Restoring strength, Building value

QinetiQ Group plc Annual Results 2011

Thursday 26 May 2011

Introduction

Leo Quinn

Chief Executive Officer

Agenda

1. Headlines
2. Financial overview
3. Progress on priorities
4. Q&A

Headlines

- **Sales up 5% and operating profit* up 21%**
  - Strong demand for survivability products
  - Delays and curtailments in services
  - Group-wide drive to lower cost base, release cash

- **Significant transformation**
  - 12 months into 24 month self-help programme
  - Leaner, more agile and competitive
  - Balance sheet strength – best indicator
  - No further debt maturity until 2016

- **Re-instating dividend**
  - In line with May 2010 commitment

*Underlying performance as defined at appendix

QinetiQ

Financial Overview

David Mellors

Chief Financial Officer

Summary financial headlines

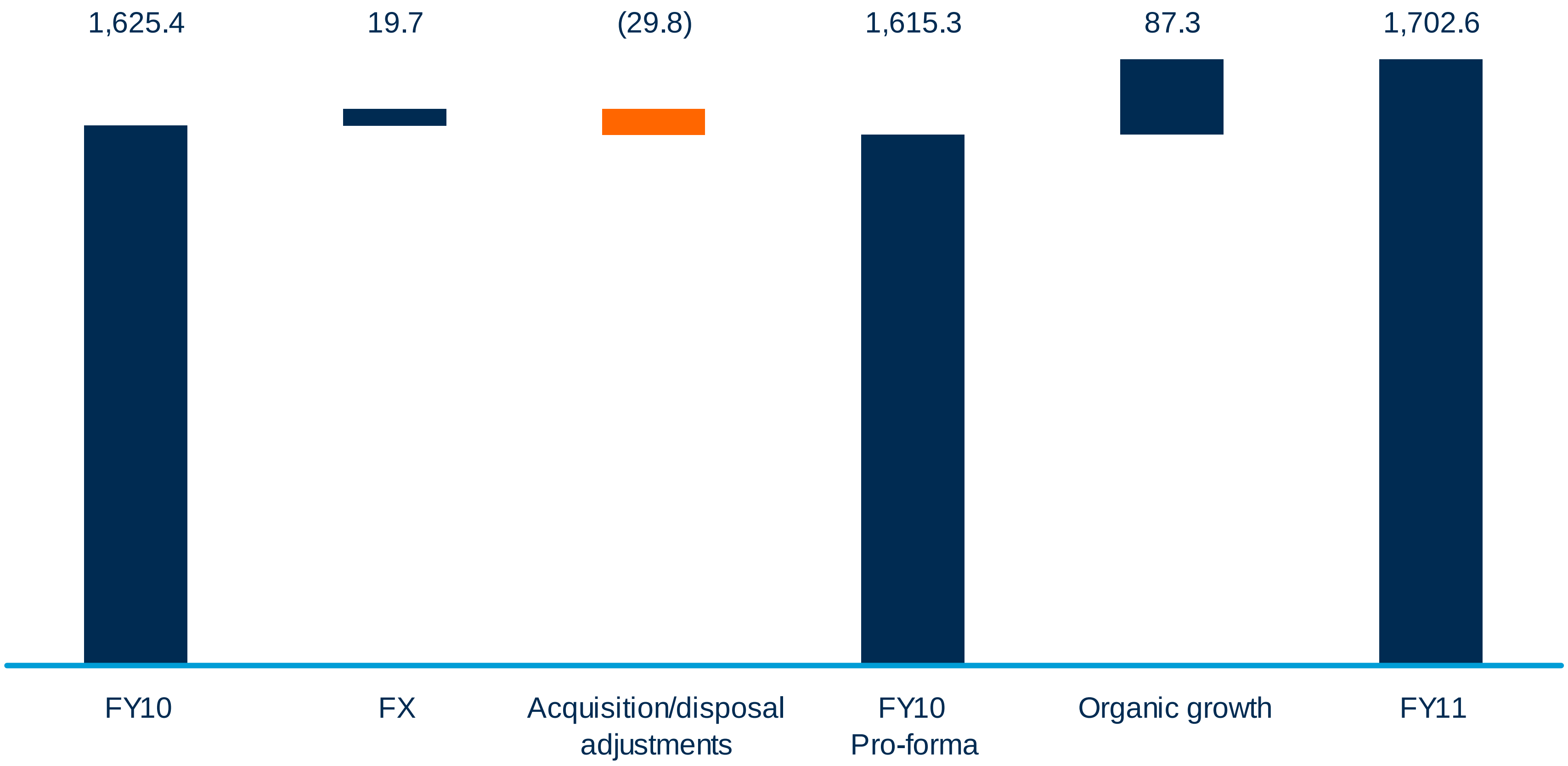
	FY11 £m	FY10 £m	Change
Revenue	**1,702.6**	1,625.4	5 %
Operating profit*	**145.4**	120.3	21 %
Operating margin*	**8.5 %**	7.4 %	
Profit before tax*	**114.6**	85.7	34 %
Earnings per share* (pence)	**14.2 p**	11.1 p	28 %
Net cash from operations* (post capex)	**265.8**	174.3	52 %
Cash conversion* (post capex)	**183 %**	145 %	
Net debt	**(260.9)**	(457.4)	(43) %
Gearing ratio*	**1.4**	2.5	
Dividend (pence)†	**1.60 p**	1.58 p	

