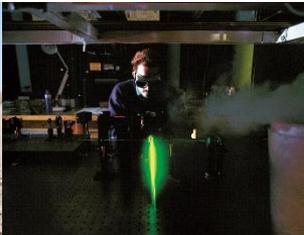


Interim Results for half year ended 30 September 2015

QinetiQ Group plc



19 November 2015

Introduction

Steve Wadey | Chief Executive Officer



Agenda



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Headlines



- **Good trading result in challenging markets**
 - Solid revenue and operating profit performance
 - Continued high cash conversion
- **Reduced order intake during H1 against strong comparator period**
 - Approximately two thirds of the orders reduction due to timing of multi-year contract awards
 - £153m 5-year UK MOD renewal for aircraft engineering services awarded after period end
 - Some de-scoping and delay to orders in tough and uncertain markets
 - 90% of FY16 revenue under contract at start of H2, consistent with prior period
- **Continued focus on shareholder returns**
 - 16% increase in underlying eps* due to lower finance costs and reduced share count
 - 6% increase in interim dividend in line with commitment to a progressive dividend
 - £50m share buyback over next 12 months, consistent with capital allocation policy
- **QinetiQ has core competencies well matched to emerging themes in global markets**
 - Priorities to improve customer focus and competitiveness

H1 commentary

David Mellors | Chief Financial Officer



Summary financial headlines



Continuing operations	FY16 H1 £m	FY15 H1 £m
Orders	228.4	320.5
Revenue	370.9	365.6
Operating profit*	49.8	49.3
Operating margin*	13.4%	13.5%
Earnings per share* (pence)	7.3	6.3
Net cash from operations (post capex)*	46.9	57.0
Cash conversion (post capex)*	94%	116%
Net cash	181.5	205.7
Dividend (pence)	1.9	1.8

* Underlying performance, before specific adjusting items, as defined in appendix.

Orders



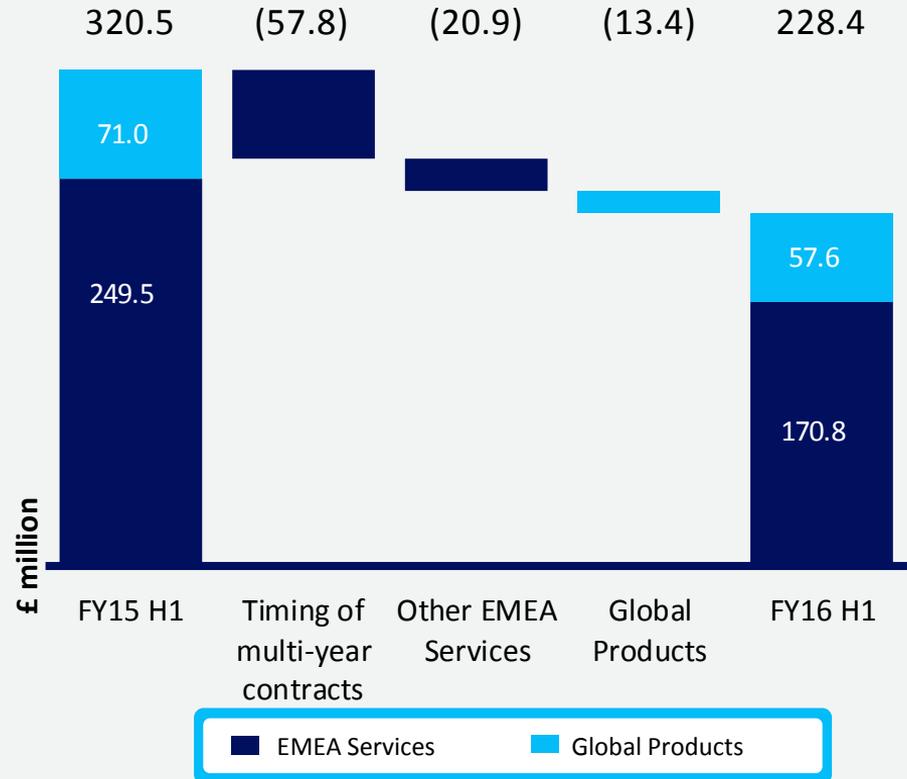
- **Challenging markets generally**

- **EMEA Services**

- Strong prior period
- Timing of multi-year awards
 - £17m H1 2016 V £75m H1 2015
- 92% FY16 revenue under contract

