QinetiQ

Restoring strength, Building value

QinetiQ Group plc

Interim Results for half year ended 30 September 2011

Wednesday 23 November 2011

QinetiQ

Introduction

Leo Quinn

Chief Executive Officer

Agenda

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

Headlines

- **Self-help delivering a stronger QinetiQ:**
  - Group margin* uplift driven by UK Services and Global Products
  - US Services successfully integrated under new leadership
  - MOD customer satisfaction ranking increased from 17th to 3rd place over 2 years
  - NASA performance scores running at over 90%

- **Value being created:**
  - Continued strong cash conversion reduces gearing ratio* to 0.6x (31 Mar 11: 1.4x)
  - Underlying earnings per share* up 42%
  - Board's expectations for current year upgraded by approximately 20%
  - Low visibility and uncertainty leaves outlook beyond the current year unchanged
  - Interim dividend of 0.9p, reflecting confidence in the medium term

* Underlying performance and gearing ratio as defined at appendix

Financial Overview

David Mellors

Chief Financial Officer

Summary financial headlines

	H1 FY12 £m	H1 FY11 £m	Change
Revenue	739.6	864.9	(14) %
Operating profit*	82.6	64.9	27 %
Operating margin*	11.2 %	7.5 %	
Profit before tax*	74.9	51.6	45 %
Earnings per share* (pence)	9.2 p	6.5 p	42 %
Net cash from operations (post capex)*	157.1	149.9	5 %
Cash conversion (post capex)*	190 %	231 %	
Net debt	(145.3)	(327.0)	56 %
Gearing ratio*	0.6 x	1.9 x	
Dividend (pence)	0.9 p	nil	

* Underlying performance and gearing ratio as defined at appendix

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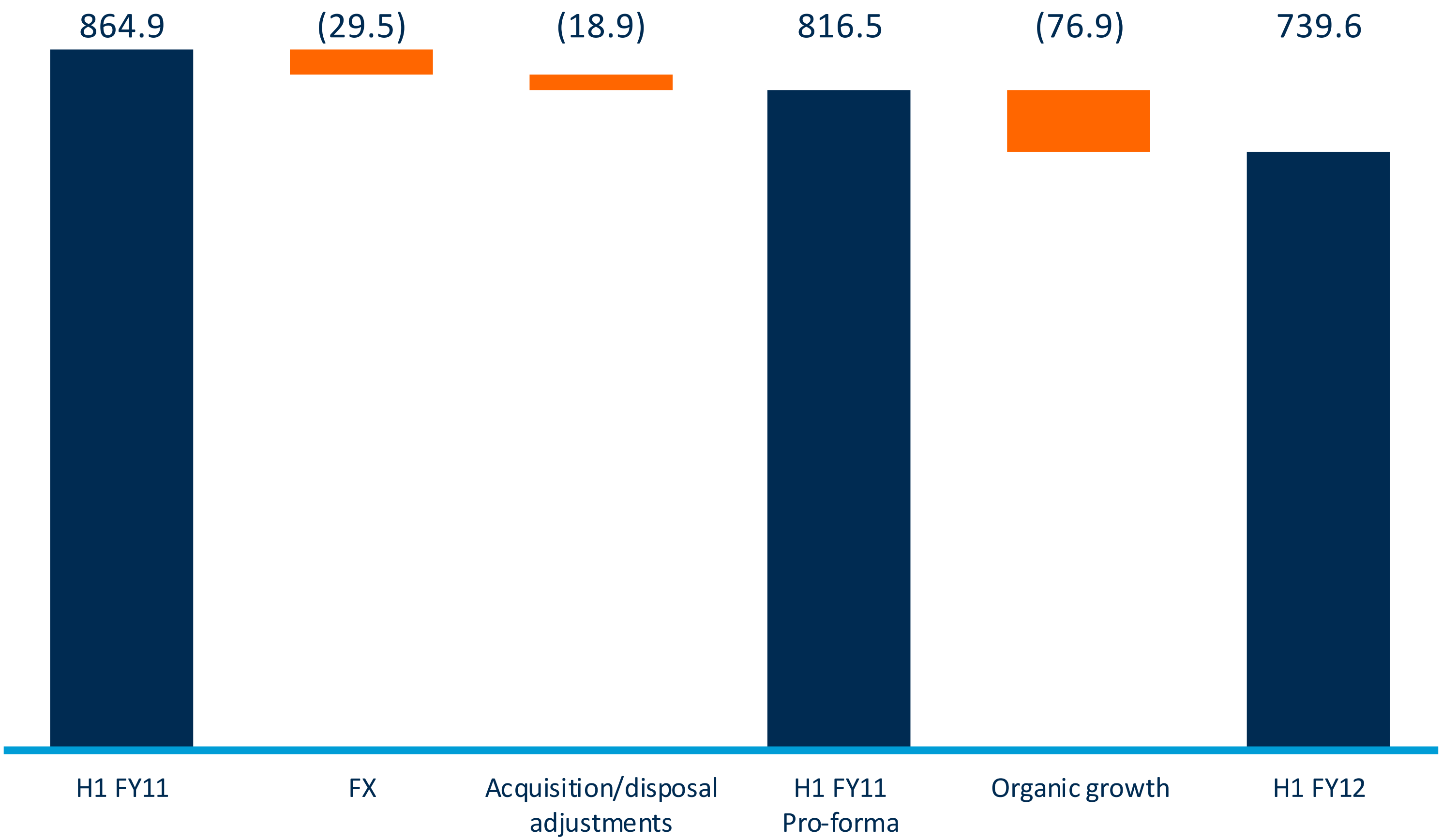
Group revenue bridge

