Good operational delivery and strategic progress

QinetiQ Group plc
Preliminary results for year ended 31 March 2017

25 May 2017

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Introduction

Steve Wadey | Chief Executive Officer

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Agenda

1 Headlines

2 Financial overview

3 Strategic update

4 Q&A

Headlines

- Good operational delivery in FY17
  - High quality growth in order backlog
  - 4% revenue growth, with a return to organic growth
  - Solid operating profit
  - 5% increase in dividend; £50m share buyback completed

	FY17	FY16
Revenue	**£783.1m**	£755.7m
Operating profit*	**£116.3m**	£108.9m
EPS*	**18.1p**	16.3p
Dividend	**6.0p**	5.7p
Order backlog	**£2.2bn**	£1.3bn

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

- Strategic progress
  - Secured £1bn LTPA contract amendment with UK MOD
  - Two acquisitions to support international growth
  - Global agreement for next generation satellite receivers
  - Invested £20m in people, technology and campaigns

- Focus on delivery of FY18
  - Rapidly changing trading environment
  - Strategy implementation key to driving growth
  - 74% revenue under contract
  - Maintaining expectations for Group performance

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Financial overview

David Smith | Chief Financial Officer

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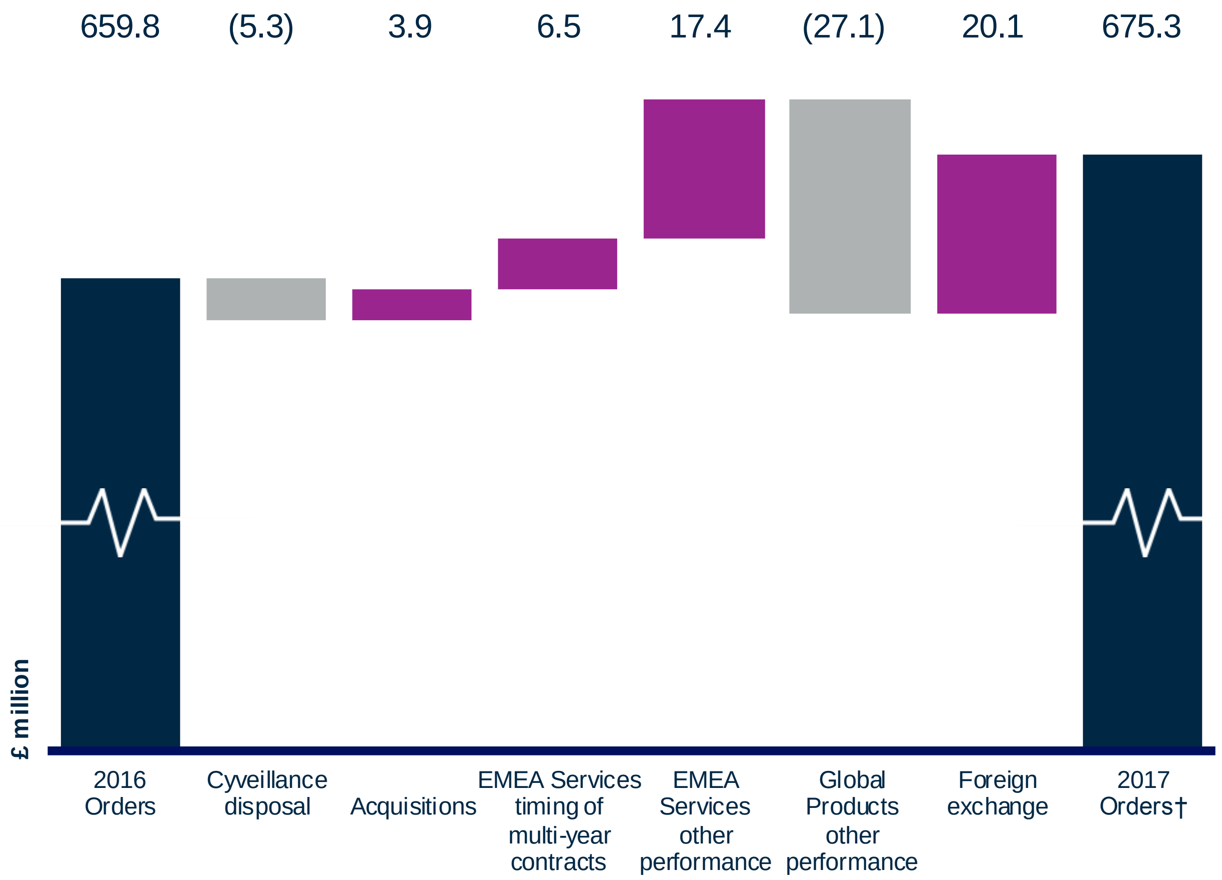
Summary financial headlines

	2017 £m	2016 £m
Orders excluding LTPA amendment	**675.3**	659.8
Total orders	**1,676.7**	659.8
Revenue	**783.1**	755.7
Underlying operating profit*	**116.3**	108.9
Underlying operating margin*	**14.9%**	14.4%
Earnings per share* (pence)	**18.1**	16.3
Net cash inflow from operations (pre-capex)	**111.9**	133.4
Net cash inflow from operations (post-capex)	**79.0**	103.6
Cash conversion (post-capex)*	**68%**	95%
Net cash	**221.9**	274.5
Dividend per share (pence)	**6.0**	5.7