- **Global Products**

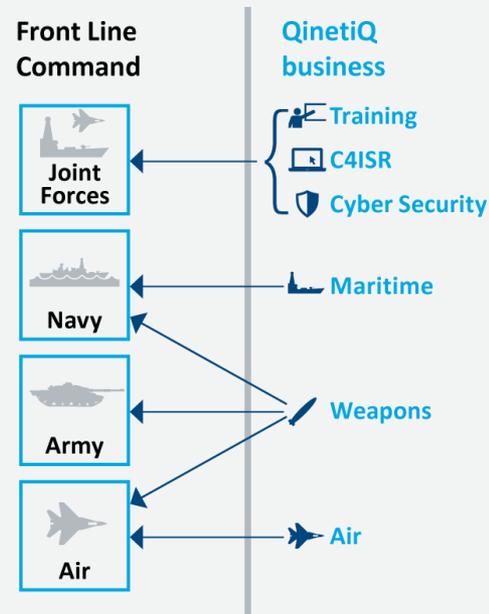
- \$16m robot reset order in H1 2015
- 81% FY16 revenue under contract



EMEA Services – H1 results

	FY16 H1	FY15 H1
	£m	£m
Orders	170.8	249.5
Revenue	301.4	297.1
Underlying operating profit*	42.7	42.6
Underlying operating profit margin*	14.2%	14.3%
Book to bill ratio†	0.8x	1.2x
Funded backlog†	631.3	703.0

* Underlying performance, before specific adjusting items, as defined in appendix.
 † 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.



