

Interim Results 2009/10

25 November 2009



QinetiQ

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Sir John Chisholm
Chairman



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Agenda

1. Introduction
2. Results
3. Financial and Operational Review
4. Summary and Outlook
5. Q&A

Results

- Group revenue up 11% to £806.3m; organic revenue broadly flat at constant currency
- Operating profit margin* improved to 7.8%
- Strong operating cash conversion* of 148%
- Net debt reduced to £452.3m
- EPS* increased 2% to 5.7p
- Dividend increased 5%
- Mark Elliott appointed non-executive director and Chairman designate on 1 June 2009
- Leo Quinn appointed CEO on 16 November 2009

* underlying performance as defined in the Appendix

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David Mellors
Chief Financial Officer



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Summary financial highlights H1

FY09 £m		H1 FY10 £m	H1 FY09 £m	Growth	Organic change at constant currency
1,617.3	Revenue	806.3	727.4	11%	(1)%
151.6	Operating profit* ^	62.5	53.5	17%	
9.4%	Operating margin* ^	7.8%	7.4%	40 bps	
130.2	Profit before tax*	45.1	45.9	(2)%	
15.9	Earnings per share*	5.7p	5.6p	2%	
107%	Cash conversion (post capex)	148%	129%	19%	
4.75 #	Dividend (interim)	1.58p	1.50p	5%	

* underlying performance as defined in the Appendix

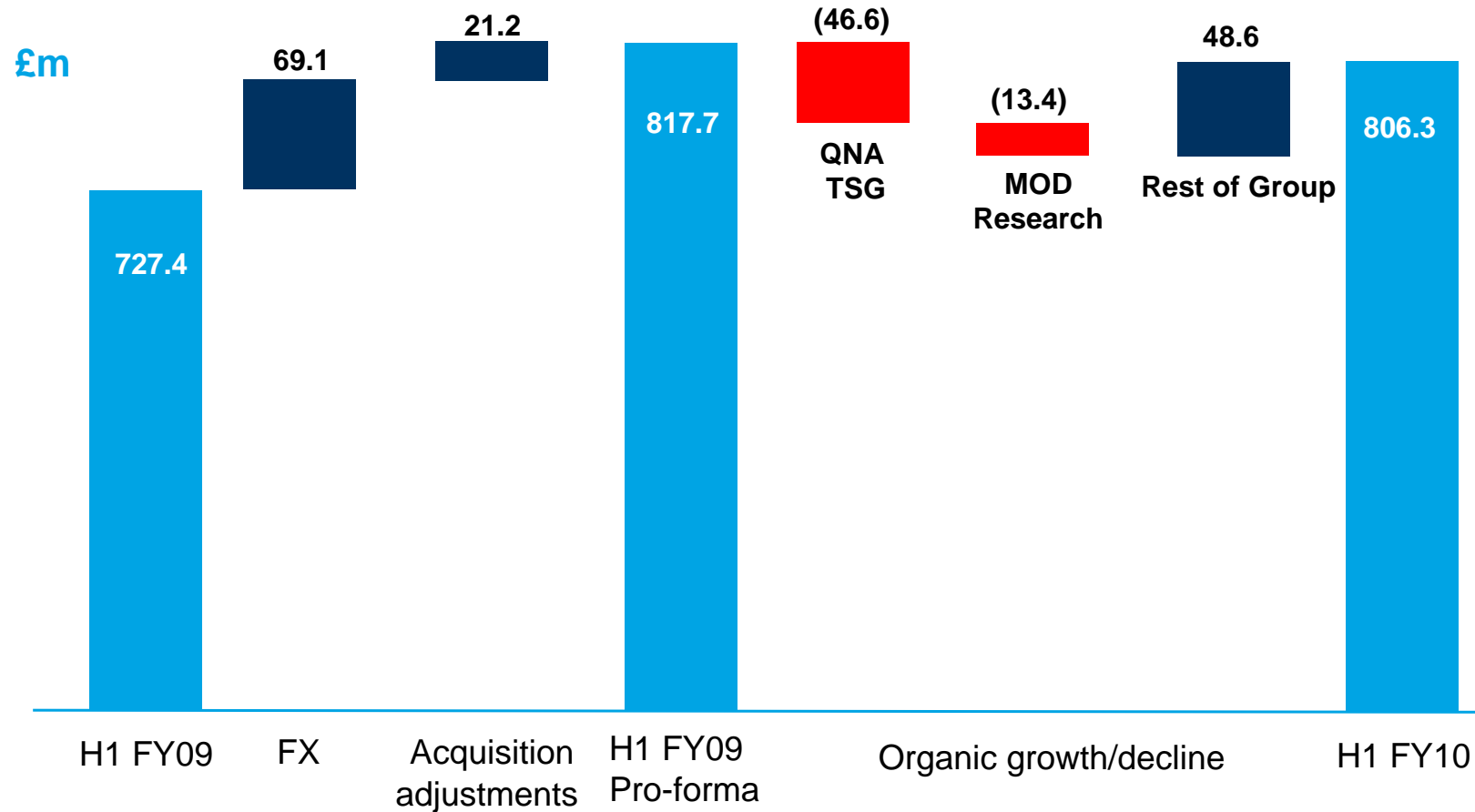
^ operating profit for H1 FY09 and FY09 has been restated to show the finance elements of the IAS19 pension cost in the finance income and expense lines. There is no impact on reported profit before tax from this restatement