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

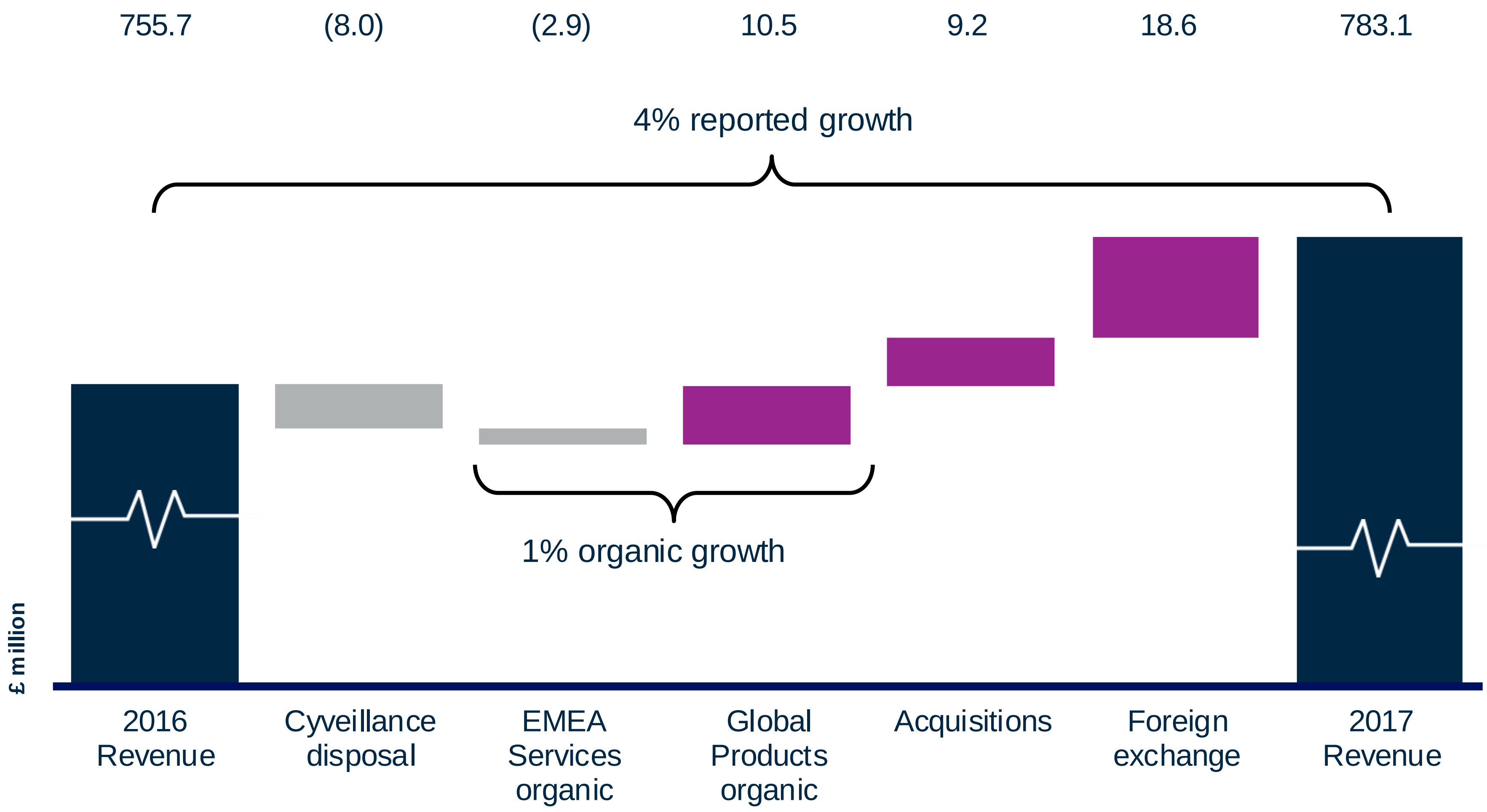
Orders

- EMEA Services
  - £1bn LTPA amendment excluded from chart
  - £201.1m (2016: £194.6m) from timing of multi-year contracts
  - £17.4m growth in other orders driven by specific LTPA investment activity
- Global Products
  - £27.1m reduction due a strong comparator year
  - $41m US aircraft carrier orders for QNA
  - £3.6m contribution from QTS acquisition



† Excludes the £1bn LTPA contract amendment announced in December 2016.

