



Preliminary Results for year ended 31 March 2014

QinetiQ Group plc
22 May 2014



Agenda

- 1. Headlines**
- 2. Financial overview**
- 3. Business overview**
- 4. Q&A**

Headlines

- EMEA Services – orders and revenue growth achieved
- US Services – agreed sale, creating a stronger, more focused Group
- US Global Products – new Proxy Board and Chairman appointed
- Balance sheet strengthened
- 21% uplift in progressive dividend
- Initiating £150m share buyback on completion of disposal



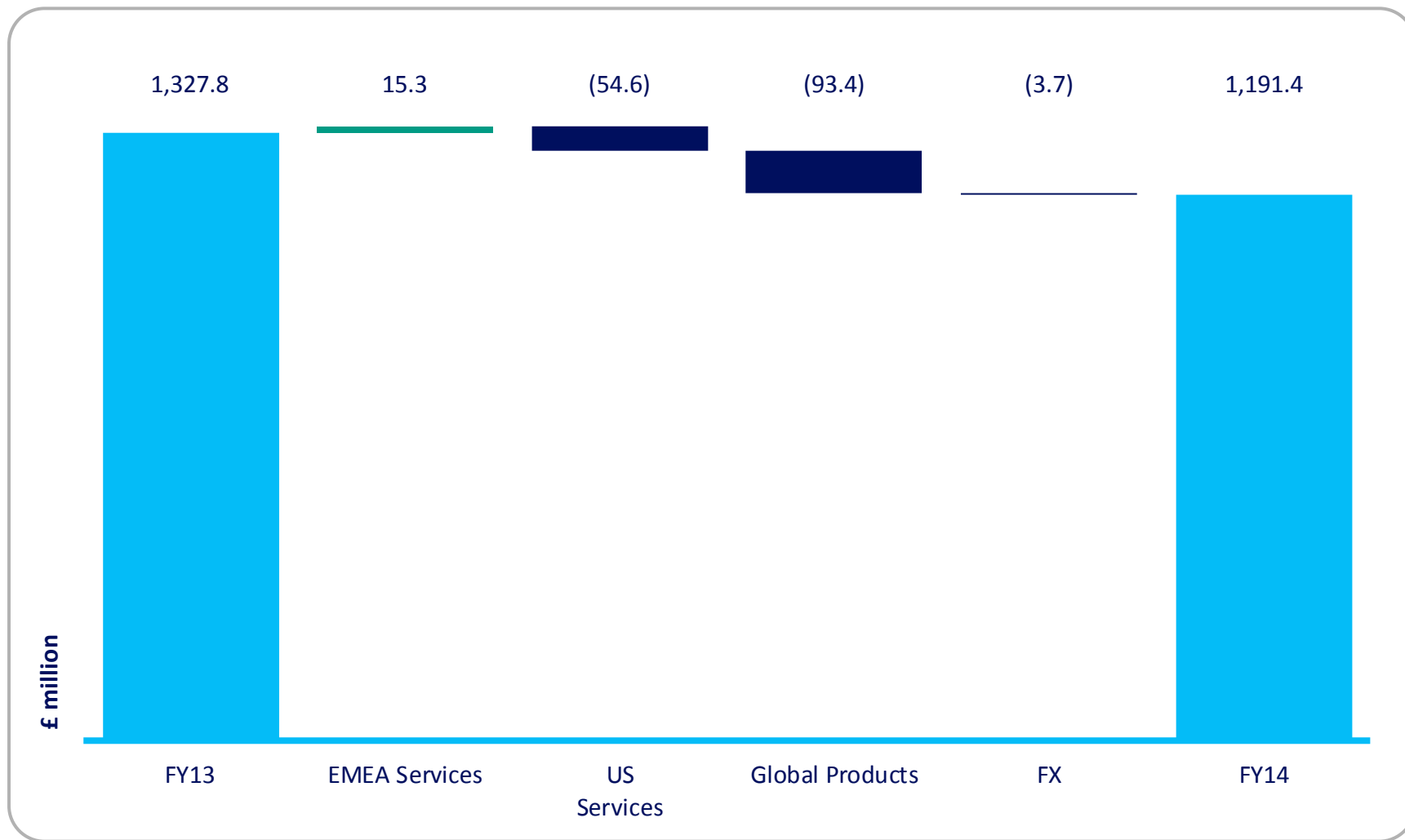
Financial overview

David Mellors
Chief Financial Officer

Summary financial headlines

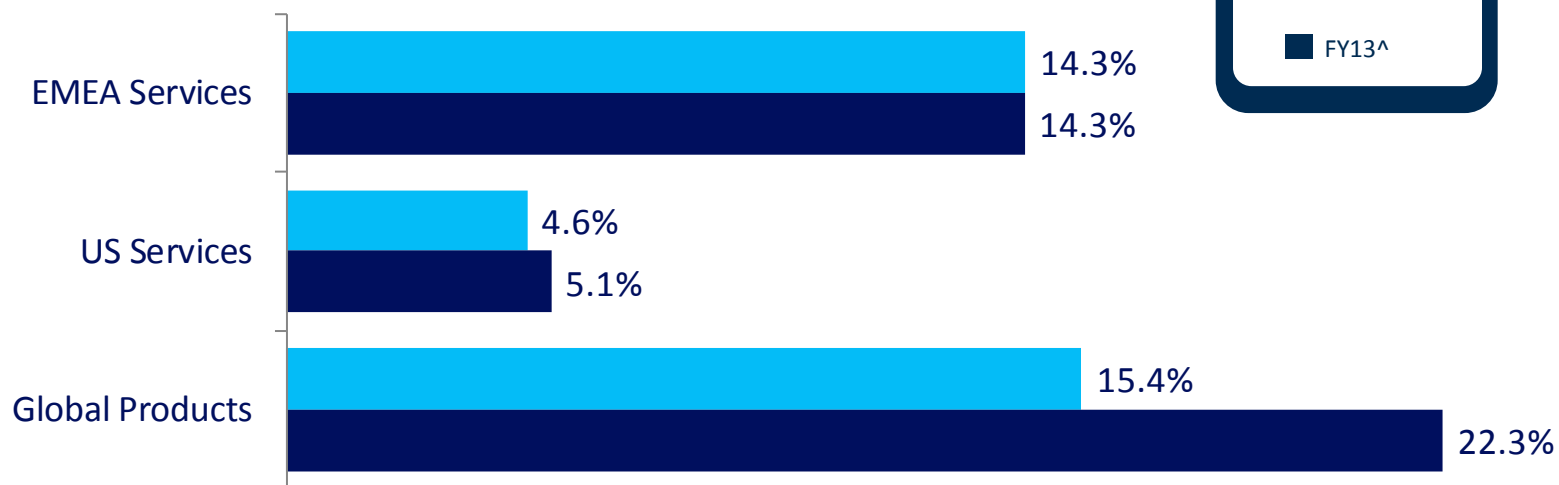
	FY14	FY13
	£m	£m
Revenue	1,191.4	1,327.8
Operating profit*	132.7	168.7
Operating margin*	11.1%	12.7%
Earnings per share* (pence)	16.0	18.9
Statutory earnings per share (pence)	(1.9)	(20.5)
Net cash from operations (post capex)*	136.5	175.9
Cash conversion (post capex)*	103%	104%
Net cash	170.5	74.0
Dividend (pence)	4.6	3.8

Revenue bridge



Segmental analysis of profit and margin

	Operating profit*	
	FY14 £m	FY13 [^] £m
EMEA Services	86.7	84.8
US Services	19.0	23.7
Global Products	27.0	60.2
Group	132.7	168.7