FY09 total dividend (1.50p interim, 3.25p final)

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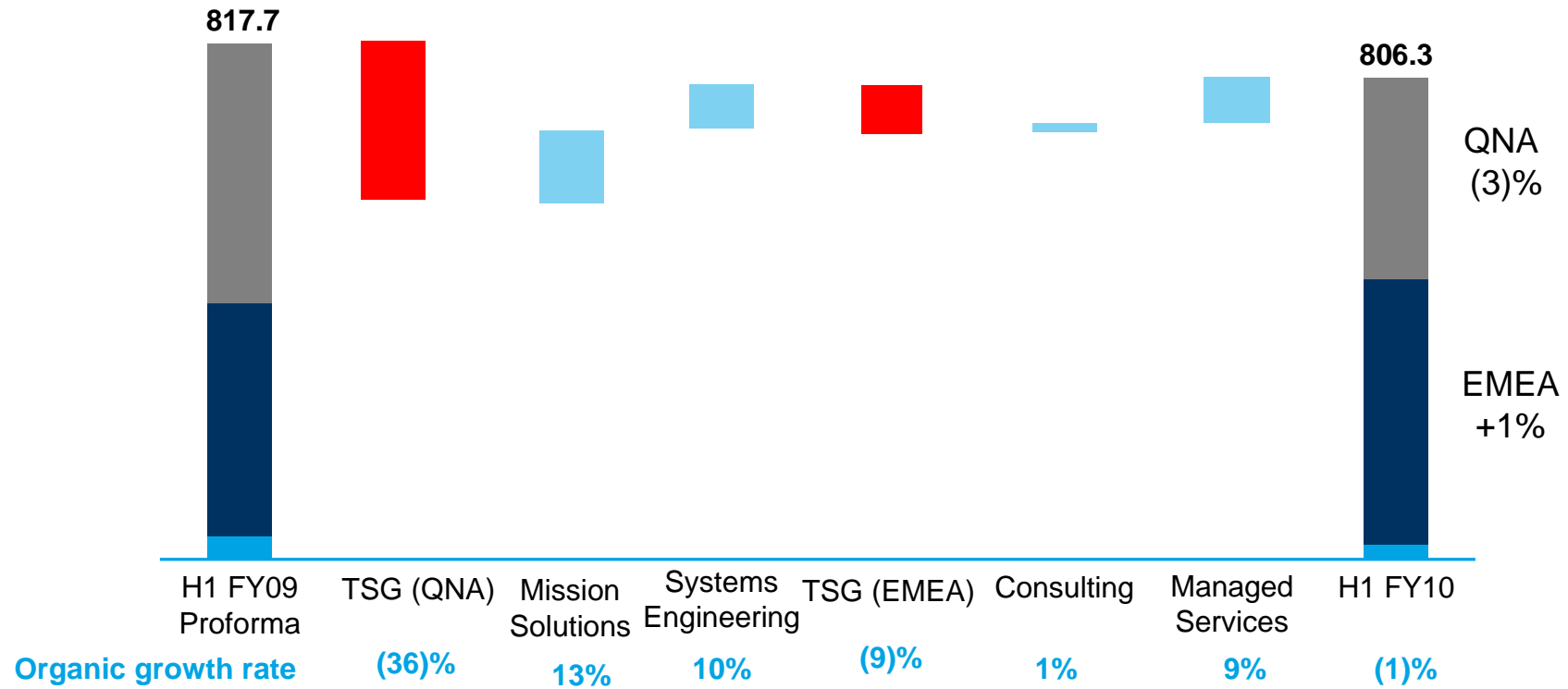
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Group revenue bridge