Revenue bridge



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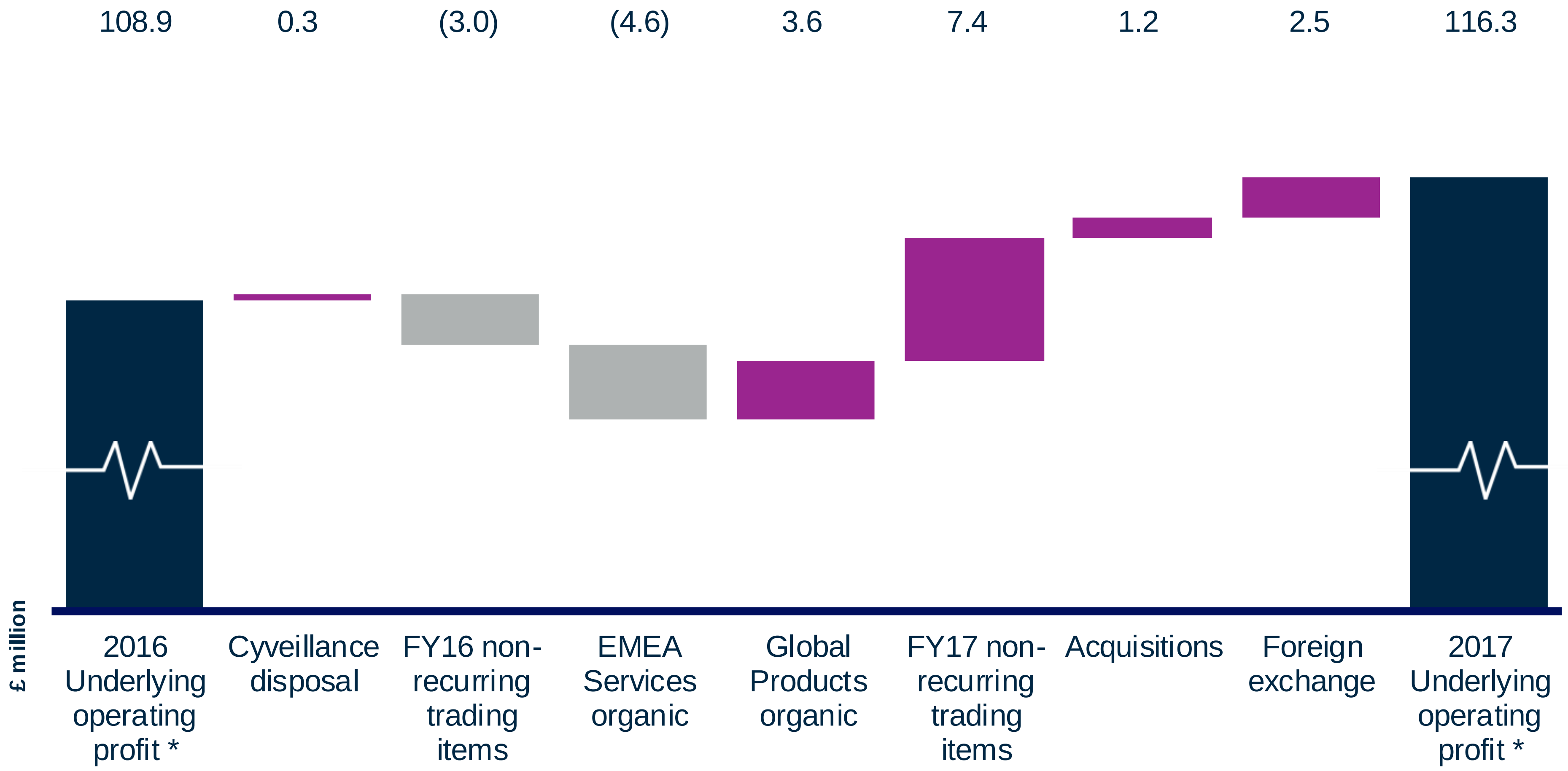
Underlying operating profit* bridge



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

EMEA Services

- 5% increase in orders
- Revenue flat on an organic^ basis
- Operating profit includes a £5.2m credit relating to the release of engine servicing obligations as we invest in new aircraft for test aircrew training
  - excluding non-recurring trading items, the impact of foreign exchange and acquisitions, underlying operating profit fell by £4.6m, predominantly driven by the lower baseline profit rate for single source contracts
- Approximately 75% of EMEA Services revenue is derived from single source contracts, an increased proportion of which is now contracted on a long-term basis
  - the £1bn, 11-year LTPA amendment was contracted using the FY17 single source profit formula
- 79% of FY18 revenue under contract at 1 April 2017, compared to 77% at the beginning of the prior year

	2017 £m	2016 £m
Orders†	**520.9**	495.4
Total orders	**1,522.3**	495.4
Revenue	**613.5**	616.4
Underlying operating profit*	**92.7**	93.8
Underlying operating profit margin*	**15.1%**	15.2%
Book to bill ratio†	**1.3x**	1.2x
Funded backlog†	**813.6**	719.1
Total funded backlog	**2,019.8**	1,123.8

* Underlying performance, before specific adjusting items, as defined in appendix.
^ Adjusted for the impact of acquisitions and disposals and presented on a constant currency basis, as defined in appendix.
† Excludes the £998m third-term of the LTPA contract and £1bn contract amendment announced in December 2016.
Book to Bill ratio is orders won divided by revenue recognised excluding the LTPA contract.

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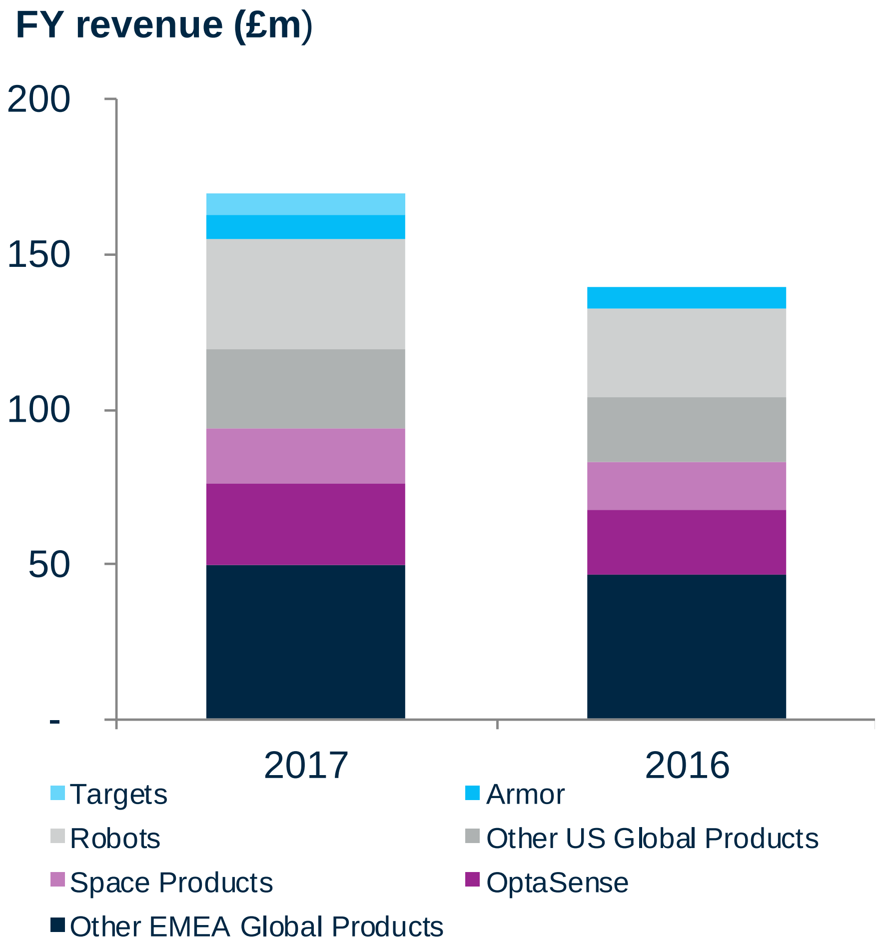
Global Products

