Interim Results

11 November 2021

Delivering our global ambition through mission-led innovation

Results for six months to 30 September 2021 ('H1 2022')

	Statutory results		Underlying* results	
	H1 2022	H1 2021	**H1 2022**	H1 2021
Revenue	**£600.1m**	£603.2m	**£600.1m**	£603.2m
Operating profit	**£42.9m**	£61.6m	**£53.4m**	£69.0m
Profit after tax	**£23.8m**	£74.2m	**£46.6m**	£57.6m
Earnings per share	**4.2p**	13.0p	**8.1p**	10.1p
Interim dividend per share	**2.3p**	2.2p	**2.3p**	2.2p
Total funded order backlog			**£3,007.6m**	£3,087.2m
Total orders in the period^			**£677.8m**	£561.6m
Net cash flow from operations	**£66.1m**	£91.8m	**£70.2m**	£92.7m
Net cash	**£139.2m**	£112.7m	**£139.2m**	£112.7m

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary
^ To be consistent with revenue reporting prior year orders has been restated to exclude £1.3m of contribution from Joint Ventures

Good underlying performance impacted by two discrete short-term issues
- Orders up 25% on an organic basis, 21% after disposals; with robust backlog of £3.0bn
- Revenue up 3% on an organic basis, flat after disposals in the prior year
- Underlying operating profit of £53.4m, after £14.5m write-down on a large complex project
- Statutory operating profit down 30% due to the write-down
- Underlying EPS of 8.1p; 2.3p interim dividend declared – one third of FY21 dividend
- On-track to deliver in line with FY22 guidance provided in our October Trading Update

Strategic progress and robust plan to resolve issues
- Secured £678m orders across the Group including $184m orders won in US
- Excellent growth in Australia and the UK, with revenue growth of 19% and 11% respectively
- Major contracts performing well e.g. MSP, LTPA and EDP
- Write-down due to risk exposure on a large complex project
- Response to US customer's mission pivot and COVID delivery challenges

Priority to deliver FY results whilst continuing to implement multi-domestic growth strategy
- Deliver operational performance, with >90% revenue under contract
- Deliver complex project recovery plan to conclusion in-year
- Recover US revenue performance, targeting second half revenue in line with FY21 H2
- Invest in new customer solutions and strategic acquisitions
- Focus to drive profitable growth into our >£20bn addressable market

Steve Wadey, Group Chief Executive Officer said:

"Overall I am pleased with the continued strategic momentum through the first half of the year. We continue to deliver for our customers around the world, protecting lives, defending sovereign capability and securing the vital interests of our customers. We have delivered good underlying performance with orders up 25% and revenue up 3% organically and we have achieved a number of strategic wins. Whilst it is disappointing that this good performance has been impacted by two discrete short-term issues, we have a robust plan to resolve both in the second half. We remain focused on delivering the full year whilst continuing to implement our strategy to build an integrated global defence and security company, through both organic growth and strategically-aligned acquisitions."

Interims results presentation:

Management will host a socially distanced presentation at 09:30 hours GMT on 11 November 2021 at One Moorgate Place, London, EC2R 6EA; the presentation will also be shared as a live webcast. To register to join this event, please see details on our website here:
https://www.qinetiq.com/en/investors/results-reports-and-presentations/interim-results-webcast-2021

You are warmly invited to join, either in person or virtually.

About QinetiQ:

QinetiQ (QQ.L) is a leading science and engineering company operating primarily in the defence, security and critical infrastructure markets. We work in partnership with our customers to solve real world problems through innovative solutions delivering operational and competitive advantage. Visit our website www.QinetiQ.com. Follow us on LinkedIn and Twitter @QinetiQ. Visit our blog www.QinetiQ-blogs.com.

For further information please contact:

John Haworth, Group Head of Investor Relations:	+44 (0) 7920 545841
Chris Barrie, Citigate Dewe Rogerson (Media enquiries):	+44 (0) 7968 727289

Basis of preparation:

Throughout this Interim Report, certain measures are used to describe the Group's financial performance which are not recognised under UK-adopted International Accounting Standards. The Group's Directors and management assess financial performance based on underlying measures of performance, which are adjusted to exclude certain 'specific adjusting items'. In the judgement of the Directors, the use of adjusted performance measures (APMs) such as underlying operating profit and underlying earnings per share are more representative of ongoing trading, facilitate meaningful year-to-year comparison and, therefore, allow the reader to obtain a fuller understanding of the financial information. The adjusted measures used by QinetiQ may differ from adjusted measures used by other companies. Details of QinetiQ's APMs are set out in the glossary to this document.

Year references (FY22, FY21, 2022, 2021) refer to the year ended 31 March. H1 2022 and H1 2021 refer to the six months ended 30 September.

Chief Executive Officer's Review

We delivered good underlying operating performance at Group level in the first half of the year which was impacted by two discrete short-term issues: a write-down on a large complex project and weaker performance in the US. We grew orders by 25% on an organic basis (21% on a reported basis) and delivered 3% revenue growth on an organic basis (flat revenue after prior year disposals on a reported basis). Before the write-down, we delivered good underlying trading performance with operating profit margins within our short-term target range at 11.2%. The write-down has materially impacted our first half results, with underlying operating profit reduced by £14.5m. We delivered a strong cash performance with 131% underlying cash conversion before capital expenditure.

In the first half we continued to make good strategic progress, with our major achievements being £678m of orders secured across the Group, and excellent performance in EMEA Services with 19% revenue growth in Australia and 11% revenue growth in the UK.

Progress towards recovery of a large complex project

During the first half we have seen increased risk exposure on a large complex project, where we have experienced technical issues and delay on system development for a service contract. This is a normal scope contract with one of our key customers. We are unable to disclose details of the project as it would prejudice ongoing negotiations with the customer to amend the contract.

We confirm today that our first half results include a prudent write-down associated with this project, reducing orders by £22.5m, revenue by £8.0m and underlying operating profit by £14.5m, consistent with our October Trading Statement. This write-down is due to a unique combination of emergent risks across system maturity, supplier capability and contract delivery conditions. The £14.5m represents a prudent judgement of the revenue and additional cost impact to resolve this project with the full financial effect contained within FY22 H1.

We continue to work closely with our customer and supplier towards recovery of the project and we have a recovery plan to reduce our risk exposure. The technical issues associated with the project are well understood and we are making good progress towards their resolution with clear technical and commercial milestones. We are driving progress of the recovery plan to a satisfactory conclusion within FY22 and our objective remains to reduce this exposure further.

The unique combination of risk factors on this project do not exist elsewhere in our contract portfolio. Neither the system nor the supplier has any role on any other products or services in the company. The project is a short-term service contract and we maintain a balanced accounting approach to all our contracts.

A fuller explanation of the financial impacts as well as an analysis of the underlying trading performance of the Group (before and after this charge) are described in the CFO Review section.

Our current portfolio of contracts balances risk with a large volume of small contracts, with the majority under £25m in size and in low risk research and engineering services. Our strategy remains to win larger, longer-term contracts – whilst this shift evolves our technical and commercial risk profile, we are further reinforcing our capabilities with strengthened technical and supply chain management processes to ensure we manage these evolving risks appropriately. We are actively managing the evolution of our risk profile and have numerous examples of successful delivery of this risk profile across the Group (e.g. LTPA modernisation).

We will provide more detail and progress updates on the complex project as soon as possible.

Response to short-term effects on US performance

Our US business has experienced short-term revenue and profit weakness in the first half, across both C5ISR Solutions and Technology Solutions business units (formerly known as MTEQ and QNA respectively). US organic revenue reduced by 18% compared to the second half of FY21 as a result of entering the year with lower orders due to short-term effects of COVID, transition to the new US administration and the customer's priorities shifting from counter-insurgency missions in Afghanistan to emerging near-peer threats in the Indo-Pacific. This also included COVID related delivery and supply chain challenges in our legacy Technology Solutions robotics business e.g. initial production ramp-up of SPUR robots.

We achieved excellent order intake in the US at $184m compared to $83m in the second half of FY21. In the first half we achieved three significant contract wins across our SPECTRE next generation prototype sensor for airborne platforms, our FRP contract for our next generation robot and follow-on order for further prototype vehicles on the RCV-L programme. This provides a solid foundation to deliver a stronger second half, enhanced by changes to leadership and organisation focus made under our new Special Security Agreement (SSA) Board following dissolution of the Proxy Agreement. Our near-term objective is to recover US revenue performance in the second half to be in line with H2 FY21.

We have developed a focussed response to the short-term performance issues to drive performance improvement and future growth: we have reduced the cost base, enhanced organisational focus and increased leadership capacity to drive future growth. Furthermore, our sensing and robotic capabilities are well aligned with the emerging Indo-Pacific threat resulting in increased demand for our unique offerings. Our ambition remains to more than double the size of the US business over the next five years through both organic growth and strategy-led acquisitions.

Continued strategic momentum

Our strategy to apply mission-led innovation for our customers' advantage has enabled us to grow in an uncertain world over the last five years. With favourable market dynamics in each of our home and priority geographies, we remain even more confident in the potential for future growth. Our ambition remains to grow our company to more than £2bn revenue by FY26 with strong returns. Our track record, our strong underlying performance and our focus gives me confidence that we are continuing to make steady progress towards this ambitious goal.

Last year we set out an evolution of our strategy to reflect our global business, our distinctive offerings, and the innovative approach we take to solving our customers' problems. Furthermore, we redefined our addressable market to one of more than £20bn per year, with increased clarity around our distinctive offerings into our target markets. The three pillars of our strategy, which are mutually reinforcing and complementary have evolved to:

1. Global leverage	2. Distinctive offerings	3. Disruptive innovation
Build an integrated global defence and security company to leverage our capability through single routes to market in the UK, US, Australia, Canada, Germany and Belgium	Co-create distinctive services and products to offer exceptional value for our customers in engineering, experimentation, test, training, information and autonomous systems	Invest in and apply disruptive business models, digitisation and advanced technologies to enable our customers' operational mission at pace

We have continued to make good strategic progress implementing our multi-domestic growth strategy in the first half. A few selected examples are:

- **Leading role in securing the interests of our NATO allies –** we supported Formidable Shield, the largest live-fire Integrated Air and Missile Defence exercise in 2021 led by the US Sixth Fleet and conducted by Naval Striking and Support Forces NATO. This is a good example of the benefits arising from our investment in the LTPA contract, driving enhanced operational outcomes for our customers, increasing the demand for our ranges and positioning QinetiQ at the leading edge of safe delivery of complex events to ensure our NATO allies can defend against future threats.
- **Strategic partner to Strategic Command** – in the first half we won more than £100m of orders with Defence Digital and Defence Intelligence, including a £33m contract to transform the aeronautical data management and aeronautical information production capability for UK MOD. We have become a strategic partner supporting Strategic Command's digital change programmes and are well placed to continue to develop our position with these customers in the coming years.
- **Building a disruptive mid-tier company in the US** – We have won a number of notable and strategically significant contracts in the US, including a $12m advanced sensor prototype contract, a $62m full-rate production contract for our SPUR robot and a $12m contract to deliver additional RCV-L prototypes for testing. Despite short-term revenue and profit weakness, we continue to see the US as a strong and dominant growth engine of the Group, both organically and through strategy-led acquisitions, and we are putting in place a new senior leadership team to deliver this.
- **Trusted partner in Australia –** our Australian business continues to deliver strong growth. Alongside our Major Service Provider (MSP) partners, we have secured an A$27m order to assist the Australian Department of Defence in delivering its largest and most complex Land projects. This contract positions us for future growth as a trusted partner able to provide sovereign Australian industry capability, while leveraging our global capabilities.
- **Doubled size of Inzpire training business since acquisition** – over the last three years, under QinetiQ's ownership, Inzpire has entered new markets, expanded its product offering, and delivered good growth and profitability, all whilst retaining its unique culture and customer trust. An excellent example of our acquisition strategy delivering significant benefits to our customers, the acquired business, to QinetiQ and to our shareholders.