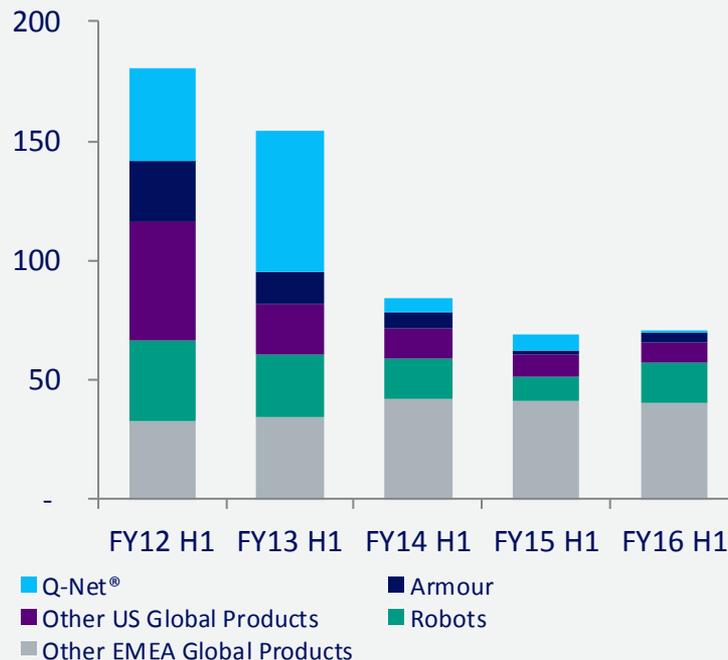
Global Products – H1 results



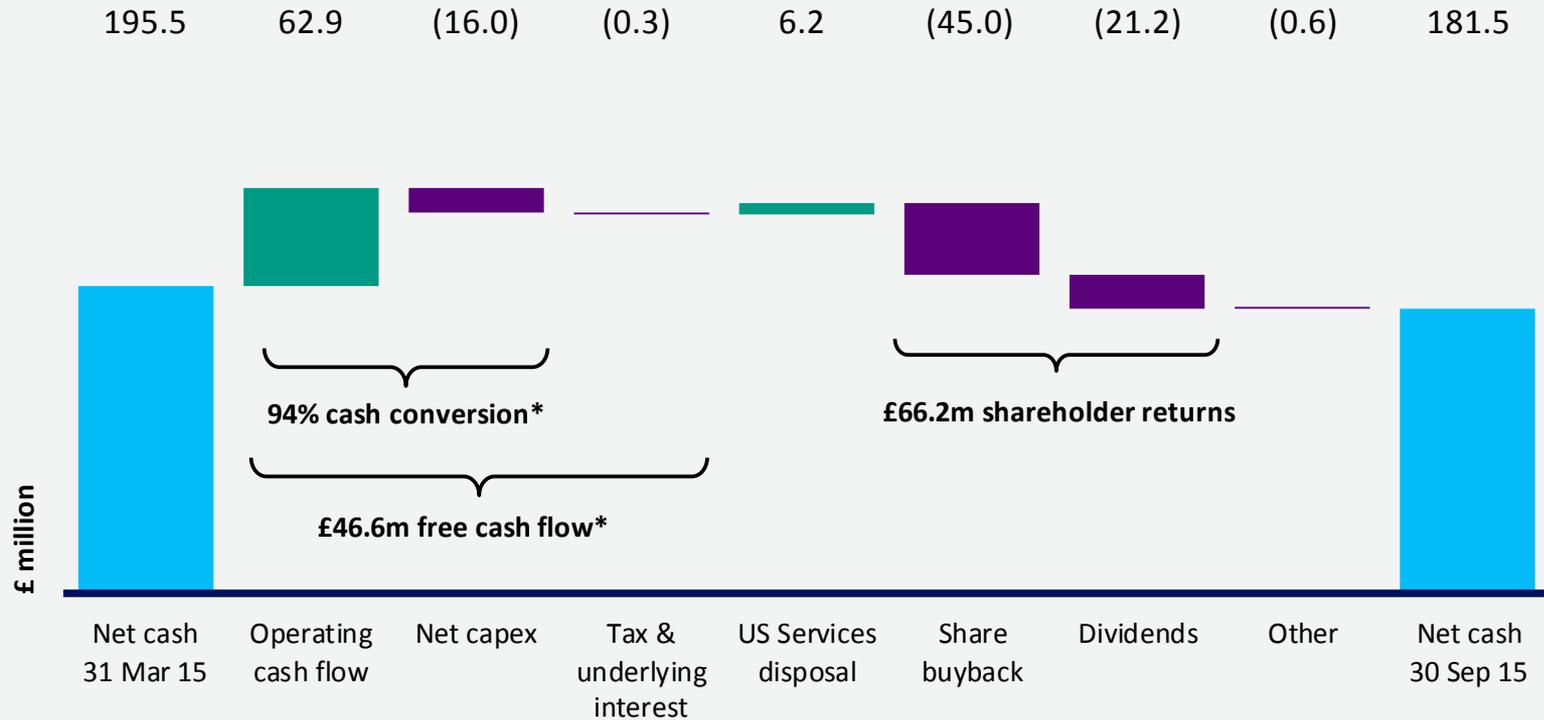
	FY16 H1 £m	FY15 H1 £m
Orders	57.6	71.0
Revenue	69.5	68.5
Underlying operating profit*	7.1	6.7
Underlying operating profit margin*	10.2%	9.8%
Book to bill ratio	0.8x	1.0x
Funded backlog	101.4	99.6

* Underlying performance, before specific adjusting items, as defined in appendix.

