The earnout payment will also be made in US dollars. If the US dollar exchange rate to sterling moves materially prior to Completion of the Disposal it may adversely (or positively) impact the Retained Group's financial position post-transaction.

#### **1.6 The Retained Group will be dependent on the US Services division for services required to operate its business**

The Retained Group will continue to be dependent on the US Services division for a period of six months and two weeks from 31 March 2014 for the provision of core service functions pursuant to the terms of a transitional services agreement dated 31 March 2014 (which is to be amended at Completion) (the "TSA"). In the event that the US Services division becomes insolvent or fails to fulfil its contractual obligations, in whole or in part, to the requisite standards specified in the TSA, if there is a significant disruption in the supply of services to the Retained Group, or the Retained Group is unable to negotiate reasonable terms of renewal (if required), or find suitable replacement suppliers if the TSA expires or is terminated, this could have a material adverse effect on the Retained Group's reputation, business, financial condition and results of operations.

## **2. RISK FACTORS RELATING TO THE DISPOSAL NOT PROCEEDING**

### **2.1 Satisfaction of conditions for completion of Disposal**

Completion of the Disposal is subject to the satisfaction of certain conditions, details of which are set out in Part VI (Principal Terms of the Proposed Disposal) of this document, including, amongst others, Shareholder approval at the General Meeting, The SI Organization, Inc. securing requisite funding, as well as regulatory and other approvals. There can be no assurance that these conditions will be satisfied or, where relevant, waived. In the event that any condition is not satisfied or waived, the Disposal will not proceed.

### **2.2 The Company may not deliver the anticipated Shareholder value maximisation if the transaction does not proceed**

The Board is of the opinion that the Disposal is in the best interests of the Company and its Shareholders as a whole as it will maximise the value of the US Services division as set out in Part I (Letter from the Chairman of QinetiQ Group plc). In the absence of a Disposal, the US Services division faces challenges from ongoing reductions in US federal government expenditure, likely sector consolidation, and being too small to benefit from economies of scale. These factors underpin the Board's belief that the Disposal, which has been market tested, maximises value for Shareholders.

### **2.3 Repayment of private placement debt**

The Company plans to use the US dollar proceeds from the Disposal, supplemented by cash resources of the Group, to fund the early repayment of its remaining private placement debt of approximately US\$248 million (£150.3 million), maturing between 2016 and 2019, with associated accelerated interest costs of approximately US\$47.1 million (£28.5 million). Following recognition of the accelerated interests costs associated with this early repayment, this will result in savings on future interest expense. The Company may be unable to make this early repayment, and thereby realise the savings on future interest expense, should the Disposal not proceed.

## **PART III—PRESENTATION OF INFORMATION**

### **1. Introduction**

The contents of this document should not be construed as legal, financial or tax advice. Shareholders should consult their own solicitor, financial adviser or tax adviser for legal, financial or tax advice.

### **2. Financial Information**

Financial information relating to the US Services division for the years ended 31 March 2011, 2012 and 2013 and the six months ended 30 September 2013 set out in this document has been extracted without material adjustment, other than as noted in Part IV (Financial Information Relating to the US Services Division) from the consolidation schedules that underlie the Group's audited consolidated financial information for the years ended 31 March 2011, 2012 and 2013 and the unaudited interim financial information of the Group for the period ended 31 September 2013. The historical financial information represents the current composition of the US Services division and the financial information in respect of the components that have previously been divested have been excluded.

### **3. Information on Risk Factors**

The risk factors set out in Part II (Risk Factors) of this document are those material risk factors relating to the Disposal of which the Directors are aware. However, these should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties relating to the Disposal. Additional risks and uncertainties relating to the Disposal that are not at present known to the Directors, or that the Directors currently deem immaterial, may also have a material and adverse effect on the Group's business, financial condition, results of operations and prospects.

### **4. No Profit Forecast**

No statement in this document or incorporated by reference into this document is intended to constitute a profit forecast or profit estimate for any period, nor should any statement be interpreted to mean that earnings or earnings per share will necessarily be greater or lesser than those for the relevant preceding financial periods for any member of the Group as appropriate.

### **5. Forward-Looking Statements**

Certain statements contained in this document, including those in Part II (Risk Factors) constitute "forward-looking statements". In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "prepares", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology. Shareholders should specifically consider the factors identified in this document, which could cause actual results to differ, before making any decision whether to vote in favour of the Resolutions. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Such risks, uncertainties and other factors include those set out more fully in Part II (Risk Factors) and include, among others: general economic and business conditions, industry trends, competition, changes in government regulation, economic downturn and the Group's ability to implement expansion plans. These forward-looking statements speak only as at the date of this document. Except as required by the FCA, the Listing Rules, the Prospectus Rules, the DTRs, the London Stock Exchange, applicable law or relevant regulation, the Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained in this document to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. This statement does not seek to qualify the working capital statement given at paragraph 6 of Part VII (Additional Information) of this document.

## 6. Exchange Rates

The US Services division's historic financial information has been translated into Sterling from US Dollars at the following rates of exchange, unless otherwise stated:

	<u>Income statement<sup>(1)</sup></u>	<u>Balance sheet</u>
<b>6 months to 30 September 2013</b> . . . . .	1.54	1.62
<b>Year to 31 March 2013</b> . . . . .	1.58	1.52
<b>Year to 31 March 2012</b> . . . . .	1.60	1.60
<b>Year to 31 March 2011</b> . . . . .	1.56	1.60

(1) These are the average exchange rates prevailing during the period.

The transaction proceeds and post-completion payments to repay private placement debt and associated accelerated interest costs have been translated into Sterling at a rate of 1.65.

## 7. Rounding

Certain figures included in this document and in the information incorporated by reference into this document have been subject to rounding adjustments. Accordingly, discrepancies in tables between the totals and the sums of the relevant amounts is due to rounding.

## 8. Time

All references in this document to time are to London time unless stated.

## 9. Definitions

Capitalised terms used in this document have the meanings ascribed to them in Part VIII (Definitions) of this document.

## PART IV—FINANCIAL INFORMATION RELATING TO THE US SERVICES DIVISION

The following historical financial information relating to the US Services division has been extracted without material adjustment, other than as noted below, from the consolidation schedules that underlie the audited consolidated financial information of the Group for the years ended 31 March 2013, 31 March 2012 and 31 March 2011 and the unaudited interim financial information of the Group for the six months ended 30 September 2013. The historical financial information represents the current composition of the US Services division and the financial information in respect of the components that have previously been divested have been excluded.

The financial information in this Part IV (Financial Information relating to the US Services division) does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The consolidated statutory accounts for the Group in respect of the financial years ended 31 March 2013, 31 March 2012 and 31 March 2011 have been delivered to the Registrar of Companies. The auditor's reports in respect of those statutory accounts were unqualified and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The financial information in this Part IV (Financial Information relating to the US Services division) has been prepared using the IFRS accounting policies used to prepare the consolidated financial statements of the Group for the 12 months ended 31 March 2013.

Shareholders should read the whole of this document and not rely solely on the summarised financial information in this Part IV (Financial Information relating to the US Services division).