The changing market dynamics present opportunities for the Group

As a global defence and security business we operate in six home and priority markets on a multi-domestic basis, supporting the development and sustainment of indigenous capabilities.

As the threat environment becomes increasingly complex, enabled by rapid technological advances and our adversaries' alternative approaches to warfare, Western forces must rethink their approach to defence and security. The importance of information advantage, emerging technologies, cyber capabilities and autonomous platforms is increasing significantly. In addition, the interoperability between platforms to create integrated systems and seamless coordination between forces and nations, to ensure a concerted approach to countering modern threats, including those that sit below the threshold of conventional warfare, is of paramount importance.

Pressure on Government resources world-wide will intensify and global Defence departments will need to balance investment in traditional platforms against investment in new technologies, as well as addressing fiscal pressure brought about by Governments supporting economies through the COVID-19 pandemic. With our domain knowledge, partnering skills and a track record of delivering mission-led innovation to create and assure capabilities at pace and with agility whilst delivering efficiencies and savings to customers, we are well positioned to benefit from this transition. We are investing significantly in digital transformation to enhance customer solutions. While the world around us continues to change, our offering is more relevant than ever.

Outlook – FY22

For the full year, we expect to deliver mid-single digit organic revenue growth at c.5% and underlying operating profit margin at the lower end of our 11-12% expected range, before the reduction of the £14.5m write-down, which is fully contained in FY22 and will not impact FY23. Operating cash flow remains strong, and we expect capital expenditure to remain in the region of £90m to £120m per annum for the next two years. With >90% of FY22 revenue already delivered or under contract, we remain confident in achieving this guidance.

Outlook – Longer term

Longer term, we maintain significant ambition and an evolved strategy to accelerate growth at stable margins, supported by a high-performance culture, combined with investment in our people, technology, systems and infrastructure. In pursuit of this evolved strategy, we will proactively make strategically aligned acquisitions to further complement this organic growth.

We are maintaining our medium to long-term guidance: we continue to target mid-single digit percentage compound annual organic revenue growth over the next five years, with strategic acquisitions further enhancing this growth. Similarly, we continue to target operating profit margin of 12-13%, although in the short-term we continue to anticipate margins being c.100bps lower, driven by increased investment on our digital transformation programme and by the evolution of our business mix.

Chief Financial Officer's Review

Operating performance

We delivered strong order performance in the period with orders of £677.8m, compared to £561.6m in the same period a year ago. Excluding foreign exchange and the impact of acquired businesses and disposals, orders grew organically by £136.2m (25%). This increase was driven by the US$62m order for the full rate production contract on the SPUR robots in the United States, £68m of orders for the development of directed energy weapon systems in the UK, an increase in orders from Defence Digital and Defence Intelligence, and A$27m for Land systems engineering support in Australia.

Revenue visibility remains good and the Group's total funded order backlog at 30 September 2021 stood at £3.0bn, slightly lower than the comparable period last year following revenue burn on our key multi-year contracts. At the start of H2 2022, the Group had approximately £600m of H2 FY22 revenue under contract. This compares with approximately £575m of H2 FY21 revenue at the same time last year.

Revenue was £600.1m (H1 2021: £603.2m), up 3% on an organic basis. Overall organic growth was principally due to the increase of revenue in EMEA Services which was up 14% on an organic basis, driven by new work delivered under EDP and the Major Service Provider (MSP) contract in Australia. Global Products revenue was down 28% organically, due to challenges in the US including COVID related supply chain and technical challenges on the initial production ramp-up of SPUR robots and a short-term impact due to a change in customer funding priorities from counter-insurgency missions in Afghanistan to emerging near-peer threats in the Indo-Pacific.

Underlying operating profit of £53.4m (H1 2021: £69.0m) was down 23%. This was driven by the impact of a £14.5m write-down on a complex project due to technical and supplier issues. Excluding the impact of this one off write-down underlying operating profit was down 2% at £67.9m (see below for further information).

After adjusting for the impact of acquisitions, disposals and the effect of foreign exchange, underlying operating profit was down 26% on an organic basis. Organic operating profit in Global Products decreased by £27.1m (205%) during H1 2022 primarily as a result of the complex project write-down, COVID-19 related supply chain and technical challenges on SPUR robots and a change in funding priorities by the US customer. This was offset by EMEA services which saw a 15% organic increase in profit following a similar increase in revenue in this area of the business.

Statutory operating profit, including the impact of specific adjusting items, was £42.9m (H1 2021: £61.6m). Current period specific adjusting items reduced operating profit by £10.5m (H1 2021: £7.4m reduction to operating profit) and included £5.4m amortisation of acquired intangibles and £4.1m associated with unsuccessful acquisition activity. We remain focussed on delivering our stated ambition which includes strategically aligned acquisitions – we retain a rigorous approach to evaluation and execution of our acquisition strategy. See note 3 for full details of all specific adjusting items.

Seasonality / cyclicality has not had a material impact on the interim operations of the Group.

Net finance costs

Net finance income was £1.4m (H1 2021: £2.6m) reflecting a reduction in the pension net finance income to £2.3m (H1 2021: £3.5m) following the drop in the opening net surplus year on year. This income is partially offset by lease interest expense and other financing costs.

The underlying net finance expense, which excludes the pension net finance income, was £0.9m (H1 2021: £0.9m).

Tax

The total tax charge is £20.5m (H1 2021: £9.5m). The underlying tax charge of £5.9m (H1 2021: £10.5m) is calculated by applying the expected underlying effective tax rate at a jurisdictional level for the year ending 31 March 2022 to the underlying profit before tax for the six months to 30 September 2021. The Group's full year expected underlying effective tax rate is 12.5% which is higher than the half year underlying effective tax rate 11.2% (H1 2021: 15.4%) due to jurisdictional mix of profits in H1 2022 that reflects the impact of the write down on the large complex project.

The underlying effective tax rate continues to be below the UK statutory rate, primarily as a result of the benefit of research and development expenditure credits ('RDEC') in the UK which are accounted for under IAS12 within the tax line. The adjusted underlying effective tax rate before the impact of RDEC would be 18.0% (H1 2021: 19.4%). The impact of RDEC is shown net of £4.6m (H1 2021: £5.4m) appropriated by the MOD. The underlying effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any tax legislation changes, the geographic mix of profits, the recognition of unrecognised tax losses and while the benefit of net RDEC retained by the Group remains in the tax line.

A £16.7m charge in respect of the impact on UK deferred tax balances due to the UK corporation tax rate change from 19% to 25% has been classified as a specific adjusting item. Together with a £2.1m income (2021: income of £1.0m) in respect of the pre-tax specific adjusting items (see note 3), the total specific adjusting items tax expense was £14.6m (2021: income of £1.0m).

Earnings per share

Underlying basic earnings per share for the Group were 8.1p (H1 2021: 10.1p), with the decrease primarily due to the impact of the write-down on the complex project. Statutory basic earnings per share for the total Group (including specific adjusting items) were 4.2p (H1 2021: 13.0p) with the current year decline enhanced by the UK tax rate change from 19% to 25% impacting UK deferred tax balances and the amortisation of intangibles arising on acquisition.

Dividend

An interim dividend of 2.3p (H1 2021: 2.2p) will be paid on 4 February 2022 to shareholders on the register on 7 January 2022. The interim dividend represents one third of the prior year total dividend reflecting our previously communicated methodology. The full year dividend will be announced with our full year preliminary results in May 2022.

Cash performance

The Group delivered strong cash performance during H1 2022, with underlying net cash flows from operations of £70.2m (H1 2021: £92.7m), resulting in cash conversion before capital expenditure of 131% (H1 2021: 134%).

Working capital outflow was £13.0m in H1 2022 compared with £10.7m in H1 2021. We expect a further modest working capital outflow by the year end, depending upon trading performance.

Net capex for the period was £48.8m (H1 2021: £42.3m). We continue to invest in core contracts including the LTPA following the contract amendment announced in April 2019. Full year total capex is expected to be in line with previous guidance of £90-120m.

At 30 September 2021 the Group had £139.2m net cash, compared to £164.1m at 31 March 2021. We retain a strong balance sheet to support investment in our long-term growth strategy.

We maintain a rigorous approach to the deployment of our capital, scrutinising organic and inorganic opportunities in the same manner to ensure returns to our shareholders are appropriate for the risks taken.

Our priorities for capital allocation, following this rigorous methodology, are:

1. Organic investment complemented by acquisitions where there is a strong strategic fit;
2. The maintenance of balance sheet strength;
3. A progressive dividend; and
4. The return of excess cash to shareholders.

Large complex project

As outlined in the CEO Review section, today we report a write-down on the large complex project – the below table demonstrates our underlying* results before and after the effect of the complex project write-down. The purpose of this table is to demonstrate the year-on-year growth across orders, revenue and operating profit:

	H1 2022			H1 2021	**Underlying change**		
	Underlying* results	Complex project write-down	**Excluding write-down**	Underlying* results	*Including write-down*	*Excluding write-down*	*Excluding write-down (organic^)*
Orders	**£677.8m**	£22.5m	**£700.3m**	£561.6m	*+21%*	*+25%*	*+29%*
Revenue	**£600.1m**	£8.0m	**£608.1m**	£603.2m	*(1)%*	*+1%*	*+4%*
Operating profit	**£53.4m**	£14.5m	**£67.9m**	£69.0m	*(23)%*	*(2)%*	*(6)%*
Margin	***8.9%***		***11.2%***	*11.4%*			

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary
^ Excluding the impact of acquisitions and disposals (i.e. constant Group structure composition) and the impact of currency movements

The above table demonstrates that aside from the complex project write-down, the underlying performance of the Group has remained stable with strong order intake – orders up 29% on an organic basis (25% on a reported basis after the impact of disposals), revenue up 4% organically (1% on a reported basis after the impact of disposals) and underlying operating profit within our 11-12% target range at 11.2%.

Committed facilities

The Group has a £275m bank revolving credit facility with an additional 'accordion' facility to increase the limit up to £400m. The facility, of which £65m will mature on 27 September 2024 and £210m will mature on 27 September 2025 and was undrawn at the half year, provides the Group with significant scope to execute its strategic growth plans.

Foreign exchange

The Group's income and expenditure is largely settled in the functional currency of the relevant Group entity, mainly Sterling, US Dollar or Australian Dollar. The Group has a policy to hedge all material transaction exposure at the point of commitment to the underlying transaction. Uncommitted future transactions are not routinely hedged. The Group does not hedge its exposure to translation of the income statement. The principal exchange rates affecting the Group were the Sterling to US Dollar and Sterling to Australian Dollar exchange rates.

	H1 2022	**H1 2021**
£/US$ - average	1.39	1.28
£/US$ - closing	1.35	1.29
£/US$ - opening	1.38	1.24
£/A$ - average	1.84	1.84
£/A$ - closing	1.86	1.80
£/A$ - opening	1.81	2.03

Pensions

The net pension asset under IAS 19, before adjusting for deferred tax, was £277.4m (31 March 2021: £214.3m). The key driver for the increase in the net pension asset since the March 2021 year end was investment returns on assets, with only a minor change due to changes in assumptions.

