

Strategy

Our vision is to be: “The chosen partner around the world for mission-critical solutions, innovating for our customers’ advantage.”

To realise our vision, we are implementing three mutually-reinforcing strategic priorities designed to grow the Company.

Our three part strategy:

1. **Modernise** UK T&E
2. **Build** an international company
3. **Invest** in innovation

Our values are the foundation:

- Integrity
- Collaboration
- Performance

Transformation

We are transforming QinetiQ, our people, leadership, and our organisation, in order to deliver our vision and strategy. After the first year we have achieved a great deal, and the plan for FY18 is equally demanding. Not least is the ongoing challenge presented in embedding cultural change across the Company to enhance customer focus and improve competitiveness.

£20m

of operational efficiencies reinvested to drive growth.

Leadership and organisation

To drive higher performance and alignment, new leaders were appointed during FY17 for the International business and our Business Development, Human Resources and Finance functions, all from outside QinetiQ. Our top 100 leaders completed a leadership development programme and are being supported with ongoing coaching. Our focus during FY18 is on a similar development programme for managers, and on facilitating employee-enabled change via four Transformation Action Groups established by employees from across the Company. We have also renewed our focus on our values and behaviours which support us in operating safely and successfully, and in working together effectively to meet customer needs first time. Our values are ‘Integrity,’ which reinforces our responsibility and accountability for our actions, ‘Collaboration,’ which focuses us on delivering value through partnership and team work and ‘Performance,’ which emphasises excellent delivery to our customers.

We have completed the reorganisation of QinetiQ, establishing new businesses responsible for winning and delivering work, as well as enabling functions to provide support and resource. A Strategy and Planning function has been created to help position QinetiQ for future growth. The new function manages an Integrated Strategic Business Planning process which ensures we prioritise short-term actions within a coherent long-term plan for sustainable growth, and is developing a pipeline of potential bolt-on acquisitions where there is a strong strategic fit and investment rationale.

Business winning

In order to grow we need to win more work both in our home markets and internationally. Our new International business unit is now established. To improve our business winning capability, our sales and bidding employees have completed assessment and development programmes, and further development of their skills is planned for FY18.

Over the last year we have established more than 30 business winning campaigns across the Group to drive organic growth. The teams pursuing these campaigns comprise established expertise within the Company plus experienced hires to ensure we have the optimum mix of knowledge and capability. As part of their strategy, each campaign team considers the best approach to partnership and investment needed to win business by delivering compelling customer value.

Delivery and operational excellence

During the year, we successfully introduced a new operating model that allows us to resource as one company. Our UK scientists and engineers were transitioned to a new Engineering and Operations function at the beginning of 2017, ensuring that supply meets demand and we have the right skills mix over the long term. Our focus going forward is on embedding this change across QinetiQ to ensure the desired benefits are achieved, leading to greater innovation and value for our customers.

To support our ability to resource as one company, we introduced a dynamic resource planning process in FY17, driving improved productivity and deployment of capability to meet customer needs.

Our future success will be built on operational excellence – keeping our people safe, delivering what we say we are going to deliver, meeting milestones, exceeding expectations and improving customer satisfaction. David Smith, our new Chief Financial Officer, is driving a renewed focus on operational excellence in tandem with his role of executive sponsor for transformation. Safety remains our top priority in addition to our day-to-day focus on consistent operational delivery.

Investing in our future

In FY17, we delivered £20m of operational efficiencies to create the headroom to invest in sustainable growth. This was delivered by realigning our organisation and improving productivity and included a reduction of approximately 200 roles across the Company during the year. These efficiencies drove better value for money for our customers and allowed us to invest carefully in both our business winning capability and in research and development, particularly in support of our selected growth campaigns.

An Internal Research and Development (IRAD) programme is under way with appropriate Executive oversight to ensure that projects are customer-driven and properly controlled. We have over 40 live projects, more than half of which are related directly to our growth campaigns, where we are using our investment to position ourselves for new market opportunities. In FY18, we are launching an improved ideas management process to ensure we capture and exploit early-stage ideas and innovations.

Contract extension**£109m**

supporting UK centre of excellence for maritime mission systems.