### 1. Consolidated income statement

	FY11	FY12	FY13	Six months ended 30 September 2013
	(£ million)			
<b>Revenue</b> . . . . .	<b>577.2</b>	<b>523.7</b>	<b>463.8</b>	<b>222.2</b>
Operating costs excluding depreciation, amortisation and impairment . . . . .	(531.3)	(484.7)	(438.4)	(211.5)
<b>EBITDA (earnings before interest, tax, depreciation and amortisation)</b> . . . . .	<b>45.9</b>	<b>39.0</b>	<b>25.4</b>	<b>10.7</b>
Depreciation of property, plant and equipment . . . . .	(2.0)	(1.8)	(1.6)	(0.6)
Amortisation of intangible assets (underlying) . . . . .	(0.2)	(0.1)	(0.1)	—
<b>Underlying operating profit</b> . . . . .	<b>43.7</b>	<b>37.1</b>	<b>23.7</b>	<b>10.1</b>
Impairment of goodwill . . . . .	—	—	(246.7)	—
Restructuring costs . . . . .	—	—	(9.1)	—
Amortisation of intangible assets arising from acquisitions . . . . .	(10.0)	(9.1)	(8.6)	(3.8)
<b>Operating profit/(loss)</b> . . . . .	<b>33.7</b>	<b>28.0</b>	<b>(240.7)</b>	<b>6.3</b>
Finance expense . . . . .	—	—	—	(0.3)
<b>Profit/(loss) before tax</b> . . . . .	<b>33.7</b>	<b>28.0</b>	<b>(240.7)</b>	<b>6.0</b>
Taxation (expense)/income . . . . .	(21.0)	(15.6)	17.6	(2.8)
<b>Profit/(loss) for the period</b> . . . . .	<b>12.7</b>	<b>12.4</b>	<b>(223.1)</b>	<b>3.2</b>



## 2. Consolidated statement of financial position

	As at 31 March 2013	As at 30 September 2013
	(£ million)	
<b>Non-current assets</b>		
Goodwill . . . . .	137.7	129.2
Intangible assets . . . . .	45.1	38.5
Property, plant and equipment . . . . .	9.1	7.7
Deferred tax asset . . . . .	7.4	7.1
	<u>199.3</u>	<u>182.5</u>
<b>Current assets</b>		
Inventories . . . . .	0.9	0.7
Trade and other receivables . . . . .	102.9	88.1
Current tax . . . . .	7.5	3.8
Cash and cash equivalents . . . . .	11.3	20.9
	<u>122.6</u>	<u>113.5</u>
<b>Total assets</b> . . . . .	<u>321.9</u>	<u>296.0</u>
<b>Current liabilities</b>		
Trade and other payables . . . . .	(68.9)	(57.1)
Provisions . . . . .	(7.4)	(3.8)
	<u>(76.3)</u>	<u>(60.9)</u>
<b>Non-current liabilities</b>		
Provisions . . . . .	(4.0)	(1.7)
Other payables . . . . .	(0.4)	(1.1)
	<u>(4.4)</u>	<u>(2.8)</u>
<b>Total liabilities</b> . . . . .	<u>(80.7)</u>	<u>(63.7)</u>
<b>Net assets</b> . . . . .	<u>241.2</u>	<u>232.3</u>

## **PART V**

### **SECTION A—UNAUDITED PRO FORMA FINANCIAL INFORMATION**

The unaudited pro forma statement of consolidated net assets of the Retained Group set out below has been prepared on the basis set out in the notes below to illustrate the effect of the Disposal on the consolidated net assets of the Retained Group as at 30 September 2013 had the Disposal taken place on that date.

The unaudited pro forma statement of consolidated net assets, which has been produced for illustrative purposes only, by its nature addresses a hypothetical situation and, therefore, does not represent the Retained Group's actual financial position or results. The unaudited pro forma financial information is compiled on the basis set out in the notes below and in accordance with the requirements of Listing Rule 13.3.3R. It is based on the consolidated unaudited interim financial statements of the Group as at 30 September 2013 and on the financial information of the US Services division as at 30 September 2013 contained in Part IV (Financial Information relating to the US Services division) of this document.

Shareholders should read the whole of this document and not rely solely on the summarised financial information contained in this Part V (Unaudited Pro Forma Financial Information). KPMG's report on the unaudited pro forma statement of net assets is set out in Section B of this Part V (Accountants' Opinion on Pro Forma Financial Information).

## Unaudited pro forma statement of net assets of the Group

At 30 September 2013

	Group (Note 1)	Adjustment: Disposal of US Services division (Note 2)	Adjustment: Net transaction proceeds (Note 3)	Adjustment: Repayment of private placement debt (Note 4)	Adjustment: Pension contribution (Note 5)	Pro forma as at 30 September 2013
	(£ million)					
<b>Non-current assets</b>						
Goodwill . . . . .	274.1	(129.2)				144.9
Intangible assets . . . . .	50.0	(38.5)				11.5
Property, plant and equipment . . . . .	233.6	(7.7)				225.9
Other financial assets . . . . .	3.1					3.1
Investments . . . . .	0.4					0.4
Deferred tax asset . . . . .	15.4	(7.1)				8.3
	<u>576.6</u>	<u>(182.5)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>394.1</u>
<b>Current assets</b>						
Inventories . . . . .	20.5	(0.7)				19.8
Other financial assets . . . . .	2.8					2.8
Trade and other receivables . . . . .	222.5	(88.1)				134.4
Investments . . . . .	2.2					2.2
Cash and cash equivalents . . . . .	276.5		94.0	(178.8)	(6.0)	185.7
	<u>524.5</u>	<u>(88.8)</u>	<u>94.0</u>	<u>(178.8)</u>	<u>(6.0)</u>	<u>344.9</u>
<b>Total assets</b> . . . . .	<u>1,101.1</u>	<u>(271.3)</u>	<u>94.0</u>	<u>(178.8)</u>	<u>(6.0)</u>	<u>739.0</u>
<b>Current liabilities</b>						
Trade and other payables . . . . .	(394.5)	57.1				(337.4)
Current tax . . . . .	(7.6)	(3.8)				(11.4)
Provisions . . . . .	(7.5)	3.8				(3.7)
Other financial liabilities . . . . .	(1.8)					(1.8)
	<u>(411.4)</u>	<u>57.1</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(354.3)</u>
<b>Non-current liabilities</b>						
Retirement benefit obligation . . . . .	(24.8)				6.0	(18.8)
Deferred tax liability . . . . .	(3.3)					(3.3)
Provisions . . . . .	(19.1)	1.7				(17.4)
Other financial liabilities . . . . .	(160.1)			150.3		(9.8)
Other payables . . . . .	(8.7)	1.1				(7.6)
	<u>(216.0)</u>	<u>2.8</u>	<u>—</u>	<u>150.3</u>	<u>6.0</u>	<u>(56.9)</u>
<b>Total liabilities</b> . . . . .	<u>(627.4)</u>	<u>59.9</u>	<u>—</u>	<u>150.3</u>	<u>6.0</u>	<u>(411.2)</u>
<b>Net assets</b> . . . . .	<u>473.7</u>	<u>(211.4)</u>	<u>94.0</u>	<u>(28.5)</u>	<u>—</u>	<u>327.8</u>
<b>Net cash</b> . . . . .	<u>120.5</u>	<u>—</u>	<u>94.0</u>	<u>(28.5)</u>	<u>(6.0)</u>	<u>180.0</u>

Notes:

- The financial information in respect of the Group has been extracted, without material adjustment, from the published unaudited interim results of the Group.
- The financial information in respect of the US Services division has been extracted without material adjustment from the financial information for the US Services division set out in Part IV (Financial Information relating to the US Services division). Cash balances have been excluded, reflecting the fact that cash is excluded from the assets and liabilities to be transferred to the Purchaser.
- Represents the net transaction proceeds associated with the Disposal. The consideration receivable comprises US\$165 million (£100 million) cash plus up to US\$50 million (£30 million) contingent on the future operating results of the US Services division. The pro forma includes the US\$165 million receivable (£100 million) on completion, but does not include an estimate of the contingent element of the proceeds. A deduction of £6 million has been made in respect of directly attributable transaction costs, payable to the Group's sponsors, legal advisors and accountants, including certain costs relating to the strategic review. Additionally, the board of QNA has awarded bonuses and change of control agreements to certain QNA directors and management that could result in up to £6 million of payments in accordance with the terms of these contractual arrangements. These payments are not included within the net transaction proceeds. £5 million of these payments are contingent on future conditions, for example cessation of employment with the US Services division, and £1 million of these payments are contingent upon completion of the proposed Disposal.