Specific adjusting items*

	FY14 £m	FY13 £m
Items with cash impact		
Reduction in pension liabilities on closure to future accrual	31.1	-
Pension mitigation closure costs	(4.0)	-
US Services transaction costs	(6.0)	-
Gain on disposal of business - UK Calibration	1.1	-
Restructuring costs	(0.3)	(16.3)
Gain on disposal of investments	-	2.9
Non-cash items		
Impairment of goodwill	(125.9)	(255.8)
Impairment reversal/charge in respect of PP&E	1.4	(4.0)
Impairment of investments	-	(0.6)
Amortisation of acquired intangibles	(11.0)	(14.0)
Pension net finance expense	(1.7)	(1.3)
Total specific adjusting items (pre-tax)	(115.3)	(289.1)

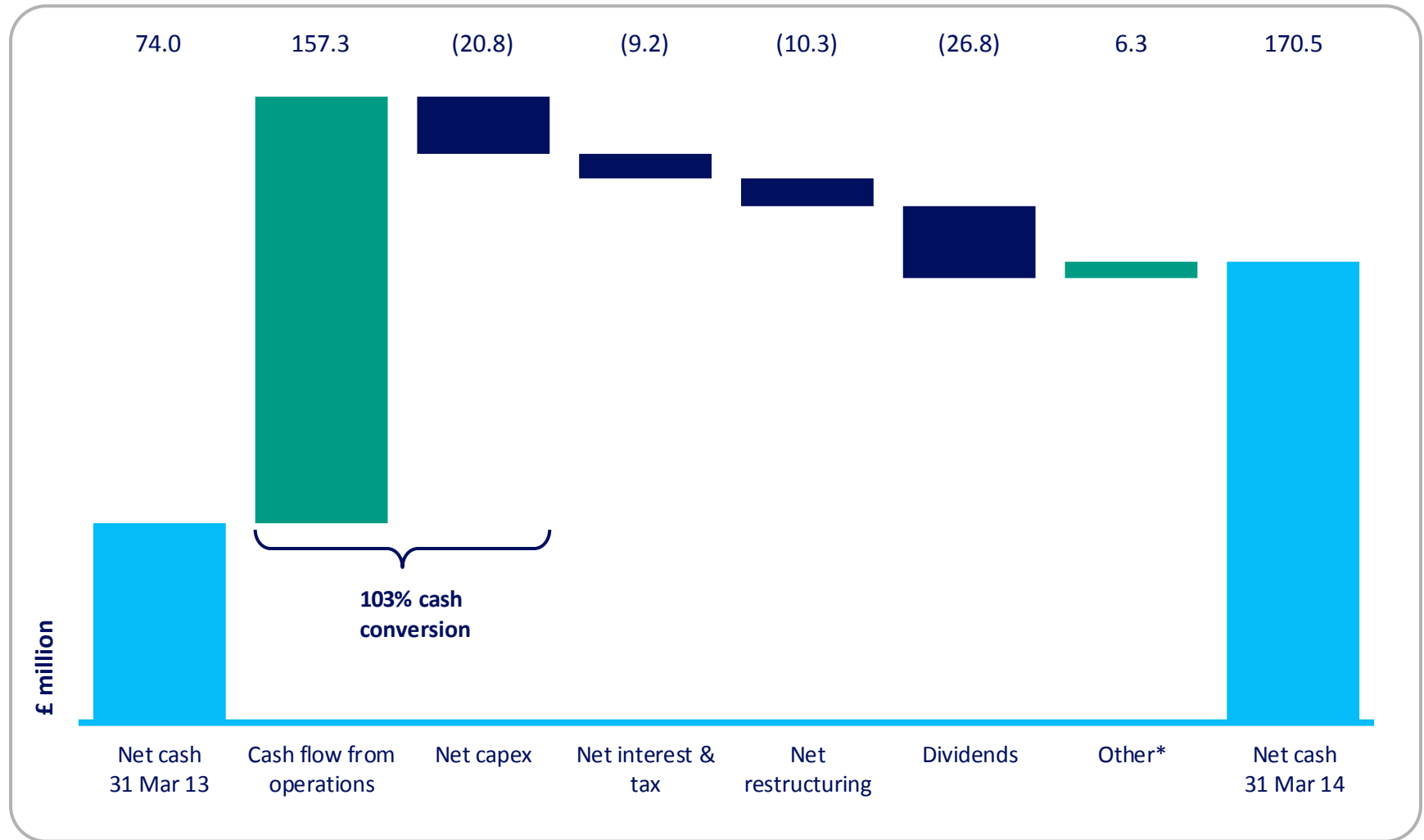
US Services disposal – earnings impact

Assumes May 2014 completion	FY15	Pro forma (Full year)
Operating profit		
- US Services results ("discontinued")	Not included	n/a
- Global Products back office setup	c.\$5m H1	n/a
Interest		
- PP savings	9 months	\$18m
Profit after tax		
- discontinued business results	2 months	n/a
EPS		
- £150m share buyback (assume over 12-15 months)	9 months	Full impact

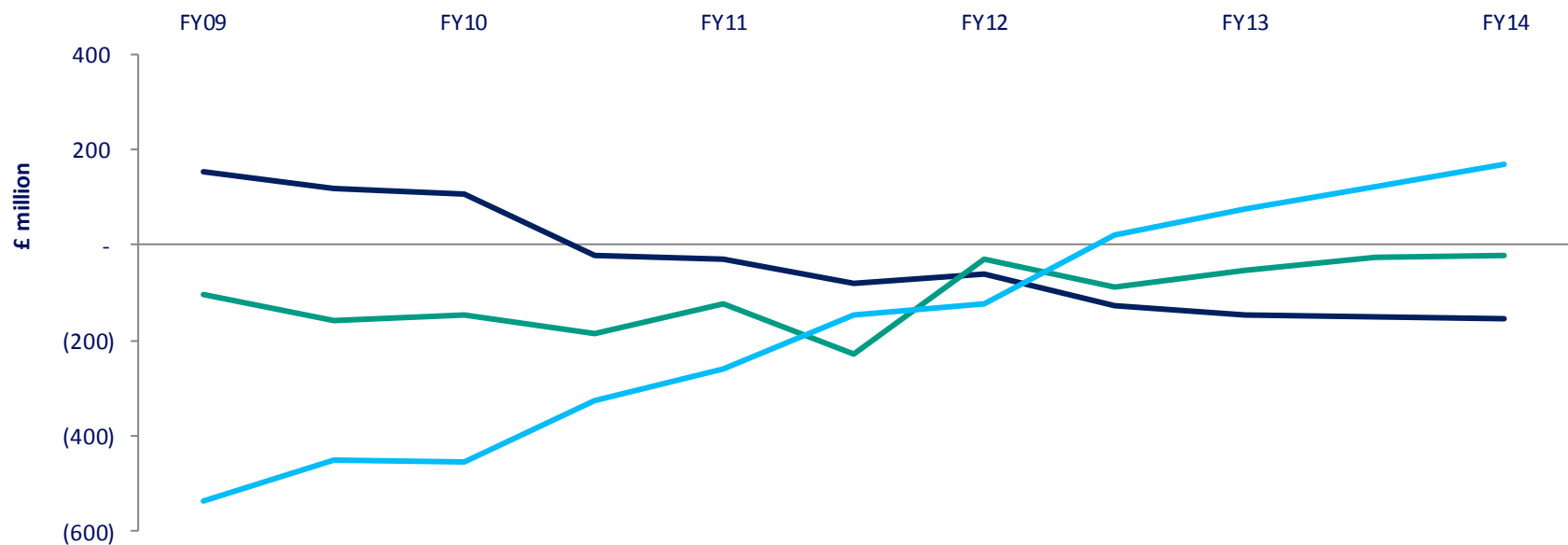
Cash impact

- Gross consideration \$165m May 2014 (earnout H1 FY16)
- £6m pension scheme injection
- PP accelerated interest cost c.£28m in H1 FY15