Over 50

autonomous systems deployed as part of Unmanned Warrior naval exercise.

Contract amendment**£1bn**

11-year commitment for modernisation of air ranges and Test Pilot School.

1. Lead and modernise UK Defence Test & Evaluation.

FY17 Progress – a year of building momentum

In September 2016, we signed an 11-year, £109m contract extension for Naval Combat System Integration Support Services (NCSISS) to the MOD. This supports the development of our Portsmouth Technology Park site as the UK Centre of Excellence for maritime missions systems, improves the security of future revenues and provides a platform to win incremental work.

In October 2016, we hosted Unmanned Warrior, a world-first demonstration of how unmanned systems can operate as part of a major multinational naval exercise. Over 50 autonomous vehicles were deployed in the air, on the water and under the surface on missions ranging from anti-submarine warfare to mine countermeasures. From inception to delivery we were instrumental in making this exercise happen, leading the UK component, providing range management expertise and delivering a transportable command and control system.

In December 2016, we agreed an 11-year, £1bn commitment with the UK MOD that secures approximately half our revenue on the core LTPA contract until 2028. This amendment, which uses the FY17 single source profit formula, secures our operation and modernisation of the Empire Test Pilots' School at MOD Boscombe Down and the Air Ranges at MOD Aberporth and Hebrides. This gives us the confidence to invest approximately £180m to upgrade facilities and equipment, driving efficiencies to avoid cost increases that would have otherwise arisen and providing a platform for future growth. Our investment will be recovered from the MOD over time using the current LTPA mechanism.

Since its initial signature in November 2015, £80m of additional work has been added to the Strategic Enterprise contract, originally valued at £153m, under which we deliver aircraft engineering services to the MOD on an outputs-based model. We have added eight additional aircraft types to the contract, both fixed- and rotary-wing and see further opportunities to expand, working with partners to pool skills and bring collaborative teams together across industry.

FY18 – further enhancements to UK capability

Our focus is on working with the Front Line Commands and prime contractors to develop the future vision for UK T&E to meet the needs of the UK Defence Plan, support exports and international partnerships, and deliver the right outputs to enable future military capability. The five-year repricing of our Long Term Partnering Agreement with the UK MOD is due to take place at the end of FY18 so this is a particular focus.

In FY17, we were invited by Boeing to submit a proposal offering MOD Boscombe Down as a prospective location for its UK 'centre of excellence' driven by its fixed-wing business. We will continue to work with the MOD and Boeing to identify ways in which the site, which we operate on behalf of the MOD, could meet their requirements.

Simon Dale, using the binoculars on a Multiple Object Tracking Radar at MOD Aberporth to acquire and track a target. MOD Aberporth will benefit from the Air Range Modernisation investment, which is part of a commitment we made to modernise UK Test & Evaluation in the LTPA amendment signed in December 2016.



Strategy continued

QinetiQ Target Systems

90%

of revenue generated outside the UK.

2. Build QinetiQ as an international company.

FY17 Progress – International business established

On 1 April 2016, we created a new International business unit incorporating our Australian, Swedish, Canadian, Commerce Decisions and Advisory Services operations. In August we appointed Iain Farley as its Managing Director from Expro Group International where he was Vice President for Business Development and Emerging Business. Andreas Ward, previously Vice President Nordic and Baltics at Saab, was also appointed to run our operations in Sweden.

In December 2016, we acquired Meggitt's Target Systems business for £57.5m, or £60.3m including price adjustments for working capital and net debt. The business – now renamed QinetiQ Target Systems – holds a leading position in the global targets and services market which is growing strongly as customers seek to validate their defence capabilities using high-fidelity threat representation. In addition to a design and manufacture capability in the UK and Canada, the business supplies targets to more than 40 countries and has on-site target operations in 15 countries.

During FY17 we have focused on building our capabilities in our home markets – the US and Australia in addition to the UK. In the US we have engaged with customers such as the US Defense Advanced Research Projects Agency (DARPA), to collaborate to create new business opportunities. In Canada we secured our first home contract win with the Royal Canadian Coast Guard for work that will be delivered locally in Canada.