* Underlying performance and Gearing Ratio as defined at appendix
† Dividend reinstated in line with commitment made in May 2010

QinetiQ

Group revenue bridge

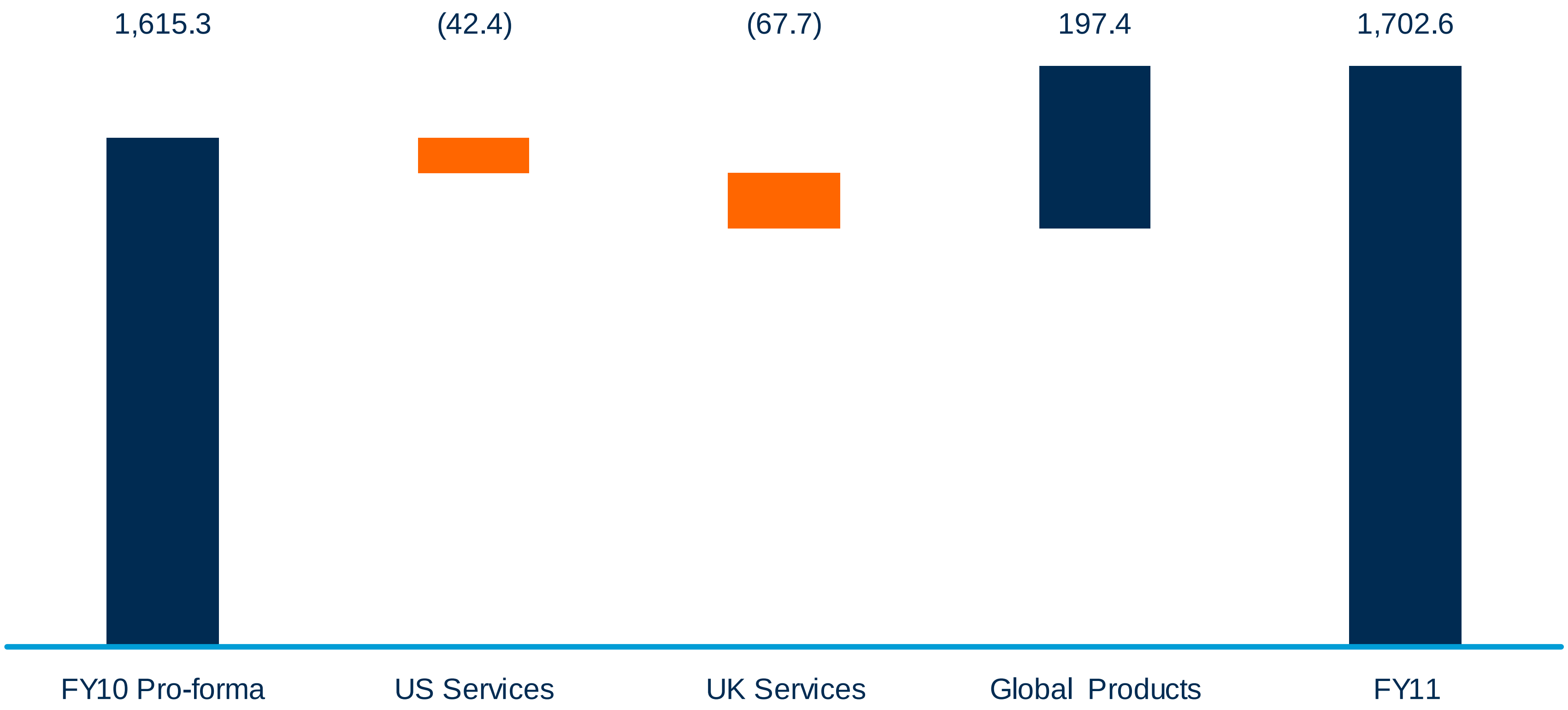
£m



QinetiQ

Organic revenue bridge

£m



QinetiQ

Segmental analysis of profit

£m

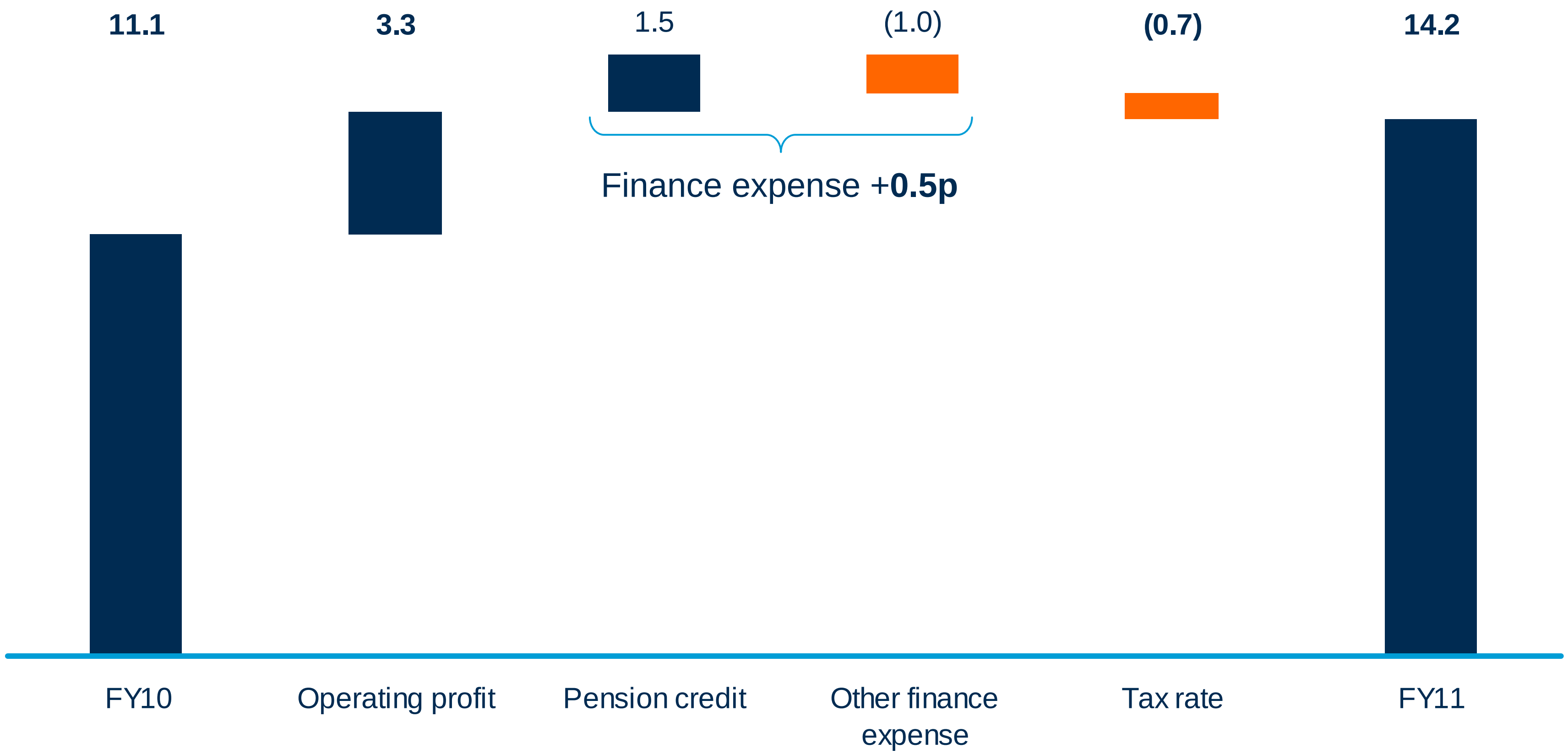
	Operating profit*		Operating profit margin*	
	FY11 £m	FY10^ £m	FY11 %	FY10^ %
US Services	**44.3**	52.6	**7.5%**	8.4%
UK Services	**48.7**	59.1	**8.0%**	8.5%
Global Products	**52.4**	8.6	**10.4%**	2.8%
Group	**145.4**	120.3	**8.5%**	7.4%

* Underlying performance as defined at appendix
^ Restated to reflect new segmental split

QinetiQ

Underlying* EPS

Pence



*Underlying performance is defined in appendix

QinetiQ

Non recurring items*

	FY11 £m	FY10 £m
Items with cash impact:		
UK restructuring costs	**(33.5)**	(44.1)
Pension curtailment gain	**4.9**	2.0
Contingent payments on acquisition treated as remuneration	**(6.1)**	-
Gain on business divestments	**2.1**	5.1
Non-cash items:		
DTR inventory write-off	**(23.8)**	-
Impairment of property plant and equipment	**(5.9)**	(24.0)
Impairment of investments, goodwill and other intangibles	**-**	(64.7)
Amortisation of acquired intangibles (recurring)	**(26.3)**	(26.1)
Other	**0.6**	-
Total non-recurring items (pre-tax)	**(88.0)**	**(151.8)**

* Acquisition amortisation and specific non-recurring items

Strong cash conversion

	FY11 £m	FY10 £m
Underlying operating profit*	**145.4**	120.3
Share of JVs & associates	**(0.2)**	(0.2)
Operating profit before JVs & associates*	**145.2**	120.1
Cash flow from operations*	**287.6**	204.6
Purchase of PPE and intangible assets	**(21.8)**	(30.3)
Net cash flow from operations post capex	**265.8**	174.3
Cash conversion %*	**183%**	145%
Net interest paid	**(28.6)**	(36.4)
Tax	**(42.9)**	1.5
Free cash flow	**194.3**	139.4