Movements in net cash



Balance sheet strength enhanced



	FY09 £m	FY10 £m	FY11 £m	FY12 £m	FY13 £m	FY14 £m
Working capital	154.0	107.2	(30.7)	(62.7)	(148.3)	(155.3)
Retirement benefit obligation (pre-tax)	(105.2)	(147.3)	(124.6)	(31.5)	(54.1)	(22.2)
Net (debt) / cash	(537.9)	(457.4)	(260.9)	(122.2)	74.0	170.5

Outlook

- Notwithstanding the strong performance in EMEA Services last year, the MOD transformation programme is likely to create some short-term uncertainty in the UK defence market, and the division's performance as a whole is expected to remain steady this year.
- At the same time there is a wide range of possible outcomes for the performance of Global Products as the division has a lumpy revenue profile which is dependent on the timing and shipment of key orders. Although newer products are recording notable milestones, the drawdown of American overseas military forces is expected to continue to depress demand for conflict-related products, and the division is unlikely to see significant benefits from the repositioning of its US operations until later in the year.
- The Board is maintaining its expectations for overall Group performance in the current financial year.



Business overview

Leo Quinn

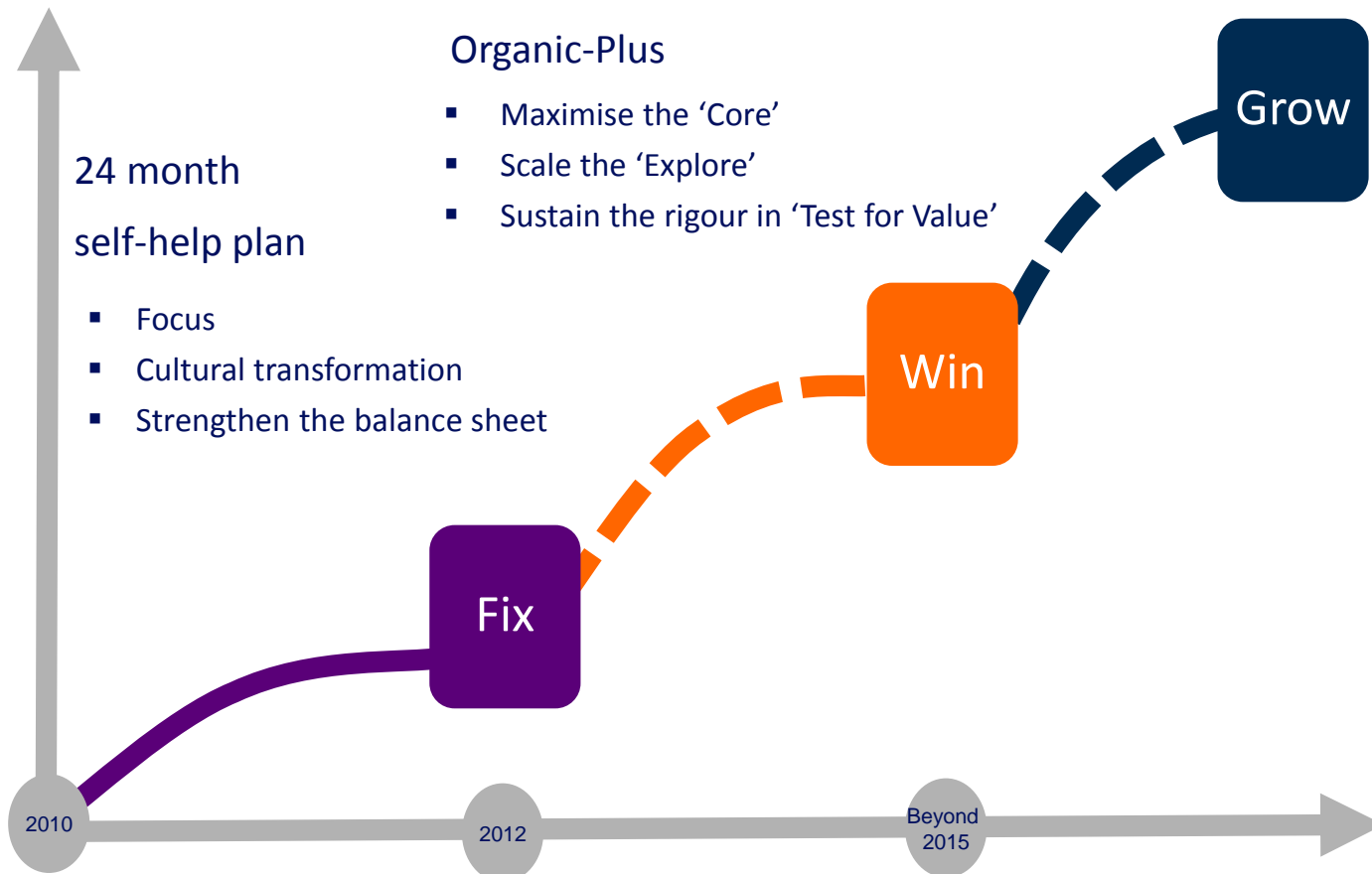
Chief Executive Officer

Market environment

- US and UK military drawdown from Afghanistan
- UK Government driving value through defence transformation
 - GOCO cancelled but DE&S now at arm's length from MOD
 - New “Yellow Book” single source pricing terms
 - Responsibility shifted to Front Line Commands
- New markets
 - International defence – demand for UK capability
 - Cyber – growing market
 - Oil and gas – favourable structural trends

Defence remains challenging but opportunities across all markets

Our journey



Positioning the portfolio for growth

A stronger, more focused Group

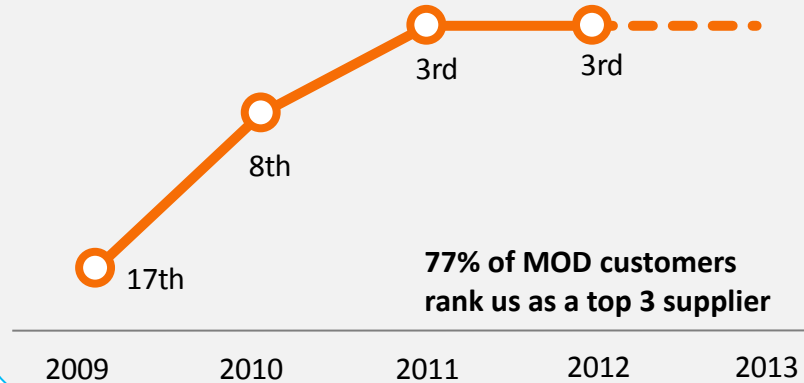
← Is it real, can we win, is it worth it?