FY16 H1 revenue (£m)

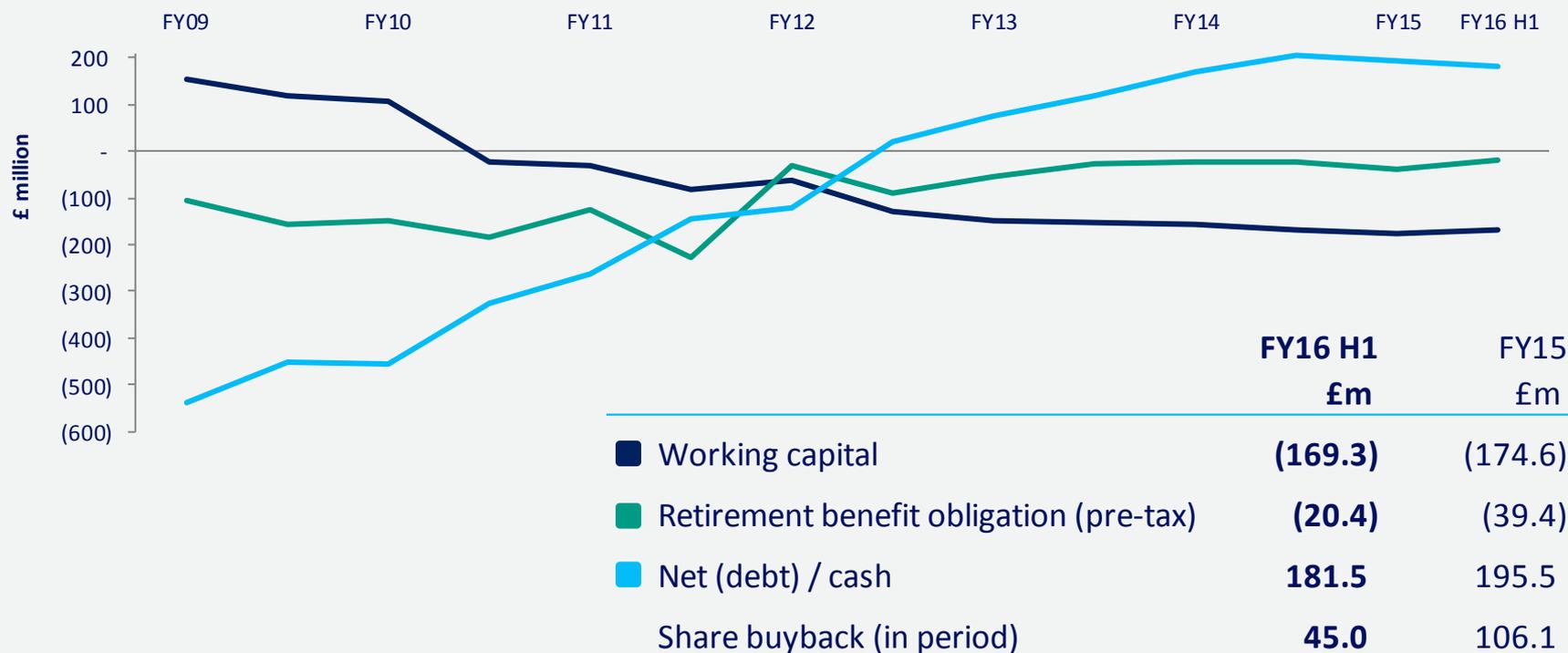


Movements in net cash



* Underlying performance, before specific adjusting items, as defined in appendix.

Balance sheet position



EMEA Services

The UK Government's Strategic Defence and Security Review, together with ongoing defence transformation, are expected to continue to have an impact on the UK defence market. This will provide future opportunities for EMEA Services to build on its strong record of delivering more for less, whilst recognising that in FY16 there will continue to be uncertainty and the potential for interruptions to order flow. However, revenue under contract for this financial year is as anticipated at this stage, and the division's performance as a whole is expected to remain steady this year.

Global Products

The Group's Global Products division has shorter order cycles than EMEA Services. Although the performance of Global Products remains dependent on the timing and shipment of key orders, revenue under contract for this financial year is as anticipated at this stage.