Organic revenue bridge

£m

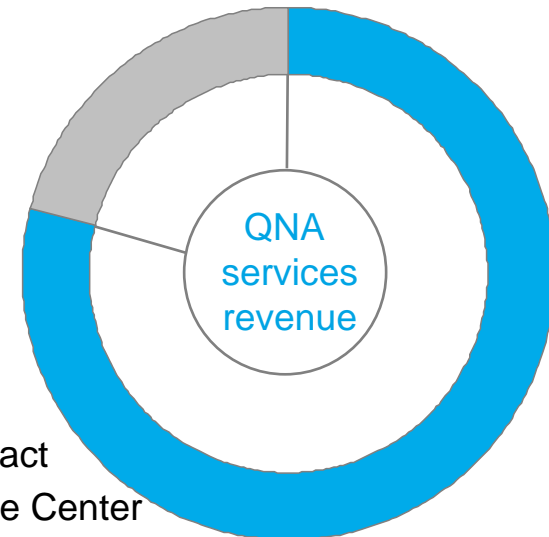


QNA services businesses

Mission Solutions and Systems Engineering



- Organic growth of 12%
- High win rate on recompetes
- High level of security cleared employees
- Good contract portfolio (GSA Alliant; DHS Eagle; DISA Encore II)
- Key Contract Awards
 - 5 year, \$100m telecommunications support contract (Janus II) to support the Dept of State
 - 5 year, \$28m IT services contract to support the DOD National Defense University
 - 4th year exercised in \$100m Iraqi Flight Training Services contract
 - Named “Prime Contractor of the Year” by NASA Kennedy Space Center
- Acquired Cyveillance in July 2009
- Appointed Stephen Cambone as Mission Solutions Group President
 - Former US Under Secretary of Defense for Intelligence

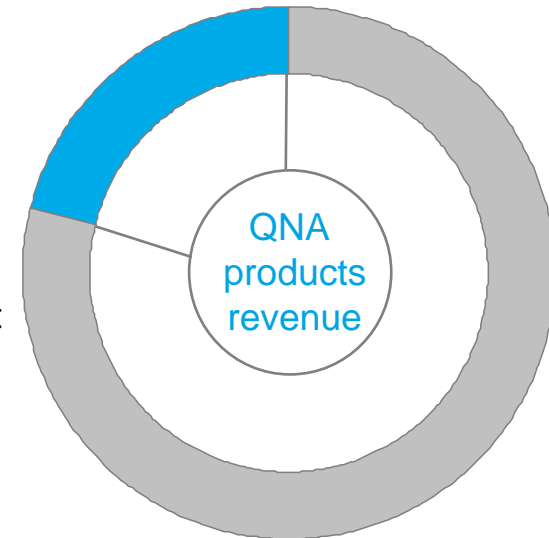


QNA products business

Technology Solutions Group



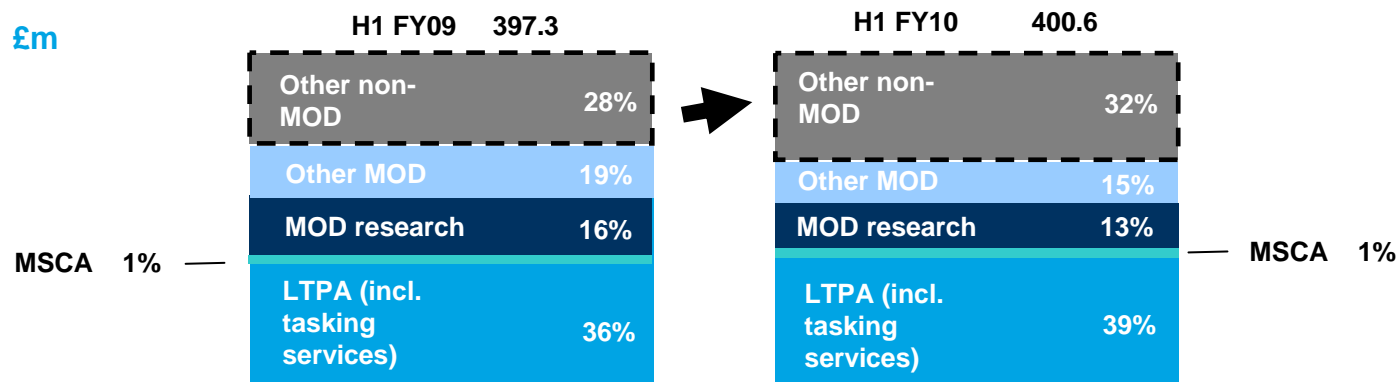
- Predicted slowdown in revenue compared to a strong H1 FY09 due to:
 - Key administration appointments slow to be made
 - Strategy for Afghanistan slow to be finalised
- Installed base 2,800 TALON® robots
- AUD\$23m to supply TALON® robots to Australian DOD
- Further sales of Dragon Runner™ to UK MOD
- Appointed J.D. Crouch as Technology Solutions Group President
 - Former US Deputy National Security Advisor
 - Former U.S Ambassador