	Core c85% of revenue	Explore c10% of revenue	Test for Value c5% of revenue
EMEA Services	<ul style="list-style-type: none"> • Weapons • Air • Maritime • C4ISR • Australia 	<p>Standalone businesses:</p> <ul style="list-style-type: none"> • Training • Cyber Security (includes protective monitoring) • Cyveillance® • Procurement Advisory Services <p>Embedded in core businesses:</p> <ul style="list-style-type: none"> • International ranges (Weapons) • UAS Services (Air) 	<ul style="list-style-type: none"> • International procurement advice • Smart metering assurance • Directed Energy Weapons • Secured navigation systems (Galileo)
Global Products	<ul style="list-style-type: none"> • TALON® • Q-Net® • LAST® Armor • SWATS™ 	<p>Standalone businesses:</p> <ul style="list-style-type: none"> • OptaSense® (includes RIO acquisition) • Space Products <p>Embedded in core businesses:</p> <ul style="list-style-type: none"> • Robotic applique kits (Unmanned Systems) 	<ul style="list-style-type: none"> • Alarm™ • E-X-Drive® • Integrated Warrior System™ • MEWS™ • Power Line Sensors (Linewatch™)

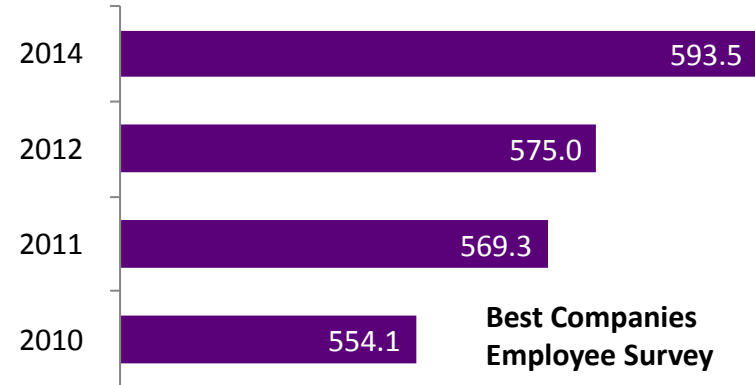
Better positioned to deliver Organic-Plus strategy

Driven by cultural transformation

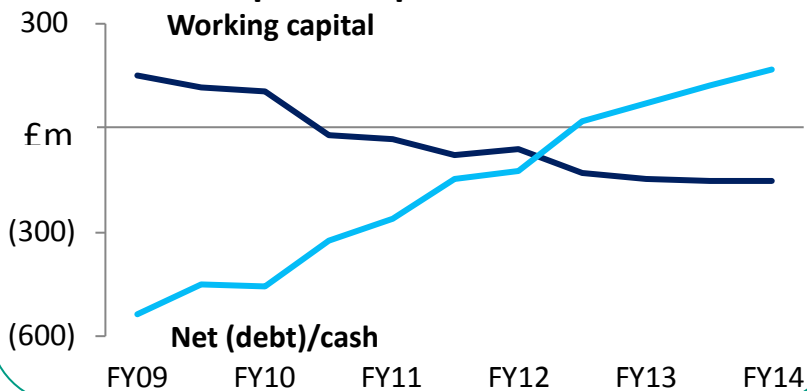
Customer Satisfaction



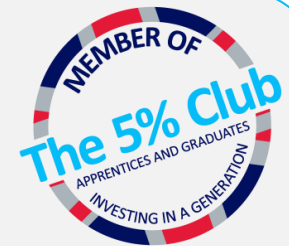
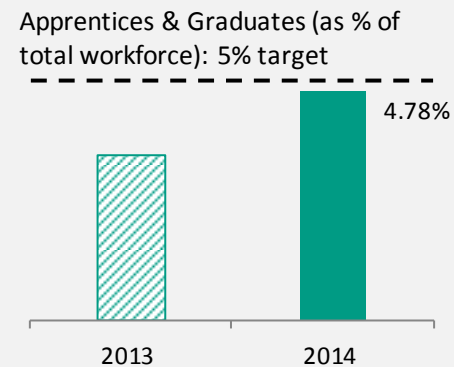
Employee engagement



Culture's impact on performance



Investing in a generation

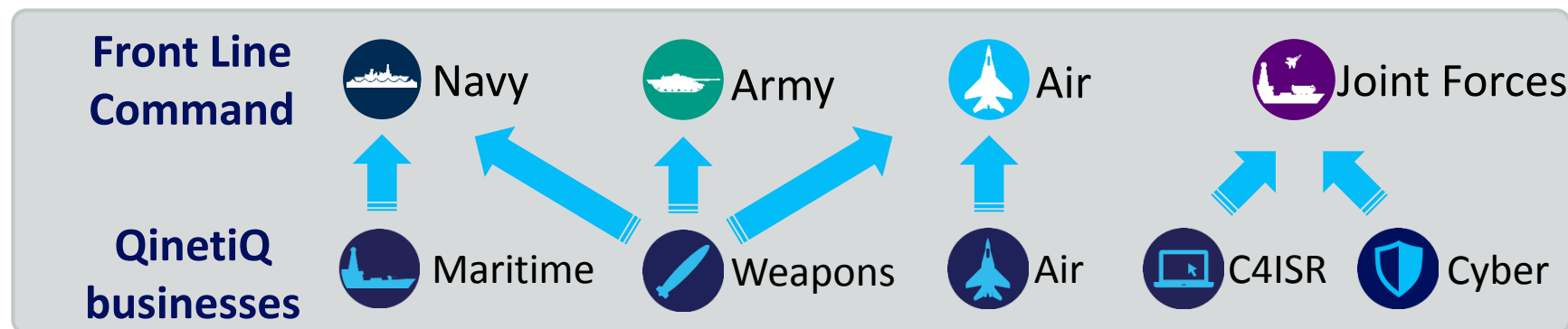


“Culture eats strategy for breakfast”

EMEA Services – performance in period

	FY14 £m	FY13 [^] £m
Orderst	447.8	402.2
Revenue	607.0	594.6
Underlying Operating Profit*	86.7	84.8
Underlying Operating Profit Margin*	14.3%	14.3%
Book to Bill Ratio†	1.1x	1.0x
Funded Backlog†	686.3	640.7



- Encouraging increase in sales and order book
- International opportunities but slow to convert
- Margins maintained
 - Productivity improvements
 - Better project execution
 - ‘My Contribution’
- Structured to support MOD transformation
 - DE&S
 - Front Line Commands



Aligned to pursue growth opportunities

QinetiQ [^] 2013 has been restated to reflect the reclassification of product sales from EMEA Services to Global Products and Cyveillance to EMEA Services
 † Excludes the third term £998m renewal of the LTPA contract. Book to Bill ratio is orders won divided by revenue recognised excluding the LTPA contract

EMEA Services – core businesses

	 Air	 Weapons	 Maritime	 C4ISR
Overview	<ul style="list-style-type: none"> • Tests military aircraft and equipment • Evaluates risks and assures safety 	<ul style="list-style-type: none"> • Independent research, evaluation and training services for integrated weapons systems 	<ul style="list-style-type: none"> • Independent research, design, integration, test and evaluation to naval clients worldwide 	<ul style="list-style-type: none"> • Leading supplier of research and advice on sensors, communications and intelligence
Progress	<ul style="list-style-type: none"> • First large contract for life extension of an aircraft type • Watchkeeper support 	<ul style="list-style-type: none"> • Weapons Science and Technology Centre • Sea Spear trials http://www.youtube.com/watch?v=hjTvCoLYBN8 	<ul style="list-style-type: none"> • Signature measurement for Successor submarine • Underwater targets win from competition 	<ul style="list-style-type: none"> • 2 new research enabling contracts • Advice on reset requirements
Opportunities	<ul style="list-style-type: none"> • UAS Services (eg UN) • Llanbedr for UAS development • International (eg India) 	<ul style="list-style-type: none"> • Munitions end-to-end supply chain • International ranges 	<ul style="list-style-type: none"> • UK outsourcing • International (eg Republic of Korea attack submarine) 	<ul style="list-style-type: none"> • Support Joint Forces Command • International (eg Middle East)