4. The Company will make an early payment of its remaining private placement debt of approximately US\$248 million (£150.3 million), with associated accelerated interest costs of approximately US\$47.1 million (£28.5 million) paid from the proceeds of the Disposal. The additional cash requirement to repay the full amount of private placement debt, that will not be satisfied from the net cash proceeds of the Disposal, will be satisfied from the Group's existing cash balances.
5. The Company will make a one-off cash payment of £6 million into its UK defined benefit pension scheme from the proceeds of the Disposal.
6. The financial information for each of the Group and the US Services division as at 30 September 2013 have been translated into sterling at the closing spot rate (1.62) as at 30 September 2013. The adjustments in respect of net transaction proceeds and repayment of private placement debt are translated into sterling at a rate of 1.65. The translated sterling figures are therefore subject to changes in the US\$/£ foreign exchange rate.
7. No adjustment has been made to reflect the trading results of the Company or the US Services division since 30 September 2013 or any changes in its financial position in this period. An impairment arising from the difference between the net disposal proceeds and the carrying value of the US Services division shown above will be reflected in the 31 March 2014 consolidated financial statements of the Group and the US Services division. Based on the pro forma information above and assuming no contingent consideration is payable the impairment had the transaction taken place at 30 September 2013 would have been £117.4 million, however the actual amount will not be determined until the 31 March 2014 audit is complete.
8. Should the Disposal have occurred on 1 April 2013 the impact on earnings for the six months ended 30 September 2013 and the year ended 31 March 2014 would be earnings dilutive but net cash positive. The financial information does not illustrate the effect of the share buyback, which is expected to be earnings accretive.

## SECTION B—ACCOUNTANTS' OPINION ON PRO FORMA FINANCIAL INFORMATION



**KPMG LLP**  
**Transaction Services**  
15 Canada Square  
Canary Wharf  
London E14 5GL  
United Kingdom

Tel +44 (0) 20 7311 1000  
Fax +44 (0) 20 7311 3311  
DX 157460 Canary Wharf 5

The Directors  
QinetiQ Group plc  
Cody Technology Park  
Ively Road  
Farnborough  
Hampshire, GU14 0LX

25 April 2014

Dear Sirs

### **QinetiQ Group plc**

We report on the pro forma financial information (the 'Pro forma financial information') set out in Part V of the Class 1 circular dated 25 April 2014, which has been prepared on the basis described in notes 1 to 8, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by QinetiQ Group plc in preparing the financial statements for the period ended 30 September 2013. This report is required by paragraph 13.3.3R of the Listing Rules of the Financial Conduct Authority and is given for the purpose of complying with that paragraph and for no other purpose.

### *Responsibilities*

It is the responsibility of the directors of QinetiQ Group plc to prepare the Pro forma financial information in accordance with paragraph 13.3.3R of the Listing Rules of the Financial Conduct Authority.

It is our responsibility to form an opinion, as required by paragraph 7 of Annex II of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and which we may have to Ordinary shareholders as a result of the inclusion of this report in the Class 1 circular, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Listing Rule 13.4.1R(6), consenting to its inclusion in the Class 1 circular.

### *Basis of opinion*

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the directors of QinetiQ Group plc.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of QinetiQ Group plc.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

### *Opinion*

In our opinion:

- the Pro forma financial information has been properly compiled on the basis stated; and
- such basis is consistent with the accounting policies of QinetiQ Group plc.

Yours faithfully

**KPMG LLP**

## PART VI—PRINCIPAL TERMS OF THE PROPOSED DISPOSAL

### 1. Introduction

On 22 April 2014, the Share Purchase Agreement between QinetiQ US Holdings, Inc., a United States corporation organised under the laws of the State of Delaware, the Company (solely with respect to certain sections of the Share Purchase Agreement), and The SI Organization, Inc., a United States corporation organised under the laws of the State of Delaware, was executed. Pursuant to the terms of the Share Purchase Agreement, the Seller has conditionally agreed to transfer the entire issued share capital of QNA to the Purchaser.

The principal terms of the Share Purchase Agreement are set out in this Part VI (Principal Terms of the Proposed Disposal).

### 2. Structure of the Disposal

Pursuant to the Share Purchase Agreement, the Company will sell the Sale Shares, and through this sale, indirectly transfer ownership of the following subsidiaries: 3H Technology, L.L.C.; 3H Technology Federal Corp.; Analex Corporation; Apogen Technologies, Inc.; Beta Analytics, Incorporated; ComGlobal Systems, Incorporated; Dominion Technology Resources, Inc.; ITS Services, Inc.; Neptune Sciences, Inc.; Pimsol, LLC; Planning Systems Incorporated; Science and Engineering Associates, Inc.; SimAuthor, Inc.; Westar Aerospace & Defense Group, Inc.; and Westar Display Technologies, Inc. (such subsidiaries are collectively referred to as the “**Included Subsidiaries**”).

### 3. Conditions to Completion

Completion is subject to customary closing conditions, including, *inter alia*:

- approval of the Disposal by Shareholders through the passing of the Disposal Resolution;
- the receipt of certain US government approvals and/or authorisations (for example, a Hart-Scott-Rodino anti-trust filing) and there not being in effect any governmental order making the Disposal contemplated by the Share Purchase Agreement illegal, or otherwise restraining or prohibiting consummation of such transactions;
- all representations and warranties of the Seller (without regard to any qualifications therein as to materiality or Material Adverse Effect) being true and correct at Completion as though made on such date, except to the extent such representations and warranties by their terms address matters as of a specified date, in which case they shall be required to be true and correct as of such date, except, to the extent that the failure of such representations and warranties to be true and correct, in the aggregate, would not have a Material Adverse Effect, provided that (i) the Seller’s fundamental representations and warranties other than with respect to taxes shall be true and correct as of the applicable dates specified in the Share Purchase Agreement; and (ii) the representations and warranties of the Seller with respect to sufficiency of assets, employee benefit matters and taxes (in each case, without regard to any qualifications therein as to materiality or Material Adverse Effect) shall be true and accurate in all material respects as of the dates specified in the Share Purchase Agreement;
- each of the Seller and the Purchaser shall have performed and complied in all material respects with its respective agreements, covenants and conditions required by the Share Purchase Agreement to be performed or complied with on or prior to Completion; and
- there having not occurred any change, effect, event, occurrence, state of facts or developments that has had, individually or in the aggregate, a Material Adverse Effect on QNA and the Included Subsidiaries.

Following the satisfaction of all the closing conditions, Completion is expected to occur no later than three business days thereafter, or on such other date as the parties may mutually agree.

If the conditions of the Seller or the Purchaser to Completion have not been satisfied on or before the 120th day following the date of the Share Purchase Agreement, the “**Drop Dead Date**”, either the Seller or the Purchaser, as applicable, subject to certain conditions, has the right to terminate the Share Purchase Agreement on written notice to the other party, and the Share Purchase Agreement will cease to have effect.



Either party will also have the right to terminate the transaction if, *inter alia*, there shall be any law that makes consummation of the transactions contemplated by the Share Purchase Agreement illegal or otherwise prohibited, or if, save for certain conditions, a governmental order restraining or enjoining the transactions contemplated by the Share Purchase Agreement is issued and such governmental order shall have become final and non-appealable.