EMEA



- Organic growth 1%
- MOD research decline (now 6% of Group revenues)
- Key contract awards
 - £23m BepiColombo contract to deliver propulsion for Mercury spacecraft mission
 - £37m 3-year Typhoon Support contract since period end
- £40m restructuring programme on plan to complete in Q4
- DTR package 1 progresses with contract close expected in late 2010
 - £31m Early Training Transformation (ETT) contract awarded in Q2
- Completed disposals of Underwater Systems business (£23.5m) and Calibration business (nominal)



Segmental analysis of profit

	Operating Profit*			Operating profit margin*	
	H1 FY10 £m	H1 FY09 [^] £m	Operating profit growth	H1 FY10	H1 FY09 [^]
QNA	35.6	34.9	2%	8.8%	10.7%
EMEA	30.6	27.2	13%	7.6%	6.8%
Ventures	(3.7)	(8.6)			
Group	62.5	53.5	17%	7.8%	7.4%

[^] Operating profit for H1 FY09 has been restated to show the finance elements of the IAS19 pension cost in the finance income and expense lines. There is no impact on reported profit before tax from this restatement

* Underlying performance as defined in the Appendix

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Cash conversion

– strong cash generation

	H1 FY10 £m	H1 FY09^ £m	FY09^ £m	Full year guidance £m
Underlying operating profit*	62.5	53.5	151.6	
Share of JVs/associates	(0.1)	3.2	7.2	
Operating profit before JVs/assoc	62.4	56.7	158.8	
Cash flow from operations*	105.7	89.2	202.2	
Purchase of PPE and intangible assets	(13.3)	(16.2)	(32.4)	
Net cash flow from operations post capex	92.4	73.0	169.8	
Cash conversion %*	148%	129%	107%	
Net interest paid	(20.7)	(9.0)	(20.3)	c(35)
Tax	4.5	(4.3)	(2.5)	c(10)
(Costs)/proceeds from sale of property	(0.2)	-	(1.2)	
Free cash flow *	76.0	59.7	145.8	

* before impact of EMEA reorganisation

^ operating profit for H1 FY09 and FY09 has been restated to show the finance elements of the IAS19 pension cost in the finance income and expense lines. There is no impact on reported profit before tax from this restatement

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Movements in net debt

	H1 FY10 £m	H1 FY09 £m	FY09 £m	Full year guidance £m
Free cash flow	76.0	59.7	145.8	
EMEA reorganisation costs	(13.7)	(27.0)	(27.0)	(40)
Acquisitions and investments	(33.8)	(8.9)	(95.0)	c(47)*
Divestments	22.7	3.0	16.7	
Dividends	(21.3)	(19.1)	(28.9)	
Other	3.4	1.6	(5.7)	
Change in net debt before FX	33.3	9.3	5.9	
FX translation impact	52.3	(43.7)	(163.9)	
Change in net debt	85.6	(34.4)	(158.0)	
Opening net debt	(537.9)	(379.9)	(379.9)	
Closing net debt +	(452.3)	(414.3)	(537.9)	

+ US\$:GBP£ rate 1.60 at 30 September 2009, 1.78 at 30 September 2008 and 1.44 at 31 March 2009

* Including \$21m deferred consideration on DTRI paid in October 2009

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Defined benefit pension scheme - IAS19 balance sheet position

	H1 FY10 £m	H1 FY09 £m	FY09 £m
Market value of assets	795.8	714.7	647.4
Present value of scheme liabilities	(952.9)	(787.1)	(752.6)
Net pension liability before deferred tax	(157.1)	(72.4)	(105.2)
Deferred tax	44.0	20.2	29.4
Net pension liability	(113.1)	(52.2)	(75.8)

	H1 FY10 %	H1 FY09 %	FY09 %
Assumptions:			
Discount rate	5.5	6.8	6.5
Inflation	3.1	3.5	3.1

Sensitivity to main assumptions:

- Discount rate: 0.1% change +/-£22m
- Inflation rate: 0.1% change +/-£22m
- Life expectancy 1yr +/- £23m

Defined benefit pension scheme

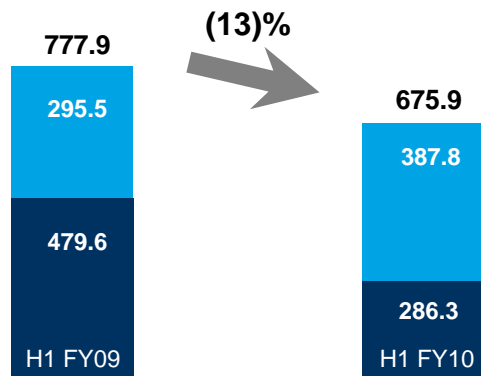
– IAS 19 income statement

	H1 FY10 £m	H1 FY09 £m
Service cost: Included in operating profit	10.7	13.8
Finance cost/(credit) Included in interest charge	1.3	(1.6)
Net charge in period	12.0	12.2

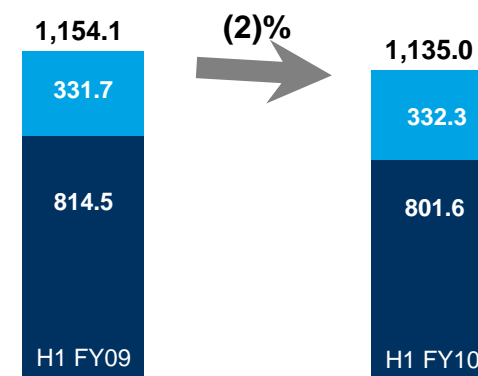
Orders and backlog

- Group
 - Backlog £1.1bn excluding £4.4bn for remaining years of LTPA at 30 September 2009
- QNA
 - Book to bill ratio 1:1 (on funded orders)
 - Service businesses achieved growth in funded orders, offset by delays in Technology Solutions QNA
 - QNA unfunded backlog at 30 September 2009: c.\$1.5bn (not included in backlog)
- EMEA
 - Prior year benefited from 15 year £150m MSCA
 - Book to bill ratio 0.9:1 (on funded orders and excluding LTPA)
 - Backlog stable, underpinned by long-term contracts e.g. LTPA, MSCA

Orders (£m)



Backlog (£m)



QNA
EMEA

Outlook

- The Board continues to believe that QinetiQ is well positioned to take advantage of the longer term trends in the defence and security markets. However currently both its main geographic markets are experiencing short term uncertainties in specific areas. In the UK, political and economic factors are delaying the letting of contracts; in the US, the finalisation of policy for Afghanistan continues to impact Government decision-making.
- Historically the EMEA business experiences a seasonally stronger second half, including the letting of a large number of shorter term contracts. At this point in time and in the current environment the business therefore has more limited visibility on the amount and timing of these orders.
- In the US the services businesses continue to grow, but as previously stated, Technology Solutions is experiencing delays on certain orders in its pipeline for survivability products and Unmanned Ground Vehicles (UGVs).
- Given the risks around closing pending orders in the US, and achieving the normal pattern of contract wins in UK, the Board considers that it is unlikely to achieve its previous expectations.

Sir John Chisholm
Chairman



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Questions



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Appendix



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Definitions

Underlying performance is stated before:

- Major reorganisation costs
- Business divestments and unrealised impairment of investments
- Amortisation of acquisition related intangible assets
- Tax effect of the above

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

Operating divisions:

- QNA Mission Solutions: Delivers services and solutions in a number of key areas requiring specialised customer mission knowledge.
- QNA Systems Engineering: Offers independent support for the procurement, development, modification and fielding of key military and missile defence equipment.
- QNA Technology Solutions: Provides funded technology research and development services for US defence and security organisations and develops products from its pool of intellectual property.
- EMEA Managed Services: Provides long-term, technology-rich outsourced services to Government customers and independent accreditation and technical services to Government and industry.
- EMEA Consulting: Provides advice including decision and project support for both civil and defence customers
- EMEA Technology Solutions: Supplies technology and services and integrates systems for defence, security and intelligence customers.
- Ventures: Exploits intellectual property sourced from QinetiQ's core defence and security technology business into non-core markets