£m



Organic revenue bridge

£m

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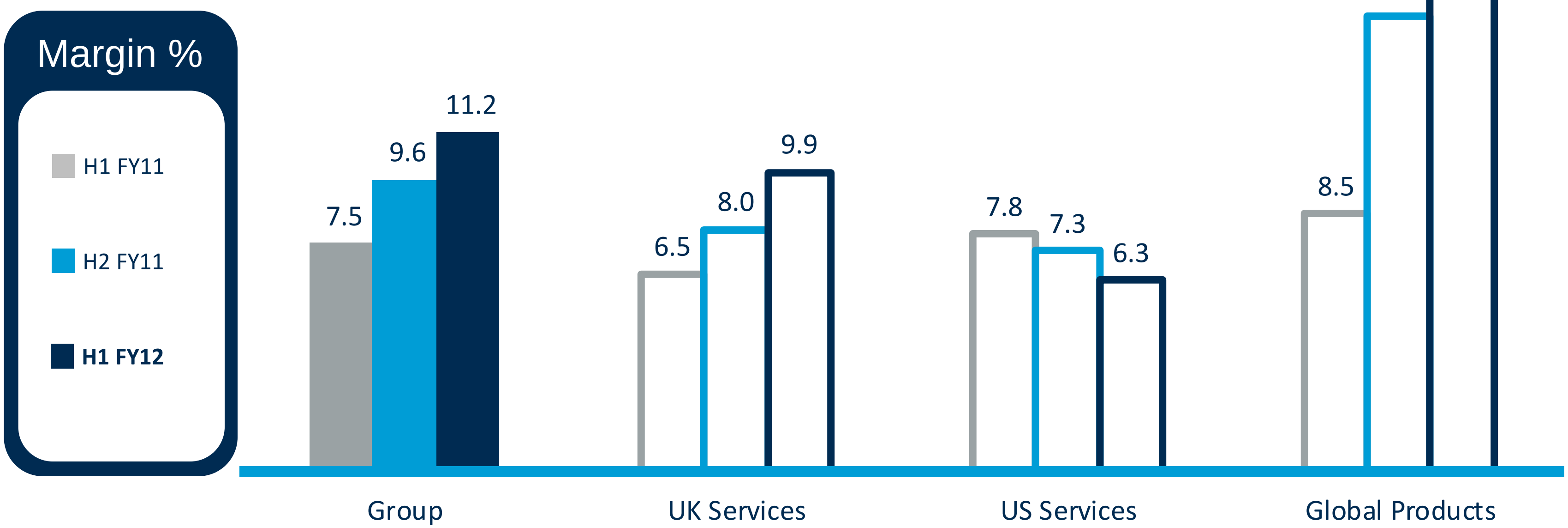
Segmental analysis of profit and margin

	Operating profit*		
	H1 FY12	**H2 FY11[1]**	**H1 FY11[1]**
	£m	**£m**	**£m**
UK Services	**28.7**	26.7	20.7
US Services	**16.9**	20.3	25.6
Global Products	**37.0**	33.5	18.6
Group	**82.6**	80.5	64.9



(1) Restated to reflect the transfer of businesses from Global Products at the start of FY12