* Underlying performance as defined at appendix

QinetiQ

Movements in net debt

	FY11 £m	FY10 £m
Free cash flow	**194.3**	**139.4**
UK restructuring costs	**(31.8)**	(35.4)
Acquisitions and investments	**(15.8)**	(46.7)
Divestments	**38.2**	21.1
Dividends	**-**	(31.6)
Other	**(12.0)**	7.5
Change in net debt before FX	**172.9**	**54.3**
FX translation impact	**23.6**	26.2
Change in net debt	**196.5**	**80.5**
Opening net debt	**(457.4)**	(537.9)
Closing net debt*	**(260.9)**	**(457.4)**

* $1.60:£1 at 31 March 2011 ($1.52:£1 at 31 March 2010)

QinetiQ

Borrowings and debt facilities

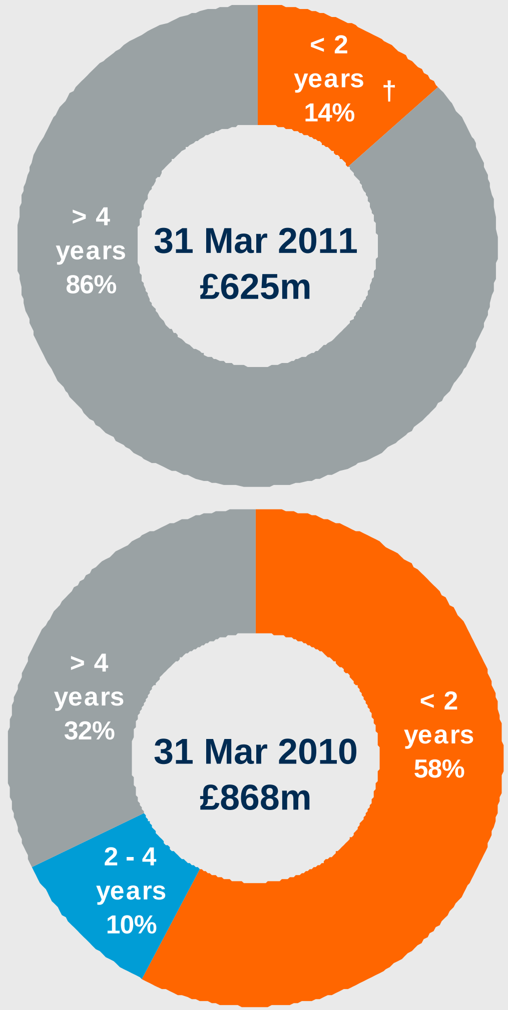
	FY11 £m	FY10 £m
Net debt (£m)	**261**	457
Committed facilities* (£m)	**625**	868
Net debt: EBITDA**	**1.4**	2.5
Covenant limit**	**3.5**	3.5

* US$ denominated facilities translated at rate of $1.60:£1 on 31 March 2011, and $1.52:£1 on 31 March 2010
**Calculated in accordance with credit facility ratios

Committed facilities include:

- £275m revolving credit facility maturing Feb 2016
- $62m private placement maturing Feb 2016
- $125m private placement maturing Dec 2016
- $238m private placement maturing Feb 2019

Committed facilities by maturity



† May 2011. Repaid $135m private placement due to mature Dec 2013

Defined benefit pension scheme

IAS19 balance sheet position

	31 March 2011 £m	31 March 2010 £m
Market value of assets	**981.1**	915.9
Present value of scheme liabilities	**(1,105.7)**	(1,063.2)
Net pension liability before deferred tax	**(124.6)**	(147.3)
Deferred tax asset	**32.4**	41.2
Net pension liability	**(92.2)**	(106.1)

Assumptions:	FY11 %	FY10 %
Discount rate	**5.6**	5.6
Inflation	**3.6**	3.6

Sensitivity of deficit to main assumptions:

Assumption	Change in assumption	Sensitivity
Discount rate	Increase / decrease 0.1%	Decrease / increase £24m
Inflation	Increase / decrease 0.1%	Increase / decrease £25m
Life expectancy	Increase by 1 year	Increase by £22m

QinetiQ

Progress on priorities

Leo Quinn
Chief Executive Officer

Priorities to restore value – May 2010

- **Focus – extract full value from portfolio**
  - Where money is made and lost
  - What businesses are truly scalable
  - Sources of competitive advantage
- **Cultural transformation – building a more competitive culture**
  - In UK, businesses engaged and “re-tooled”
  - In US, commencing integration of service businesses
- **Strengthen balance sheet – enable longer term options**
  - Restored
  - Sustainable

Significant and rapid progress

QinetiQ

Focus – continuing to refine and align

- ✓ Understand core competencies – exit non-core
- ✓ Stop value-leakers
- ➢ Ongoing portfolio work – align to customer needs
- ➢ Invest for scale and growth