Detailed income statement

	H1 FY10 £m	H1 FY09 ^ £m
Revenue	806.3	727.4
Underlying operating profit^	62.5	53.5
Net finance expense^	(17.4)	(7.6)
Underlying profit before tax	45.1	45.9
Asset and business disposals/impairments	6.5	-
Amortisation of acquisition related intangibles	(12.9)	(9.3)
EMEA restructuring	(40.0)	-
Statutory profit before tax	(1.3)	36.6
Taxation	2.1	(8.4)
Statutory profit after tax attributable to equity shareholders	0.8	28.2

^ operating profit for H1 FY09 has been restated to show the finance elements of the IAS19 pension cost in the finance income and expense lines. There is no impact on reported profit before tax from this restatement

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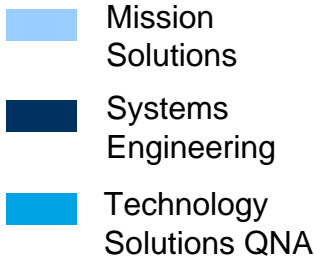
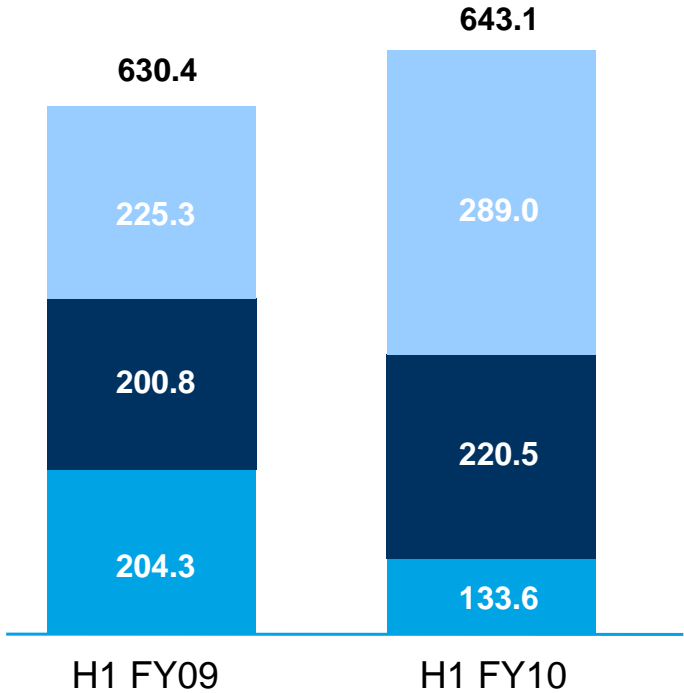
Revenue analysis

	H1 FY10 £m	H1 FY09 £m	Growth rate	Organic growth rate
Mission Solutions	181.4	116.7	55%	13%
Systems Engineering	138.4	104.0	33%	10%
Technology Solutions QNA	83.9	105.9	(21)%	(36)%
QinetiQ North America	403.7	326.6	24%	(3)%
Managed Services	193.6	180.0	8%	9%
Consulting	71.3	68.6	4%	1%
Technology Solutions EMEA	135.7	148.7	(9)%	(9)%
EMEA	400.6	397.3	1%	1%
Ventures	2.0	3.5	(43)%	
Group revenue	806.3	727.4	11%	(1)%