The Scheme completed a second bulk annuity insurance buy-in in the period at a cost of £132m, to remove further longevity risk, interest rate risk and inflation risk. This follows the buy-in in 2019, taking the de-risked element to £687.9m (over one third of the Scheme's £1.9bn present value liabilities, as at 30 September 2021).

The key assumptions used in the IAS 19 valuation of the scheme are set out in note 14.

Trading environment

The UK, US and Australia are our home countries and collectively represent 93% of our revenue. We also have a significant presence in our three priority countries of Canada, Germany and Belgium.

UK

The highly anticipated UK Integrated Security, Defence and Foreign Policy Review was published in March 2021 alongside the Defence Command Paper and the Defence and Security Industrial Strategy. This policy reset and accompanied budget increase of £24.1bn over the next 4 years (£16.5bn more than the government's manifesto commitment), is the largest investment in UK defence since the Cold War period and provides the strategic framework and investment priorities for UK Defence and Security in the near term. A further £1.5bn investment in military research and development was also announced, bringing the total investment in UK defence research and development to £6.6 billion over the next 4 years to develop next generation and emerging technologies in areas such as cyber, space, directed energy weapons, and advanced high-speed missiles.

The three Integrated Review papers in aggregate are positive for QinetiQ in signalling the increased investment in new defence technologies, test and evaluation, training and simulation. As the UK seeks to develop and deploy next generation capabilities faster than adversaries, we are well positioned to support the customer in applying mission-led innovation to achieve this. Our unrivalled expertise in Research & Development and Test & Evaluation combined with our recent investment to modernise UK test ranges will help our customers generate and assure new and emerging technologies at pace. Delivering value for money remains critical to our customers and we will continue to utilise innovative delivery models to support our customers in achieving this.

US

The US maintains the largest defence budget worldwide. Despite the impact of COVID-19, the FY22 US Defense Base budget increased by 2% to US$715bn. The US Department of Defense has prioritised China and its military modernisation as the pacing challenge. As part of that effort, it is investing in technologies that will deliver new warfighting advantages. The FY22 budget underscores US commitment to innovating with a Research, Development, Test and Evaluation budget totalling US$112 billion. This is the largest annual RDT&E budget ever and an increase of more than 5% over the FY21 enacted level.

In the US, we are a market leader in robotics, autonomy and advanced sensing solutions, an area of budget growth, delivering value to our customers through the rapid development and deployment of disruptive solutions. We have ambitious growth plans in the US. This is underpinned by a relevant offering with a growing need to provide actionable intelligence in to war fighters' hands quicker and a push to develop and integrate multiple autonomous and semi-autonomous systems as the US seeks to invest in next generation technologies to maintain a technological advantage.

Short-term, transitory impacts have been evident from COVID related delivery and supply chain challenges, as well as transition to the new US administration and the customer's priorities shifting from counter-insurgency missions in Afghanistan to emerging near-peer threats in the Indo-Pacific.

Australia

Tensions in the Indo-Pacific region remain heightened with the area becoming the main theatre for greater strategic competition between global powers. Investment in Australian Defence remains strong and the consolidated defence funding (including both the Department of Defence and the Australian Signals Directorate) was A$44.6bn in 2021, representing real growth of 4.1%. The Australian Defence Strategic Update of 2020 placed an increased emphasis on force readiness and capability modernisation, and stated the country's defence budget will nearly double in size from A$42bn in 2020-21 to A$74bn by 2029–30. Total funding in modernising defence capability over the next decade is now A$270bn and defence spending is no longer tied to a 2% of GDP target.

With growing expertise in Test & Evaluation and Engineering Services in Australia and the ability to leverage expertise from across the wider Group, we see many opportunities to support the Australian forces in modernising sovereign defence capabilities as they seek to deter adversaries and maintain stability in the region.

AUKUS

The US, UK and Australia unveiled a new trilateral defence partnership, AUKUS, deepening collaboration in the Indo-Pacific region and strengthening defence and industrial cooperation. Closer integration has been a policy theme for some time, and the agreement places specific emphasis on the development of joint capabilities and technology sharing which is intended to deepen integration on relevant science, technology, industrial bases and supply chains. QinetiQ stands well placed to support its customers across our home countries, with expertise in overlapping areas of customer priority.

Broader international markets

A core pillar of our strategy is to leverage our global capabilities to support growth, and achieve our ambition of international revenue mix greater than 50% of Group revenue. In order to continue expanding our international presence we therefore aim to leverage the skills and expertise developed in our home countries to support Allies in high growth markets to develop their own indigenous capabilities.

In Canada, despite having increased over the previous three years, defence spending has decreased in 2021 to US$18.5bn and is predicted to drop further over the next two years to US$18bn and US$17.6bn respectively. This is partly due to the COVID-19 pandemic and the substantial drop in oil prices, causing the Canadian economy to shrink. Publication of a Defence Force Capability Plan is anticipated in FY 2021-22, and a new capability-based planning cycle will begin. This plan will be informed by continued collaborative foresight analysis with Five Eyes allies and NATO partners, as well as NATO/NORAD (North American Aerospace Defense Command) alliance capability development requirements.

In Germany, the 2022 defence budget is expected to increase by around US$4bn compared to 2021 to US$58.5bn. The planned defence budget for 2022 is characterised by increases in almost all expenditure areas compared to the budget for 2021. However, the level of future defence spending growth is currently uncertain following the German elections in September 2021.

Operating review

EMEA Services

	H1 2022 £m	H1 2021 £m
Orders^	**506.4**	402.6
Revenue	**488.7**	425.4
Underlying operating profit*	**67.1**	57.9
Underlying operating margin*	**13.7%**	13.6%
Book to bill ratio[1]	**1.3x**	1.3x
Funded order backlog	**2,718.0**	2,786.9
Funded order backlog excl. LTPA	**1,105.7**	940.3

^ To be consistent with revenue reporting prior year orders has been restated to exclude £1.3m of contribution from Joint Ventures
* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary
(1) B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract

Overview

EMEA (Europe, Middle East and Australasia) Services combines world-leading expertise with unique facilities to provide capability generation and assurance, underpinned by long-term contracts that provide good visibility of revenue and cash flows.

Financial performance

Orders were up 26% to £506.4m (H1 2021: £402.6m), driven by a £68 million order for the development of directed energy systems in the UK; an increase in orders from Defence Digital and Defence Intelligence; and an order worth A$27 million for Land systems engineering support in Australia.

Revenue increased 14% on an organic basis as a result of new work delivered under EDP in the UK and the growth of the Major Service Provider (MSP) contract in Australia.

Underlying operating profit grew to £67.1m (H1 2021: £57.9m). There was also a contribution of £0.6m from the Naimuri businesses acquired in H1 2021 which were not in the comparator period. Excluding the inorganic impact of acquisitions and foreign exchange, underlying operating profit was up 15% (H1 2021: 22%) with margins stable at 13.7%.

Including the LTPA, approximately 67% of EMEA Services revenue is derived from single source contracts (H1 2021: approximately 69%). By investing in our core contracts and extending their duration the high proportion of single source revenue contracted on a long-term basis provides visibility and reduces our exposure to future changes in the baseline profit rate set annually by the Single Source Regulations Office.

Business Unit commentary

<u>Maritime & Land (39% of EMEA Services revenue)</u>

The Maritime & Land business delivers operational advantage to customers by providing independent research, evaluation and training services.

- We supported Formidable Shield, the largest live-fire Integrated Air and Missile Defence exercise in 2021 led by US Sixth Fleet and conducted by Naval Striking and Support Forces NATO. In total, 16 ships, 31 aircraft, and approximately 3,300 personnel from ten NATO nations participated in the live training event at the Hebrides range. We provided the safe environment, logistics and range control to facilitate this trial, across the maritime and air domains. A range of targets were used to test defences, including subsonic, supersonic and ballistic targets. This is an excellent example of our investment in the LTPA contract driving enhanced operational outcomes for our customers, increasing the demand for our ranges and

QinetiQ being at the leading edge of safe delivery of complex events to ensure our NATO allies can defend against future threats.

- We supported the Royal Navy Carrier Strike Group Strike Warrior exercise at MOD Aberporth and Hebrides ranges, with our operational training and missions system business Inzpire, supporting the overall training activity using its God's Eye View (GEV) capability. Exercise Strike Warrior involved more than 20 warships, three submarines and 150 aircraft from 11 nations and was the final test for the Carrier Strike Group before its first operational deployment. The GEV system developed by QinetiQ enabled the Royal Navy and Royal Air Force to enhance the training value from the exercise with a near real time picture of the overall exercise tracking each asset across waters off north-west Scotland by connecting sensors across the Hebrides range and RAF bases through a digital backbone.
- We have won orders totalling £68m on the Weapons Sector Research Framework (WSRF) contract for development and deployment of directed energy weapons for UK MOD, an important capability as identified in the Integrated Review earlier in the year. We were appointed to lead the WSRF in June 2020 by DSTL, alongside industry partners MBDA and Thales. The framework, which we expect to be worth £300m over five years, brings together more than 100 industry and academic partners to research and develop technologies for the benefit of UK MOD.
- Her Royal Highness The Princess Royal performed the official opening of the National Maritime Systems Centre on Monday 10 May. The Centre represents a £30m investment from QinetiQ and the Solent Local Enterprise Partnership to provide a modern working environment to attract critical skills and a hub for technological advances in the maritime environment in support of the Royal Navy.
- Under the LTPA Air Ranges Modernisation programme we have completed a significant upgrade to our facilities on the island of St Kilda – St Kilda is the UK's only dual UNESCO World Heritage site, 40 miles off the west coast of the Outer Hebrides in Scotland. We have developed a new energy centre, accommodation, tracking radars and telemetry, completed on time and to budget.

Air & Space (23% of EMEA Services revenue)

The Air & Space business de-risks complex aerospace programmes by evaluating systems and equipment, assessing the risks and assuring safety.

- Engineering Delivery Partner (EDP) is continuing to demonstrate fast growth with orders of over £750m since its inception in October 2018, delivering improved supply-chain collaboration, better programme performance and long-term savings for the UK MOD.
- Our Empire Test Pilot School (ETPS) continues the modernisation of the fleet and course programme, including signing up new international customers, new Chief Flying Instructors, extension of the course programme to include Unmanned Aerial Systems and delivery of new helicopters.
- The *Accelerating the Electrification of Flight Programme* team (Rolls Royce and two SMEs) saw its all-electric 'Spirit of Innovation' aircraft make its first flight from MoD Boscombe Down.

Cyber & Information (27% of EMEA Services revenue)

The Cyber & Information business helps government and commercial customers respond to fast-evolving threats based on its expertise in training, secure communication networks and devices, intelligence gathering and surveillance sensors, and cyber security.

- In the first half we have won over £100m of Orders with Defence Digital and Defence Intelligence. We have become a strategic partner supporting Strategic Commands' digital change programmes and are well placed to continue to exploit our position into these customers in the coming years. Orders won include the following:

  - We have won a £33m contract to transform the aeronautical data management and aeronautical information production capability for UK MOD. PICASSO Aeronautical Information Capability (P-AIC) will provide global access to reliable, timely, accurate, and (where applicable) assured and legislatively aligned, worldwide Aeronautical Information that will support safe Defence aviation. The solution will be a 24/7, cloud-hosted, system-of-systems, that will transform the way UK MOD manages aeronautical data.
  - In 2018 we won a significant competitive programme to provide private sector client side support to the Battlefield Tactical Communication and Information Systems (BATCIS) Delivery Team within Defence Digital (within MOD). The contract is a critical enabler to deliver the next generation of Tactical Communication and Information Systems as part of a Single Information Environment for UK armed forces. Following the strong delivery in the first three years of the programme by both QinetiQ and in collaboration with our partners (Roke, ATOS and BMT) and suppliers, we have been awarded a one year extension.
  - We have secured a several million pounds 2 year contract extension to support UK MOD in the development and transition to live service of a cutting edge, highly scalable and deployable secure Communications and Information System.