In Australia, we acquired RubiKon Group in January 2017 for £7.4m. The company is a leading integrated logistics support provider and helps customers meet

complex logistics, supply chain and procurement project challenges. Earlier in the year we were part of a RubiKon-led team which won the Strategic Support Partnership Contract for the Australian Government's procurement of maritime patrol aircraft to replace the AP-3C Orion. The acquisition of RubiKon better positions QinetiQ Australia to offer whole programme solutions to customers in the Asia Pacific region.

We are evaluating new home markets with a particular focus on the Middle East and Asia Pacific and developing plans which inform the prioritisation of resources and the identification of potential partners. We secured a number of aerial targets contracts in the United Arab Emirates and flew our latest Banshee Jet 110 for the first time in India. During the year, our OptaSense subsidiary also completed the delivery of a system for the world's largest distributed fibre sensing project for the 1,850km Trans-Anatolian Natural Gas Pipeline (TANAP) principally in Turkey.

We continue to develop opportunities to grow sales by exporting our products and services, working with partners such as the UK Trade and Investment's Defence and Security Organisation (UKTI DSO). While we were unsuccessful with our joint bid with BAE Systems for a competition in Chile to upgrade their Type 23 frigates, we have an increasing pipeline of sales opportunities, particularly in the Middle East.

FY18 – delivering international growth

The International business was established to grow QinetiQ as an international company. Our objective is to win significant contracts outside the UK. As our strategy prioritises collaborative working, on many of our growth campaigns we work in partnership with prime contractors and with the support of the UK Government.

With growing defence ambitions and close to the rapidly evolving Asia Pacific region, Australia is a particularly attractive market. During the year QinetiQ Australia continued to develop its core capabilities including extending its contract for the provision of Aircraft Structural Integrity services.



Over **30**
campaigns established.

Dragonfire consortium

£**30**m
programme to deliver
defensive laser capability.

Over £**10**m
of secured navigation
contracts awarded.

3. Invest in innovation and apply our core competence for customer advantage in defence and commercial markets.

FY17 Focus – campaigns initiated to drive commercial innovation

During FY17 we established business winning campaigns to drive commercial innovation, new processes, and innovative business models, in addition to the technical innovation that QinetiQ has always been known for. Campaigns are driven by horizon scanning of future customer needs and market opportunities. Group-level campaigns align with four main growth levers:

- Major government programmes, such as Ballistic Missile Defence and Carrier Strike;
- Areas of QinetiQ strategic capability, such as modernised T&E, cyber security, and experimentation and rehearsal;
- Major near-term competitions; and
- Exploitation of promising capabilities we have previously invested in, such as airborne surveillance.

To enhance our probability of winning, we resource these through investment and partnership, collaborating with prime contractors, small businesses and universities on many of the campaigns. During the year we established partnerships with companies such as MBDA on laser technology and Thales on Defence Operational Training.

In January 2017, the Dragonfire consortium – led by MBDA and including QinetiQ as well as other industry partners – was awarded a £30m programme by the UK MOD to deliver a defensive Laser Directed Energy Weapon (LDEW) Capability Demonstrator. QinetiQ's

role is to provide the high-powered laser technology for the programme and conduct trials over land and water at various ranges that we manage under the LTPA. We are supporting this campaign with IRAD funding to further develop our core laser technology which will be the enduring element of our offering.

During the year we secured contracts worth more than £10m for secured navigation working with both European and UK Government customers. Our work helps users to effectively exploit the Galileo constellation of satellites – the European Union version of GPS which is due to go live in FY21. This included the first demonstration of accessing the encrypted Public Regulated Service (PRS) real-world applications. At the end of the year we secured a global agreement with Rockwell Collins, the market leader in secure navigation, who will become the primary route to market for our software technology worldwide.

FY18 – growth campaigns in international markets

We will have capture plans and resourcing in place for all of our major campaigns in FY18. Because our International business was only established in April 2016, our international growth campaigns are less mature than those focused on our home markets so they are a particular focus.

QinetiQ's multi-channel laser system, for coherent beaming is being developed as part of the Dragonfire consortium consisting of MBDA, QinetiQ and other industry partners.