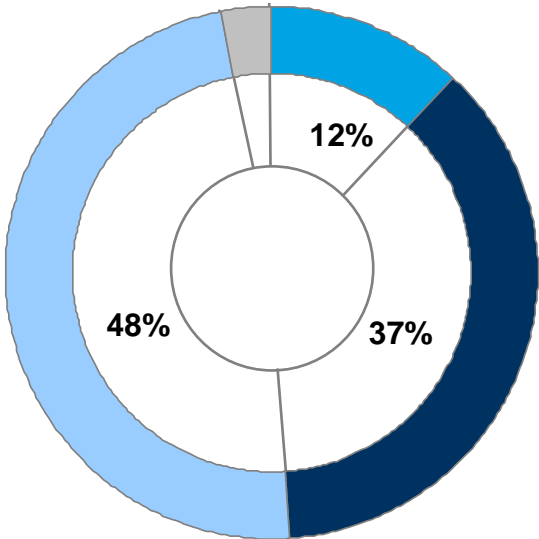
QNA highlights



Revenue
\$m



Headcount*



c\$2 billion in total (funded and unfunded) backlog

* Headcount reflects period end headcount

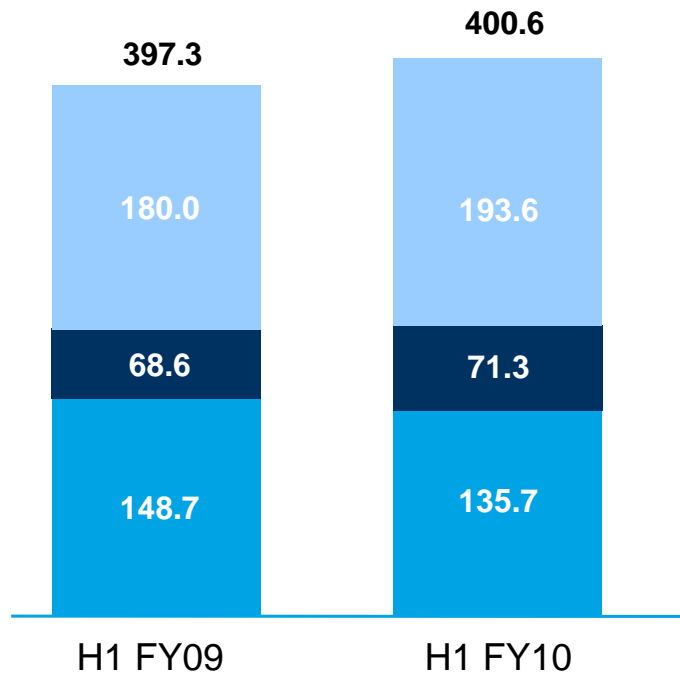


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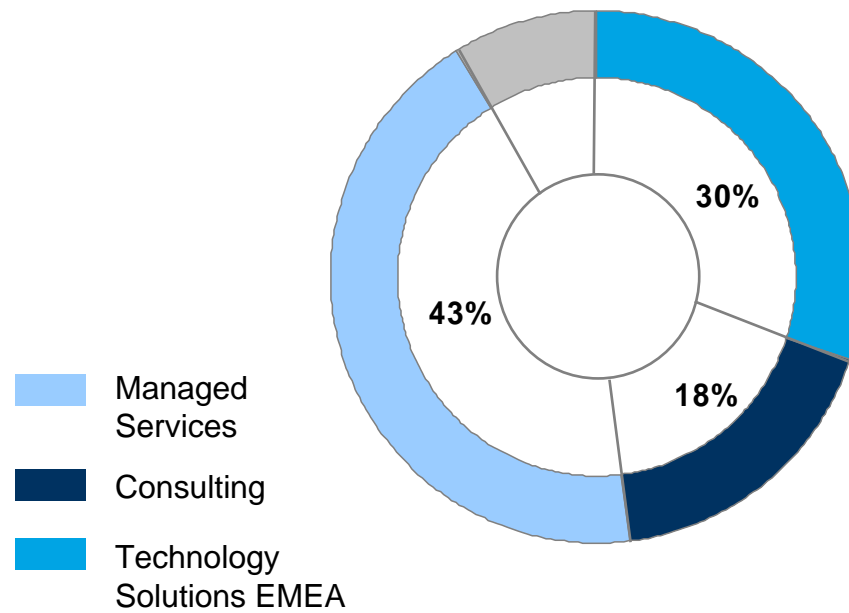
EMEA highlights



Revenue
£m



Headcount*



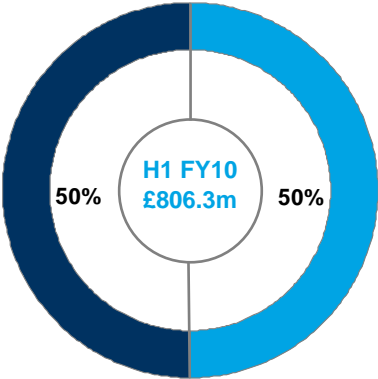
* Headcount reflects period end headcount



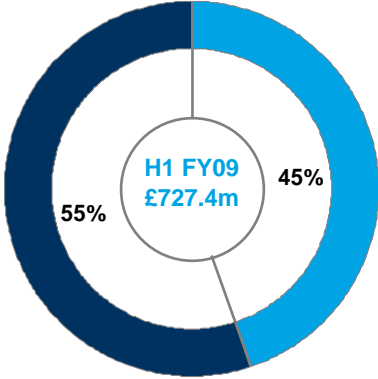
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Revenue by sector and customer

Revenue by sector (%)

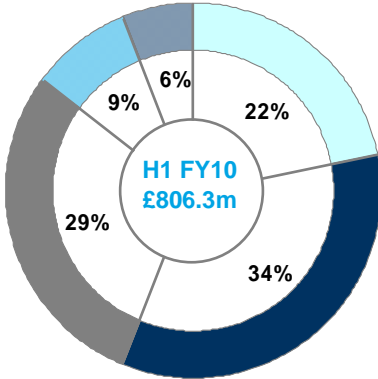


- QNA
- EMEA
- Ventures (<0.5%)