The Seller will be entitled to receive a cash termination fee from the Purchaser of US\$10 million if (i) all of the Purchaser's conditions and the obligations of the Purchaser to complete the Disposal have been satisfied, (ii) the Seller has irrevocably notified the Purchaser that it is ready and willing to consummate the Disposal, (iii) the Purchaser fails to consummate the Disposal within five business days after receiving such notice, and (iv) the Seller terminates the Share Purchase Agreement as a result.

The Purchaser will be entitled to receive a cash termination fee from the Seller of US\$5 million if Shareholders fail to pass the Disposal Resolution.

The Purchaser intends to fund US\$150 million of the initial consideration through bank borrowings, in respect of which it has entered into facility commitment letters with its banks. These are subject to a limited number of conditions which the Purchaser has represented to the Company it believes will be satisfied at or prior to Completion. In respect of the balance of the initial consideration, at Completion, the Purchaser will fund this through existing resources or equity funding which has been committed by Veritas (such commitment being capped at US\$15 million).

#### **4. Consideration**

The Purchaser has agreed to pay US\$165 million (approximately £100 million) in cash consideration at Completion and up to an additional US\$50 million in cash pursuant to an earn-out for the sale of the Sale Shares (the "**Consideration**").

The Consideration is subject to a post-Completion adjustment to give effect to certain agreed upon levels of working capital of QNA.

The earn-out of up to US\$50 million is based on fiscal year 2015 gross profit for QNA (linear between US\$100 million to US\$132 million).

#### **5. Pre-Completion Covenants**

Upon the execution of the Share Purchase Agreement until Completion, the Seller shall use reasonable best efforts to cause QNA and the Included Subsidiaries to conduct their business and activities in the ordinary course of business and use reasonable best efforts not to cause or permit QNA or the Included Subsidiaries to take certain enumerated actions.

#### **6. Post-Completion Covenants**

Subject to certain exceptions, the Seller (and its affiliates) has agreed for a period of two years following Completion not to compete in the business of the type provided by the US Services division.

Subject to certain exceptions, the Purchaser has agreed for a period of two years following Completion to cause QNA and the Included Subsidiaries not to compete in the business of the type provided by the Retained Group.

#### **7. Representations and Warranties, Indemnities and Parent Guarantee**

The Share Purchase Agreement contains a set of representations and warranties given by the Seller which are customary for a transaction of this nature. The representations and warranties relate to, amongst other things: organisation and authority of the Seller and QNA, capitalisation and taxes, and solely with respect to QNA, financial statements, title to assets, compliance with laws and material contracts.

The survival period for the Purchaser's right to bring a claim for a breach of warranty will cease within fifteen months after Completion, save that the period in which to bring a claim with respect to certain representations and warranties will survive for longer periods including, in some cases, up to the applicable statute of limitations.

The Seller's liability under the representations and warranties, which will entitle the Purchaser to recover in respect of any breach of such representations and warranties, is subject to, inter alia, the following limitations:

- (a) a deductible, which limits the Seller's liability for indemnification claims until all losses, in the aggregate, exceed US\$2.5 million, in which event the Seller shall only be liable for losses in excess of such amount;
- (b) a "mini-basket", which excludes, including for purposes of calculating whether the deductible threshold has been met, the Seller's liability for individual claims or a series of claims that are less than US\$100,000; and
- (c) an overall cap on the Seller's liability in respect of indemnification payments of US\$14.5 million.

The Seller will also indemnify the Purchaser, for all taxes imposed on QNA and the Included Subsidiaries for tax periods (or portions thereof) ending on or prior to the date of Completion.

The foregoing limitations on indemnification, however, do not apply to breaches by the Seller of its fundamental representations, losses stemming from certain pre-existing claims and litigation matters, losses relating to the separation of the Retained Group from the US Services division, losses stemming from tax matters and breaches by the Seller of its covenants.

The Company will provide a guarantee of the Seller's pre- and post-Completion obligations (including those obligations relating to indemnification).

#### **8. Tax Covenant**

Pursuant to the tax covenant of the Share Purchase Agreement, the Seller has agreed to be responsible for the preparation and filing of all tax returns of QNA and the Included Subsidiaries to be filed after Completion but which relate to tax periods ending on or prior to Completion and the satisfaction of tax liabilities for that period. The Purchaser has agreed to be responsible for the preparation and filing of any tax returns which relate to tax periods beginning before and ending after Completion (i.e., the straddle period) and the satisfaction of tax liabilities following Completion.

#### **9. Governing law**

The Share Purchase Agreement is governed by the laws of the State of Delaware.

## PART VII—ADDITIONAL INFORMATION

### 1. Responsibility

The Company and the Directors, whose names appear on page 2 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

### 2. Company address

The registered office and the principal place of business in the UK of the Company is located at Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX (telephone number +44 1252 392000).

### 3. Directors' and senior executives' interests

3.1 As at 24 April 2014 (being the latest practicable date prior to the posting of this document), the aggregate interests of each of the Directors in the share capital of the Company which have been notified by each Director to the Company pursuant to DTRs 3.1.2R and 3.1.3R or the interests of persons connected with them which would, if the connected person were a Director, be required to be disclosed under DTRs 3.1.2R and 3.1.3R and the existence of which is known to, or could with reasonable diligence be ascertained by, that Director) were as follows:

<u>Director</u>	<u>Number of Ordinary Shares</u>	<u>Percentage of issued share capital</u>
Mark Elliott . . . . .	125,000	0.02
Leo Quinn <sup>(1)</sup> . . . . .	1,661,827	0.25
David Mellors <sup>(1)</sup> . . . . .	375,921	0.06
Michael Harper . . . . .	20,000	0.003
Noreen Doyle . . . . .	24,662	0.004
Admiral Sir James Burnell-Nugent . . . . .	11,419	0.002
Paul Murray . . . . .	56,077	0.008
Susan Searle . . . . .	5,000	0.001

Note: Figures for Leo Quinn and David Mellors include their holdings in the All-Employee Share Incentive Plan (see 3.3(e) below).

3.2 As at 24 April 2014 (being the latest practicable date prior to the posting of this document), the aggregate interests in the share capital of the Company of those senior executives who have regular access to inside information relating, directly or indirectly, to the Company and who have power to make managerial decisions affecting the future development and business prospects of the Company are as follows:

<u>Senior Executive</u>	<u>Number of Ordinary Shares</u>	<u>Percentage of issued share capital</u>
Jack Dyer Crouch II . . . . .	34,742	0.005

3.3 The following options and awards over Ordinary Shares have been granted to the Directors and senior executives and are outstanding as at 24 April 2014 (being the latest practicable date prior to the posting of this document):

(a) **Directors' and senior executives' interests under the Deferred Annual Bonus Plan**

<u>Name of Director</u>	<u>Date of Grant</u>	<u>Vesting date</u>	<u>Number of Ordinary Shares under option<sup>(1)</sup></u>
Leo Quinn . . . . .	28 June 2013	28 June 2016	247,129
	30 June 2012	30 June 2015	229,596
	1 July 2011	1 July 2014	226,777
David Mellors . . . . .	28 June 2013	28 June 2016	157,196
	30 June 2012	30 June 2015	117,173
	1 July 2011	1 July 2014	70,379
<b>Total</b> . . . . .			<u>1,048,250</u>

(1) There is no exercise price for any of these awards.