US Services
- Aerospace operations
- Engineering management
- Information Services
- Mission Solutions / Cyber
- Software and Systems Engineering

UK Services
- Air Engineering
- Test and Evaluation
- Training and simulation
- Cyber Security & C4ISR
- Programme & Procurement Support

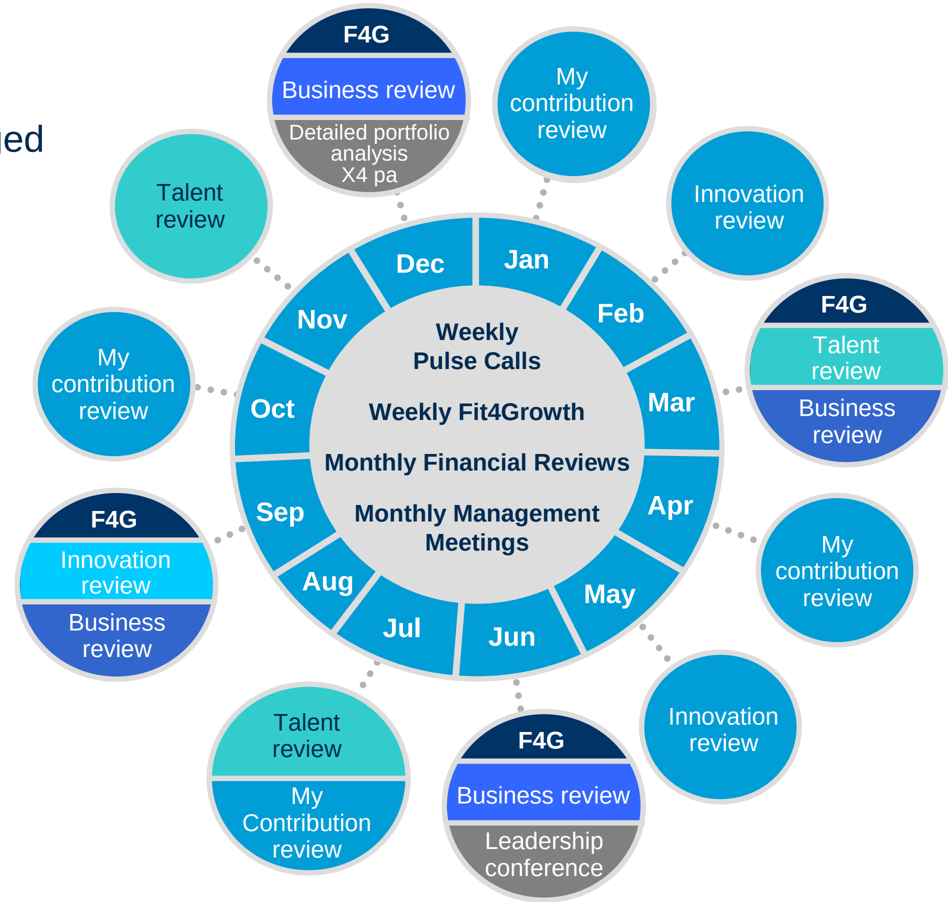
Global Products
- Survivability
- Unmanned systems
- Energy from waste
- Vehicle Power Management
- OptaSense®

Evaluation process – “explore” / “exploit” decisions

QinetiQ

Cultural transformation

- **Upgrade leadership**
  - Senior executive team – 80% changed
  - Senior management – ½ UK, ⅓ US changed
- **Drive performance**
  - My Contribution – engage employees on productivity
  - Fit4Growth (F4G) – lean out processes; skills training
  - Increasing focus on US
- **Build greater competitiveness**
  - UK cost base reduced – headcount, procurement sourcing
  - US Services being fully integrated
- **Create single QinetiQ mindset**
  - Common review processes
  - Teamwork – OptaSense®, cyber, E-X-Drive®