*Underlying performance as defined at appendix

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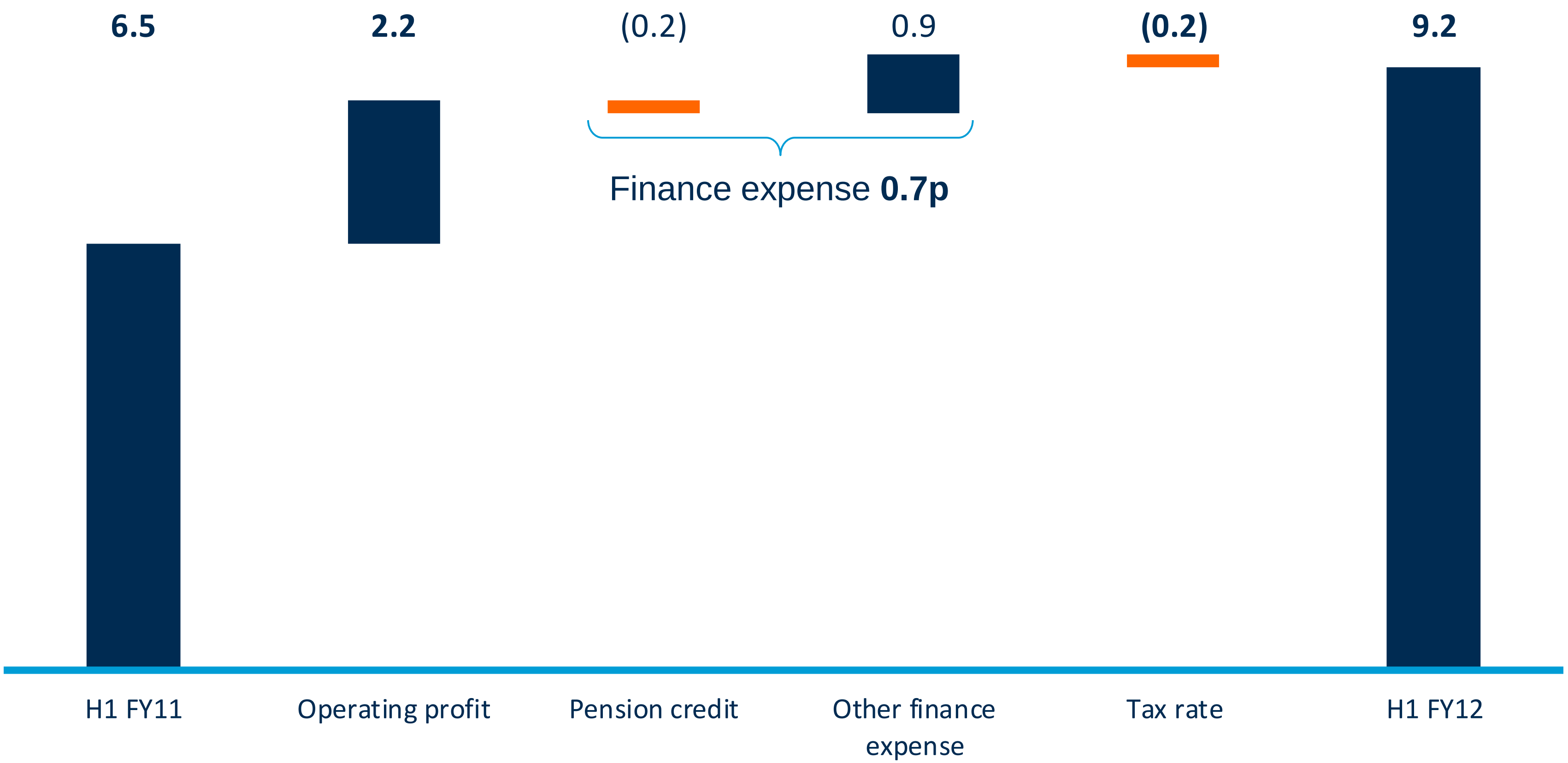
Underlying* EPS

Pence



*Underlying performance is defined in appendix

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Non recurring items*

	H1 FY12 £m	H1 FY11 £m
Non-cash items:		
Amortisation of acquired intangibles (recurring)	(11.8)	(13.9)
DTR inventory recovery/(write-off)	4.1	(37.1)
Impairment of property, plant and equipment	-	(4.8)
Items with cash impact:		
Gain on business divestments	4.9	-
Gain on disposal of investments	3.6	-
Gain on disposal of property, plant and equipment	4.2	-
UK restructuring costs	0.6	(33.4)
Total non-recurring items (pre-tax)	**5.6**	**(89.2)**

* Acquisition amortisation and specific non-recurring items

Strong cash conversion

	H1 FY12 £m	H1 FY11 £m
Underlying operating profit*	82.6	64.9
Share of JVs & associates	(0.1)	(0.1)
Operating profit before JVs & associates*	82.5	64.8
Cash flow from operations*	161.8	158.0
Net capex	(4.7)	(8.1)
Net cash flow from operations post capex	157.1	149.9
Cash conversion %*	190%	231%
Net interest paid	(20.0)	(17.2)
Tax	(7.9)	(13.4)
Free cash flow*	129.2	119.3

* Underlying performance as defined at appendix

Movements in net debt

	H1 FY12 £m	H1 FY11 £m
Free cash flow	**129.2**	**119.3**
UK restructuring costs	(7.3)	(5.8)
Divestments	11.2	-
Dividends	(10.5)	-
Purchase of own shares	(11.0)	(0.3)
Other	11.2	0.4
Change in net debt before FX	**122.8**	**113.6**
FX translation impact	(7.2)	16.8
Change in net debt	**115.6**	**130.4**
Opening net debt	(260.9)	(457.4)
Closing net debt*	**(145.3)**	**(327.0)**