(b) **Directors' and senior executives' interests under the Performance Share Plan**

<u>Name of Director</u>	<u>Date of Grant</u>	<u>Vesting date</u>	<u>Number of Ordinary Shares under option<sup>(1)</sup></u>
Leo Quinn . . . . .	28 June 2013	28 June 2016	471,632
	9 August 2012	9 August 2015	560,064
David Mellors . . . . .	28 June 2013	28 June 2016	300,000
	9 August 2012	9 August 2015	356,250
<b>Total</b> . . . . .			<u>1,687,946</u>

(1) There is no exercise price for any of these awards.

(c) **Directors' and senior executives' interests under the Value Sharing Plan**

<u>Name of Director</u>	<u>Date of Grant</u>	<u>Vesting date</u>	<u>Number of Ordinary Shares under option<sup>(1)</sup></u>
Leo Quinn . . . . .	26 May 2011	26 May 2014	1,531,800
	29 July 2010	29 July 2014	309,102
David Mellors . . . . .	26 May 2011	26 May 2014	765,900
	29 July 2010	29 July 2014	154,551
<b>Total</b> . . . . .			<u>2,761,353</u>

(1) There is no exercise price for any of these awards.

(d) **Directors' and senior executives' interests under the Restricted Stock Unit Plan**

<u>Name of senior executive</u>	<u>Date of Grant</u>	<u>Vesting date</u>	<u>Number of Ordinary Shares under option<sup>(1)</sup></u>
Jack Dyer Crouch II . . . . .	26 August 2010	26 August 2014	21,250
	26 August 2010	26 August 2014	21,250
	2 August 2011	2 August 2014	21,250
	2 August 2011	2 August 2015	21,250
	12 September 2012	12 September 2016	11,250
	12 September 2012	12 September 2015	11,250
	12 September 2012	12 September 2014	11,250
	12 September 2012	12 September 2014	22,500
	12 September 2012	12 September 2015	22,500
	12 September 2012	12 September 2016	22,500
	1 August 2013	1 August 2017	98,125
	1 August 2013	1 August 2016	98,125
	1 August 2013	1 August 2015	98,125
	1 August 2013	1 August 2015	98,125
	1 August 2013	1 August 2014	98,125
	1 August 2013	1 August 2014	98,125
	1 August 2013	1 August 2016	98,125
	1 August 2013	1 August 2017	98,125
<b>Total</b> . . . . .			<u>971,250</u>

(1) There is no exercise price for any of these awards.

(e) **Directors' and senior executives' interests under the All-Employee Share Incentive Plan**

<u>Name of Director</u>	<u>Number of Ordinary Shares held beneficially under the SIP</u>
Leo Quinn . . . . .	5,568
David Mellors . . . . .	7,203
<b>Total</b> . . . . .	<u>12,771</u>

3.4 Save as disclosed in paragraphs 3.1, 3.2 and 3.3 above, the Directors and named senior executives do not have any interests in the share capital of the Company.

3.5 So far as the Company is aware, as at 24 April 2014 (being the latest practicable date prior to the publication of this document), the following persons (other than Directors) had notifiable interests in three per cent or more of the entire issued share capital of the Company:

<u>Name</u>	<u>Number of Ordinary Shares</u>	<u>Percentage of the issued share capital</u>
Artisan Partners . . . . .	36,320,010	5.50%
Fidelity International Limited . . . . .	31,258,590	4.73%
Fidelity Management and Research Company . . . . .	32,986,143	4.99%
Investec . . . . .	33,160,928	5.02%
Norges Bank . . . . .	26,310,597	3.98%
Ruane Cunniff & Goldfarb, Inc. . . . .	64,117,000	9.71%
Schroders . . . . .	35,429,785	5.36%

4. **Directors' and senior executives' service agreements**

The Company has entered into the following contracts or, as appropriate, a letter of appointment with its Directors and senior executives.

#### 4.1 Service Agreements of the Executive Directors

Details of the Executive Directors' service contracts can be found on page 58 of the Company's 2013 Annual Report and Accounts in the section entitled "Remuneration Report" and are incorporated herein by reference.

The Executive Directors have entered into service agreements with the Company. Details of these service agreements are set out below.

<u>Director</u>	<u>Date of service agreement</u>	<u>Commencement date of office</u>	<u>Notice terms</u>	<u>Basic Annual Salary</u> (£)	<u>Annual bonus payment for the financial year ended 31 March 2013</u> (£)
Leo Quinn . . . . .	28 October 2009	November 2009	12 months	615,325	896,100
David Mellors . . . . .	20 May 2008	August 2008	12 months	391,400	570,000

#### 4.2 Contracts and Letters of Appointment of the Non-Executive Directors

A summary of the Non-Executive Directors' letters of appointment can be found on page 58 of the Company's 2013 Annual Report and Accounts in the section entitled "Remuneration Report" and are incorporated herein by reference. The current annual fees payable to the Non-Executive Directors are set out below. Save as disclosed in this paragraph 4.2 of this Part VII (Additional Information), there have been no changes to the terms of the letters of appointment of the Non-Executive Directors since the publication of the 2013 Annual Report and Accounts.

The Non-Executive Directors have entered into letters of appointment with the Company. Details of these letters of appointment are set out below.

<u>Director<sup>(3)</sup></u>	<u>Effective date of current appointment</u>	<u>Date of first appointment</u>	<u>Notice terms</u>	<u>Annual Fee<sup>(2)</sup></u> (£)
Mark Elliott <sup>(1)</sup> . . . . .	10 February 2010	June 2009	—	228,750
Michael Harper . . . . .	22 November 2011	November 2011	—	53,000
Noreen Doyle . . . . .	20 January 2006	October 2005	—	52,000
Admiral Sir James Burnell-Nugent . .	10 April 2010	April 2010	—	52,000
Paul Murray . . . . .	25 October 2010	October 2010	—	52,000
Susan Searle . . . . .	14 March 2014	14 March 2014	1 month	43,000

Notes:

- (1) As Mark Elliott is a US resident, he is paid an accommodation allowance of £75,000 per annum.
- (2) UK resident non-executive directors are paid an additional £2,500 per board meeting held in the US.
- (3) Non-executive Directors' letters of appointment are renewed on a rolling twelve-month basis subject to reappointment at the annual general meeting of the Company.

Save as disclosed above, there are no service agreements between any Director and any member of the Group.

Save as mentioned above in this paragraph 4 of this Part VII (Additional Information), there are no existing or proposed service agreements between any Director and the Company or any of its subsidiaries providing for benefits upon termination of employment.

### 4.3 Service Agreements of the senior executives

Details of these service agreements with the senior executives are set out below.

<u>Senior Executive</u>	<u>Effective date of current appointment</u>	<u>Date of first appointment</u>	<u>Expiry/Notice terms</u>	<u>Basic Annual Salary (US\$)</u>
Jack Dyer Crouch II	1 April 2013	1 April 2013	Initial appointment of two years and renewed annually thereafter unless 90 days' advance notice of termination given by either party	550,000

### 5. Material contracts

5.1 The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Retained Group (a) in the two years immediately preceding the date of this document and are, or may be, material to the Retained Group or (b) contain provisions under which any member of the Retained Group has any obligation or entitlement which is material to the Retained Group as at the date of this document:

- (a) Details of the terms of the Share Purchase Agreement are set out in Part VI (Principal Terms of the Proposed Disposal) of this document.
- (b) On 31 March 2013, Foster-Miller, Inc. entered into an amended and restated transitional services agreement with QNA pursuant to which each of Foster-Miller, Inc. and QNA have agreed to provide certain HR, finance, IT, security and marketing services to the other party for a period of six months and two weeks from 31 March 2014, unless an earlier termination date is specified in relation to the particular service to be provided.
- (c) On 29 March 2012, QinetiQ Limited entered into an agreement with the MOD pursuant to which QinetiQ Limited agreed to discharge the accumulated liabilities of the MOD which had arisen in connection with restructuring costs incurred in previous years. A payment of £65 million was made to QinetiQ Limited in connection with this agreement.
- (d) On 30 June 2011, a valuation of the QinetiQ pension scheme operated in the UK was undertaken by Aon Hewitt Limited, pursuant to which the Company, QinetiQ Holdings Limited and QinetiQ Limited entered into an agreement with QinetiQ Pension Scheme Trustee Limited (the "**Trustee**") to provide stability to the scheme. Pursuant to this agreement, QinetiQ PFP Limited Partnership (the "**Partnership**") was established. Under this arrangement, certain properties were transferred to the Partnership, which are subject to a 20-year sale and leaseback agreement. The scheme's interest in the Partnership entitles it to an annual distribution of approximately £2.5 million for 20 years; indexed with reference to the consumer price index. These contributions will replace part of the regular contributions made under the past deficit recovery payments plan. The scheme's interest in the Partnership will revert back to QinetiQ Limited in 2032. QinetiQ Limited retains the operational flexibility to substitute properties of equivalent value within the Partnership.
- (e) On 24 February 2006, the Company, QinetiQ Holdings Limited, QinetiQ Overseas Holdings Limited, QNA, QinetiQ US Holdings Inc., John Currier, Peter Marino and Riley Mixson entered into an agreement with the US Department of Defence to regulate the ownership, management and operation of QNA and its subsidiaries and to ensure that the Group complies with the US National Industrial Security Program, as amended to date (the "**Proxy Agreement**"), pursuant to which QinetiQ US Holdings Inc. has selected four US citizens, who hold the requisite US security clearances, as proxy holders to exercise the voting rights in QNA. In addition to their powers as directors, the proxy holders have power under the Proxy Agreement to exercise many prerogatives of share ownership of QNA. The proxy holders have a fiduciary duty, and agree, to perform their role in the best interests of shareholders (including the legitimate economic interest), and in a manner consistent with the national security interests of the US.
- (f) On 30 September 2005, QinetiQ Limited entered into an agreement for the lease of property at Fort Halstead in Kent with Armstrong (Kent) LLP, for a 299 year term. As part of this arrangement, the property is sublet back to QinetiQ Limited for a 90 year term. The terms of the



agreement provide that the Group has a contingent entitlement to additional payments from Armstrong (Kent) LLP in the event that additional planning consents are secured by them. The quantum of any such payment is dependent upon the scope of the consent obtained.

- (g) On 9 January 2004, Precis (2187) Limited entered into agreements with CGNU Life Assurance Limited for the sale of property in Chertsey. The terms of the agreement provide that the Group has a contingent entitlement to additional payments from the purchaser in the event that additional planning consents are secured by the purchaser. The quantum of any of any such payment is dependent upon the scope of the consent obtained.
- (h) On 28 February 2003, QinetiQ Limited entered into a long-term partnering agreement with the MOD for a term of 25 years, pursuant to which QinetiQ Limited, manages 17 core MOD-owned sites and is responsible for providing test and evaluation and training support services; maintaining associated equipment, land and buildings; as well as delivering an investment programme to ensure that the capability is maintained and developed to meet the MOD's evolving needs. As part of this agreement, and subject to the necessary permissions from the MOD, QinetiQ Limited is entitled to make use of certain MOD-owned facilities for the purpose of its other business activities.
- (i) On 1 July 2001, QinetiQ Limited and QinetiQ Group plc entered into an agreement with the MOD to acquire the business and certain assets of the Defence Research and Evaluation Agency pursuant to which the MOD retained certain rights in respect of the freehold land and buildings transferred. The terms of agreement provided that the onward transfer of properties designated as strategic assets may only be undertaken with the prior approval of the MOD. Pursuant to the agreement, the MOD also had the right to purchase any strategic assets in certain circumstances and retained an interest in future profits on disposal following a 'trigger event'. A 'trigger event' included the granting of planning permission for development and/or change of use, and the disposition of any of the acquired land and buildings. During the 12 years from 1 July 2001, following a 'trigger event', the MOD was entitled to claw-back a proportion of the gain on each individual property transaction in excess of a 30 per cent gain on a July 2001 professional valuation. The proportion of the excess gain due to the MOD was based on a sliding scale that reduced over time from 50 per cent to 9 per cent.

5.2 The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the US Services division (a) in the two years immediately preceding the date of this document and are, or may be, material to the US Services division or (b) contain provisions under which any member of the US Services division has any obligation or entitlement which is material to the US Services division as at the date of this document:

- (a) the Proxy Agreement.

## 6. Working capital of the Retained Group

The Company is of the opinion that the Retained Group has sufficient working capital for its present requirements, that is, for at least the next twelve months from the date of this document.

## 7. Litigation

7.1 There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may or have had during the 12 months prior to the date of this document a significant effect on the Retained Group and/or the Retained Group's financial position or profitability.

7.2 Save as disclosed in this paragraph 7.2, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may or have had during the 12 months prior to the date of this document a significant effect on the US Services division and/or the US Services division's financial position or profitability:

- (a) In August 2011, Lazard Technology Partners, LLC, as representative of the former equity holders of Cyveillance, Inc., filed a complaint alleging that QNA had engaged in acts designed to thwart Cyveillance's attempts to attain the revenue targets that were necessary for the former equity holders of Cyveillance to receive earn-out payments. The amount being claimed is up to

US\$50 million. QNA deny any such wrongdoing. The trial in this matter has recently concluded and judgment is expected to be given in the next few months.

- (b) ManTech filed a complaint against Analex Corp, a subsidiary of QNA, in May 2011 alleging misappropriation of confidential information and tortious interference with contract in connection with the actions of a former employee of ManTech who was subsequently employed by Analex Corp. The claims were valued at approximately US\$9 million. Judgment has recently been awarded in favour of Analex Corp. ManTech has until 29 April 2014 to appeal the decision.
- (c) In January 2011, the US General Services Administration demanded payment of approximately US\$22 million for alleged overbilling under a contract held by QNA subsidiary ITS Services, Inc. An appeal against the demand has been lodged in the United States Court of Federal Claims.
- (d) The US Internal Revenue Service (“**IRS**”) have issued a Notice of Deficiency asserting an underpayment of income taxes for the tax year ending 31 March 2009 in the amount of US\$13,902,087. The IRS’s deficiency claim seeks to reverse the deduction claimed by QNA in the federal income tax return for that year for costs associated with the acquisition of Dominion Technology Resources, Inc. in 2008. QNA’s position is that the costs associated with purchasing the shares constituted a legitimate compensation deduction against its income tax liability and it has filed a petition in the US Tax Court challenging the IRS demand. The case is scheduled to go to trial in July 2014.

## 8. Significant change

- 8.1 Save for the impairment of £117.4 million referred to in note 7 to the pro forma in Part V (Unaudited Pro Forma Financial Information) of this document, there has been no significant change in the financial or trading position of the Group since 30 September 2013, being the date of the last financial statements of the Company.
- 8.2 Save for the impairment of £117.4 million referred to in note 7 to the pro forma in Part V (Unaudited Pro Forma Financial Information) of this document, there has been no significant change in the financial or trading position of the US Services division since 30 September 2013, being the date to which the financial statements shown in Part IV (Financial Information relating to the US Services division) have been prepared.

## 9. Related Party Transactions

In respect of the periods for which historical financial information appears in this document and in respect of the periods from the end of such financial periods to 24 April 2014, being the latest practicable date prior to the publication of this document, neither the Company nor any other member of the Group has entered into any transactions with related parties.