- NSC, Inzpire and Naimuri are performing in line with expectations, delivering good growth.

<u>International (11% of EMEA Services revenue)</u>

Our International business leverages our expertise and the skills we have developed in the UK and applies them to opportunities in attractive markets globally.

- Our Australian business continues to deliver strong growth. Alongside our Major Service Provider (MSP) partners, we have secured an A$27m order to assist the Australian Department of Defence in delivering its largest and most complex Land projects. This contract positions us for future growth as a trusted partner able to provide sovereign Australian industry capability, while leveraging our global capabilities.
- In Germany, following the re-baselining of the future business plan and the FY21 goodwill write-down, we are seeing positive progress in FY22. Whilst the market remains challenging and there are some important contract renewals later this year, we remain positive on the outlook for the business and are continuing to develop the business strategy and delivery.

Global Products

	H1 2022 £m	H1 2021 £m
Orders	**171.4**	159.0
Revenue	**111.4**	177.8
Underlying operating profit*	**(13.7)**	11.1
Underlying operating margin*	**(12.3%)**	6.2%
Book to bill ratio	**1.5x**	0.9x
Funded order backlog	**289.6**	300.3

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary

Global Products delivers innovative solutions to meet customer requirements. The division is technology-based and has shorter order cycles than EMEA Services.

Financial performance

Orders increased by 8% to £171.4m (H1 2021: £159.0m). This was driven by a US$62m order for the full rate production contract on the SPUR robots in the United States, partly offset by £22.5m write-down impact on a complex project and a change in customer funding priorities from counter-insurgency missions in Afghanistan to emerging near-peer threats in the Indo-Pacific.

Revenue was down 37% to £111.4m (H1 2021: £177.8m), due to challenges in the US including COVID related delivery and supply chain challenges on the initial production ramp-up of SPUR robots and the change in funding priorities mentioned above. Furthermore there was the loss of H1 revenue contribution from the FY21 disposals (Optasense, Boldon James and Commerce Decisions) amounting to £13.5m. Excluding the impact of these disposals and foreign exchange revenue was down 28% (£45.2m) on an organic basis.

Underlying operating profit fell into a loss of £13.7m (H1 2021: £11.1m profit), with an underlying negative operating profit margin of -12.3% (H1 2021: +6.2%). This loss was driven by a £14.5m write-down on a complex project due to technical and supplier issues and the aforementioned challenges impacting revenue in the US business. Excluding the impact of this write-down we realised an operating profit of £0.8m in H1.

Business Unit commentary

United States (67% of Global Products revenue)

Our US business develops and manufactures innovative defence products specialising in robotics, autonomy and sensing solutions. This business unit comprises our existing US operations Technology Solutions (formerly QNA) as well as C5ISR Solutions (formerly MTEQ), which we acquired in December 2019.

- US organic revenue reduced by 18% compared to the second half of FY21, or 30% compared to the first half of FY21, as a result of entering the year with lower orders due to short-term effects of COVID, transition to the new US administration and the customer's priorities shifting from counter-insurgency missions in Afghanistan to emerging near-peer threats in the Indo-Pacific with the deferral of some maritime contracts. Furthermore, we were impacted by COVID-related delivery and supply chain challenges in our legacy Technology Solutions business, and the significant transition as our business volume pivots from the Talon robot to the SPUR robot. We expect to see an improvement in the second half of FY22 as production and delivery of the SPUR robot increases – supported by a $62m full-rate production (FRP) contract recently won on the SPUR robots.
- The performance in our C5ISR Solutions business in the first half was reasonable, and less severely impacted than our legacy Technology Solutions business (see above). Revenues have been impacted due to a reduction in Force Protection and Quick Reaction Capability work funded under Overseas Contingency Operations. We are investing in tactical airborne and strategic ISR capabilities and strategic teaming to exploit our expertise on combat vehicle

platforms over the next few years to drive future growth. We are confident to deliver growth in the second half from existing contracted customer-funded R&D work and new growth opportunities on airborne sensors and ground vehicle integration.

- We achieved excellent order intake in the US at US$184m compared to US$83m in the second half of FY21. This provides a solid foundation to deliver a stronger second half, enhanced by changes to leadership and organisation focus made under our new Special Security Agreement (SSA) Board following dissolution of the Proxy Agreement.
- Building on the successful delivery and trials of our ISR prototype system on a Program of Record, we have won a $24m contract from the US Army to build three additional SPECTRE next generation full spectrum hyperspectral prototype sensors. SPECTRE is an ISR (intelligence, surveillance and reconnaissance) sensor system that enables multi-mission Uncrewed Aircraft Systems (UAS) and crewed aircraft to operate in parallel to other critical sensor payloads and weapons, with improved performance at a fraction of the size and weight of the sensors currently in use by the US Government. This is exciting progress for our US business, with opportunity for greater exploitation in the future.
- We have also secured a US$62m FRP contract in the US for over 1,200 Common Robotic System–Individual (CRS-I) units with a multi-year delivery schedule for the US Army. CRS-I enables a heightened capability for organic tactical reconnaissance, surveillance and target acquisition to enhance manoeuvres and protection for dismounted forces. The small advanced robotic platform is lightweight and highly mobile offering unprecedented capability in multi-domain environments including special payloads, advanced sensors and mission modules. CRS-I is the largest US Government Program of Record in robotics, giving us a strong platform for growth.
- We received a $12m contract for delivery of additional prototype vehicles under the Robotic Combat Vehicle Light (RCV-L) programme, for testing and experimentation by the US DoD.
- Our ambition remains to more than double the size of the US business over the next 5 years through both organic growth and strategy-led acquisitions. Having supported the first phase of growth, Mary Williams has chosen to step back from day-to-day operations and remains a strategic advisor to the company. We have taken this opportunity to make a number of changes to leadership and organisation focus to create the capability to drive operational performance and accelerate our growth ambition. We are recruiting a US CEO that will take the lead on strategic development of our US business, including M&A activity. The US CEO will work alongside our two newly appointed Presidents for C5ISR Solutions and Technology Solutions business units. In addition, we appointed Lawrence (Larry) Prior III to the QinetiQ Plc Board in July bringing a wealth of US experience from aerospace, defence and government services, making him ideal to support our global ambition.

Space Products (18% of Global Products revenue)

QinetiQ's Space Products business develops satellites, payload instruments, sub-systems and ground station services.

- Building on the success of the PROBA satellite platform, we have won a >€10m contract for the European Commission, contracted via the European Space Agency (ESA) to deliver and operate an important new satellite that will support technological innovation, de-risking and concept testing for public agencies and commercial enterprises in Europe. The satellite will provide organisations with new opportunities to capitalise on affordable access to space demonstration and validation, essential for driving advances in new space technologies and capabilities.

EMEA Other Products (15% of Global Products revenue)

EMEA Products provides research services and bespoke technological solutions developed from intellectual property spun out from EMEA Services. QinetiQ Target Systems is also reported within EMEA Products.

- QinetiQ Target Systems experienced disruption in FY21 H1 due to COVID-19 with cancellations of trials and deployments due to travel restrictions around the world. The business saw a good level of recovery in the second half of FY21 with customers resuming trials and exercises and winning some significant orders. Positive progress has continued in the first half of this year, with target deliveries scheduled for the second half.
- QinetiQ Target Systems, under the LTPA and CATS contracts, in September supported trials of our Banshee Jet 80+ on the flight-deck of HMS Prince of Wales. The Banshee flights represent the first step for the UK Royal Navy in exploring how crewless technology could be operated from the Queen Elizabeth-class aircraft carriers in the future. Commander Rob Taylor, lead for Royal Navy air test and evaluation group, commented: "*There is a real need for a low-cost drone such as the Banshee that can replicate a range of the threats in the skies and provide a test bed for future payloads*".
- In the half we have won £9m of Orders across our SIGINT, counter-drone radar, secure communication and secure navigation products to UK and international customers.

Principal risks and uncertainties

The Group continues to be exposed to a number of risks and uncertainties which management continue to assess, manage and mitigate to minimise their potential impact on the reported performance of the Group. An explanation of these risks, together with details of risk management and mitigation, can be found in the FY21 Annual Report which is available for download at: https://www.qinetiq.com/en/investors

A summary of the significant risks and uncertainties, which have not changed since the publication of the FY21 Annual Report, is set out below:

Strategic risks

- Reduced spending in core markets in which the Group operates due to government budget constraints
- Failure to execute our growth strategy within the UK market impacts the overall financial performance of the Group
- Difficulty in establishing a robust and distinct position in the US market, resulting in slower growth
- Failure to execute the international strategy or adequately to mitigate specific risks arising from international business
- Failure to create a culture of innovation, develop relevant technology and business models or to attract and retain the right talent to enable the realisation of new ideas for our customers and our organisation
- A material element of the Group's revenue is dependent on a number of UK Government contracts
- The M&A strategy, which is a key element of our strategic growth does not realise the maximum potential benefits
- The transformation and digitisation programmes do not realise the expected benefits.

Operational risks

- The Group operates in highly regulated environments and recognises that its operations have the potential to have an impact on a variety of stakeholders
- A breach of physical data security, cyber-attacks or IT systems failure could have an adverse impact on our customers' operations
- The evolving COVID-19 pandemic materially disrupts QinetiQ operations.

Condensed consolidated income statement

All figures in £ million unless stated otherwise	Note	**H1 2022 (unaudited)** Underlying*	**H1 2022 (unaudited)** Specific adjusting items*	**H1 2022 (unaudited)** Total	H1 2021 (unaudited) Underlying*	H1 2021 (unaudited) Specific adjusting items*	H1 2021 (unaudited) Total
Revenue	2	**600.1**	**-**	**600.1**	**603.2**	**-**	**603.2**
Operating costs excluding depreciation, impairment and amortisation		(525.8)	(4.4)	(530.2)	(513.8)	(1.9)	(515.7)
Other income		4.8	0.5	5.3	4.5	-	4.5
EBITDA (earnings before interest, tax, depreciation and amortisation)		**79.1**	**(3.9)**	**75.2**	**93.9**	**(1.9)**	**92.0**
Depreciation and impairment of property, plant and equipment		(22.9)	(1.2)	(24.1)	(22.9)	-	(22.9)
Amortisation of intangible assets		(2.8)	(5.4)	(8.2)	(2.0)	(5.5)	(7.5)
Operating profit/(loss)		**53.4**	**(10.5)**	**42.9**	**69.0**	**(7.4)**	**61.6**
Gain on divestment of business	5	-	-	-	-	19.5	19.5
Finance income	6	0.1	2.3	2.4	0.2	3.5	3.7
Finance expense	6	(1.0)	-	(1.0)	(1.1)	-	(1.1)
Profit/(loss) before tax		**52.5**	**(8.2)**	**44.3**	**68.1**	**15.6**	**83.7**
Taxation (expense)/income	7	(5.9)	(14.6)	(20.5)	(10.5)	1.0	(9.5)
Profit/(loss) for the period		**46.6**	**(22.8)**	**23.8**	**57.6**	**16.6**	**74.2**
Attributable to:							
Owners of the Company		46.6	(22.8)	23.8	57.4	16.6	74.0
Non-controlling interests		-	-	-	0.2	-	0.2
Profit/(loss) for the period		**46.6**	**(22.8)**	**23.8**	**57.6**	**16.6**	**74.2**
Earnings per share for profit attributable to the owners of the Company							
Basic	8	**8.1**		**4.2**	**10.1**		**13.0**
Diluted	8	**8.1**		**4.1**	**10.0**		**12.9**