Strongly differentiated and independent of the supply chain

EMEA Services – ‘Explore’ businesses

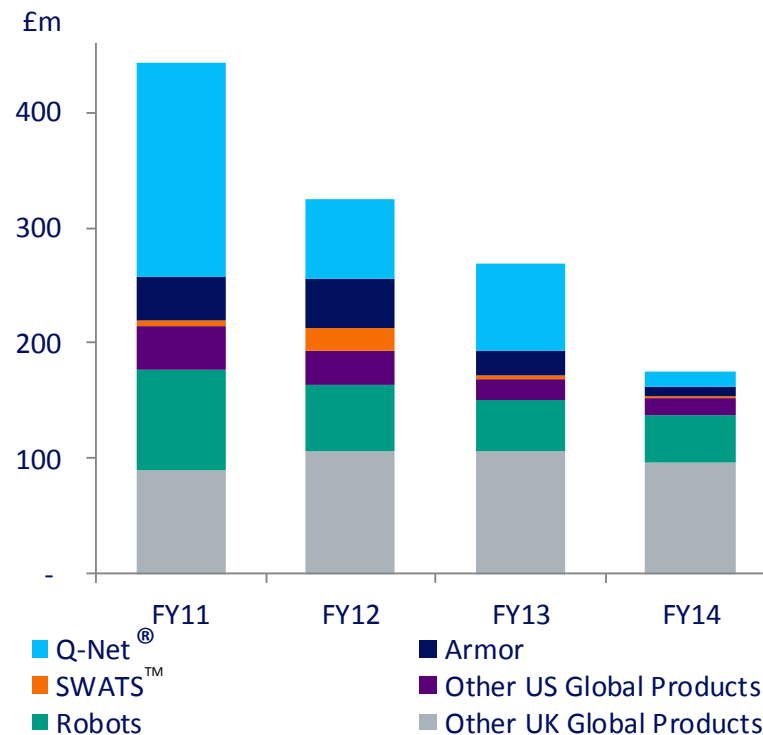
	 Cyber Security	 Cyveillance®	 Procurement Advice	 Training
Overview	<ul style="list-style-type: none"> Cyber monitoring for CNI and high value businesses 	<ul style="list-style-type: none"> Predictive threat intelligence 	<ul style="list-style-type: none"> Government procurement advice including tender assessment, cost and risk advisory services 	<ul style="list-style-type: none"> COTS technology to reduce the cost of training
Progress	<ul style="list-style-type: none"> £8m smart meter win Ministry of Justice protective monitoring contract 	<ul style="list-style-type: none"> Separated from US Services Focused on commercial markets 	<ul style="list-style-type: none"> Build on Commerce Decisions’ success AWARD® used on \$140bn projects 	<ul style="list-style-type: none"> Increased revenue on flagship DSALT contract 2-year extension for JFC simulation centre
Opportunities	<ul style="list-style-type: none"> Focused on UK public sector and smart infrastructure Leverage Cyveillance® capabilities International advice 	<ul style="list-style-type: none"> Cloud-based platforms Integrated support services Targeting SMEs 	<ul style="list-style-type: none"> Complex procurement programmes Regulated markets International markets: Canadian Government framework contract 	<ul style="list-style-type: none"> Access larger opportunities drawing on training capability from across QinetiQ New Orlando office

Opportunities for growth beyond traditional markets

Global Products – performance in period

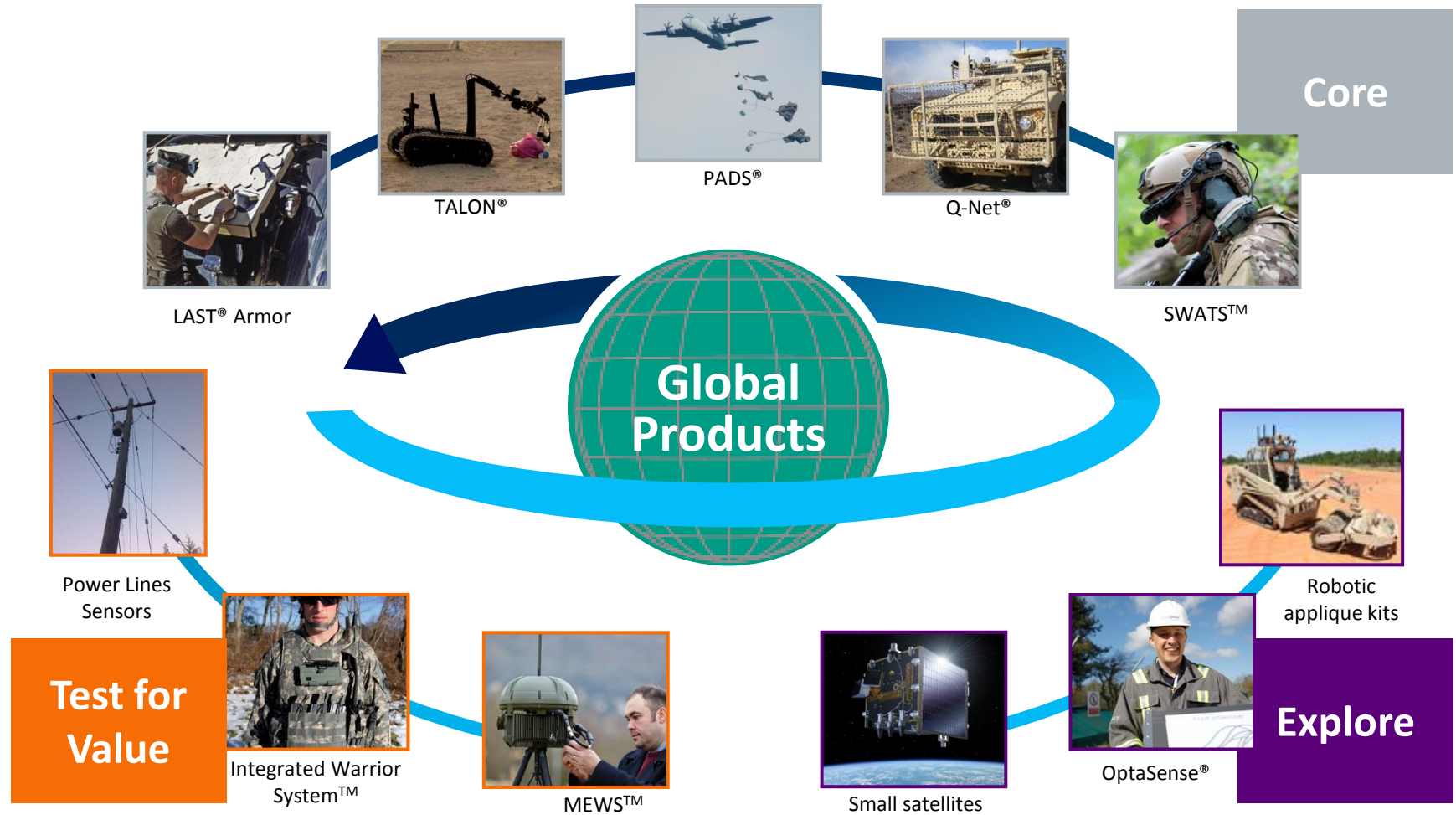
	FY14 £m	FY13^ £m
Orders	149.1	223.9
Revenue	175.6	269.4
Underlying Operating Profit*	27.0	60.2
Underlying Operating Profit Margin*	15.4%	22.3%
Book to Bill Ratio	0.8x	0.8x
Funded Backlog	74.3	125.3

- Lumpy revenue profile
- Continued requirement to reset the cost base
- New Proxy Board and Chairman
- US Services disposal removes conflicts of interest
- R&D feeds future value; similar to UK model
- Progress on international sales