## 10. Consent

- 10.1 J.P. Morgan Cazenove has given and not withdrawn its written consent to the issue of this document with the inclusion in it of references to its name in the form and context in which it appears.
- 10.2 UBS Investment Bank has given and has not withdrawn its written consent to the issue of this document with the inclusion in it of references to its name in the form and context in which it appears.
- 10.3 Stone Key Partners LLC has given and not withdrawn its written consent to the issue of this document with the inclusion in it of references to its name in the form and context in which it appears.
- 10.4 KPMG LLP (a member of the Institute of Chartered Accountants in England and Wales) has given and has not withdrawn its written consent to the inclusion in this document of its Accountants’ Opinion set out in Section B of Part V (Accountant’s Opinion on Pro Forma Financial Information), in the form and context in which it appears.

## **11. Documents available for inspection and available information**

Copies of the following documents will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays, Sundays and public holidays excepted) until the conclusion of the General Meeting:

- (a) the articles of association of the Company;
- (b) the published audited consolidated accounts of the Group for the two financial years ended 31 March 2013 and for the six months ended 30 September 2013;
- (c) the opinion by KPMG LLP set out in Section B of Part V (Accountants' Opinion on Pro Forma Financial Information) of this document;
- (d) the SPA;
- (e) the consent letters referred to in paragraph 10 of this Part VII (Additional Information); and
- (f) this document.

## PART VIII—DEFINITIONS

The following definitions apply throughout this document and the accompanying Form of Proxy, unless the context otherwise requires:

<b>“All-Employee Share Incentive Plan”</b>	the employee share scheme operated by the Company for employees under which the trustee uses participants’ monthly contributions to purchase shares in the market and then allots to participants one matching share for every three purchased shares (subject to certain conditions being fulfilled);
<b>“Board” or “Directors”</b>	the directors of the Company as at the date of this document whose names are set out on page 2 of this document;
<b>“Buyback Resolution”</b>	the special resolution to be proposed at the General Meeting in connection with the purchase the Company’s own shares in the markets up to a limit of 14.99 per cent of its issued ordinary share capital, as set out in the Notice of General Meeting;
<b>“Completion”</b>	completion of the Disposal in accordance with the SPA;
<b>“Cyveillance”</b>	the business conducted by Cyveillance Inc and its subsidiaries, providing open source threat intelligence and remediation. This business has formerly been reported as part of the US Services division but is to be retained within the QinetiQ Group following the Disposal;
<b>“Deferred Annual Bonus Plan”</b>	the plan under which certain senior executives were required to defer part of their annual bonus as shares with a matching award from the Company subject to achievement of performance conditions;
<b>“Disposal”</b>	the proposed disposal by the Seller of the Sale Shares pursuant to the SPA;
<b>“Disposal Resolution”</b>	the ordinary resolution to be proposed at the General Meeting in connection with the Disposal, as set out in the Notice of General Meeting;
<b>“DTRs”</b>	the disclosure rules and transparency rules made by the FCA (as amended from time to time);
<b>“EMEA Services”</b>	one of the three main divisions within the Group (along with the Global Products and US Services divisions) and which combines world-leading expertise with unique facilities to provide technical assurance, test and evaluation, and training services;
<b>“Financial Conduct Authority” or “FCA”</b>	the Financial Conduct Authority of the UK in its capacity as the competent authority for the purposes of Part VI of FSMA and in the exercise of its functions in respect of admission to the Official List otherwise than in accordance with Part VI of FSMA;
<b>“Form of Proxy”</b>	the form of proxy relating to the General Meeting being sent to Shareholders with this document;
<b>“FSMA”</b>	the Financial Services and Markets Act 2000 of England and Wales, as amended;
<b>“FY”</b>	financial year;
<b>“General Meeting”</b>	the general meeting of the Company convened for 13 May 2014 (or any adjournment of it), notice of which is set out at the end of this document;

<b>“Global Products division”</b>	one of the three main divisions within the Group (along with the EMEA Services and US Services divisions) and which delivers technology-based solutions and contract funded research and development;
<b>“Group”</b>	the Company and its existing subsidiary undertakings;
<b>“IFRS”</b>	International Financial Reporting Standards;
<b>“Included Subsidiaries”</b>	has the meaning given to such term in paragraph 2 of Part VI (Principal Terms of the Proposed Disposal);
<b>“J.P. Morgan Cazenove”</b>	J.P. Morgan Limited (which conducts its UK investment banking business as J.P. Morgan Cazenove);
<b>“Listing Rules”</b>	the listing rules made by the FCA under Part VI of FSMA (as amended from time to time);
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Material Adverse Effect”</b>	save for certain exclusions, any change, effect, event, occurrence, state of facts or development that, individually or in the aggregate, is materially adverse to the assets, properties, business, financial condition or results of operations of the US Services division taken as a whole;
<b>“MOD”</b>	the UK Ministry of Defence;
<b>“NASA”</b>	the National Aeronautics and Space Administration of the United States;
<b>“Notice of General Meeting” or “Notice”</b>	the notice of General Meeting set out at the end of this document;
<b>“Official List”</b>	the Official List of the Financial Conduct Authority;
<b>“Ordinary Shares”</b>	the ordinary shares in the capital of the Company with a par value of £0.01 each in issue as at the date of this document;
<b>“Performance Share Plan”</b>	the discretionary share plan under which participants may be granted award of Company shares, normally subject to continued employment and the satisfaction of agreed performance conditions over a set performance period;
<b>“Prospectus Rules”</b>	the rules made by the FCA under Part VI of FSMA in relation to offers of transferable securities to the public and admission of transferable securities to trading on a regulated market (as amended from time to time);
<b>“Proxy Agreement”</b>	has the meaning given to such term in paragraph 5.1(e) of Part VII (Additional Information);
<b>“Purchaser”</b>	The SI Organization, Inc.;
<b>“QinetiQ” or the “Company”</b>	QinetiQ Group plc;
<b>“QNA”</b>	QinetiQ North America, Inc.;
<b>“Resolutions”</b>	the Disposal Resolution and the Buyback Resolution;
<b>“Restricted Stock Unit Plan”</b>	the long term incentive plan for senior executives in QinetiQ North America by which stock awards are made to recipients based on time and performance criteria;
<b>“Retained Group”</b>	the Group following the disposal of the US Services division;
<b>“Sale Shares”</b>	the entire issued share capital of QNA;
<b>“Seller”</b>	QinetiQ US Holdings, Inc.;
<b>“Shareholder(s)”</b>	holder(s) of Ordinary Shares;

**“SPA” or “Share Purchase Agreement”**

the conditional agreement between, the Company, the Seller and the Purchaser dated 22 April 2014 relating to the transfer of the Sale Shares, the principal terms of which are set out in Part VI (Principal Terms of the Proposed Disposal) of this document;

**“UBS Investment Bank”**

UBS Limited;

**“UK” or “United Kingdom”**

the United Kingdom of Great Britain and Northern Ireland;

**“US Services division”**

QNA and the Included Subsidiaries; and

**“Value Sharing Plan”**

the long-term incentive plan pursuant to which participants are awarded a pre-defined number of shares in the Company for each £1 million of additional shareholder value created.

## PART IX—DOCUMENTS INCORPORATED BY REFERENCE

### 1. Relevant documentation

The following documentation, which was sent to Shareholders at the relevant time and/or is available for inspection in accordance with paragraph 11 of Part VII (Additional Information) of this document, contains information which is relevant to this document.

### 2. Documentation incorporated by reference

The table below sets out the documentation incorporated by reference into this document to ensure that Shareholders and others are aware of all information which, according to the particular nature of the Company, is necessary to enable Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company. For the avoidance of any doubt, no information incorporated by reference in such documentation shall be incorporated by reference into this document.