Creating a culture that can generate value sustainably

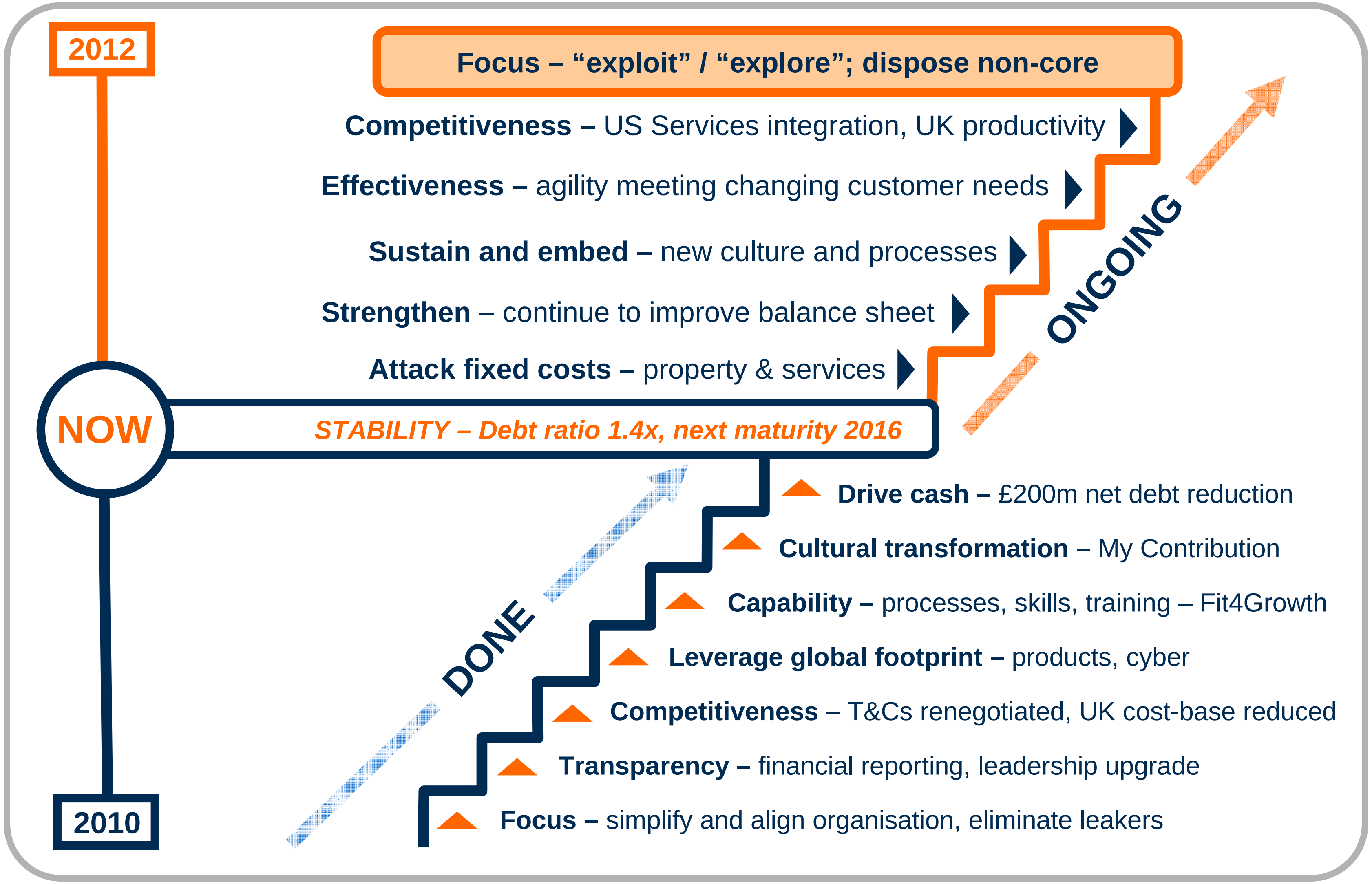
Balance sheet strengthened

- **Excellent cash generation**
  - Group-wide processes
  - Employee engagement at all levels
  - Driving 183% operating cash conversion*
- **Closing net debt: £261m (31 March 2010: £457m)**
  - Gearing Ratio* down from 2.5x to 1.4x
  - New 5 year, £275m revolving credit facility signed February 2011
  - Early repayment of 2013 private placement
- **No further debt maturity before 2016**

*Underlying performance and Gearing Ratio as defined at appendix

Stable and sustainable – fund future growth

Building value by self-help…



QinetiQ

Funding future growth – “explore”

- **Balance sheet strength**
  - Enables funding of future growth
- **Rigorous criteria**
  - Significant, scalable, sustainable
  - Post revenue – already selling into demand
  - Markets – defence and beyond
  - Business options – fund, partner, license, JV etc

Optical hardware platform

Installations in 20 countries

Multiple markets

Case Study: OptaSense®

- **Fibre-optic audio CCTV:**
  - Delivers real-time monitoring
  - Utilises existing infrastructure
- **Platform technology:**
  - Down-hole oil & gas
  - Pipeline protection
  - Transport (eg. rail)
  - Defence and Security
  - Earthquake monitoring
- **Criteria met:**
  - FY11: £39m orders
  - 3-yr, £26.5m Shell contract
  - Acquired Sensoptics 2011
  - Installations in 20 countries

www.optasense.com

Operational update – US Services

	FY11 £m	FY10 £m
Orders	**561.1**	577.6
Revenue	**588.2**	628.0
Underlying Operating Profit*	**44.3**	52.6
Underlying Operating Profit Margin*	**7.5%**	8.4%
Book to Bill Ratio	**1.0**	0.9

STRENGTHS

- Established player
  - brand, contract vehicles, security cleared people
- Resilient market
  - government services, not big defence systems

MARKET ENVIRONMENT

- Contracts delayed
  - CR, budget process
- Competition
  - cost conscious customer base
- Insourcing diminishing
  - small business set-aside remains