Group performance

Overall, the Board's expectations for Group performance this financial year remain unchanged.

CEO update

Steve Wadey | Chief Executive Officer



Trading environment



- **UK**
 - SDSR to be published shortly
 - SSRO consultation underway
- **US**
 - Defence downturn reaching bottom
 - Defence Innovation Initiative
- **Australia**
 - Modernising military equipment
 - Defence transformation

Key Themes

- Increasing security threats
- Government budgets under pressure
- Drive for greater efficiency
- Need for innovation
- International partnerships

Immediate priorities



- **Business winning**

- Understand 'home' and international customer needs
- Develop skills
- Corporate campaigns

- **Core competencies**

- Considerable breadth and depth
- Well matched to key themes
- Integrate and connect with customer needs

- **Investing in our future**

- Organic opportunities
- Future products and services
- Clear priorities for capital investment

- **Operational excellence**

- Integrated business planning process
- Driving efficiency and productivity
- Leadership Community

Improve customer focus and competitiveness

At Sea Demonstration 2015



- Multinational task group in the Hebrides
- SM3 missile intercept of ballistic target

Investing in core competence

£153m renewal from UK MOD



- Typhoon, Tornado, A400M technical services
- Output-based model delivers more for less

Innovative service provision

Conclusions



- **Customers facing increasing security threats and budget pressures**
- **Opportunities to deliver more for less and meet new challenges through innovation**
- **QinetiQ has core competencies well matched to future market needs**
- **Key priorities to improve customer focus and competitiveness**

Questions



QinetiQ is a founding member of The 5% Club, an industry-led initiative to grow the number of young people on apprenticeships and graduate programmes.

www.5percentclub.org.uk

Appendices

QinetiQ iPad App



- **Underlying performance is stated before:**
 - Amortisation of intangibles arising from acquisitions
 - Pension net finance expense
 - Gains/losses on business divestments and disposal of investments
 - Restructuring costs
 - Impairment of property, goodwill and other intangible assets
 - Tax on the above items
 - Tax credits on one-off recognition of deferred tax asset in respect of UK trade losses
- **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

Income statement



	FY16 H1	FY15 H1
	£m	£m
Revenue	370.9	365.6
Underlying operating profit*	49.8	49.3
Net finance expense	(0.1)	(3.3)
Underlying profit before tax*	49.7	46.0
Amortisation and impairment of acquisition-related intangibles	(1.1)	(1.3)
Pension net finance expense	(0.5)	(0.3)
Gain on disposal of property	0.2	-
Statutory profit before tax	48.3	44.4
Taxation	(6.3)	(6.2)
Statutory profit after tax	42.0	38.2

* Underlying performance, before specific adjusting items, as defined in appendix.

Revenue by sector and customer

Revenue by sector (%)

FY16 H1

£370.9m

	%
EMEA Services	81
Global Products	19



FY15 H1

£365.6m

	%
EMEA Services	81
Global Products	19

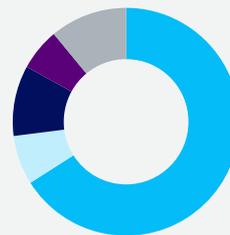


Revenue by customer (%)

FY16 H1

£370.9m

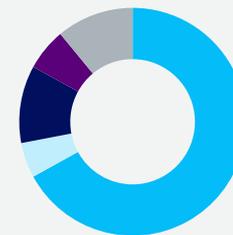
	%
MOD	66
DoD	7
Government agencies	10
Commercial Defence	6
Commercial	11