* Alternative performance measures are used to supplement the statutory figures. These are additional financial indicators used by management internally to assess the underlying performance of the Group. Definitions can be found in the glossary

Condensed consolidated statement of comprehensive income

All figures in £ million	**H1 2022 (unaudited)**	H1 2021 (unaudited)
Profit for the period	**23.8**	**74.2**
Items that will not be reclassified to profit or loss:		
Actuarial gain/(loss) recognised in defined benefit pension schemes	61.5	(62.0)
Tax on items that will not be reclassified to the income statement	(27.1)	11.8
Total items that will not be reclassified to the income statement	**34.4**	**(50.2)**
Items that may be reclassified to profit or loss:		
Movement in deferred tax on foreign currency translation	0.2	0.3
Foreign currency translation gains/(losses) for foreign operations	2.4	(1.6)
Increase in fair value of hedging derivatives	0.5	0.4
Movement on deferred tax on hedging derivatives	(0.1)	(0.1)
Total items that may be reclassified to the income statement	**3.0**	**(1.0)**
Other comprehensive income/(expense) for the period, net of tax	**37.4**	**(51.2)**
Total comprehensive income for the period, net of tax	**61.2**	**23.0**

Condensed consolidated statement of changes in equity

All figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 April 2021	**5.7**	**40.8**	**147.6**	**(0.4)**	**(2.9)**	**698.6**	**889.4**	**0.3**	**889.7**
Profit for the period	-	-	-	-	-	23.8	23.8	-	23.8
Other comprehensive income for the period, net of tax	-	-	-	0.4	2.6	34.4	37.4	-	37.4
Purchase of own shares	-	-	-	-	-	(0.5)	(0.5)	-	(0.5)
Issue of new shares	0.1	-	-	-	-	-	0.1	-	0.1
Share-based payments charge	-	-	-	-	-	3.6	3.6	-	3.6
Deferred tax on share-based payments	-	-	-	-	-	(0.7)	(0.7)	-	(0.7)
Fair value adjustment in respect of equity-based contingent consideration	-	-	-	-	-	0.7	0.7	-	0.7
Dividends	-	-	-	-	-	(27.0)	(27.0)	(0.1)	(27.1)
At 30 September 2021 (unaudited)	**5.8**	**40.8**	**147.6**	**-**	**(0.3)**	**732.9**	**926.8**	**0.2**	**927.0**

All figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 April 2020	**5.7**	**40.8**	**147.6**	**0.4**	**8.3**	**681.9**	**884.7**	**2.4**	**887.1**
Profit for the period	-	-	-	-	-	74.0	74.0	0.2	74.2
Other comprehensive income/ (expense) for the period, net of tax	-	-	-	0.3	(1.3)	(50.2)	(51.2)	-	(51.2)
Purchase of own shares	-	-	-	-	-	(5.2)	(5.2)	-	(5.2)
Share settled liabilities	-	-	-	-	-	12.6	12.6	-	12.6
Share-based payments charge	-	-	-	-	-	8.2	8.2	-	8.2
Deferred tax on share-based payments	-	-	-	-	-	(0.2)	(0.2)	-	(0.2)
At 30 September 2020 (unaudited)	**5.7**	**40.8**	**147.6**	**0.7**	**7.0**	**721.1**	**922.9**	**2.6**	**925.5**

Condensed consolidated balance sheet

All figures in £ million	Note	**30 September 2021 (unaudited)**	30 September 2020 (unaudited)	31 March 2021 (audited)
Non-current assets				
Goodwill	13	147.1	176.5	145.5
Intangible assets		143.7	143.9	139.2
Property, plant and equipment		408.6	389.7	397.2
Other financial assets		0.7	1.0	0.8
Financial assets at fair value through profit and loss		0.9	-	0.9
Equity accounted investments		2.2	3.5	4.2
Retirement benefit surplus	14	277.4	250.7	214.3
Deferred tax asset		16.0	13.3	11.7
		996.6	**978.6**	**913.8**
Current assets				
Inventories		61.5	50.1	54.4
Other financial assets		0.3	2.1	0.9
Trade and other receivables		311.4	263.1	326.7
Current tax asset		4.9	4.4	0.7
Assets classified as held for sale		-	30.8	-
Cash and cash equivalents		165.7	141.1	190.1
		543.8	491.6	572.8
Total assets		**1,540.4**	**1,470.2**	**1,486.6**
Current liabilities				
Trade and other payables		(383.9)	(376.2)	(411.7)
Current tax payable		(0.6)	(2.1)	(3.8)
Provisions		(4.4)	(2.2)	(4.2)
Liabilities of disposal group classified as held for sale		-	(7.1)	-
Other financial liabilities		(8.2)	(8.2)	(7.0)
		(397.1)	**(395.8)**	**(426.7)**
Non-current liabilities				
Deferred tax liability		(136.6)	(97.1)	(89.7)
Provisions		(7.4)	(9.0)	(7.8)
Other financial liabilities		(19.3)	(23.3)	(20.7)
Other payables		(53.0)	(19.5)	(52.0)
		(216.3)	(148.9)	(170.2)
Total liabilities		**(613.4)**	**(544.7)**	**(596.9)**
Net assets		**927.0**	**925.5**	**889.7**
Equity				
Ordinary shares		5.8	5.7	5.7
Capital redemption reserve		40.8	40.8	40.8
Share premium account		147.6	147.6	147.6
Hedging reserve		-	0.7	(0.4)
Translation reserve		(0.3)	7.0	(2.9)
Retained earnings		732.9	721.1	698.6
Capital and reserves attributable to shareholders of the parent company		**926.8**	**922.9**	**889.4**
Non-controlling interest		0.2	2.6	0.3
Total equity		**927.0**	**925.5**	**889.7**

Condensed consolidated cash flow statement

All figures in £ million	Note	**H1 2022 (unaudited)**	H1 2021 (unaudited)	Year ended 31 March 2021 (audited)
Underlying net cash inflow from operations		**70.2**	**92.7**	**199.0**
Less specific adjusting items	10	(4.1)	(0.9)	(1.0)
Net cash inflow from operations	10	**66.1**	**91.8**	**198.0**
Tax paid		(12.8)	(11.7)	(15.0)
Interest received		0.1	0.2	0.3
Interest paid		(0.8)	(0.8)	(1.7)
Net cash inflow from operating activities		**52.6**	**79.5**	**181.6**
Purchases of intangible assets		(11.5)	(6.6)	(14.5)
Purchases of property, plant and equipment		(37.3)	(35.7)	(65.0)
Proceeds from sale of property		-	-	0.1
Proceeds from disposal of businesses (net of cash disposed)		-	26.6	54.4
Proceeds from sale of investment		-	-	0.3
Dividends from joint ventures and associates		2.0	-	-
Acquisition of businesses (net of cash acquired)		-	(24.6)	(28.5)
Net cash outflow from investing activities		**(46.8)**	**(40.3)**	**(53.2)**
Purchase of own shares		(0.4)	(5.2)	(9.0)
Dividends paid to shareholders		(27.0)	-	(37.7)
Payment of bank facility arrangement fee		-	(0.3)	(0.4)
Capital element of finance lease payments		(3.5)	(4.6)	(8.5)
Dividends paid to non-controlling interests in subsidiaries		(0.1)	-	-
Net cash outflow from financing activities		**(31.0)**	**(10.1)**	**(55.6)**
Decrease/Increase in cash and cash equivalents		**(25.2)**	**29.1**	**72.8**
Effect of foreign exchange changes on cash and cash equivalents		0.8	6.2	11.5
Cash and cash equivalents at beginning of period		190.1	105.8	105.8
Cash and cash equivalents at end of period		**165.7**	**141.1**	**190.1**

Reconciliation of movement in net cash

All figures in £ million	Note	**H1 2022 (unaudited)**	H1 2021 (unaudited)	Year ended 31 March 2021 (audited)
(Decrease)/Increase in cash and cash equivalents		**(25.2)**	**29.1**	**72.8**
Add back net cash flows not impacting net cash		3.5	4.9	8.9
Change in net cash resulting from cash flows		**(21.7)**	**34.0**	**81.7**
Lease liabilities derecognised on disposal of subsidiary		-	0.4	1.9
Leases liabilities recognised on acquisition of subsidiary		-	(1.3)	(1.3)
Net increase in lease obligation		(1.1)	(7.6)	(9.1)
Other movements including foreign exchange		(2.1)	2.5	6.2
(Decrease)/Increase in net cash as defined by the Group		**(24.9)**	**28.0**	**79.4**
Net cash as defined by the Group at beginning of the period		164.1	84.7	84.7
Net cash as defined by the Group at end of the period	9	**139.2**	**112.7**	**164.1**
Less: non-cash net financial liabilities	9	26.5	28.4	26.0
Total cash and cash equivalents	9	**165.7**	**141.1**	**190.1**

Notes to the condensed interim financial statements

1. Significant accounting policies

Basis of preparation

QinetiQ Group plc is a public limited company, which is listed on the London Stock Exchange and is incorporated and domiciled in England.

The condensed consolidated interim financial statements of the Group for the six months ended 30 September 2021 comprise statements for the Company and its subsidiaries (together referred to as the 'Group') and were approved by the Board of Directors on 11 November 2021.

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. QinetiQ Plc transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 April 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in the framework.

These condensed Group interim financial statements have been prepared in accordance with UK-adopted IAS 34 Interim Financial Reporting and the requirements of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. They do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's financial statements for the year ended 31 March 2021 which have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) 1606/2002 as it applies in the European Union.

In the income statement, the Group presents specific adjusting items separately. In the judgement of the Directors, for the reader to obtain a proper understanding of the financial information, 'specific adjusting items' need to be disclosed separately because of their size and nature. Specific adjusting items include:

Item	Distorting due to irregular nature year on year	Distorting due to fluctuating nature (size and/or sign)	Does not reflect in-year operational performance of continuing business
Amortisation of intangible assets arising from acquisitions			✓
Pension net finance income		✓	✓
Gains/losses on business divestments and disposal of property and investments	✓	✓	✓
Transaction & integration costs in respect of business acquisitions	✓	✓	✓
Impairment of goodwill and property	✓	✓	✓
The tax impact of the above	✓	✓	✓
Other significant non-recurring tax movements	✓	✓	✓

All items treated as a specific adjusting item in the current and prior period are detailed in note 3 and are excluded from the 'underlying' measures of performance. These Alternative Performance Measures (APMs), definitions of which can be found in the glossary at the end of this document, are used to monitor performance and also used for management remuneration purposes.

In periods where there are significant one-off trading items impacting on performance (such as a contract write-down which is not of the nature/type detailed above and hence not reported as a specific adjusting item) then these are still reported within underlying measures of performance but narrative explanation is provided to quantify the impact on such measures (where appropriate).

The accounting policies adopted in the preparation of these condensed consolidated financial statements are consistent with the policies applied by the Group in its consolidated financial statements for the year ended 31 March 2021.

Recent accounting developments adopted by the Group

The following UK and EU-endorsed amendments are effective for accounting periods beginning on or after 1 January 2021 and have been adopted with no material impact on the Group's financial statements:

Rent concession – amendment to IFRS 16

The amendment to IFRS 16 provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. QinetiQ is not party to any lease contracts that contain such rent concessions and hence there is no impact on the Group.

