

Customer-focused



Steve Wadey
Chief Executive Officer

Future priorities

- Operational excellence and capital discipline
- Innovation and investment in organic capabilities
- Customer focus

QinetiQ is a company that is focused firmly on its customers.

I am delighted to be leading QinetiQ – a company that is built on the expertise of its people focused on providing effective solutions for our customers.

There's no denying that global markets are challenging, but they also present opportunities. Throughout the world, the proliferation and pace of technology means that threats to our security are increasing in number and diversity. The ability to harness information, knowledge and technology is critical to meeting these global challenges.

In the UK, Government customers need to deliver more with less and so are seeking greater value. They are looking for suppliers that not only have a track record of delivering efficiencies but can also help them meet new challenges through innovation.

In the US, the Federal Government continues to pursue technological superiority as its principal source of military advantage and has posed the question – 'what next?' Disruptive innovation will be at the heart of any answer, and this will have an impact on military customers and markets worldwide.

Amongst prime contractors, competition is becoming more fierce. They are engaging with the supply chain to find new sources of competitive advantage.

Although changes in market dynamics can cause uncertainty, they also create chances to do things differently, particularly for companies like QinetiQ with the right foundations and inherent capabilities.

Competitive and financially robust, QinetiQ is a company that is ready for a new phase of its journey. Our people already have a sense of where we are going in the future but the changes in global markets demand that we are more externally facing.

Success will be built on operational excellence – doing what we say we are going to do, and underpinned by continued capital discipline.

It will be driven by investing in our organic capabilities and responding proactively to the changes in our global markets through agility and innovation that deliver effective solutions for our customers.

I look forward to leading QinetiQ during the next phase in its journey and to the exciting future that we have ahead of us, focused firmly on continuing to meet our customers' needs.

Steve Wadey

Chief Executive Officer
21 May 2015



P14 Our strategic priorities

2015 Year in review – David Mellors, CFO

- Strong performance in EMEA Services with increased orders, revenue and operating profit
- Core Air, Weapons and Maritime businesses all performed well
- New President appointed to lead repositioning of US Global Products in response to a challenging market
- Continued high cash conversion
- £150m share buyback well advanced; £128m complete at 15 May 2015
- 17% increase in full year dividend reflecting upgrade at the half year and progressive dividend policy
- 77% revenue under contract at start of 2016 consistent with prior year; balance supported by pipeline of opportunities
- Maintaining expectations for Group performance in the current financial year

Orders grew 3% to £613.6m (2014: £596.9m[^]), and Group Book-to-Bill ratio was 1.1x. At the beginning of the new financial year, 77% of the Group's FY16 revenue was already under contract, a similar level to a year ago.

Revenue was £763.8m (2014: £782.6m[^]). EMEA Services delivered a strong performance, with a 3% increase in revenue and the core Air, Weapons and Maritime businesses all delivering improved results. The performance of Global Products continued to be impacted by the ongoing reduction of US military forces deployed to Afghanistan, which depressed demand for conflict-related products.

Underlying operating profit* was £111.3m (2014: £113.7m[^]) with growth in EMEA Services offset by Global Products, which was impacted by the reduction in revenue and by approximately \$5m of additional one-off costs associated with separating from US Services infrastructure.

Underlying profit before tax* increased 7% to £107.8m (2014: £101.2m[^]) with underlying net finance costs* falling to £3.5m (2014: £12.5m[^]) as a result of the early repayment of the private placement debt in June 2014.

Underlying earnings per share* for the continuing Group were up 10% at 15.2p (2014: 13.8p[^]), benefiting from the higher underlying profit before tax* and reduced number of shares following the repurchase of £107m of the £150m share buyback programme as at 31 March 2015. Basic earnings per share for the total Group (including US Services) were 16.6p (2014: 1.9p loss per share).

Underlying operating cash conversion* remained strong at 103% (2014: 93%[^]), delivering an underlying cash flow from continuing operations* of £114.9m (2014: £106.2m[^]). At 31 March 2015, the Group had £195.5m net cash, compared to £170.5m net cash at 31 March 2014 and £205.7m at 30 September 2014.

* Definitions of underlying measures of performance can be found in the glossary on page 141.

[^] Restated to reflect continuing/discontinued operations (see note 1 to the financial statements on page 97).

QinetiQ investment case

1. Unique and resilient competitive position

- Unique technical expertise and domain know-how
- Trusted advisor – independent position in supply chain
- Excellent customer relationships
- Underpinned by a portfolio of large long-term contracts
- Sustainable core businesses well positioned to win market share
- Opportunity to expand existing capabilities into new international markets

2. Delivering earnings growth and shareholder returns

- Strategy for growing sustainable earnings through effective management of the Group's portfolio
- Competitive cost base
- High cash generation
- Strong balance sheet
- Disciplined investment management for core and 'Explore' portfolios, with 'Test for Value' largely customer funded
- Progressive shareholder returns

3. Significant option value

- Potential for profitable growth from emerging 'Explore' businesses with demonstrable markets
- Development of new options from customer-funded R&D in rigorously managed 'Test for Value' portfolio