Repositioning away from conflict-related products

Global Products – a portfolio in transition

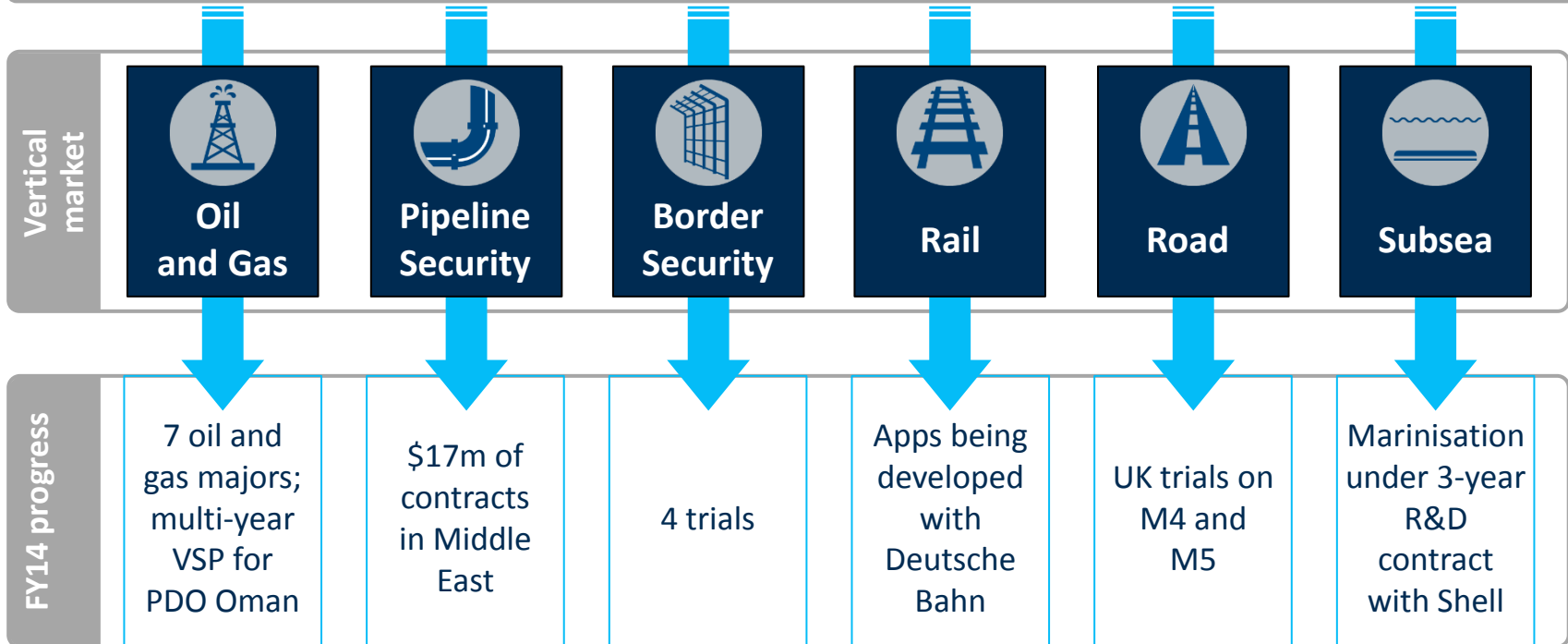


Greater focus on non-defence markets driven by Organic-Plus

'Explore' business – OptaSense®

CENTRAL TECHNOLOGY DEVELOPMENT OF DISTRIBUTED ACOUSTIC SENSING (DAS)

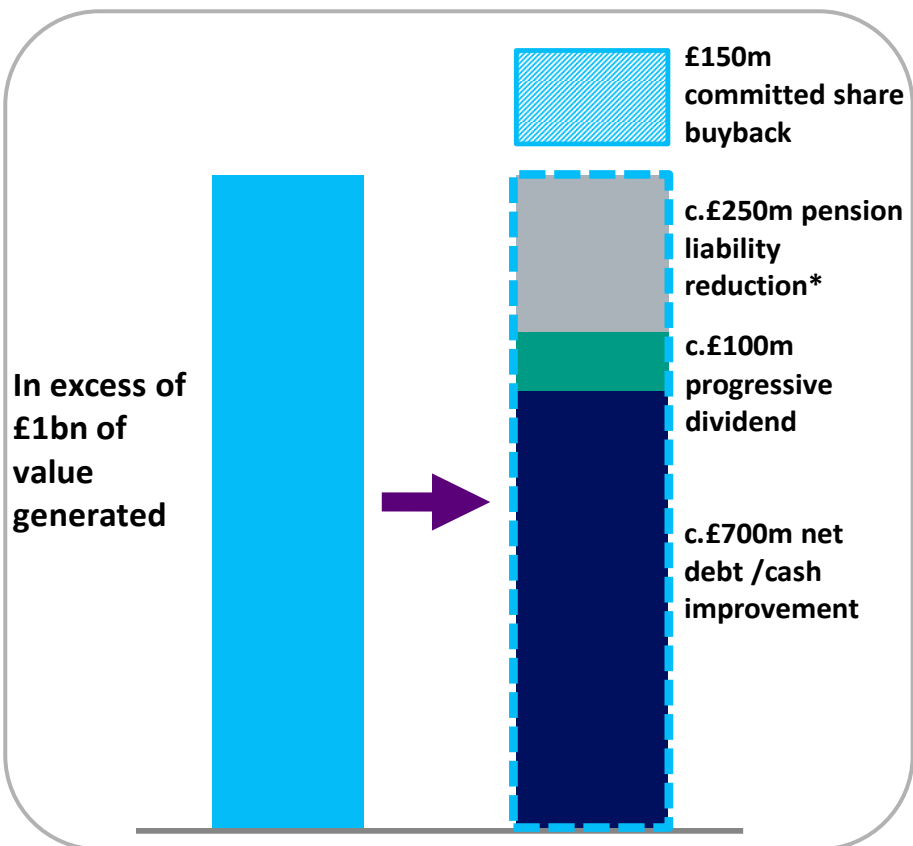
Incorporating Sensoptics and new Redfern Integrated Optics (RIO) acquisitions
(vertical integration of the supply chain)



Build once, use across multiple markets

Delivering shareholder value

2009 – 2014



Drivers of future value creation

- Maintain strong cash generation and efficient balance sheet
- Build on momentum in EMEA Services
- Drive 'Explore' opportunities for growth
- Address performance of US Global Products
- Progressive dividend

Committed to taking actions to drive value



Questions



Download the QinetiQ Investor Relations app from the App Store or scan the QR code



Appendices

Definitions

- Underlying performance is stated before
 - Amortisation of intangibles arising from acquisitions;
 - Reduction in liability arising on pension scheme closure;
 - Pension scheme closure costs;
 - Pension net finance expense;
 - Gains/losses on disposal of investments and businesses;
 - Impairment of intangible assets;
 - Property impairment items;
 - Restructuring costs; and
 - 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.