Interest rate benchmark reform ('IBOR reform') – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The IBOR amendments provide accounting reliefs to ensure a smooth transition to new alternative benchmark interest rates. The Phase 1 amendments, provided temporary reliefs from applying specific hedge accounting requirements to relationships affected by uncertainties arising as a result of IBOR reform ('the Phase 1 reliefs'). The Phase 2 amendments addresses issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The adoption has not had a material impact on the Group's financial statements.

Going-concern basis

The Group is exposed to various risks and uncertainties, the principal ones being summarised in the 'Principal risks and uncertainties' section. Crystallisation of such risks, to the extent not fully mitigated, would lead to a negative impact on the Group's financial results but none are deemed sufficiently material to prevent the Group from continuing as a going concern for at least the next 12 months. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going-concern basis in preparing its interim financial statements.

Comparative data

The comparative figures for the year ended 31 March 2021 (and half year ended 30 September 2020) do not contain all of the information required for full annual financial statements. The Group's full annual financial statements for the year ended 31 March 2021 have been delivered to the registrar of companies. The report of the auditors (i) was unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The Group's financial statements for the year ended 31 March 2021 are available upon request from the Company's registered office at Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

2. Disaggregation of revenue and segmental analysis

Revenue by category and reconciliation to revenue on an organic, constant currency basis

For the six months ended 30 September

All figures in £ million	**H1 2022 (unaudited)**	H1 2021 (unaudited)
Service contracts with customers	574.5	552.2
Sale of goods contracts with customers	24.1	47.2
Royalties and licences	1.5	3.8
Revenue (statutory)	**600.1**	**603.2**
Restated for:		
Less: adjust current year for of acquired businesses*	(2.6)	-
Less: adjust prior year for disposed businesses*	-	(13.5)
Adjust to constant prior year exchange rates	7.7	-
Total revenue on an organic, constant currency basis	**605.2**	**589.7**
Organic revenue growth at constant currency	*3%*	*8%*

*For the period during which there was no contribution in the equivalent period (when not owned by the Group)

Other income

All figures in £ million	**H1 2022 (unaudited)**	H1 2021 (unaudited)
Share of joint ventures' and associates' loss after tax	-	(0.2)
Other income (property related)	4.8	4.7
Other income – underlying	**4.8**	**4.5**
Specific adjusting item: gain on sale of property	0.5	-
Total other income	**5.3**	**4.5**

Revenue by customer geographical location

For the six months ended 30 September

All figures in £ million	**H1 2022 (unaudited)**	H1 2021 (unaudited)
US	75.1	120.2
Australia	47.1	39.7
Europe	40.6	41.8
Rest of World	3.0	11.5
International (28% and 35% of total revenue for H1 2022 and H1 2021 respectively)	**165.8**	**213.2**
United Kingdom	434.3	390.0
Total revenue	**600.1**	**603.2**

Revenue by major customer type

For the six months ended 30 September

All figures in £ million	**H1 2022 (unaudited)**	H1 2021 (unaudited)
UK Government	398.2	373.2
US Government	68.1	98.9
Other	133.8	131.1
Total revenue	**600.1**	**603.2**

Operating segments
For the six months ended 30 September

All figures in £ million	H1 2022 (unaudited)		H1 2021 (unaudited)	
	Revenue from external customers	**Underlying operating profit***	Revenue from external customers	Underlying operating profit*
EMEA Services	488.7	67.1	425.4	57.9
Global Products	111.4	(13.7)	177.8	11.1
Total operating segments	**600.1**	**53.4**	**603.2**	**69.0**
*Underlying operating margin**		*8.9%*		*11.4%*

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary

The current year includes a write-down on a large complex project. This has reduced revenue and underlying operating profit (within the Global Products operating segment) by £8.0m and £14.5m respectively.

Reconciliation of segmental results to total profit
For the six months ended 30 September

All figures in £ million	Note	H1 2022 (unaudited)	H1 2021 (unaudited)
Underlying operating profit		53.4	69.0
Specific adjusting items operating loss	3	(10.5)	(7.4)
Operating profit		**42.9**	**61.6**
Gain on divestment of business		-	19.5
Net finance income		1.4	2.6
Profit before tax		**44.3**	**83.7**
Taxation expense		(20.5)	(9.5)
Profit for the period attributable to equity shareholders		**23.8**	**74.2**

3. Specific adjusting items

In the income statement, the Group presents specific adjusting items separately. In the judgement of the Directors, for the reader to obtain a proper understanding of the financial information, specific adjusting items need to be disclosed separately because of their size and nature. Underlying measures of performance exclude specific adjusting items. The following specific adjusting items have been (charged)/credited in the consolidated income statement:

All figures in £ million	Note	H1 2022 (unaudited)	H1 2021 (unaudited)
Gain on sale of property		0.5	-
Acquisition costs		-	(0.9)
Unsuccessful acquisition costs	4	(4.1)	-
Acquisition related remuneration		(0.9)	(1.0)
Fair value adjustment in respect of contingent consideration	4	0.6	-
Specific adjusting items before amortisation, depreciation and impairment		**(3.9)**	**(1.9)**
Impairment of property		(1.2)	-
Amortisation of intangible assets arising from acquisition		(5.4)	(5.5)
Specific adjusting items operating loss		**(10.5)**	**(7.4)**
Defined benefit pension scheme net finance income	14	2.3	3.5
Gain on divestment of business	5	-	19.5
Specific adjusting items (loss)/profit before tax		**(8.2)**	**15.6**
Specific adjusting items - tax	7	(14.6)	1.0
Total specific adjusting items (loss)/profit after tax		**(22.8)**	**16.6**

Reconciliation of underlying profit for the period to total profit for the period

All figures in £ million	H1 2022 (unaudited)	H1 2021 (unaudited)
Underlying profit after tax	46.6	57.6
Total specific adjusting items (loss)/profit after tax (see above)	(22.8)	16.6
Total profit for the period attributable to equity shareholders	**23.8**	**74.2**

4. Business combinations

There were no acquisitions in the period to 30 September 2021.

In FY20, 100% of the share capital of Manufacturing Techniques Inc. (MTEQ) was acquired by QinetiQ and the consideration included contingent earn-out payments, to be settled in cash and shares, dependent on MTEQ delivering stretching financial targets over three subsequent years. The fair value of such contingent consideration was initially recorded at a fair value of $1.8m. Considering actual performance to date and a reforecast of future performance for the remaining period of the earn-out agreement, the current fair value as at 30 September 2021 has been assessed as nil. An amount of £0.6m was credited to the income statement in the current period, classified as a specific adjusting item (note 3), in respect of the cash-settled element, and £0.7m has been credited to retained earnings, in respect of the equity-settled component.

Also in the current period, the Group incurred £4.1m costs in respect of unsuccessful acquisition activity. This is classified as a specific adjusting item (note 3).

Acquisitions in the period to 30 September 2020

all figures in £ million					Contribution post-acquisition	
Company acquired	**Date acquired**	**Cash consideration**	**Goodwill**	**Fair value of net assets acquired**	**Revenue**	**Operating profit**
Naimuri Limited	13 July 2020	28.4	(14.1)	14.3	2.0	0.6
Total current year acquisitions						
Payment for prior year acquisitions[1]		0.2				
Less: cash acquired		(4.0)				
Net cash outflow in the period[2]		**24.6**				

[1] Additional working capital paid in respect of prior year acquisition of Newman & Spurr Consultancy Limited
[2] Acquisition costs incurred in the period of £0.9m are reported separately within operating cash flow and operating profit (note 3)

5. Gain on business divestments

All figures in £ million	**H1 2022 (unaudited)**	H1 2021 (unaudited)
Gain on business divestments	**-**	**19.5**

There were no business divestments in the period to 30 September 2021. The prior year gain was in respect of the disposal of the Boldon James business.

6. Finance income and expense

All figures in £ million	**H1 2022 (unaudited)**	H1 2021 (unaudited)
Receivable on bank deposits	0.1	0.2
Underlying finance income	**0.1**	**0.2**
Amortisation of recapitalisation fee	(0.2)	(0.2)
Interest on bank loans and overdrafts	(0.3)	(0.3)
Lease expense	(0.5)	(0.5)
Unwinding of discount on financial liability	-	(0.1)
Underlying finance expense	**(1.0)**	**(1.1)**
Underlying net finance expense	**(0.9)**	**(0.9)**
Specific adjusting items:		
Defined benefit pension scheme net finance income	2.3	3.5
Net finance income	**1.4**	**2.6**

7. Taxation

All figures in £ million unless stated otherwise	H1 2022 (unaudited) Underlying	Specific adjusting items	Total	H1 2021 (unaudited) Underlying	Specific adjusting items	Total
Profit/(loss) before tax	**52.5**	**(8.2)**	**44.3**	**68.1**	**15.6**	**83.7**
Taxation (expense)/income	(5.9)	(14.6)	(20.5)	(10.5)	1.0	(9.5)
Profit/(loss) for the period attributable to equity shareholders	**46.6**	**(22.8)**	**23.8**	**57.6**	**16.6**	**74.2**
Effective tax rate	**11.2%**			**15.4%**		

The total tax charge is £20.5m (H1 2021: £9.5m). The underlying tax charge of £5.9m (H1 2021: £10.5m) is calculated by applying the expected underlying effective tax rate at a jurisdictional level for the year ending 31 March 2022 to the underlying profit before tax for the six months to 30 September 2021. The Group's full year expected underlying effective tax rate is 12.5% which is higher than the half year underlying effective tax rate 11.2% (H1 2021: 15.4%) due to the jurisdictional mix of profits in H1 2022 that reflects the impact of the write-down on a large complex project.

The underlying effective tax rate continues to be below the UK statutory rate, primarily as a result of the benefit of research and development expenditure credits ('RDEC') in the UK which are accounted for under IAS12 within the tax line. The adjusted underlying effective tax rate before the impact of RDEC would be 18.0% (H1 2021: 19.4%). The impact of RDEC is shown net of £4.6m (H1 2021: £5.4m) appropriated by the MOD. The underlying effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any tax legislation changes, the geographic mix of profits, the recognition of unrecognised tax losses and while the benefit of net RDEC retained by the Group remains in the tax line.

Tax losses and specific adjusting items
At 30 September 2021 the Group had unused tax losses and surplus interest expenses of £94.8m (31 March 2021: £73.2m) which are available for offset against future profits. Within deferred tax assets recognised on the balance sheet is £7.9m (31 March 2021: £8.4m) in respect of £37.5m (31 March 2021: £35.9m) of US net operating losses, £1.4m (31 March 2021: £1.4m) in respect of £5.3m (31 March 2021: £5.2m) of US surplus interest expenses and £4.3m (31 March 2021: £0.1m) in respect of £17.6m (31 March 2021: £0.5m) of non-US trading losses.

No deferred tax asset is recognised in respect of the remaining £34.3m (31 March 2021: £31.6m) of losses/US surplus interest expenses due to uncertainty over the timing and extent of their utilisation. Full recognition of the remaining losses/ surplus interest expenses would increase the deferred tax asset by £9.3m (31 March 2021: £8.4m). The Group has £29.8m (31 March 2021: £29.1m) of time-limited US net operating losses of which £21.0m (31 March 2021: £20.5m) will expire in 2035 and £8.8m (31 March 2021: £8.6m) in 2036. Deferred tax has been calculated using the enacted future statutory tax rates.