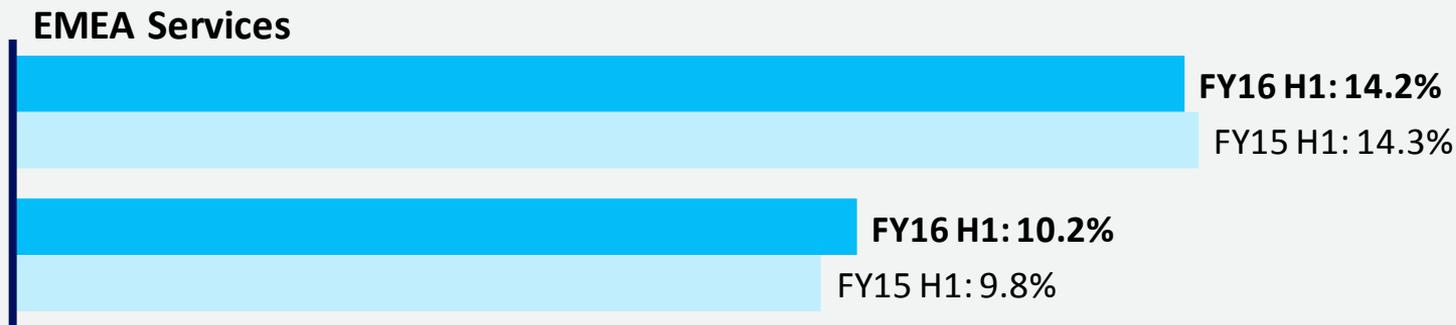
FY15 H1

£365.6m

	%
MOD	67
DoD	5
Government agencies	11
Commercial Defence	6
Commercial	11



Segmental analysis of profit and margin



Global Products

	Operating profit*	
	FY16 H1 £m	FY15 H1 £m
EMEA Services	42.7	42.6
Global Products	7.1	6.7
Continuing Group	49.8	49.3

* Underlying performance, before specific adjusting items, as defined in appendix.

Specific adjusting items*



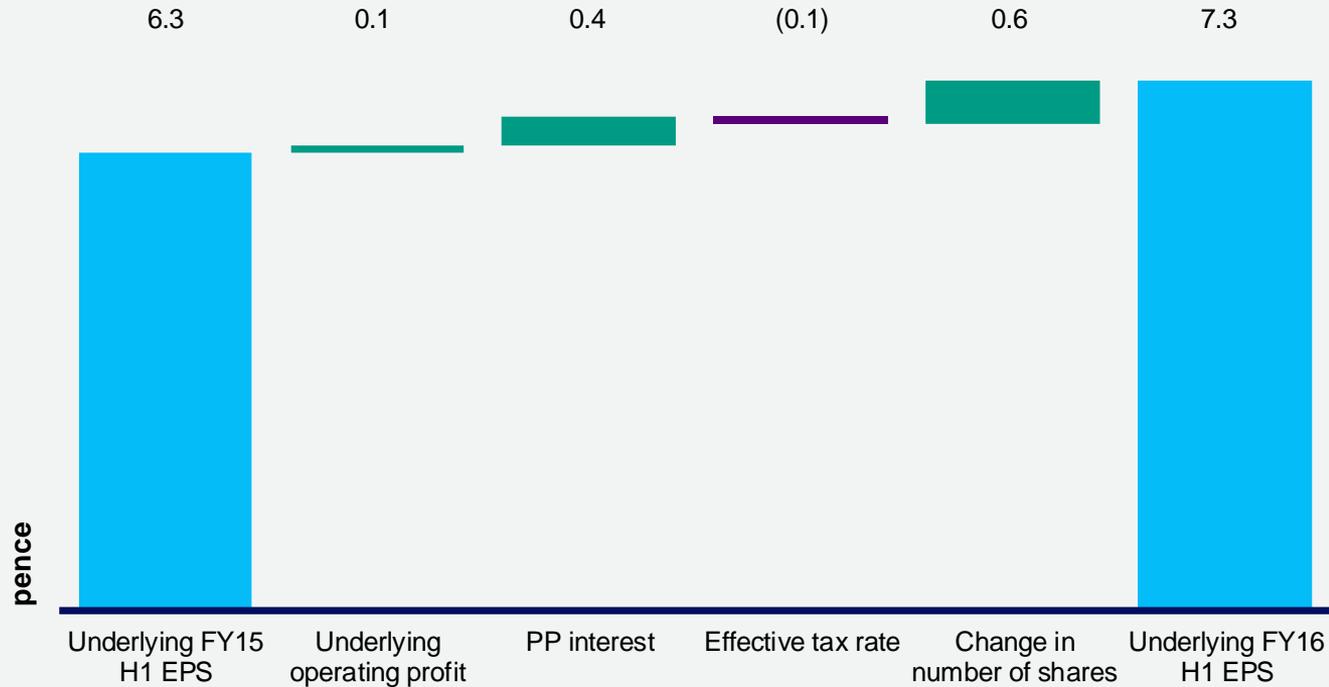
	FY16 H1 £m	FY15 H1 £m
Items with cash impact		
Profit on disposal of property	0.2	-
Non-cash items		
Amortisation of acquired intangibles	(1.1)	(1.3)
Pension net finance expense	(0.5)	(0.3)
Total specific adjusting items (pre-tax)	(1.4)	(1.6)
Tax on the above	0.2	(0.7)
Total specific adjusting items - continuing operations	(1.2)	(2.3)
Total specific adjusting items - discontinued operations	-	(6.0)
Total specific adjusting items - total	(1.2)	(8.3)