How we organise the Group



Air



Maritime



Training



C4ISR



Cyveillance®



Weapons



Australia



Procurement
Advisory Services



Cyber
Security



Space



OptaSense®



Unmanned
Systems

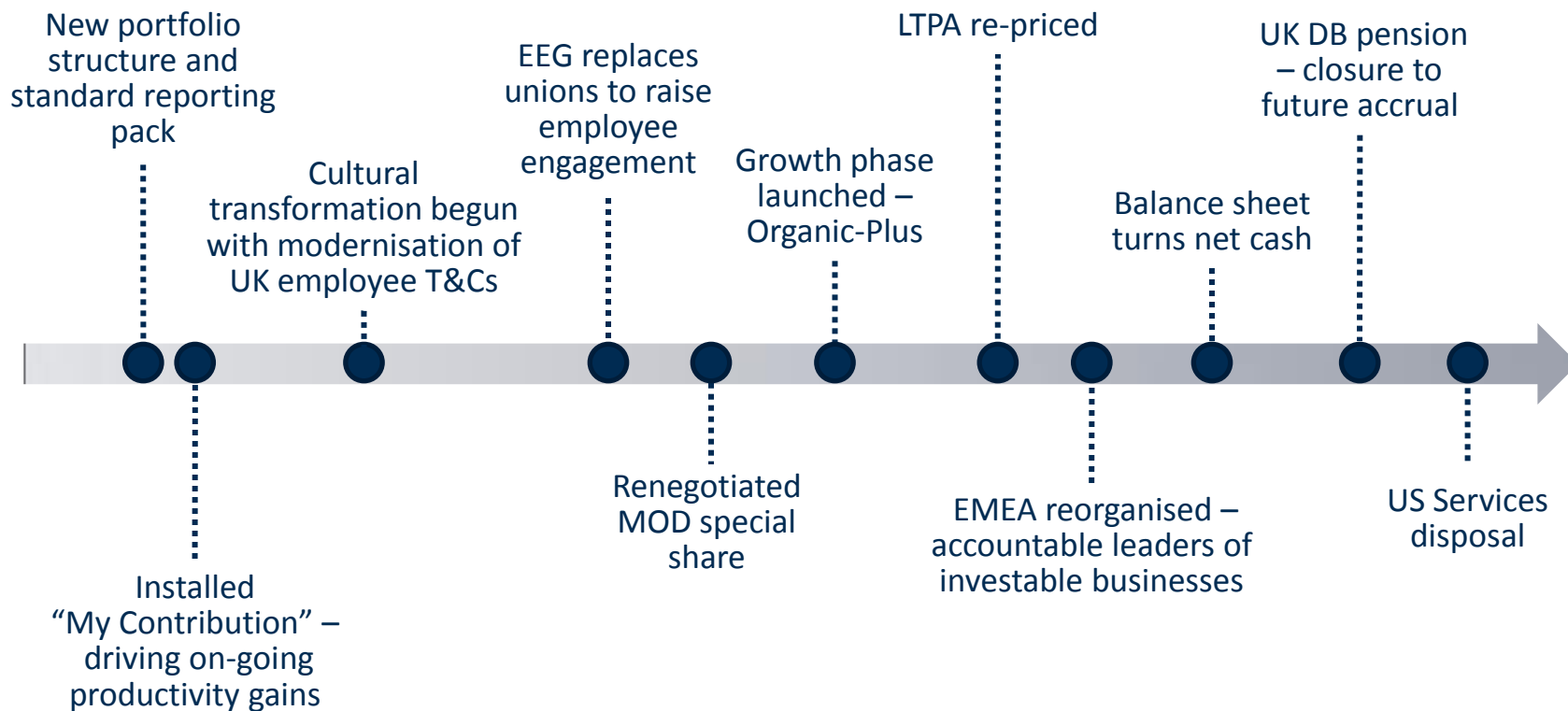


IP & New
Technologies



Survivability

Transforming QinetiQ



Income statement of full Group

	FY14 £m	FY13 £m
Revenue	1,191.4	1,327.8
Underlying operating profit*	132.7	168.7
Net finance expense	(13.3)	(16.6)
Underlying profit before tax*	119.4	152.1
Amortisation and impairment of acquisition-related intangibles	(11.0)	(14.0)
Pension net finance expense	(1.7)	(1.3)
(Loss)/gain on business combinations and divestments	(4.9)	2.3
Pension curtailment gain	31.1	-
Impairment of goodwill	(125.9)	(255.8)
Other restructuring	(2.9)	(20.3)
Statutory profit/(loss) before tax	4.1	(137.0)
Taxation	(16.8)	3.8
Statutory loss after tax attributable to equity shareholders	(12.7)	(133.2)

Balance sheet of full Group

	31 March 2014 £m	31 March 2013 £m
Goodwill	141.3	290.4
Intangible assets	44.2	57.8
Property, plant and equipment	233.8	241.4
Working capital	(155.3)	(148.3)
Retirement benefit obligation (net of tax)	(20.9)	(40.4)
Other assets and liabilities	(35.5)	(36.4)
Net cash	170.5	74.0
Net assets	378.1	438.5

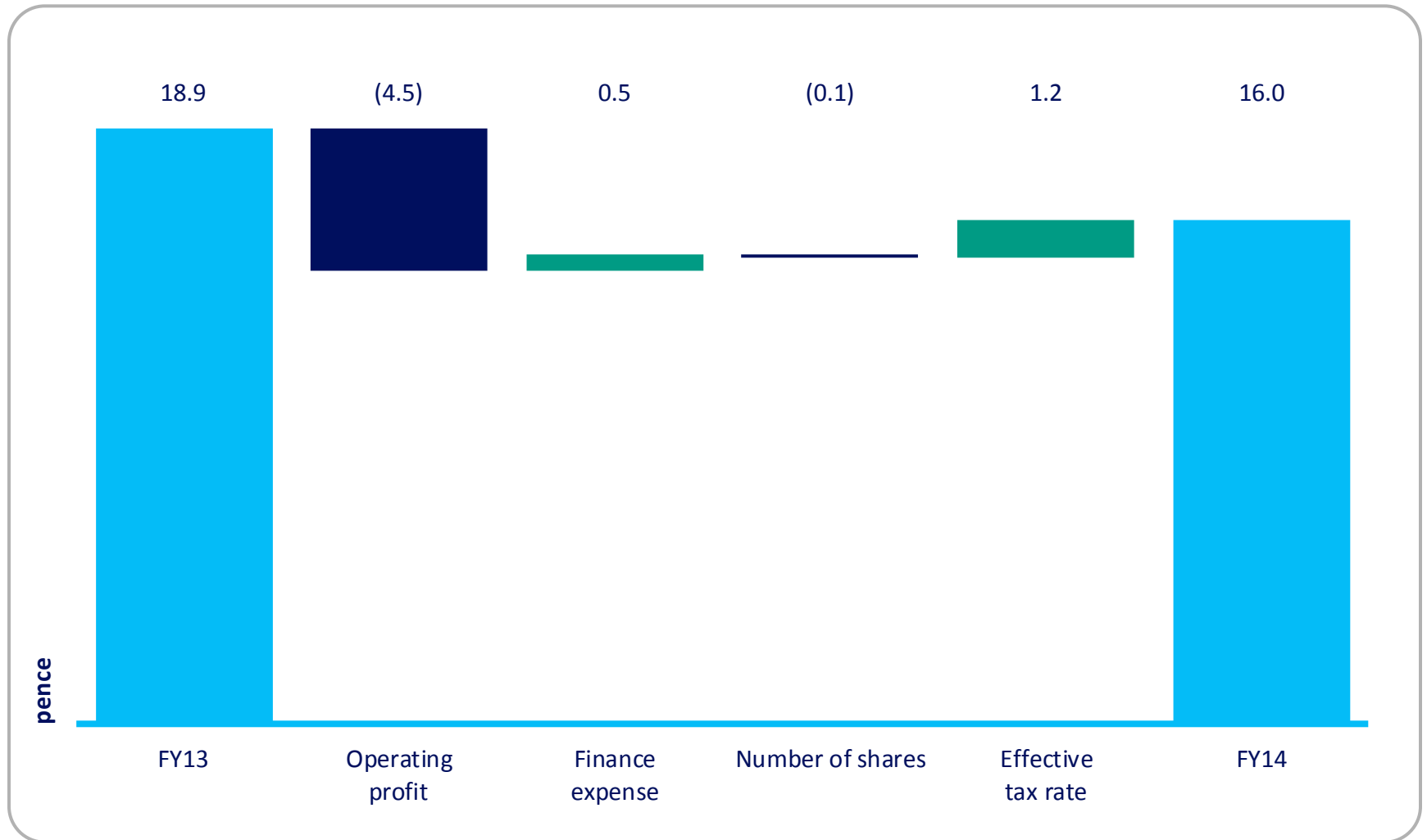
Income statement of disposal group – US Services