This document should be read and construed in conjunction with these documents, each of which has been previously published or are published simultaneously with this document and that have been filed with the National Storage Mechanism. Those parts of these documents that are not incorporated by reference are either not relevant for investors or covered elsewhere in this document.

Any information not listed below, but included in the documents incorporated by reference, is given for information purposes only.

<u>Reference Document</u>	<u>Information incorporated by reference</u>	<u>Reference Document Page Reference</u>	<u>Page Reference in this Document</u>
Company's 2013 Annual Report and Accounts	Section entitled "Remuneration Report"	50	24-25



**QINETIQ GROUP PLC**  
**NOTICE OF GENERAL MEETING**

NOTICE is hereby given that a General Meeting of QinetiQ Group plc (the “**Company**”) will be held at 10.00 a.m. on 13 May 2014 at the offices of Ashurst LLP, Broadwalk House, 5 Appold Street, London EC2A 2HA for the purpose of considering and, if thought fit, passing the following resolutions. It is intended to propose resolution 1 as an ordinary resolution and resolution 2 as a special resolution.

**ORDINARY RESOLUTION**

1. THAT the disposal of the entire issued share capital of QinetiQ North America, Inc (the “**Disposal**”) as described in the circular to shareholders of the Company dated 25 April 2014 of which this notice forms part (the “**Circular**”) on the terms and subject to the conditions of a share purchase agreement dated 22 April 2014 (a summary of which is set out in Part VI (Principal Terms of the Proposed Disposal) of the Circular), be and is hereby approved for the purposes of Chapter 10 of the Listing Rules of the Financial Conduct Authority and that each and any of the directors of the Company (the “**Directors**”) (or a duly authorised committee thereof) be and are hereby authorised to take such steps as may be necessary or desirable in connection with, and to implement and complete, the Disposal in accordance with such terms and conditions and to do all such acts and things and make such modifications, variations, revisions, waivers or amendments (not being modifications, variations, revisions, waivers or amendments which are material in nature) to any of the terms of the Disposal as the Directors or a duly authorised committee thereof may in their absolute discretion deem necessary, expedient or appropriate.

**SPECIAL RESOLUTION**

2. That the Company be and is generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 (the “**Act**”) to make market purchases (within the meaning of section 693(4) of the Act) of any of its ordinary shares of 1p each in the capital of the Company (the “**Ordinary Shares**”) on such terms and in such manner as the directors may from time to time determine, provided that:
  - (i) the maximum number of Ordinary Shares which may be purchased is 99,005,408 representing approximately 14.99 per cent of the issued ordinary share capital at 24 April 2014;
  - (ii) the minimum price that may be paid for each Ordinary Share is 1 pence. which amount shall be exclusive of expenses, if any;
  - (iii) the maximum price (exclusive of expenses) that may be paid for each Ordinary Share is an amount equal to the higher of: (i) 105 per cent of the average of the middle market quotations for the Ordinary Shares as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately preceding the day on which such share is contracted to be purchased; and (ii) the higher of the price of the last independent trade and the highest current independent bid on the trading venues where the purchase is carried out, as stipulated by article 5(1) of the EU Buyback and Stabilisation Regulation 2003 (No. 2273/2003);
  - (iv) unless previously renewed, revoked or varied, this authority shall expire at the conclusion of the Annual General Meeting in 2015; and
  - (v) the Company may, before this authority expires, make a contract to purchase Ordinary Shares that would or might be executed wholly or partly after the expiry of this authority, and may make purchases of Ordinary Shares pursuant to it as if this authority had not expired.

**By order of the Board**

J. Messent  
Company Secretary

25 April 2014

*Registered Office: Cody Technology Park, Ively Road, Farnborough, Hampshire GU14 0LX*  
*Registered in England and Wales No: 04586941*

Notes:

1. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that in order to have the right to attend and vote at the General Meeting (and also for the purpose of determining how many votes a person entitled to attend and vote may cast), a person must be entered on the register of members of the Company at 6.00 p.m. on 9 May 2014 or, in the event of any adjournment, at 6.00 p.m. on the date which is two days (not taking account of any part of a day that is not a working day) before the day of the adjourned meeting. Changes to entries on the register of members after this time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

2. Only holders of Ordinary Shares are entitled to attend and vote at this meeting.

A member is entitled to appoint another person (who need not be a shareholder of the Company) as his proxy to exercise all or any of his rights to attend, to speak and to vote at the General Meeting. A member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by him.

A proxy need not be a member of the Company but must attend the meeting to represent you. Your proxy could be the Chairman, another Director of the Company or another person who has agreed to represent you. A form of proxy for the meeting is enclosed.

To be valid any proxy form or other instrument appointing a proxy must be received by post or by hand (during normal business hours only) by our registrar Equiniti at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA or at the electronic address provided in the form of proxy, in each case no later than 10.00 a.m. on 9 May 2014 or, in the event of any adjournment, at 10.00 a.m. on the date which is two days (not taking account of any part of a day that is not a working day) before the day of the adjourned meeting (or in the case of a poll taken subsequently to the date of the meeting or adjourned meeting, not less than 24 hours before the time appointed for the taking of the poll). If you are a CREST member, see note 3 below. If you return more than one proxy appointment, either by paper or electronic communication, that received last by the registrar before the latest time for receipt of proxies will take precedence.

Completion of a form of proxy, or other instrument appointing a proxy or any CREST Proxy Instruction will not preclude a member attending and voting in person at the meeting if he/she wishes to do so. If you attend the meeting in person, your proxy appointment will be automatically terminated.

3. Alternatively, if you are a member of CREST, you may register the appointment of a proxy by using the CREST electronic proxy appointment service. Further details are contained below.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the General Meeting and any adjournment(s) thereof by using the procedures, and to the address, described in the CREST Manual subject to the provisions of the Company's articles of association. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK and Ireland (formerly CRESTCo) specifications and must contain the information required for such instructions, as described in the CREST Manual (available via [www.euroclear.com](http://www.euroclear.com)). The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by 10.00 a.m. on 9 May 2014. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that Euroclear UK and Ireland (formerly CRESTCo) does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

4. If you have sold or transferred all your shares, this Notice and the accompanying proxy form should be passed to the person through whom the sale or transfer was made for transmission to the purchaser or transferee.
5. Voting on all resolutions will be conducted on a show of hands. As soon as practicable following the meeting, the results of the voting at the meeting and the numbers of proxy votes cast for and against and the number of votes actively withheld in respect of each of the resolutions will be announced via a Regulatory Information Service and also placed on the Company's website, [www.qinetiq.com](http://www.qinetiq.com).
6. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may have a right, under an agreement between him/her and the member by whom he/she was nominated, to be appointed (or to have someone else appointed) as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right, under such an agreement, to give instructions to the member as to the exercise of voting rights.

The statement of the above rights of the members in relation to the appointment of proxies does not apply to Nominated Persons. Those rights can only be exercised by members of the Company.

7. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
8. Any member attending the General Meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.
9. Certain items will not be permitted in the General Meeting. These include bags, cameras, recording equipment, items of any nature with potential to cause disorder and such other items as the Chairman or designated officers of the meeting may specify.
10. A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at [www.qinetiq.com](http://www.qinetiq.com).
11. As at 24 April 2014 (being the last practicable date prior to the publication of this notice) the Company's issued share capital consists of 660,476,373 ordinary shares, carrying one vote each. Therefore, the total voting rights in the Company as at that date are 660,476,373.
12. You may not use any electronic address (within the meaning of section 333(4) of the Companies Act 2006) provided in this Notice of Meeting (or in any related documents including this Circular to Shareholders and any proxy form) to communicate with the Company for any purposes other than those expressly stated.