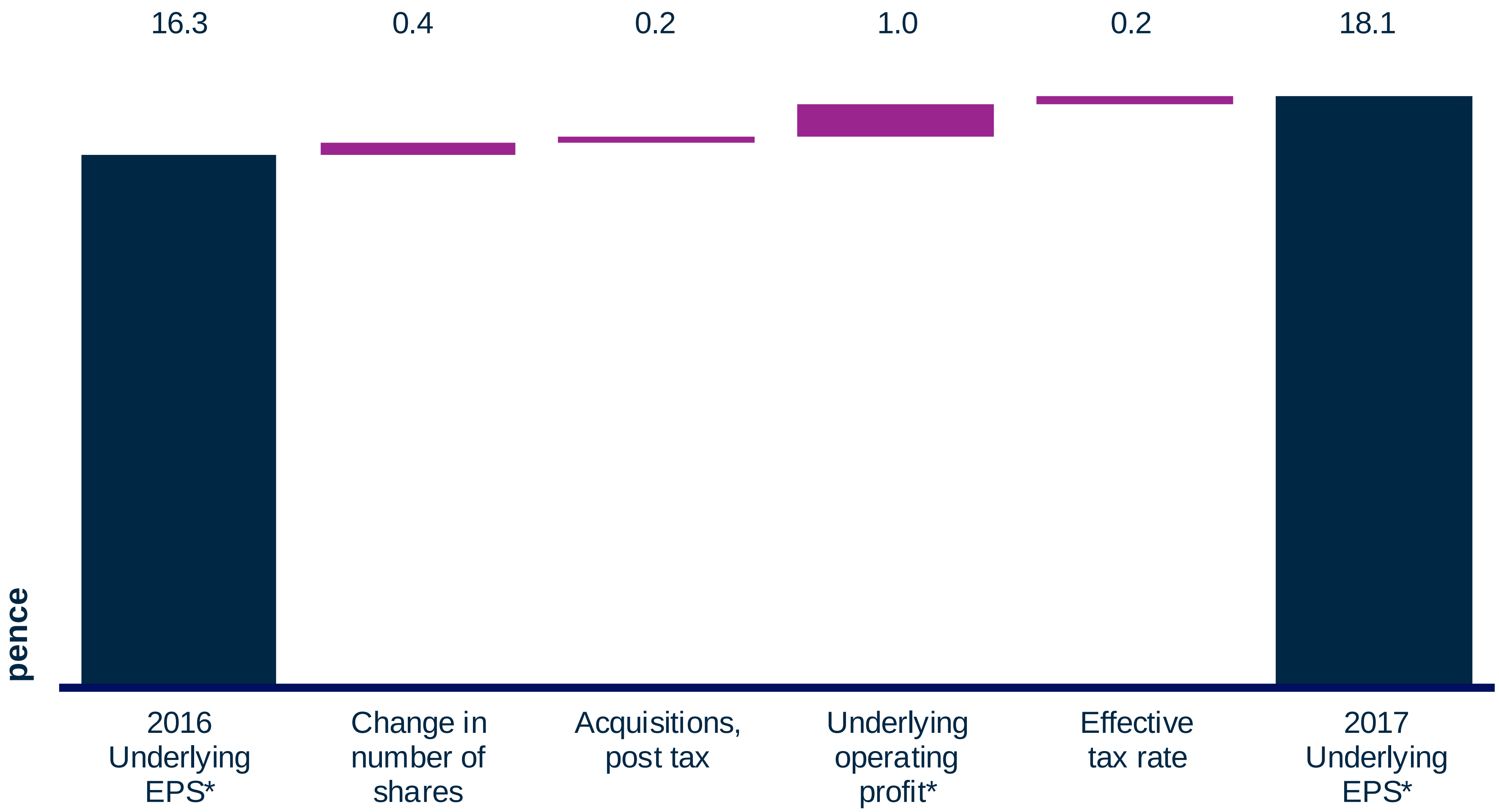


	2017 £m	2016 £m
Orders	**154.4**	164.4
Revenue	**169.6**	139.3
Underlying operating profit*	**23.6**	15.1
Underlying operating profit margin*	**13.9%**	10.8%
Book to bill ratio	**0.9x**	1.2x
Funded backlog	**158.9**	139.1

Underlying performance, before specific adjusting items, as defined in appendix.
^ Adjusted for the impact of acquisitions and disposals and presented on a constant currency basis, as defined in appendix.

