

Our value pipeline

Organic-Plus strategy

- The objective of our Organic-Plus strategy is to deliver growing sustainable earnings by optimising our portfolio.
- We aim to win market share in core markets and nurture 'Explore' opportunities to deliver growth particularly beyond defence, all underpinned by continued financial discipline.
- The Group is sufficiently cash generative and disciplined about capital allocation to support ongoing investment in growth opportunities, a progressive dividend policy and the maintenance of a strong balance sheet.

Value pipeline

- Our Organic-Plus strategy prioritises active portfolio management. All of our business operations are graded within a value pipeline which gives us full visibility and direction over our assets and capabilities.
- Whether they are well-established business models or new capabilities with as yet unclear commercial potential, we manage and invest in them according to three criteria:
 - Maturity: how ready is our offering and is there an attractive market?
 - Potential scale: can it one day earn significant profits?
 - Investment: how much will it cost to achieve success?

The Group's principal role is to optimise business returns by allocating resources appropriately.

Core

Increased market share

85%
Revenue

Sustainable and defensible businesses, focused on growing market share. This is the 'engine' on which our reputation and customer relationships are built, the driver for continual renewal of our expertise and technology, and the source of the majority of our profit and cash flow.

Our core businesses are focused on relatively resilient sectors in which the technical expertise and domain know-how of our people is used to provide trusted independent advice and solutions for our customers' critical operations.

These are our sustainable and defensible core capabilities, mostly comprising EMEA Services, and operating largely in the defence, security and aerospace markets.

Much of the revenue is derived from longer-term contracts, with known dates for renewal and re-tender. These contracts exhibit relatively low risk characteristics with low capital requirements and strong, predictable cash flows that can be invested for future growth. Our core businesses also provide a dynamic source of new intellectual property that is initially collected and categorised in 'Test for Value' and managed through the value pipeline.

Representing around 85% of our revenue, the performance of the core is the main driver of the future value of the Group and the majority of capital investment is focused on these businesses. We are investing selectively in key capabilities to win market share in existing markets and to deploy these capabilities in new sectors and international territories.



Strategic

Employees

Customers

Operated under strict rigour

Explore

Growth in new markets

10%
Revenue

Our 'Explore' businesses are high potential, emerging businesses, typically with a proven competitive offering in growth markets, often beyond defence. They represent the best opportunities for future growth, to at least \$100 million revenue a year, from both our services and products divisions.

These are established, commercially viable businesses that have proven technology and customers. In many cases, they have been separated out as 'Explore' business units in their own right, with appropriate support from the corporate team.

The challenge they face is to evolve a business model that can achieve significant scale in order to become the sustainable, value-accretive core businesses of the future. By meeting this challenge we will deliver a broader base of significant businesses, thereby increasing the diversification of the Group.

We are selectively investing in these businesses to determine their ability to deliver growth both in the UK and overseas. Investments can include new leadership and skills, accelerated business development, strategic acquisitions, alliances and partnership as appropriate to build momentum.



Test for Value

Commercial traction

5%
Revenue

'Test for Value' offerings are early-stage options that are typically based around innovative technology or know-how.

These technologies are often developed under customer-funded programmes, so the portfolio can be likened to a drug pipeline for a pharmaceutical company, except that development takes place in partnership with customers who provide the majority of early-stage funding.

Investment is required to achieve full commercialisation and so we rigorously assess the viability of these options and their markets to determine how best to realise their potential. Technologies are often licensed out to reduce implementation and sales risks, or taken to market with partners. They can also be integrated to 'Explore' and receive investment, divested or closed.