A £16.7m charge in respect of the impact on UK deferred tax balances due to the UK corporation tax rate change from 19% to 25% has been classified as a specific adjusting item. Together with a £2.1m income (2021: income of £1.0m) in respect of the pre-tax specific adjusting items (see note 3), the total specific adjusting items tax expense was £14.6m (2021: income of £1.0m).

8. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares used excludes those shares bought by the Group and held as own shares. For diluted earnings per share the weighted average number of shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares arising from unvested share-based awards including share options.

		H1 2022 (unaudited)	**H1 2021 (unaudited)**
Weighted average number of shares	**Million**	**572.6**	**567.8**
Effect of dilutive securities	Million	5.7	5.7
Diluted number of shares	**Million**	**578.3**	**573.5**

Underlying basic earnings per share figures are presented below, in addition to the basic and diluted earnings per share, because the Directors consider this gives a more relevant indication of underlying business performance and reflects the adjustments to basic earnings per share for the impact of specific adjusting items (see note 3) and tax thereon.

Underlying EPS		**H1 2022 (unaudited)**	**H1 2021 (unaudited)**
Profit attributable to the owners of the Company	£ million	23.8	74.0
Remove profit after tax in respect of specific adjusting items	£ million	22.8	(16.6)
Underlying profit after taxation	**£ million**	**46.6**	**57.4**
Weighted average number of shares	Million	572.6	567.8
Underlying basic EPS	**Pence**	**8.1**	**10.1**
Diluted number of shares	Million	578.3	573.5
Underlying diluted EPS	**Pence**	**8.1**	**10.0**

Basic and diluted EPS		**H1 2022 (unaudited)**	**H1 2021 (unaudited)**
Profit attributable to the owners of the Company	£ million	23.8	74.0
Weighted average number of shares	Million	572.6	567.8
Basic EPS – total Group	**Pence**	**4.2**	**13.0**
Diluted number of shares	Million	578.3	573.5
Diluted EPS – total Group	**Pence**	**4.1**	**12.9**

9. Net cash

All figures in £ million	**30 September 2021 (unaudited)**	**30 September 2020 (unaudited)**	**31 March 2021 (audited)**
Current financial assets/(liabilities)			
Deferred financing costs	0.3	0.3	0.4
Derivative financial assets	-	1.8	0.5
Lease liabilities	(5.7)	(8.1)	(6.9)
Derivative financial liabilities	(2.5)	(0.1)	(0.1)
Total current net financial liabilities	(7.9)	(6.1)	(6.1)
Non-current financial assets/(liabilities)			
Deferred financing costs	0.7	1.0	0.8
Lease liabilities	(18.7)	(23.2)	(19.8)
Derivative financial liabilities	(0.6)	(0.1)	(0.9)
Total non-current net financial liabilities	(18.6)	(22.3)	(19.9)
Total net financial liabilities	**(26.5)**	**(28.4)**	**(26.0)**
Cash and cash equivalents	165.7	141.1	190.1
Total net cash as defined by the Group	**139.2**	**112.7**	**164.1**

10. Cash flows from operations

All figures in £ million	H1 2022 (unaudited)	H1 2021 (unaudited)	Year ended 31 March 2021 (audited)
Profit after tax for the period	23.8	74.2	124.7
Adjustments for:			
Taxation expense	20.5	9.5	21.5
Net finance income	(1.4)	(2.6)	(5.2)
Gain on disposal of business	-	-	(28.4)
Gain on disposal of investment	-	-	(0.3)
Gain on sale of investment	-	(19.5)	-
Gain on sale of property	(0.5)	-	(0.1)
Impairment in respect of property, plant and equipment	1.2	-	0.5
Impairment of goodwill	-	-	25.4
Fair value gain in respect of contingent consideration	(0.6)	-	-
Acquisition related remuneration costs not paid as at year end	0.9	1.0	1.8
Amortisation of purchased or internally developed intangible assets	2.8	2.0	4.7
Amortisation of intangible assets arising from acquisitions	5.4	5.5	10.9
Depreciation of property, plant and equipment	22.9	22.9	45.6
Loss on disposal of plant and equipment	-	1.0	1.0
Share of post-tax loss/(gain) of equity accounted entities	-	0.2	(0.7)
Share-based payments charge	3.6	8.2	10.6
Retirement benefit contributions in excess of income statement expense	0.7	0.5	(1.6)
Net movement in provisions	(0.2)	(0.4)	0.3
Increase in inventories	(6.2)	(8.6)	(4.6)
Decrease/(increase) in receivables	18.5	(19.5)	(97.3)
(Decrease)/increase in payables	(25.3)	17.4	89.2
Changes in working capital	(13.0)	(10.7)	(12.7)
Net cash flow from operations	**66.1**	**91.8**	**198.0**

Reconciliation of net cash flow from operations to underlying net cash flow from operations to free cash flow

All figures in £ million	H1 2022 (unaudited)	H1 2021 (unaudited)	Year ended 31 March 2021 (audited)
Net cash flow from operations	66.1	91.8	198.0
Add back specific adjusting item: unsuccessful acquisition costs	4.1	-	-
Add back specific adjusting item: acquisition related transaction costs	-	0.9	1.0
Underlying net cash flow from operations	**70.2**	**92.7**	**199.0**
Less: tax and net interest payments	(13.5)	(12.3)	(16.4)
Less: purchases of intangible assets and property, plant & equipment	(48.8)	(42.3)	(79.5)
Free cash flow	**7.9**	**38.1**	**103.1**

Underlying cash conversion ratio

	H1 2022 (unaudited)	H1 2021 (unaudited)	Year ended 31 March 2021 (audited)
Underlying operating profit - £ million	53.4	69.0	151.8
Underlying net cash flow from operations - £ million	70.2	92.7	199.0
Underlying cash conversion ratio - %	**131%**	**134%**	**131%**

11. Financial risk management

The interim financial statements do not include all financial risk management information and disclosures required in annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 March 2021. There have been no changes in any risk management policies since the year end. The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – measured using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 2 derivatives comprise forward foreign exchange contracts which have been fair valued using forward exchange rates that are quoted in an active market; and

Level 3 – measured using inputs for the assets or liability that are not based on observable market data (i.e. unobservable inputs).

The Group's assets and liabilities that are measured at fair value, as at 30 September 2021, are as follows:

all figures in £ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Current derivative financial instruments	-	-	-	-
Non-current derivative financial instruments	-	-	-	-
Financial instruments at fair value through profit or loss	-	-	0.9	0.9
Liabilities:				
Current derivative financial instruments	-	(2.5)	-	(2.5)
Non-current derivative financial instruments	-	(0.6)	-	(0.6)
Total	**-**	**(3.1)**	**0.9**	**(2.2)**

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2021:

all figures in £ million	Level 1	Level 2	Level 3	Total
Assets:				
Current derivative financial instruments	-	0.5	-	0.5
Non-current derivative financial instruments	-	-	-	-
Financial instruments at fair value through profit or loss	-	-	0.9	0.9
Liabilities:				
Current derivative financial instruments	-	(0.1)	-	(0.1)
Non-current derivative financial instruments	-	(0.9)	-	(0.9)
Total	**-**	**(0.5)**	**0.9**	**0.4**

For cash and cash equivalents, trade and other receivables and bank and current borrowings, the fair value of the financial instruments approximate to their carrying value as a result of the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within the carrying value for credit risk. For other financial instruments, the fair value is based on market value, where available. Where market values are not available, the fair values have been calculated by discounting cash flows to net present value using prevailing market-based interest rates translated at the year-end rates, except for unlisted fixed asset investments where fair value equals carrying value. There have been no transfers between levels.

12. Dividends

An analysis of the dividends paid and proposed in respect of the period ended 30 September 2021 and comparative periods is provided below:

	Pence per ordinary share	**£m**	**Date paid/payable**
Interim 2022	**2.3**	**13.2**	**Feb 2022**
Interim 2021	2.2	12.6	Feb 2021
Final 2021	4.7	27.0	Aug 2021
Total for the year ended 31 March 2021	6.9	39.6	

The interim dividend is 2.3p (Interim 2021: 2.2p). The dividend will be paid on 4 February 2022. The ex-dividend date is 6 January 2022 and the record date is 7 January 2022.

13. Goodwill

Goodwill is allocated across five cash generating units ('CGUs') within the EMEA Services segment and four CGUs within the Global Products segment. The full list of CGUs that have goodwill allocated to them is as follows:

All figures in £ million	Primary reporting segment	30 September 2021 (unaudited)	30 September 2020 (unaudited)	31 March 2021 (audited)
QinetiQ North America	Global Products	40.5	42.2	39.6
MTEQ	Global Products	33.8	35.2	33.0
Target Systems	Global Products	24.3	24.3	24.3
Space Products	Global Products	5.7	5.9	5.7
QinetiQ Germany	EMEA Services	2.7	29.4	2.7
Inzpire	EMEA Services	11.7	11.7	11.7
NSC	EMEA Services	7.8	7.8	7.8
Naimuri Limited	EMEA Services	14.8	14.1	14.8
Australia	EMEA Services	5.8	5.9	5.9
Net book value		**147.1**	**176.5**	**145.5**

Goodwill is attributable to the excess of consideration over the fair value of net assets acquired and includes expected synergies, future growth prospects and employee knowledge, expertise and security clearances. The Group tests each CGU for impairment annually, or more frequently if there are indications that goodwill might be impaired. Impairment testing is dependent on management's estimates and judgments, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates. Significant headroom exists in all CGUs with the exception of QinetiQ Germany (see below) and management considers that there are no likely variations in the key assumptions which would lead to an impairment being recognised in those other CGUs.

The carrying value of the goodwill for the Germany CGU as at 30 September 2021 was £2.7m (31 March 2021: £2.7m). Headroom (the excess of calculated value in use compared to carrying value) is nil following re-baselining of the business plan and an impairment of £25.4m in the prior year. We are seeing positive progress in FY22, however the market remains challenging and there are some important contract renewals later this year.

The key sensitivity impacting on the value in use calculations for Germany is the terminal year cash flows, which assume successful renewals of some important contracts. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m (all of which are plausible outcomes) would lead to a further impairment charge of £5.0m, £3.7m and £22.6m respectively. Such a level of impairment would fully erode the residual carrying value of goodwill and require impairment of an element of the Germany CGU's £28.5m carrying value of acquisition-related intangible assets.

14. Post-retirement benefits

In the UK the Group operates the QinetiQ Pension Scheme (the Scheme) for approximately one quarter of its UK employees. The Scheme closed to future accrual on 31 October 2013 and there is no on-going service cost. The Scheme is in a net asset position with the market value of assets in excess of the present value of Scheme liabilities. These have the values set out below as at each period end.

all figures in £ million	30 September 2021 (unaudited)	30 September 2020 (unaudited)	31 March 2021 (audited)
Total market value of Scheme assets	**2,139.8**	**2,171.7**	**2,071.8**
Present value of Scheme liabilities	(1,862.4)	(1,921.0)	(1,857.5)
Net pension asset before deferred tax	**277.4**	**250.7**	**214.3**
Deferred tax liability	(75.7)	(52.7)	(45.5)
Net pension asset after deferred tax	**201.7**	**198.0**	**168.8**

The balance sheet net pension asset is a snapshot view which can be significantly influenced by short-term market factors. The calculation of the net asset depends on factors which are beyond the control of the Group – principally the value at the balance sheet date of the various categories of assets in which the Scheme has invested and long-term interest rates and inflation rates used to value the Scheme's liabilities. This is particularly pertinent during the COVID-19 pandemic whilst markets are extremely volatile. Sensitivities and risks are described on the following page.