- Revenue up 8% on an organic^ basis
- Operating profit includes a £2.2m credit relating to the resolution of overseas contractual disputes
- 55% of FY18 revenue under contract at 1 April 2017, compared to 64% at the beginning of the prior year

Underlying earnings per share* (pence)



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

Specific adjusting items*

	2017 £m	2016 £m
Items with cash impact		
Profit on disposal of property	**18.4**	0.3
Profit on business divestments	**-**	16.2
Acquisition costs	**(1.0)**	-
Non-cash items		
Impairment of goodwill	**-**	(31.9)
Amortisation of acquired intangibles	**(1.0)**	(2.0)
Pension net finance expense	**(1.0)**	(1.1)
Total specific adjusting items (pre-tax)	**15.4**	(18.5)
Specific adjusting items - tax	**4.1**	21.2
Total specific adjusting items - continuing operations	**19.5**	2.7
Specific adjusting items (post-tax) - discontinued operations	**-**	7.5
Total specific adjusting items	**19.5**	10.2

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

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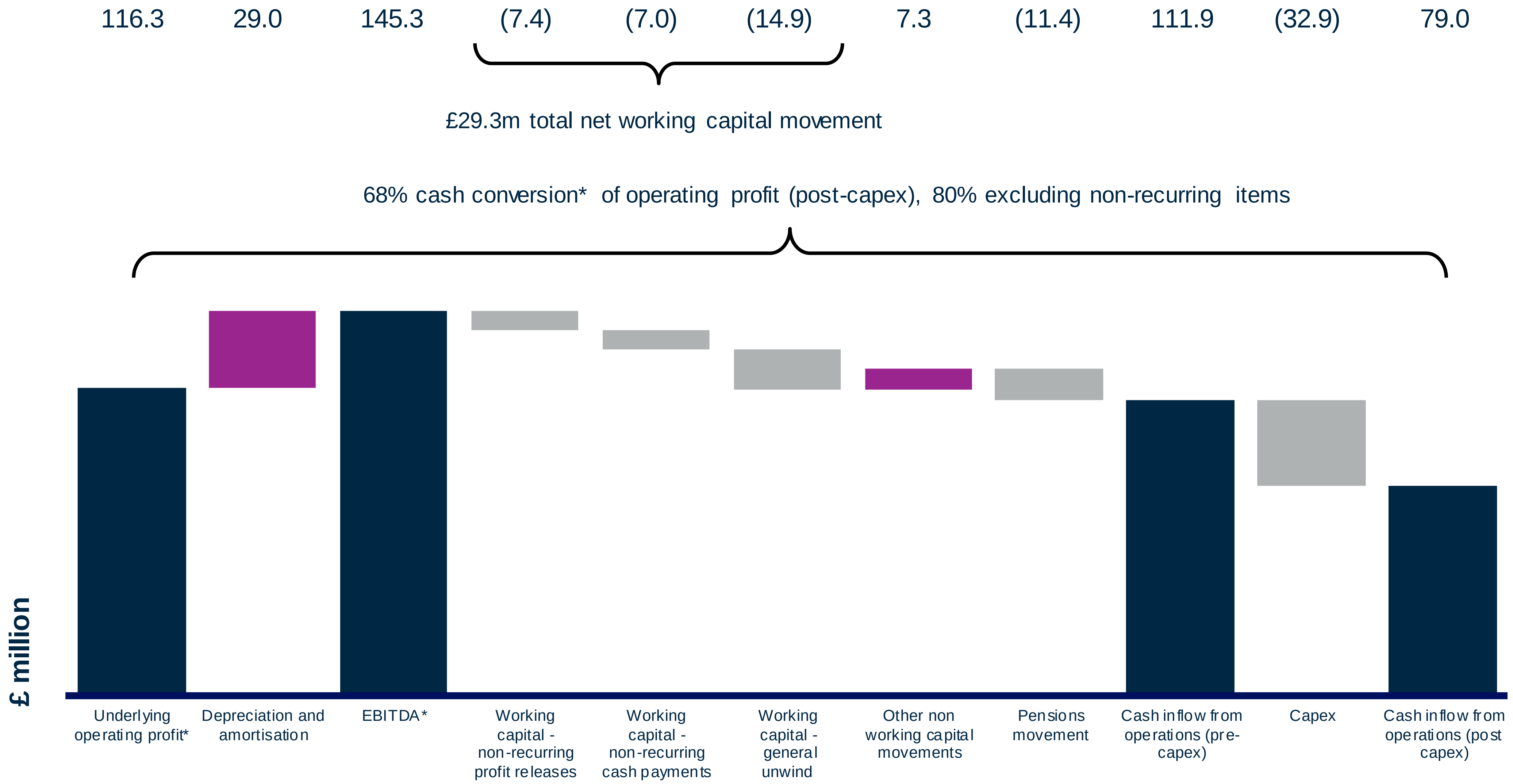
Operating cash conversion