	FY14 £m	FY13 £m
Revenue	408.8	463.8
Underlying operating profit*	19.0	23.7
Net finance expense	(0.8)	-
Underlying profit before tax*	18.2	23.7
Significant adjusting items	(92.1)	(264.4)
Statutory loss before tax	(73.9)	(240.7)
Taxation	(3.0)	17.6
Statutory loss after tax attributable to equity shareholders	(76.9)	(223.1)

Balance sheet of disposal group – US Services

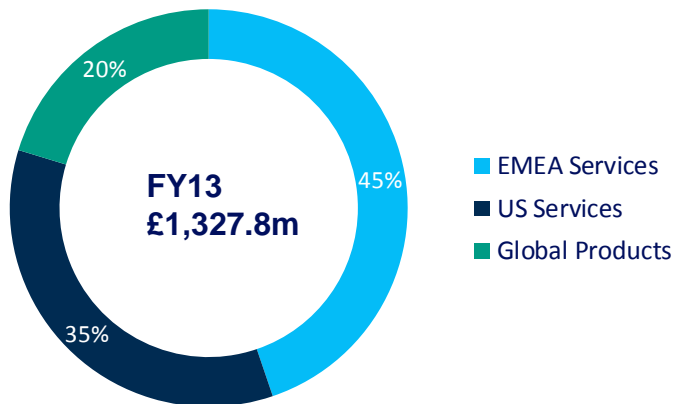
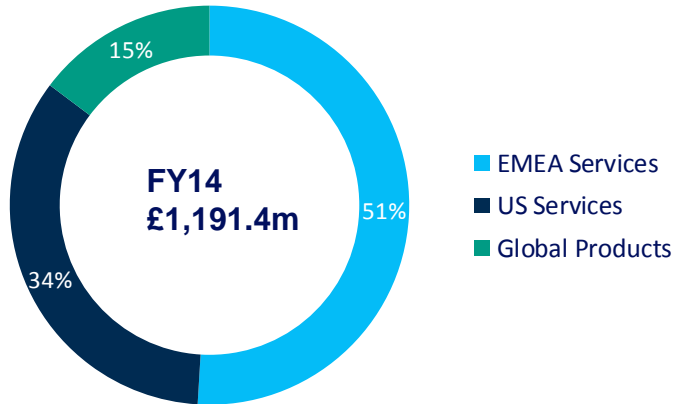
	31 March 2014	31 March 2013
	£m	£m
Goodwill	41.4	137.7
Intangible assets	33.6	45.1
Property, plant and equipment	6.1	9.1
Working capital	24.0	34.9
Other assets and liabilities	(0.8)	3.1
Net cash	-	11.3
Net assets	104.3	241.2

Earnings Per Share* (pence)

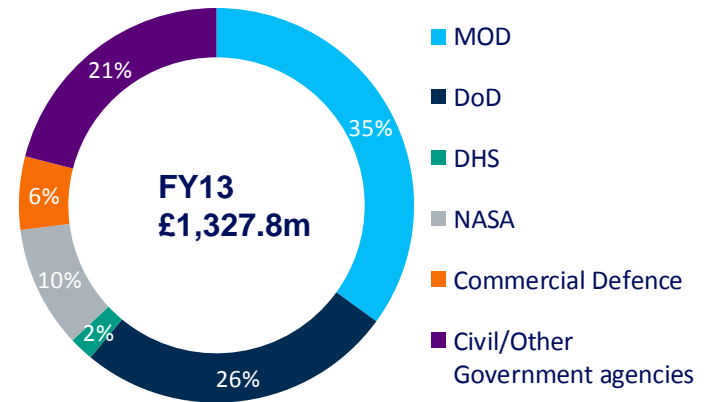
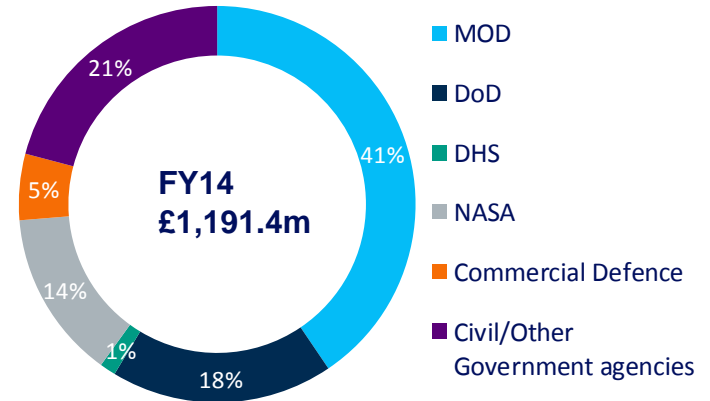


Revenue by sector and customer

Revenue by sector (%)



Revenue by customer (%)



Taxation

	FY14	FY13
	£m	£m
Underlying tax charge*	(15.4)	(29.2)
Tax on non-recurring items	(1.4)	33.0
Headline tax charge	(16.8)	3.8
Underlying tax rate*	12.9%	19.2%

Cash conversion

	FY14 £m	FY13 £m
Underlying operating profit*	132.7	168.7
Share of JVs & associates	(0.1)	(0.1)
Operating profit before JVs & associates*	132.6	168.6
Cash flow from operations*	157.3	194.4
Net capex	(20.8)	(18.5)
Net cash flow from operations post capex	136.5	175.9
Cash conversion %*	103%	104%
Net interest paid	(11.3)	(35.0)
Taxation	2.1	(1.6)
Free cash flow*	127.3	139.3

Movements in net cash

	FY14 £m	FY13 £m
Free cash flow	127.3	139.3
Net restructuring (outflow)/inflow	(10.3)	63.1
Pensions scheme closure costs	(4.0)	-
Sale of investment	-	3.8
Dividends	(26.8)	(20.1)
Purchase of own shares	(0.5)	(0.4)
Other	(0.1)	18.6
Change in net cash/debt before FX	85.6	204.3
FX translation impact	10.9	(8.1)
Change in net cash/debt	96.5	196.2
Opening net cash/(debt) - 1 April	74.0	(122.2)
Closing net cash - 31 March	170.5	74.0

Defined benefit pension scheme – IAS 19 balance sheet position

	FY14 £m	FY13 £m
Market value of assets	1,304.6	1,256.5
Present value of scheme liabilities	(1,326.8)	(1,310.6)
Net pension liability before deferred tax	(22.2)	(54.1)
Deferred tax asset	1.3	13.7
Net pension liability	(20.9)	(40.4)

Assumptions	FY14 %	FY13 %
Discount rate	4.2%	4.4%
Inflation (CPI)	2.6%	2.7%

Sensitivity of deficit to main assumptions:

Assumption	Change in assumption	Sensitivity
Discount rate	Increase / decrease by 0.1%	Decrease / increase by £25m
Inflation	Increase / decrease by 0.1%	Increase / decrease by £25m
Life expectancy	Increase by 1 year	Increase by £31m

Credit and debt facilities

	Maturity date	Denomination	Value in denomination	Value £m
Revolving Credit Facility	February 2016	£m	118.0	118.0
Revolving Credit Facility	February 2016	\$m	250.0	149.9
Private Placement*	February 2016	\$m	43.0	25.8
Private Placement*	December 2016	\$m	48.0	28.8
Private Placement*	February 2019	\$m	157.0	94.3
Total Committed Facilities				416.8

*scheduled to be re-paid in H1 FY15.

Employee numbers at year end

	31 March 2014	31 March 2013
EMEA Services	5,399	5,352
Global Products	834	927
Continuing Operations	6,233	6,279
US Services	2,704	3,219
Total	8,937	9,498

Disclaimer

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 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.