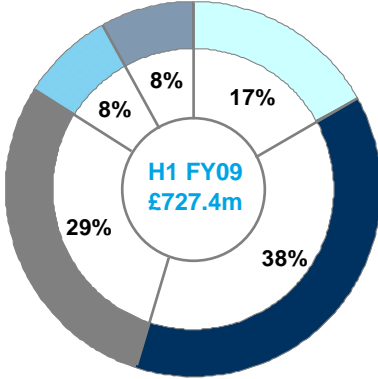


- QNA
- EMEA
- Ventures (<0.5%)

Revenue by customer (%)



- Civil/Other Govt Agencies
- MOD
- DoD
- DHS
- Commercial Defence



- Civil/Other Govt Agencies
- MOD
- DoD
- DHS
- Commercial Defence

Taxation

	H1 FY10	H1 FY09
Headline tax charge	(8.2)	(9.4)
Tax on non-recurring items	10.3	1.0
Underlying tax credit/(charge)	2.1	(8.4)

Underlying tax rate %

18.2%

20.5%

Underlying tax rate not expected to rise significantly in the medium term*

* subject to future tax legislation changes

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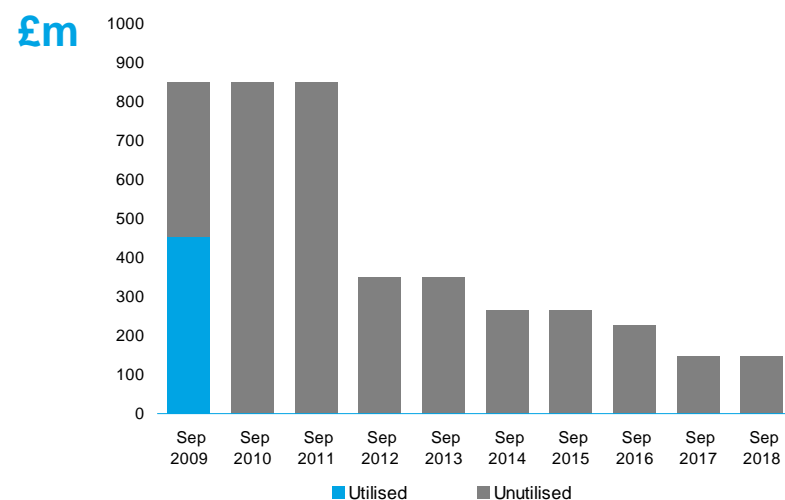
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Balance sheet

	H1 FY10 £m	FY09 £m
Goodwill	593.9	638.5
Intangible assets – acquisitions	134.7	135.5
– other	25.2	28.7
Property, plant and equipment	318.8	332.4
Working capital	117.9	154.0
Retirement benefit obligation (net of tax)	(113.1)	(75.8)
Other assets and liabilities	(104.0)	(72.7)
Net debt	(452.3)	(537.9)
Net assets	521.1	602.7

Borrowings & debt facilities

	September 2009 £m	September 2008 £m	March 2009 £m
Net debt (£m)	452.3	414.3	537.9
Committed facilities * (£m)	850.0	645.9	893.0
Net debt : EBITDA **	2.2	2.0	2.2
Covenant limit **	3.5	3.5	3.5



Committed facilities include:

- £500m revolving credit facility maturing Aug 2012
- \$135m private placement maturing 2013
- \$187m private placement maturing 2016
- \$238m private placement maturing 2019

* US\$ denominated facilities translated at 30 September 2009 rate of \$1.60:£1, \$1.44:£1 at 31 March 2009

** annualised and calculated in accordance with credit facility ratios

Capital investment

	H1 FY10 £m	H1 FY09 £m
Expenditure on tangible assets	12.2	13.3
Investment in intangible assets*		
• development costs	0.3	0.3
• purchased software	0.8	2.6
	1.1	2.9
Depreciation & Amortisation*		
• tangible	16.5	15.6
• intangible assets		
• development costs	1.4	1.3
• other*	3.7	3.0
	21.6	19.9

* excluding amounts arising on acquisition of businesses

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Cautionary Statement regarding forward-looking statements

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 continued growth of the Company's US business and the availability of attractive candidates for further acquisitions;
- * the level of pensions 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.



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