* FX: $1.56 : £1 at 30 September 2011

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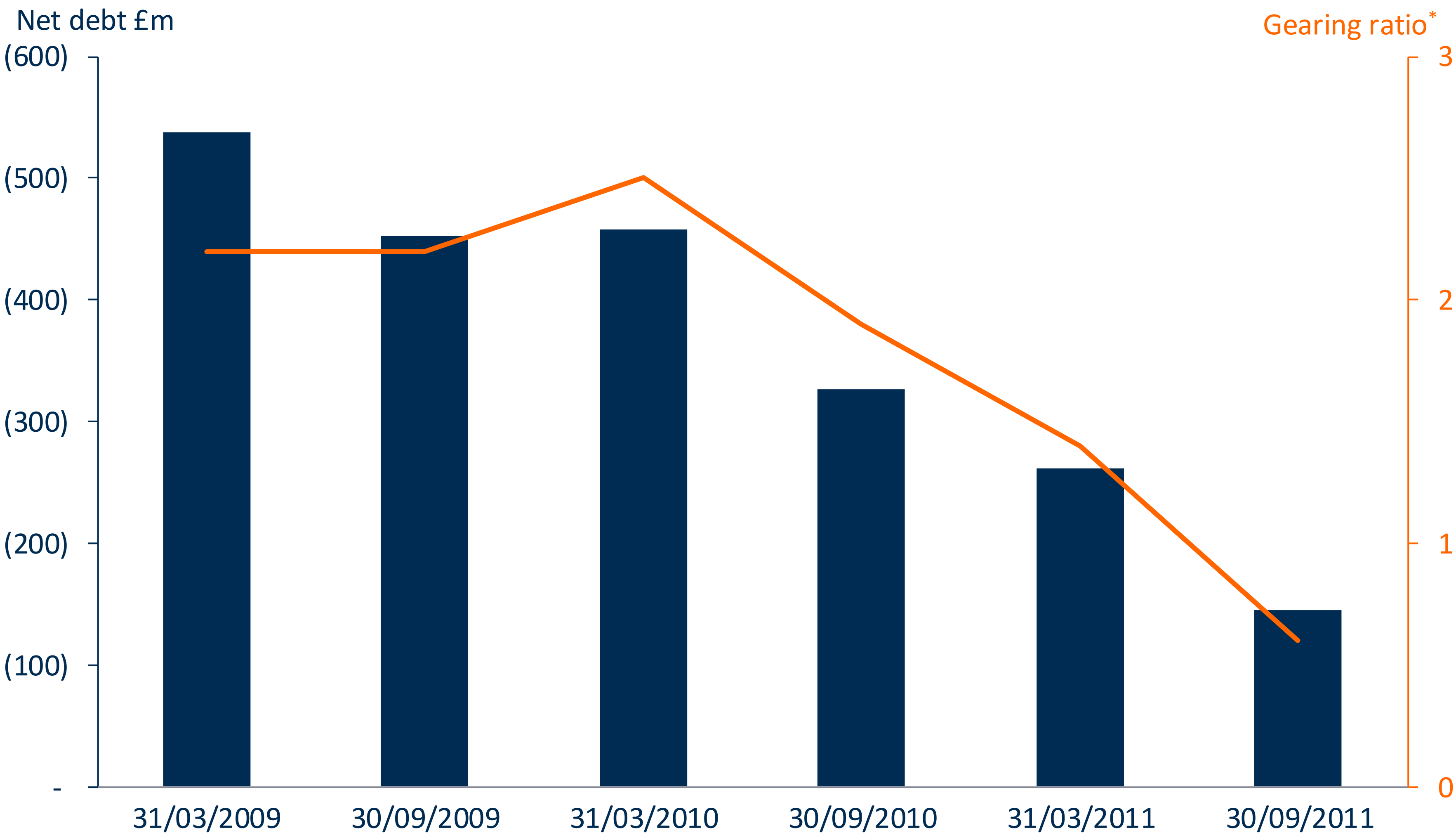
Reduction in net debt since 2009

£m / gearing ratio*



* Gearing ratio as defined at appendix

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Defined benefit pension scheme

IAS19 balance sheet position

	30 September 2011 £m	31 March 2011 £m	30 September 2010 £m
Market value of assets	**949.4**	981.1	923.7
Present value of scheme liabilities	**(1,177.5)**	(1,105.7)	(1,108.4)
Net pension liability before deferred tax	**(228.1)**	(124.6)	(184.7)
Deferred tax asset	**57.0**	32.4	49.9
Net pension liability	**(171.1)**	(92.2)	(134.8)

Assumptions:	H1 FY12 %	FY11 %	H1 FY11 %
Discount rate	**5.1**	5.6	5.0
Inflation	**3.3**	3.6	3.2

Sensitivity of deficit to main assumptions:

Assumption	Change in assumption	Sensitivity
Discount rate	Increase / decrease 0.1%	Decrease / increase £27m
Inflation	Increase / decrease 0.1%	Increase / decrease £27m
Life expectancy	Increase by 1 year	Increase by £23m

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Restoring strength, building value