PROGRESS IN YEAR

- Increased bid / proposal investment
  - Leverage scale with larger contracts
- Focus on strategic growth areas
  - C4ISR, engineering services, cyber
  - S&IS disposal

OPPORTUNITIES

- Proven player in world's largest market
- Fully integrate as US Services
- Globalise Cyveillance
  - support 5 "eyes"

Globalising Cyveillance

NASA Engineering Services

Accelerating maintenance

*Underlying performance as defined at appendix

Operational update – UK Services

	FY11 £m	FY10 £m
Orders†	**371.6**	493.8
Revenue	**611.6**	693.9
Underlying Operating Profit*	**48.7**	59.1
Underlying Operating Profit Margin*	**8.0%**	8.5%
Book to Bill Ratio	**0.9**	1.0

STRENGTHS

- Trusted independent expertise
  - test, evaluation, technical assurance
- Delivers value / capability to customer
  - deep domain knowledge, innovation

MARKET ENVIRONMENT

- Reduced budgets / policy changes
- Visibility still limited
- Smaller MOD will require support

PROGRESS IN YEAR

- Significantly lowered cost base
- Unified key assets
  - training and simulation
  - UK / US cyber platform; #1 in cyber award at Counter Terror 2011

OPPORTUNITIES

- Cyber / cryptography
- Ranges – international growth
- Synthetic training
  - significant savings to customers
- C4ISR
  - leading capability, growth market

Tornado GR4 simulation

Unified UK/US cyber assets

Swedish centrifuge

† Excludes remaining £3.9bn (31 March 2010: £4.1bn) in respect of LTPA contract
*Underlying performance as defined at appendix

QinetiQ

Operational update – Global Products

	FY11 £m	FY10 £m
Orders	**627.0**	329.6
Revenue	**502.8**	303.5
Underlying Operating Profit*	**52.4**	8.6
Underlying Operating Profit Margin*	**10.4%**	2.8%
Book to Bill Ratio	**1.2**	1.1

STRENGTHS

- Potential in IP portfolio
- Rapid productisation
  - eg. Q-NETs
- US / UK footprint

MARKET ENVIRONMENT

- Contract awards continue in support of military operations
- UK S&T spend under pressure

PROGRESS IN YEAR

- Joint UK / US wins
  - eg. E-X-Drive®, Energy from waste, OptaSense®.
- Portfolio rationalisation
  - leakers triaged
  - prioritise investment
- Standard R&D process

OPPORTUNITIES

- Expand market-ready products
  - Q-NETs
  - SWATs
  - robotics / Universal Controller
- Wide applications for OptaSense®


Q-NETs RPG protection


SWATS sniper detection


Robots for Japan

QinetiQ

*Underlying performance as defined at appendix

Outlook

- **QinetiQ's key sectors remain vital areas for its customers**
  - Attractive sectors: test and evaluation, acquisition and programme support, training and simulation, cyber security, C4ISR, software & engineering services
  - Delivers value through trusted, independent expertise – key competitive strength
- **Budget pressure and continued uncertainty will keep competition keen**
  - QinetiQ priority to complete 24 month self-help programme
  - Improve competitiveness and agility, while focusing on core capabilities
  - Significant progress to date demonstrates ability to build value over medium term
- **Performance for 2012 – in line with Board's expectations**
  - Unlikely to see repetition of 2011 level of Q-NETs sales
  - Programme to increase competitiveness will deliver, despite challenging market conditions

Summary

- Significant and rapid progress achieved
- Markets remain challenging – but we have already taken action to:
  - Refocus and align portfolio
  - Ensure leaner, more competitive Group
- Balance sheet able to fund future growth and restore dividend
- Priority 2012: deliver full value from self-help programme

Restoring strength, Building value

QinetiQ

QinetiQ

Q&A

Appendix

Definitions

- **Underlying performance is stated before:**
  - Major reorganisation costs
  - Inventory provision in respect of capitalised DTR programme bid costs
  - Contingent payments on acquisition treated as remuneration
  - Business divestments and unrealised impairment of investments
  - Amortisation of acquisition related intangible assets
  - Impairment of intangible assets and property plant and equipment
  - Tax effect of the above
- **Organic growth:**
  - Is calculated at constant foreign exchange rates, adjusting the comparatives to incorporate the results of acquired entities and excluding the results for any disposals for the same duration of ownership as the current period.
- **Gearing ratio:**
  - The gearing ratio (adjusted net debt: EBITDA) is the ratio of net borrowings at the balance sheet date translated at average exchange rates for the period, to EBITDA generated in the 12 month period to balance sheet date, and calculated in accordance with the Group's credit facility ratios.