IP as an additional benefit

Priorities

Growth Orientation

Strategic Priorities	Employees
<p>To deliver</p>	<p>Capability through our People Who Know How</p>
<p>What we are striving for</p>	<p>Empowered, engaged and highly skilled employees who are passionate about customer service excellence, innovation and responsible business practice.</p>
<p>How we are getting there</p> <p>Key:</p> <ul style="list-style-type: none"> 15 2015 progress 16 2016 priorities 	<p>Creating the right environment <i>Building a collaborative, empowered culture that recognises the contribution of all employees</i></p> <ul style="list-style-type: none"> 15 Enhanced engagement with the EEG, our independent consultative forum 15 EST community established for our Engineers, Scientists and Technicians 16 Facilitate greater collaboration by building understanding of cross-functional working 16 Develop training, guidance and support networks to ensure inclusivity of all employees <p>Attracting talent <i>Sourcing People Who Know How today and developing the pipeline for tomorrow</i></p> <ul style="list-style-type: none"> 15 Focused Centre of Excellence created for Early Careers 15 5% Club target achieved <p>Developing our people's potential <i>Investing in our people to enhance their knowledge and skills</i></p> <ul style="list-style-type: none"> 15 Learning and development Centre of Excellence established 15 Launched eLearning tools for technical skills, management and leadership 16 Launch QinetiQ Academy to develop our people to their full potential 16 Develop structured Early Careers Programmes to improve the development of young employees <p>Retaining talent <i>Creating opportunities for our people to flourish and grow</i></p> <ul style="list-style-type: none"> 16 Build transparency of the employee proposition by developing Total Reward Statements
<p>KPIs</p> <p>The KPIs used as a measure of executive performance are marked in bold.</p>	<ul style="list-style-type: none"> • Health and safety • Voluntary employee turnover • Employee engagement • % Apprentices and graduates
<p>Risks</p>	<ul style="list-style-type: none"> • Recruitment and retention
<p>The way we work</p>	
<p>Risk sensitive</p> <ul style="list-style-type: none"> • Emerging and reputational risk • Significant breach of relevant laws, regulations, IT and security • Defined benefit pension obligations and tax legislation <p> P30 Risk management</p>	<p>Measuring progress</p> <ul style="list-style-type: none"> • Underlying operating profit • Total Group profit after tax • Underlying EPS • Underlying operating cash flow <p> P20 Key performance indicators</p>

Customers

Increased market share

Customer relationships which build mutual trust so we can help our customers shape and achieve their current and future challenges.

Helping shape the requirement

Listening to and helping to shape the needs of our customers

- 15 Structure aligned with MOD Front Line Commands
- 15 Board-to-Board meetings established with key customers
- 16 Develop new propositions for the MOD
- 16 Extend customer base

Delivering solutions

Working in partnership with them to understand and solve their problems

- 15 Working with the MOD to support its transformation
- 16 Invest in Long Term Partnering Agreement
- 16 Support Front Line Commands with their new accountabilities

Excellence in delivery

Doing what we say we are going to do and ensuring good contract governance

- 15 'Safe for Life' programme supported by 70 safety champions
- 15 Launched an academy for development of over 400 project managers
- 15 Customer feedback gathered every year by independent third party
- 16 Launch accredited training for commercial managers

'Working smarter'

Fully leveraging available resources

- 15 Hackathons held regularly, offering innovation for customers

- **Customer satisfaction**

- Defence and security spending
- Complex market characteristics and contract profile

Growth Orientation

UK and international growth

Growth both in and beyond the UK, using our domain know-how and the reputation of our people, plus a pipeline of future technology-based offerings to remain ahead of global technology proliferation.

Developing our existing business

Actively managing our portfolio

- 15 US Services sale completed
- 15 'Explore' opportunities established as independent business units
- 16 Increase frequency of engagement with senior customers

Looking for new opportunities

Developing new partnerships and alliances and rigorously evaluating opportunities for risk.

- 15 International Business Development Director appointed
- 15 Canadian market potential developing with the opening of our Ottawa office
- 16 Develop international strategy, model and propositions
- 16 Target countries and regions through independent market research

Developing new ideas

Generating new intellectual property

- 15 Chief Technology Officer appointed focused on innovation
- 16 Reposition My Contribution programme to focus on innovation and growth

- Orders
- Organic revenue growth

- Trading in a global market

High performance culture

- Protecting and enhancing our reputation by being a responsible and sustainable business
- Working smarter through operational excellence and continuously improving our productivity
- Environmental stewardship and community investment