Leo Quinn

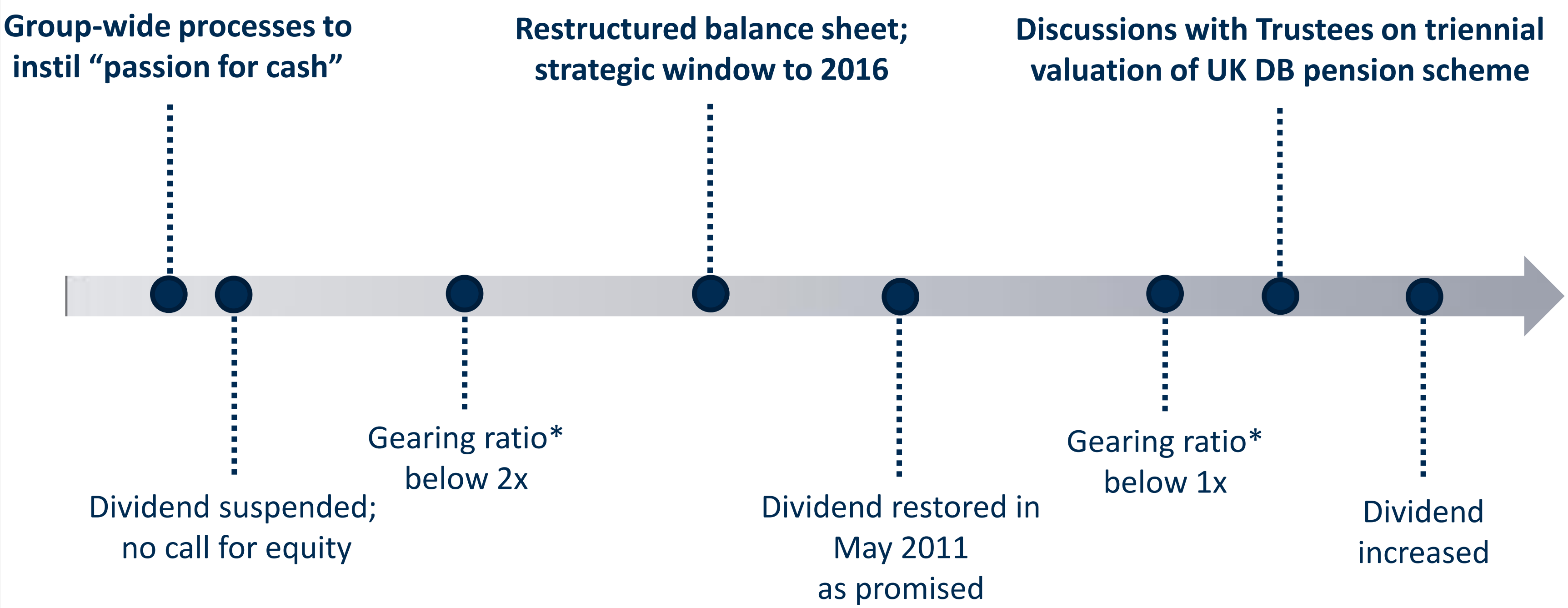
Chief Executive Officer

Priorities to restore value – May 2010

- **Focus – to extract full value from portfolio**
  - Scalable business models – well advanced
- **Cultural transformation – to build a more competitive culture**
  - An ongoing journey – embedding in the UK, in progress in the US
- **Strengthen balance sheet – to enable longer term options**
  - Achieved appropriate level for current environment

All essential to create significant value

Balance sheet



*Gearing ratio as defined at appendix

Balance sheet strength today provides optionality

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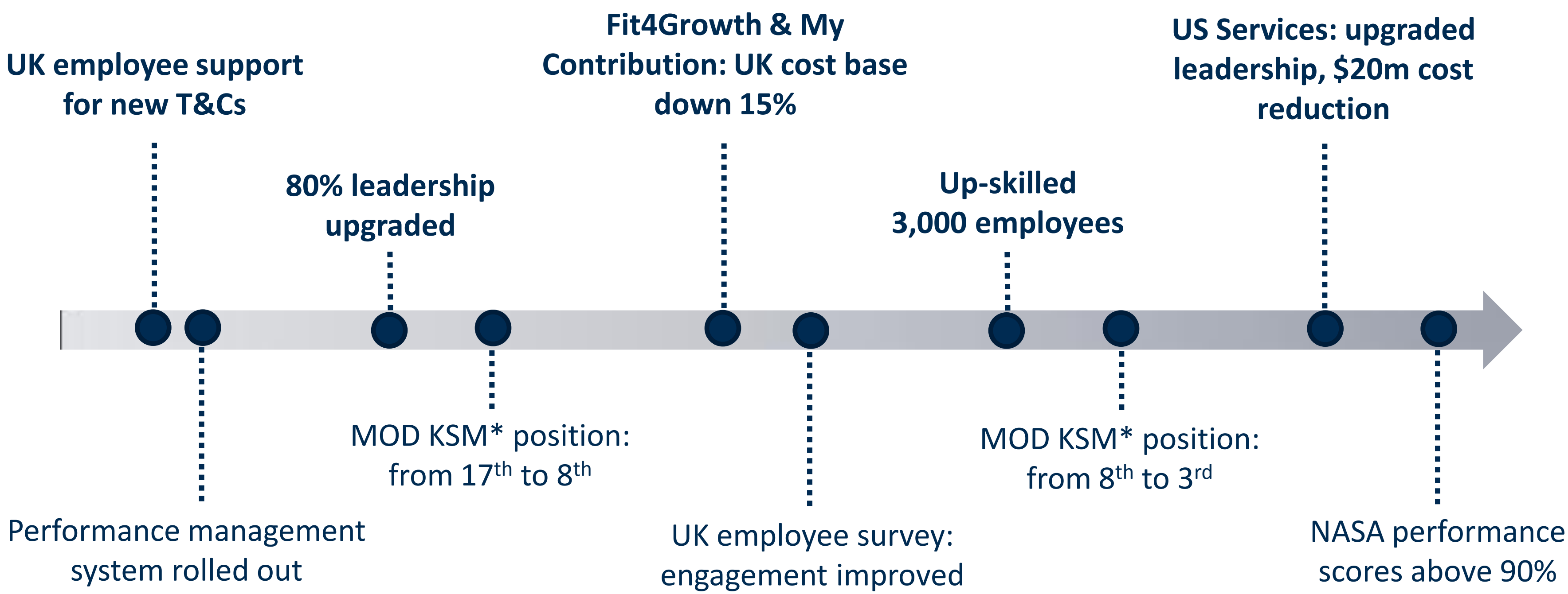
Cultural transformation