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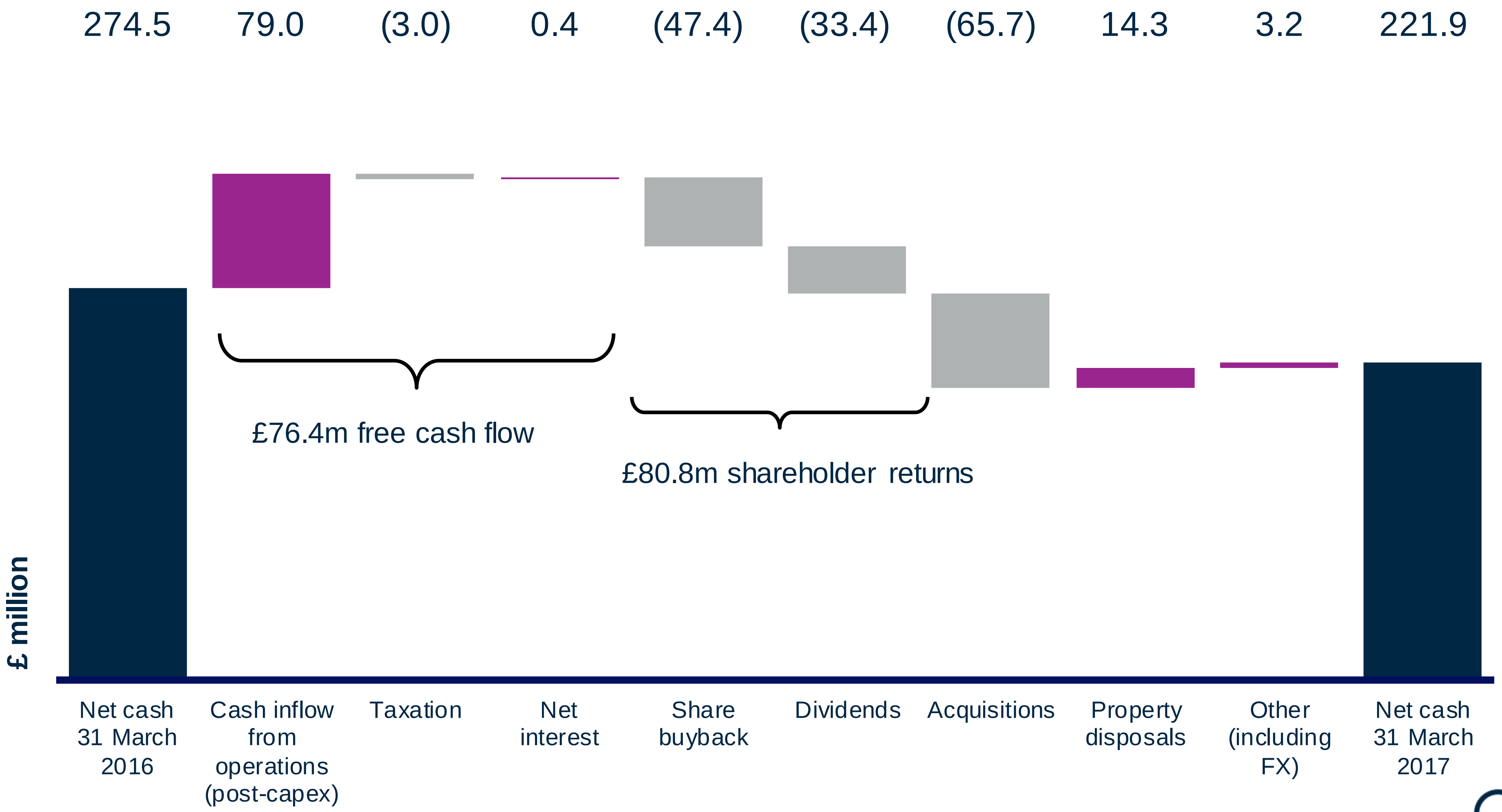
Movements in net cash



Balance sheet

	31 March 2017 £m	31 March 2016 £m
Goodwill	**107.8**	73.1
Intangible assets	**34.7**	8.3
Property, plant and equipment	**238.8**	233.4
Working capital	**(117.6)**	(163.5)
Retirement benefit surplus/(obligation) (net of tax)	**124.6**	(36.2)
Other assets and liabilities	**(77.6)**	(64.8)
Net cash	**221.9**	274.5
Net assets	**532.6**	324.8

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Capital allocation policy

Priority 1	Priority 2	Priority 3	Priority 4
Invest in our organic capabilities, complemented by bolt-on acquisitions where there is a strong strategic fit	Maintain the necessary balance sheet strength	Provide a progressive dividend to shareholders	Return excess cash to shareholders
✓	✓	✓	✓

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FY18 Outlook – technical factors

	FY17	FY18	
Net finance costs*	£0.2m		Net finance costs expected to be flat
Effective tax rate*	10.6%		Effective tax rate expected to increase modestly
Tax cash outflow	£3.0m		Tax cash outflow expected to increase
Net working capital unwind (excluding non-recurring items)	£14.9m		We continue to expect to see a partial unwind of net working capital
Pension deficit repair	£13.0m		Company cash contributions required under the recovery plan are £13m per annum until 31 March 2018. (note c.£1.5m included as a cost within underlying operating profit*)
Capital expenditure	£32.9m		FY18 cash flow will reflect increasing investment, with capital expenditure of £80m to £100m, to support the amendment to the Long Term Partnering Agreement announced in December 2016

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

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FY18 Outlook – trading

- EMEA Services
  - In EMEA Services, revenue under contract for FY18 is in line with the prior year, and the division is expected to deliver modest revenue growth this year although the lower baseline profit rate for single source contracts represents a continued headwind for operating margins.
- Global Products
  - The Group's Global Products division has shorter order cycles than EMEA Services and its performance is dependent on the timing of shipments of key orders. As a result of its contracted orders and pipeline of opportunities, as well as the anticipated full year contribution from the Target Systems acquisition, the division is expected to continue to grow in FY18.
- Group performance
  - Overall for FY18, we are maintaining expectations for steady progress excluding the non-recurring benefits in FY17, supported by revenue growth and consistent with our strategy.