* Underlying performance, before specific adjusting items, as defined in appendix.

	FY16 H1	FY15 H1
	£m	£m
Underlying tax charge*	(6.5)	(5.5)
Tax on non-recurring items	0.2	(0.7)
Headline tax charge	(6.3)	(6.2)
Underlying tax rate*	13.1%	12.0%

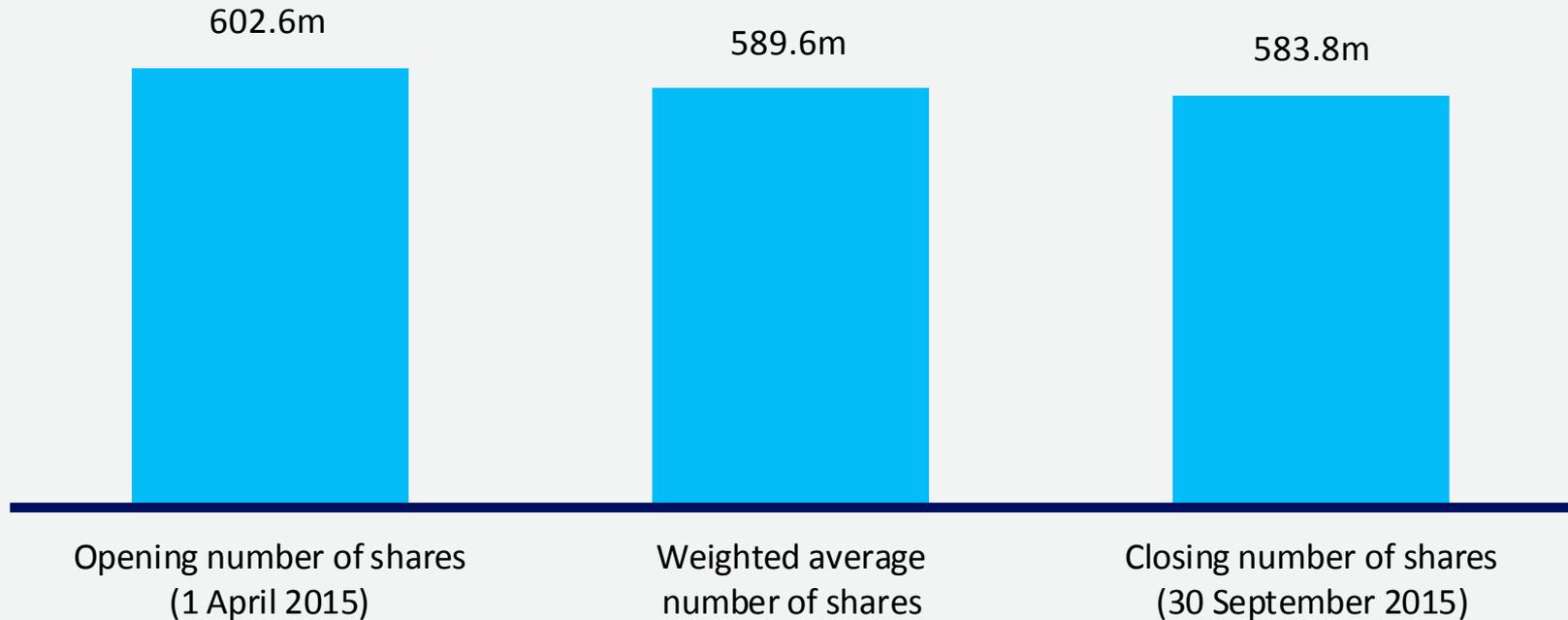
* Underlying performance, before specific adjusting items, as defined in appendix.