*Ministry of Defence "Key Supplier Management" customer satisfaction score

Creates strong foundation for growth

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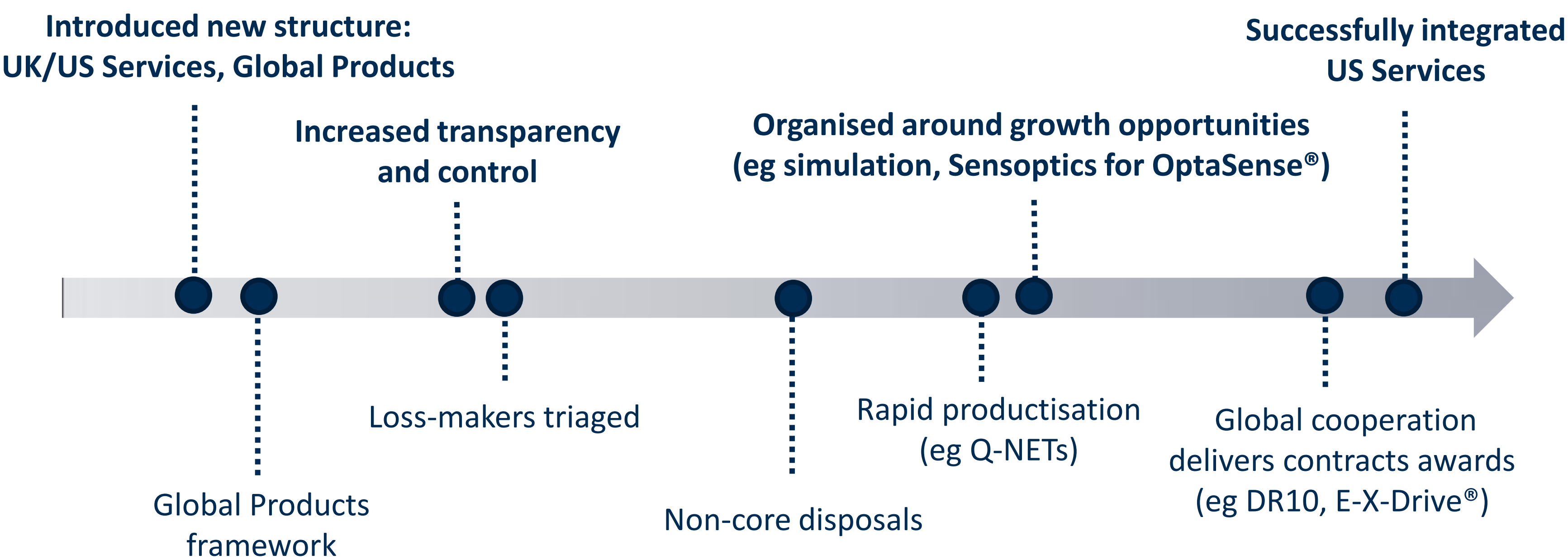
Focus



Control and visibility to assess future options

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Market environment

- **Key UK policy reviews still underway:**
  - "Equipment, Support and Technology" White Paper
  - "Yellow Book" review and consultation
  - Commitment control
- **Uncertain US political environment:**
  - Budget Control Act 2011 ("Super Committee")
  - Continuing Resolution

Visibility is very low

Operational update – UK Services

	H1 FY12 £m	H1 FY11 [1] £m
Orders	203.1	221.3
Revenue	290.9	318.1
Underlying Operating Profit*	28.7	20.7
Underlying Operating Profit Margin*	9.9 %	6.5 %
Book to Bill Ratio †	1.0	1.0


De-risking A400M


Leaders in C4ISR


Synthetic training

STRENGTHS

- Delivers customer savings – £180m under LTPA contract
- Independent expertise – test, evaluation, technical assurance
- Competitive cost base
- Deep domain knowledge, innovation

MARKET ENVIRONMENT

- Continuing delays
- Policy clarifications awaited
- Managed services proving resilient
- Smaller, shorter contracts for advice

PROGRESS IN YEAR

- Self-help benefits coming through
- MOD customer satisfaction rating improved from 17th to 3rd

OPPORTUNITIES

- Cyber / crypto, C4ISR
- International expansion
- Synthetic training
- Smaller MOD will require support