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Strategic update

Steve Wadey | Chief Executive Officer

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Trading environment

US
- Trump elected
- Budget increase

UK
- Brexit
- Industrial strategy

International
- Highly competitive
- Industrial partnering

Australia
- Re-capitalisation
- Revitalising industry

Inherent capabilities and strategy well matched to challenges and opportunities

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Our vision and strategy

"The chosen partner around the world for mission-critical solutions, innovating for our customers' advantage"

UK	International	Innovation
Lead and modernise the UK Defence Test & Evaluation enterprise, by working in partnership with Government and prime contractors	Build an international company that delivers additional value to our customers by developing our home markets, creating new home markets and exporting	Invest in and apply our core competence for customer advantage in defence and commercial markets

Transformation programme

Improving customer focus and competitiveness

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Delivering modern UK Defence Test & Evaluation

Naval Combat System Integration Support Services

- £109m 11-year contract renewal
- Developing and de-risking Royal Navy mission systems

Innovation to deliver more for less

Long Term Partnering Agreement

- £1bn 11-year contract renewal
- World-class competitive air ranges and test aircrew training

Efficiencies invested in modernising capabilities

Air Strategic Enterprise

- £80m added to 5-year contract
- 28% customer savings in delivery of aircraft engineering services

Working in partnership with UK industry

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Building an international company

Home markets

- North America; performing and growing
- Australia; record year for orders

Focus on performance and growth

Acquisitions

- Meggitt Target Systems
- RubiKon

RUBIKON
GROUP

Supporting international growth

New markets

- First home win in Canada
- New office in Malaysia
- Building export sales team

Enabling future growth

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Innovating for our customers' needs

Over 30 major campaigns to drive growth through strategic partnering and investment

UK Test & Evaluation

- £15m contract from UK MOD
- Modernising Environmental Test Facilities

Solving affordability to invest in world-class facilities

Directed Energy

- £30m Laser Directed Energy Weapon (LDEW) demonstrator
- Partnering with MBDA & Leonardo

Team partnering with exploitation path

Secured Navigation

- Global alliance agreement with Rockwell Collins
- Next generation satellite receivers

Combining unique design with global market presence

Transforming customer focus and competitiveness

Leadership and organisation

Strengthened team

Business winning

FRAZER-NASH CONSULTANCY

Cohort plc

QINETIQ ATKINS

Strategic partnering to win

Operational excellence

Coherent long-term growth plan

Investing in our future

Invested £20m in people, technology and campaigns

Summary

Good operational delivery

Early successes in implementing strategy

Focus on delivery of consistent performance and growth strategy

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Appendices

Definitions

- Underlying performance is stated before:
  - Amortisation of intangibles arising from acquisitions;
  - Pension net finance expense;
  - Gains/losses on business divestments and disposal of investments;
  - Transaction costs in respect of business acquisitions;
  - Impairment of property, goodwill and other intangible assets;
  - Tax impacts of the above items; and
  - Significant non-recurring deferred tax movements
- Organic revenue growth:
  - The level of year-on-year growth, expressed as a percentage, calculated at constant prior year foreign exchange rates, adjusting for business acquisitions and disposals to reflect equivalent composition of the Group

Income statement

	2017 £m	2016 £m
Revenue	**783.1**	755.7
Underlying operating profit*	**116.3**	108.9
Underlying net finance expense*	**(0.2)**	(0.2)
Underlying profit before tax*	**116.1**	108.7
Amortisation of acquired intangibles	**(1.0)**	(2.0)
Pension net finance expense	**(1.0)**	(1.1)
Profit on disposal of property	**18.4**	0.3
Profit on business divestments	**-**	16.2
Acquisition costs	**(1.0)**	-
Impairment of goodwill	**-**	(31.9)
Profit before tax	**131.5**	90.2
Taxation (expense)/income	**(8.2)**	8.4
Profit after tax - continuing operations	**123.3**	98.6
Profit after tax - discontinued operations	**-**	7.5
Profit after tax - total Group	**123.3**	106.1

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

Revenue by sector and customer

Revenue by sector (%)

2017

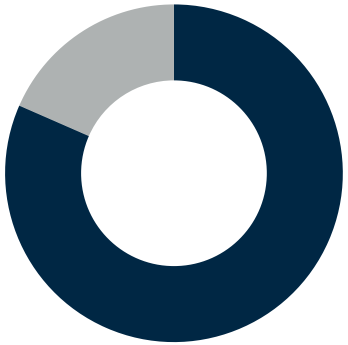
£783.1m

	%
EMEA Services	78
Global Products	22

2016

£755.7m

	%
EMEA Services	82
Global Products	18



Revenue by customer (%)

2017

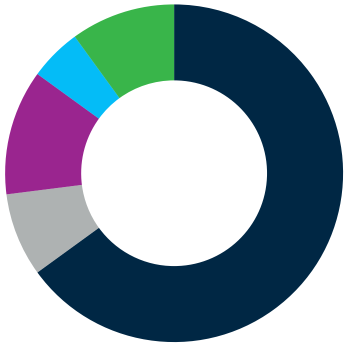
£783.1m

	%
MOD	65
DoD	8
Government agencies	12
Commercial Defence	5
Commercial	10

2016

£755.7m

	%
MOD	67
DoD	6
Government agencies	10
Commercial Defence	6
Commercial	11



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Taxation

	2017 £m	2016 £m
Underlying tax charge*	**(12.3)**	(12.8)
Tax on specific adjusting items	**4.1**	21.2
Total tax (charge)/income	**(8.2)**	8.4
Underlying tax rate*	**10.6%**	11.8%

