

Chairman's statement

A year of significant milestones

5%

increase in full year dividend
(FY18: 5%)

Full year dividend (p)

| | |
|------|-----|
| 2019 | 6.6 |
| 2018 | 6.3 |
| 2017 | 6.0 |
| 2016 | 5.7 |
| 2015 | 5.4 |

4.5p

Final dividend to be paid on
30 August 2019 (2018: 4.2p)

Progressive dividend policy

Since 2011, we have consistently grown our dividend in line with our progressive dividend policy.

Annual General Meeting 2019

11am on 24 July 2019, at the offices of Ashurst LLP, Fruit and Wool Exchange, 1 Duval Square, London E1 6PW.



We have seen encouraging signs of the necessary cultural changes required to deliver sustainable growth."



Mark Elliott
Non-executive Chairman

Significant financial and strategic progress

This year marked a number of significant milestones, most notably agreeing a ground-breaking amendment to reinvigorate the Long Term Partnering Agreement (LTPA). This secures £1.3bn of revenue, increasing our order backlog to over £3.1bn*, and also supports our further growth aspirations. Leading and modernising UK test and evaluation is a key component of our strategy and one that also opens up international opportunities. Internationally, we have made significant progress with major contract wins in the US for our robotics technology and in Canada building on our experience in unmanned systems. Overall, we have delivered a third year of organic revenue growth and an organic increase in operating profit.

We've continued to deploy our capital to support our growth. As a Board, we have been focused on ensuring we do so wisely, evaluating opportunities to make sure they deliver the right returns to our shareholders. During FY19, we invested nearly £100m into our Company, much in modernising our core contracts such as the LTPA. We also successfully completed two acquisitions that enhance our capabilities in training, both in the UK and internationally.

Delivering cultural change to sustain our strategy

Looking beyond the financial performance, as a Board we have seen encouraging signs of the necessary cultural and behavioural changes required to deliver sustainable growth. Across our organisation, initiatives are underway to embed real and positive change. We have defined Company behaviours as "listen, focus and keep our promises", attributes we think are critical to our success. Talented people are our greatest asset. To ensure we attract and retain the best talent we have a clear commitment to diversity. As an example, we have launched a new LGBTQ+ (Lesbian, Gay, Bisexual, Transgender, Questioning) employee network as part of our commitment to creating an inclusive workforce.

We've taken steps to ensure that all our employees share in the success of our performance. The introduction of our All Employee Incentive Scheme, which I am pleased to say paid out at the end of the period, helps to align interests and supports our ambition of having a high performance culture within QinetiQ.

My fellow Board members and I have been fortunate to spend time with many of our employees over the past year. We've enjoyed a number of site visits including to our facilities in Farnborough and Malvern. I am struck by both our people's abilities and their appetite for positive change. We still have a lot to do, and our employee engagement figures are not where we would like them to be. We recognise that our people are intrinsic to our long-term success and, working closely with our Employee Engagement Group (EEG), we are listening carefully to our employees to improve how it feels to work at QinetiQ.

* Includes LTPA amendment signed post year end on 5 April 2019.



QinetiQ has all of the attributes to delight its customers, provide fulfilling jobs for our people and to deliver long-term profitable growth for our owners.”

As a Board, we continue to invest time in ensuring we understand the evolving nature of the markets in which we operate so we are better able to provide the right constructive challenge to our management team. During the course of the year, we have undertaken a number of ‘deep dives’ into different aspects of the Company and its strategy. Each October, we spend two days working with the executive team on the integrated strategic business plan. This allows us to constantly evaluate our progress and refine aspects of the strategy. We have also engaged with other stakeholders, including customers, providing us with the holistic view needed to make better decisions. Overall, this supports our understanding of the strategic risks we face and how better to mitigate and manage them, a key part of ensuring good governance.

Board succession

As announced on 21 March 2019, I will be retiring from QinetiQ at our AGM in July. I can’t help but reflect on the past ten years as I prepare to step down. We began with an intense focus on repairing our balance sheet and the cultural transformation from civil service to a competitive commercial organisation. With a strong balance sheet we recruited Steve Wadey to lead our Company in investing for long-term profitable growth. With an ambitious but clear strategy to invest in our core markets and capabilities as well as the development of our international business we are beginning to see that growth. It is encouraging to see the increasing contribution that international revenue is making and to have delivered a third consecutive year of growth.

It has been a real honour and privilege to work with many wonderful people in QinetiQ and to have worked with a talented and dedicated Board of Directors. As we announced, we have recruited Neil Johnson who joined the Board in April with the intention that he replaces me at the AGM. Bringing a fresh perspective, and with significant experience of leading businesses in both executive and non-executive roles, as a Board we are confident he will make a huge contribution to the next stage of QinetiQ’s growth.

With our expert people, unique capabilities, a strong management team, coupled with financial strength, and the support of our shareholders, QinetiQ has all of the attributes to delight its customers, provide fulfilling jobs for our people and to deliver long-term profitable growth for our owners.

Mark Elliott

Non-executive Chairman
23 May 2019

A clear and disciplined approach to capital allocation

1

Investing for growth

Organic investment complemented by bolt-on acquisitions where there is a strong strategic fit

2

Balance sheet

Maintaining the necessary level of balance sheet strength

3

Dividend

Maintaining our progressive dividend in line with policy

4

Shareholder distributions

Returning excess cash to shareholders