(1) Restated to reflect the transfer of Force Protection business from Global Products at the start of FY12
*Underlying performance as defined at appendix
† B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract

Operational update – US Services

	H1 FY12 £m	H1 FY11 [1] £m
Orders	343.0	323.6
Revenue	268.4	327.6
Underlying Operating Profit*	16.9	25.6
Underlying Operating Profit Margin*	6.3 %	7.8 %
Book to Bill Ratio	1.3	1.0

STRENGTHS

- Established player – brand, contract vehicles, security cleared people
- Resilient sectors – government services, not big defence
- Able to win / deliver large contracts

MARKET ENVIRONMENT

- Continuing market uncertainties:
  - contract delays
  - “Super Committee” / CR
- Increased competition
- Insourcing reducing

PROGRESS IN YEAR

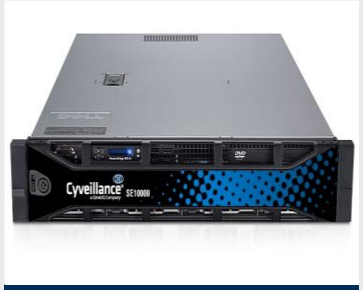
- Integration – over $20m out of cost base
- Stronger leadership, key hires
- Reinvigorated BD, bid & proposal
- NASA contract – performance score +90%

OPPORTUNITIES

- NASA contract ramp-up
  - leverage for USAF
- Cyveillance: launched SEPA app
- Attractive niches
- Record bid pipeline

NASA contract ramping up

New USAF award



Cyveillance SEPA appliance

(1) Restated to reflect the transfer of the M&T Services business from Global Products at the start of FY12

*Underlying performance as defined at appendix

Operational update – Global Products

	H1 FY12 £m	H1 FY11 [1] £m
Orders	148.1	379.6
Revenue	180.3	219.2
Underlying Operating Profit*	37.0	18.6
Underlying Operating Profit Margin*	20.5 %	8.5 %
Book to Bill Ratio	0.8	1.7

STRENGTHS

- Potential in IP portfolio
- Rapid productisation:
  - Q-NETs
  - GAJT
- US / UK footprint

MARKET ENVIRONMENT

- Contract awards continue in support of military operations
- "Reset" opportunities post drawdown as yet unclear

PROGRESS IN YEAR

- Substantial reduction in UK leakers
- Globalisation: E-X-Drive® for GCV, new Dragon Runner 10
- OptaSense® hydraulic fracture monitoring services

OPPORTUNITIES

- Larger product base – develop / acquire / partner
- New product launches
- Installed base delivering higher margin spares sales

Q-NETs

E-X-Drive® for GCV

New Dragon Runner 10

(1) Restated to reflect the transfer of businesses from Global Products at the start of FY12
*Underlying performance as defined at appendix

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Outlook

1. THIS YEAR
   - The Board believes that, absent any material change in customer requirements, the Group will exceed its original expectations for the current year by approximately 20%.

2. NEXT YEAR
   - As market uncertainties mean visibility remains lower than normal, outlook beyond the current year is unchanged.

3. MEDIUM TERM
   - Our confidence in QinetiQ's ability to build significant value over the medium term is demonstrated by the payment of the interim dividend of 0.9p.

Today – a stronger QinetiQ

- **Rapid self-help delivering results:**
  - Margin uplift
  - High customer satisfaction
  - Record low net debt
- **Strong foundation for earnings growth**

Significant value still to be realised

Q&A

Appendix

Definitions

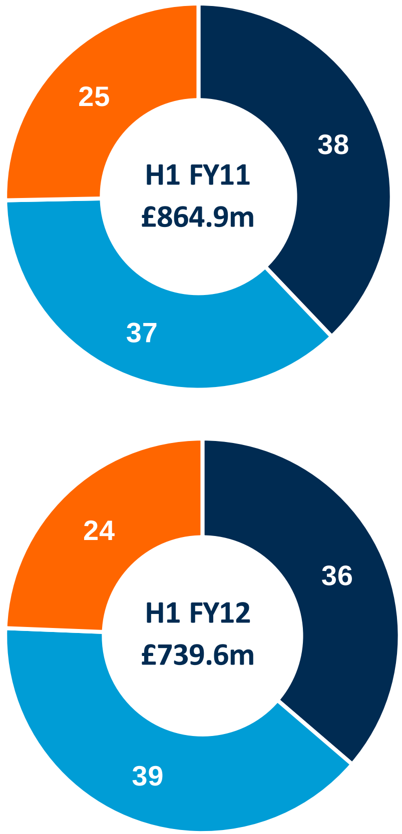
- **Underlying performance is stated before:**
  - Major reorganisation costs
  - Recovery/write-offs of previously capitalised DTR programme costs
  - Business divestments and disposal of investments
  - Amortisation of acquisition related intangible assets
  - Impairment of intangible assets and property, 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