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

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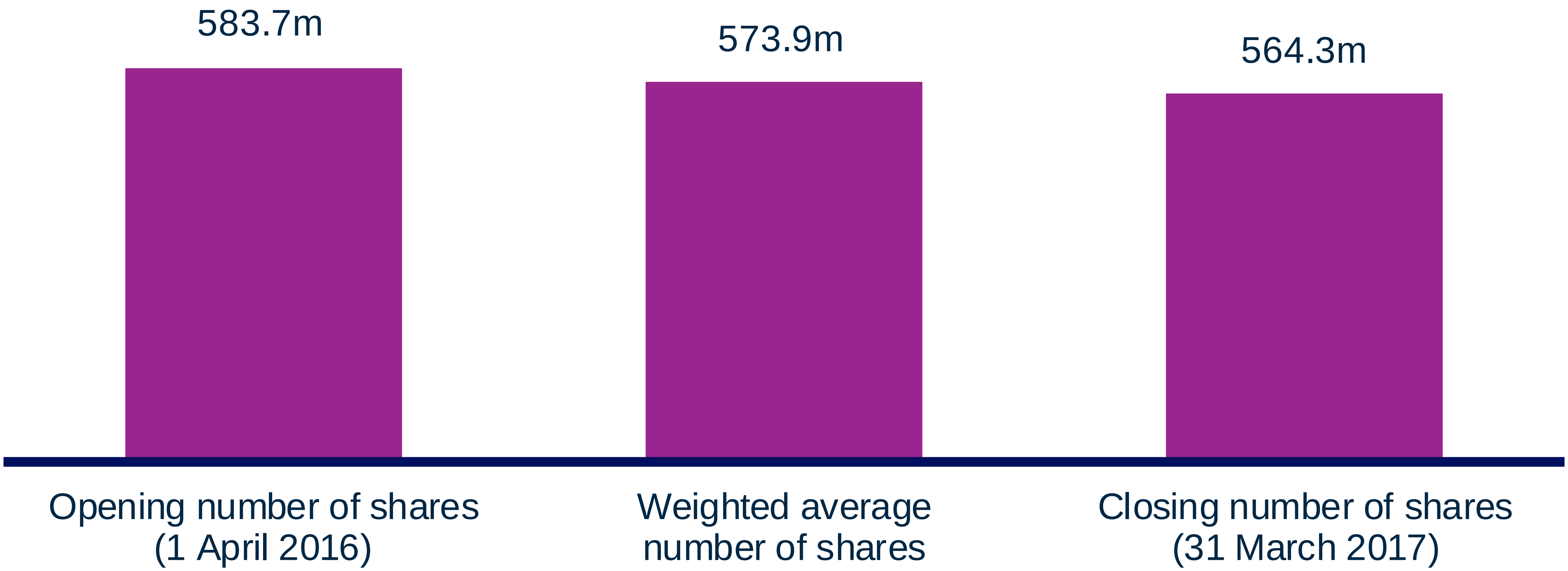
Number of shares in issue*



* Net of treasury shares

Cash conversion

	2017 £m	2016 £m
Underlying operating profit*	**116.3**	108.9
Depreciation and amortisation	**29.0**	25.8
Loss on disposal of PPE	**1.2**	1.5
Share-based payments charge	**2.1**	4.7
Share of post-tax profit of equity accounted entities	**(0.5)**	(0.5)
Changes in working capital	**(29.3)**	6.7
Net movement in provisions	**4.5**	(0.3)
Changes in retirement benefit obligations	**(11.4)**	(13.4)
Net cash inflow from operations (pre-capex)	**111.9**	133.4
Net capex	**(32.9)**	(29.8)
Net cash inflow from operations (post-capex)	**79.0**	103.6
Cash conversion %*	**68%**	95%
Net interest	**0.4**	0.3
Taxation	**(3.0)**	(8.9)
Free cash flow	**76.4**	95.0

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

Movements in net cash

	2017 £m	2016 £m
Free cash flow	**76.4**	95.0
Business divestments	**-**	28.0
Disposal of property	**14.3**	-
One-off tax receipt	**-**	36.8
Purchase of own shares (£47.4m buyback plus £0.7m SIP)	**(48.1)**	(48.6)
Dividends	**(33.4)**	(32.3)
Acquisition of business	**(65.7)**	(0.6)
Other	**(0.9)**	(0.1)
Change in net cash before FX	**(57.4)**	78.2
FX translation impact	**4.8**	0.8
Change in net cash	**(52.6)**	79.0
Opening net cash - 1 April	**274.5**	195.5
Closing net cash - 31 March	**221.9**	274.5

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Defined benefit pension scheme – balance sheet position

	31 March 2017 £m	31 March 2016 £m
Equities	355.4	414.0
LDI investment	968.2	362.8
Bonds	472.9	490.8
Property	126.7	126.6
Cash and other	3.1	16.2
Market value of assets	**1,926.3**	1,410.4
Present value of scheme liabilities	**(1,770.3)**	(1,448.1)
Net pension asset/(liability) before deferred tax	**156.0**	(37.7)
Deferred tax (liability)/asset	**(31.4)**	1.5
Net pension asset/(liability)	**124.6**	(36.2)

Defined benefit pension scheme – key assumptions

Assumptions	31 March 2017 %	31 March 2016 %
Discount rate	**2.60%**	3.40%
Inflation (CPI)	**2.35%**	2.10%

Sensitivity of Scheme liabilities to main assumptions:

Assumption	Change in assumption	Sensitivity
Discount rate - small inc/dec	Increase / decrease by 0.1%	Decrease/ increase by £35m
Discount rate - large inc*	Increase by 1.0%	Decrease by £320m
Discount rate - large dec*	Decrease by 1.0%	Increase by £422m
Inflation	Increase / decrease by 0.1%	Increase / decrease by £34m
Life expectancy	Increase by 1 year	Increase by £46m

*Due to a compounding effect, it would not be accurate to extrapolate the 0.1% discount rate sensitivity to estimate a large increase or decrease in discount rates. Therefore, the table above also sets out the impact of a larger change in the discount rate (+1.0% and -1.0%), allowing for the compounding effect. The impact of movements in Scheme liabilities will, to an extent, be offset by movements in the value of Scheme assets.

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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	79.7
Total committed facilities				**245.7**

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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.

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