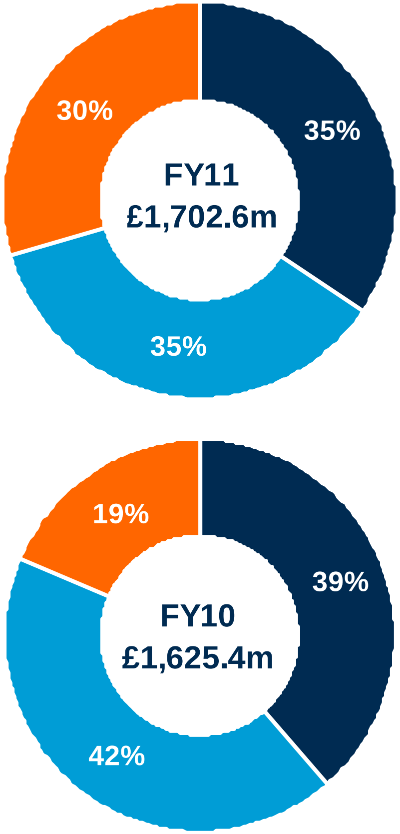
Detailed income statement

	FY11 £m	FY10 £m
Revenue	**1,702.6**	1,625.4
Underlying operating profit*	**145.4**	120.3
Net finance expense	**(30.8)**	(34.6)
Underlying profit before tax*	**114.6**	85.7
Contingent acquisition payments, treated as remuneration	**(6.1)**	-
Impairment of plant, property and equipment	**(5.9)**	(24.0)
Amortisation and impairment of acquisition-related intangibles	**(26.3)**	(79.5)
Pension curtailment gain	**4.9**	2.0
Gain/(loss) on business combinations and divestments	**2.7**	(6.2)
DTR bid costs write-off	**(23.8)**	-
Restructuring	**(33.5)**	(44.1)
Statutory profit/(loss) before tax	**26.6**	(66.1)
Taxation	**(21.6)**	2.8
Statutory profit/(loss) after tax attributable to equity shareholders	**5.0**	(63.3)

*Underlying performance as defined at appendix

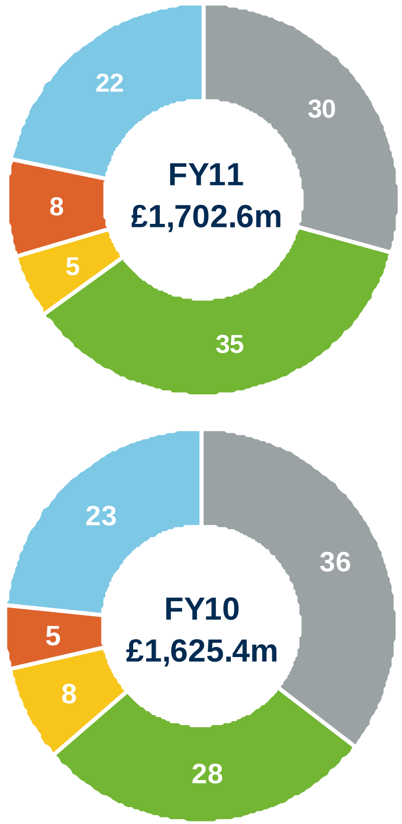
QinetiQ

Revenue by sector and customer



Revenue by sector (%)

Global Products   US Services
UK Services



Revenue by customer (%)

Civil/Other Government Agencies   MOD
Commercial Defence   DHS   DoD

QinetiQ

Taxation

	FY11 £m	FY10 £m
Underlying tax charge*	**(21.8)**	(12.9)
Tax on non-recurring items	**0.2**	15.7
Headline tax (charge) / credit	**(21.6)**	2.8
Underlying tax rate*	**19.0%**	15.0%

* Underlying performance as defined at appendix

QinetiQ

Balance sheet

	FY11 £m	FY10 £m
Goodwill	**521.1**	577.8
Intangible assets	**103.2**	141.7
Property, plant and equipment	**260.9**	285.5
Working capital	**(30.7)**	107.2
Retirement benefit obligation (net of tax)	**(92.2)**	(106.1)
Other assets and liabilities	**(43.9)**	(75.0)
Net debt	**(260.9)**	(457.4)
Net assets	**457.5**	473.7

Assets

	FY11 £m	FY10 £m
Capital investment		
Cash expenditure on tangible assets	**19.7**	24.1
Investment in intangible assets*		
Development costs	**0.3**	0.6
Purchased software and other intangibles	**2.1**	5.6
Total	**22.1**	**30.3**

	FY11 £m	FY10 £m
Depreciation and amortisation*		
Tangible assets	**33.6**	35.1
Intangible assets		
Development costs	**2.2**	3.0
Other	**9.3**	8.3
Total	**45.1**	**46.4**

* Excluding amounts arising on acquisition of the business

Employee numbers

	31 March 2011	31 March 2010	Change
US Services	**4,500**	5,369	(869)
UK Services	**5,045**	5,707	(662)
Global Products	**1,663**	2,002	(339)
Total	**11,208**	13,078	(1,870)

QinetiQ

Disclaimer

Cautionary statement regarding forward-looking statements

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

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

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

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