Underlying earnings per share* (pence)



* Underlying performance, before specific adjusting items, as defined in appendix.

Number of shares in issue*



* Net of treasury shares.

Balance sheet



	30 September 2015	31 March 2015
	£m	£m
Goodwill	105.5	107.2
Intangible assets	13.6	15.3
Property, plant and equipment	233.9	229.6
Working capital	(169.3)	(174.6)
Retirement benefit obligation (net of tax)	(22.0)	(37.8)
Other assets and liabilities	(58.0)	(37.1)
Net cash	181.5	195.5
Net assets	285.2	298.1

Cash conversion



	FY16 H1	FY15 H1
	£m	£m
Underlying operating profit*	49.8	49.3
Cash flow from operations*	62.9	67.7
Net capex	(16.0)	(10.7)
Net cash flow from continuing operations post capex	46.9	57.0
Cash conversion %*	94%	116%
Net interest	0.1	(6.8)
Taxation	(0.4)	(0.8)
Free cash flow*	46.6	49.4

* Underlying performance, before specific adjusting items, as defined in appendix.

Movements in net cash



	FY16 H1 £m	FY15 H1 £m
Free cash flow from continuing Group	46.6	49.4
PP accelerated interest	-	(28.8)
Disposal related pension contribution	-	(6.0)
US Services disposal	6.2	79.6
Purchase of own shares	(45.3)	(40.4)
Dividends	(21.2)	(20.6)
Cash generated from discontinued operations	-	1.8
Other	0.3	(1.3)
Change in net cash before FX	(13.4)	33.7
FX translation impact	(0.6)	1.5
Change in net cash	(14.0)	35.2
Opening net cash - 1 April	195.5	170.5
Closing net cash - 30 September	181.5	205.7

Defined benefit pension scheme – IAS 19 balance sheet position



	FY16 H1 £m	FY15 H1 £m
Market value of assets	1,399.5	1,373.4
Present value of scheme liabilities	(1,419.9)	(1,396.2)
Net pension liability before deferred tax	(20.4)	(22.8)
Deferred tax asset	(1.6)	0.1
Net pension liability	(22.0)	(22.7)
	FY16 H1 %	FY15 H1 %
Assumptions		
Discount rate	3.7%	3.8%
Inflation (CPI)	2.3%	2.4%

Sensitivity of deficit to main assumptions:

Assumption	Change in assumption	Sensitivity
Discount rate	Increase / decrease by 0.1%	Decrease / increase by £27m
Inflation	Increase / decrease by 0.1%	Increase / decrease by £25m
Life expectancy	Increase by 1 year	Increase by £34m

Credit facilities



	Maturity date	Denomination	Value in denomination	Value £m
Revolving credit facility	August 2019	£m	166.0	166.0
Revolving credit facility	August 2019	\$m	100.0	65.0
Total committed facilities				231.0

Employees



	30 September 2015	31 March 2015
EMEA Services	5,647	5,576
Global Products	668	674
Total	6,315	6,250

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.