	H1 FY12 £m	H1 FY11 £m
Revenue	739.6	864.9
Underlying operating profit*	82.6	64.9
Net finance expense	(7.7)	(13.3)
Underlying profit before tax*	74.9	51.6
Amortisation of acquired intangibles (recurring)	(11.8)	(13.9)
DTR inventory recovery/(write-off)	4.1	(37.1)
Impairment of property, plant and equipment	-	(4.8)
Gain on business divestments	4.9	-
Gain on disposal of investments	3.6	-
Gain on disposal of property, plant and equipment	4.2	-
UK restructuring costs	0.6	(33.4)
Statutory profit/(loss) before tax	80.5	(37.6)
Taxation	(13.9)	(4.5)
Statutory profit/(loss) after tax attributable to equity shareholders	66.6	(42.1)

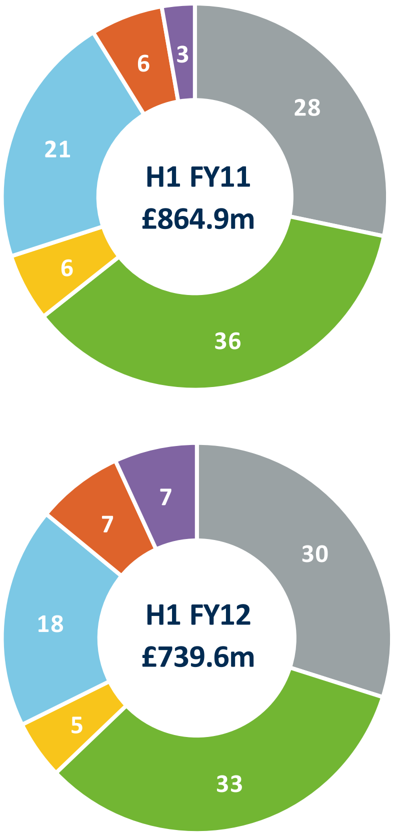
*Underlying performance as defined at appendix

Revenue by sector and customer



Revenue by sector (%)

Global Products
US Services
UK Services



Revenue by customer (%)

Civil/Other Government Agencies
MOD
DoD
Commercial Defence
DHS
NASA

Taxation

	H1 FY12 £m	H1 FY11 £m
Underlying tax charge*	**(14.8)**	(8.8)
Tax on non-recurring items	**0.9**	4.3
Headline tax charge	**(13.9)**	(4.5)
Underlying tax rate*	**19.7%**	17.1%

* Underlying performance as defined at appendix

Balance sheet

	30 September 2011 £m	31 March 2011 £m
Goodwill	530.8	521.1
Intangible assets	86.9	103.2
Property, plant and equipment	249.9	260.9
Working capital	(79.8)	(30.7)
Retirement benefit obligation (net of tax)	(171.1)	(92.2)
Other assets and liabilities	(43.2)	(43.9)
Net debt	(145.3)	(260.9)
Net assets	428.2	457.5

Banking Facilities

	Maturity date	Denomination	Value	Value £m
Private Placement	01 February 2016	$m	62.0	39.7
Revolving Credit Facility	01 February 2016	£m	275.0	275.0
Private Placement	01 December 2016	$m	125.0	80.1
Private Placement	01 February 2019	$m	238.0	152.6
Total Committed Facilities				547.4

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Assets

	30 September 2011 £m	30 September 2010 £m
Capital investment		
Expenditure on tangible assets	8.3	7.6
Investment in intangible assets*		
Development costs	0.1	-
Purchased software and other intangibles	0.3	0.5
Total	**8.7**	**8.1**

Depreciation and amortisation*		
Tangible assets	16.1	15.8
Intangible assets		
Development costs	1.1	1.0
Other	4.2	2.5
Total	**21.4**	**19.3**

* Excluding amounts arising on acquisition of the business

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Employee numbers

	30 September 2011	31 March 2011 (1)
UK Services	**5,035**	5,337
US Services	**4,321**	4,686
Global Products	**1,079**	1,185
Total	**10,435**	11,208

(1) Restated to reflect the transfer of businesses from Global Products at the start of FY12

Business realignment

UK Services	Revenue H1 FY11 £m	Revenue FY11 £m	Operating profit H1 FY11 £m	Operating profit FY11 £m	Margin H1 FY11 %	Margin FY11 %
As reported	299.1	611.6	21.9	48.7	7.3 %	8.0 %
Transfer in: Force Protection	19.0	41.1	(1.2)	(1.3)	(6.3) %	(3.2) %
Adjusted	318.1	652.7	20.7	47.4	6.5 %	7.3 %
US Services						
As reported	318.6	588.2	25.0	44.3	7.8 %	7.5 %
Transfer in: M & T Services	9.0	19.1	0.6	1.6	6.7 %	8.4 %
Adjusted	327.6	607.3	25.6	45.9	7.8 %	7.6 %
Global products						
As reported	247.2	502.8	18.0	52.4	7.3 %	10.4 %
Transfer out: Force Protection	(19.0)	(41.1)	1.2	1.3	(6.3) %	(3.2) %
Transfer out: M & T Services	(9.0)	(19.1)	(0.6)	(1.6)	6.7 %	8.4 %
Adjusted	219.2	442.6	18.6	52.1	8.5 %	11.8 %

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- 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.

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