Per the Scheme rules the Company has an unconditional right to a refund of any surplus, assuming gradual settlement of all liabilities over time. Such surplus may arise on cessation of the Scheme in the context of IFRIC 14 paragraphs 11(b) and 12 and therefore the full net pension asset can be recognised on the Group's balance sheet and the Group's minimum funding commitments to the Scheme do not give rise to an additional balance sheet liability.

In the first quarter of the current year the Scheme completed a bulk annuity insurance buy-in at a cost of £132m. This transaction has removed longevity risk, interest rate risk, and inflation risk for approximately 8% of the Scheme and is in line with the Group's strategy of de-risking the pension liabilities. This buy-in follows the Scheme's first buy-in in 2019 which had already removed risk for approximately one-third of the Scheme's members. As a result of the transaction, the accounting pension surplus recorded on the Group's balance sheet reduced by approximately £25m with no related cash impact.

The fair value of the QinetiQ Pension Scheme assets, which are not intended to be realised in the short term and may be subject to significant changes before they are realised, were:

all figures in £ million	30 September 2021 (unaudited)	30 September 2020 (unaudited)	31 March 2021 (audited)
Equities – quoted	173.4	135.5	140.2
Equities – unquoted	48.1	43.0	47.4
Liability driven investment	327.0	336.8	362.3
Asset backed security investments	499.5	583.2	455.6
Alternative bonds - quoted	250.7	228.6	254.8
Corporate bonds	92.9	-	98.0
Property funds	48.3	208.9	76.6
Cash and other equivalents	17.3	20.1	49.3
Derivatives	(5.3)	(1.4)	(0.4)
Insurance buy-in policy	687.9	617.0	588.0
Total market value of Scheme assets	**2,139.8**	**2,171.7**	**2,071.8**

The Scheme's assets do not include any of the Group's own transferable financial instruments, property occupied by, or other assets used by the Group.

The movement in the net pension asset (before deferred tax) is set out below:

all figures in £ million	30 September 2021 (unaudited)	30 September 2020 (unaudited)	31 March 2021 (audited)
Opening net pension asset before deferred tax	214.3	309.7	309.7
Net finance income	2.3	3.5	7.1
Net actuarial gain/(loss)	61.5	(62.0)	(104.1)
Contributions by the employer	-	-	2.9
Administration expenses	(0.7)	(0.5)	(1.3)
Closing net pension asset before deferred tax	**277.4**	**250.7**	**214.3**

Assumptions

The major assumptions used in the IAS 19 valuations of the Scheme were:

	30 September 2021 (unaudited)		30 September 2020 (unaudited)	31 March 2021 (audited)
	Un-insured members*	Insured members*		
Discount rate applied to Scheme liabilities	2.10%	2.05%	1.65%	2.10%
CPI inflation assumption	2.75%	2.70%	2.20%	2.60%
Net rate (discount rate less inflation)	(0.65%)	(0.65%)	(0.55%)	(0.50%)
Assumed life expectancies in years:				
Future male pensioners (currently aged 60)	86.7	83.2^	87.4	86.7
Future female pensioners (currently aged 60)	88.6	85.4^	89.5	88.6
Future male pensioners (currently aged 40)	88.4	n/a	88.9	88.4
Future female pensioners (currently aged 40)	90.7	n/a	91.0	90.7

*As a result of two recent insurance buy-in transactions the Scheme has two distinct membership groups: insured members and un-insured members. Insured members are all pensioners and un-insured members are predominantly not yet drawing pensions. As such, the future cash outflows will be over differing timeframes and it is more accurate to use different key assumptions to each of the two groups when calculating the Scheme liabilities. These are now presented separately

^For pensioners currently aged 65

Risks
The Group is exposed to a number of risks in respect to the valuation of the Scheme, the most significant of which are detailed below:

Volatility in market conditions
Results under IAS 19 can change dramatically depending on market conditions. The present value of Scheme liabilities is linked to yields on AA-rated corporate bonds, while many of the assets of the Scheme are invested in various forms of assets subject to fluctuating valuations. Changing markets in conjunction with discount rate volatility will lead to volatility in the net pension asset on the Group's balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the IAS 19 pension net finance income in the Group's income statement.

Choice of accounting assumptions
The calculation of the present value of Scheme liabilities involves projecting future cash flows from the Scheme many years into the future. This means that the assumptions used can have a material impact on the balance sheet position and profit and loss charge. In practice future experience within the Scheme may not be in line with the assumptions adopted. For example, members could live longer than foreseen or inflation could be higher or lower than allowed for in the calculation of the liabilities. Sensitivities to the main assumptions are set out below.

Key assumptions	Indicative impact on Scheme assets	Indicative impact on Scheme liabilities	Indicative impact on net pension asset
Increase discount rate by 0.1%	Decrease by £41.8m	Decrease by £35.5m	Decrease by £6.3m
Increase rate of inflation by 0.1%	Increase by £35.8m	Increase by £33.1m	Increase by £2.7m
Increase life expectancy by one year	Increase by £36.4m	Increase by £70.0m	Decrease by £33.6m

The impact of movements in Scheme liabilities will, to an extent, be offset by movements in the value of Scheme assets as the Scheme has assets invested in a Liability Driven Investment Portfolio. As at 30 September 2021 this hedges against approximately 90% of the interest rate and 94% of the inflation rate risk, as measured on the Trustees' gilt-funded basis.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (projected unit credit method) has been applied as when calculating the pension liability recognised within the statement of financial position. The methods and types of assumption did not change.

In addition to the sensitivity of the liability side of the net pension asset (which will impact the value of the net pension asset) the net pension asset is also exposed to significant variation due to changes in the fair value of Scheme assets. A specific sensitivity on assets has not been included in the above table but any change in valuation of assets flows straight through to the value of the net pension asset e.g. if equities fall by £10m then the net pension asset falls by £10m. The values of unquoted assets assume that an available buyer is willing to purchase those assets at that value. For the Group's portfolio of assets, the property portfolio of £48.3m and the unquoted equities of £48.1m are the assets with most uncertainty as to valuation as at 30 September 2021.

The accounting assumptions noted above are used to calculate the period end present value of Scheme liabilities in accordance with the relevant accounting standard, IAS 19 (revised) 'Employee benefits'. Changes in these assumptions have no impact on the Group's cash payments into the Scheme. The payments into the Scheme are reassessed after every triennial valuation. The latest completed triennial valuation of the Scheme was a net surplus of £176.5m as at 30 June 2020. The triennial valuations are calculated on a 'funding basis' and use a different set of assumptions, as agreed with the pension Trustees. The key assumption that varies between the two methods of valuation is the discount rate. The funding basis valuation uses the risk-free rate from UK gilts as the base for calculating the discount rate, whilst the IAS 19 accounting basis valuation uses corporate bond yields as the base.

15. Own shares and share-based awards

Own shares represent shares in the Company that are held by independent trusts and include treasury shares and shares held by the employee share ownership plan. Included in retained earnings at 30 September 2021 are 6,836,483 shares (31 March 2021: 5,020,832 shares).

In the six months to 30 September 2021 the Group granted 0.4 million new share-based awards to employees (30 September 2020: 0.1 million).

16. Related party transactions with equity accounted investments

During the period there were sales to associates and joint ventures of £2.4m (30 September 2020: £2.9m). At the period end there were outstanding receivables from associates and joint ventures of £1.1m (30 September 2020: £1.0m).

17. Capital commitments

The Group has the following capital commitments for which no provision has been made:

all figures in £ million	**30 September 2021 (unaudited)**	31 March 2021 (audited)
Contracted	21.7	33.0

Capital commitments at 30 September 2021 include £13.4m (31 March 2021: £25.3m) in relation to property, plant and equipment that will be wholly funded by a third party customer under a long-term contract arrangement. These primarily relate to investments under the LTPA contract.

18. Contingent liabilities

The Company has on occasion been required to take legal action to protect its intellectual property rights, to enforce commercial contracts or otherwise and similarly to defend itself against proceedings brought by other parties, including in respect of environmental and regulatory issues. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, taking into account professional advice received, and represent management's best estimate of the likely outcome. The timing of utilisation of these provisions is uncertain pending the outcome of various court proceedings, ongoing investigations and negotiations. However, no provision is made for proceedings which have been or might be brought by other parties unless management, taking into account professional advice received, assesses that it is more likely than not that such proceedings may be successful. Contingent liabilities associated with such proceedings have been identified but the Directors are of the opinion that any associated claims that might be brought can be resisted successfully and therefore the possibility of any outflow in settlement is assessed as remote.

19. Critical accounting estimates

Specific, material estimates made by the Directors in applying the Group's accounting policies are set out below:

Service delivery on a large complex project
The Group is currently party to a specific contract with a customer that required certain activities to be performed within a specified duration. Due to technical issues with externally supplied equipment such activities can no longer reasonably be expected to complete within the currently contracted duration or at the contractual level of capability. As such, the contract is forecast to be delivered at a £14.5m loss, all recognised in the income statement in the current year (assessed at break-even in the prior year). This is contingent on achieving a required technical capability, obtaining appropriate certification and providing services for a specific duration. In the unlikely scenario that the actual outcome provides less value to the customer, the contract loss could potentially increase by up to a further £10m. This excludes any potential recovery from our key supplier and the customer, which should mitigate such incremental loss.

Responsibility statements of the Directors in respect of the interim financial report

The Directors confirm that these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The Directors of QinetiQ Group plc are listed in the QinetiQ Group plc Annual Report for 31 March 2021, with the exception of the following changes in the period: Ian Mason died on 26 April 2021, Lawrence Burns Prior was appointed on 2 August 2021 and Caroline Borg was appointed on 11 October 2021. A list of current directors is maintained on the QinetiQ Group plc website: www.qinetiq.com.

By order of the Board

Steve Wadey
Chief Executive Officer
11 November 2021

David Smith
Chief Financial Officer
11 November 2021

Independent review report to QinetiQ Group plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed QinetiQ Group plc's condensed consolidated interim financial statements (the 'interim financial statements') in the Interim Results of QinetiQ Group plc for the 6 month period ended 30 September 2021 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Condensed consolidated balance sheet as at 30 September 2021;
- the Condensed consolidated income statement and Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated cash flow statement for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Results of QinetiQ Group plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim Results, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
Southampton
11 November 2021

Glossary

CPI	Consumer Price Index
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
EDP	Engineering Delivery Partner
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LTPA	Long Term Partnering Agreement: A 25-year contract (re-priced every five years) established in 2003 to manage the MOD's ranges.
MOD	UK Ministry of Defence
SSRO	Single Source Regulations Office
T&E	Test and Evaluation

Alternative performance measures ('APMs')

The Group uses various non-statutory measures of performance, or APMs. Such APMs are used by management internally to monitor and manage the Group's performance and also allow the reader to obtain a proper understanding of performance (in conjunction with statutory financial measures of performance). The APMs used by QinetiQ are set out below:

Measure	Explanation	Note reference to calculation or reconciliation to statutory measure
Organic growth	The level of period-on-period 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.	Note 2
Underlying operating profit	Operating profit as adjusted to exclude 'specific adjusting items'.	Note 2
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue.	Note 2
Underlying net finance income/expense	Net finance income/expense as adjusted to exclude 'specific adjusting items'.	Note 6
Underlying profit before/after tax	Profit before/after tax as adjusted to exclude 'specific adjusting items'.	Note 3
Underlying effective tax rate	The tax charge for the period excluding the tax impact of 'specific adjusting items' expressed as a percentage of underlying profit before tax.	Note 7
Underlying basic and diluted EPS	Basic and diluted earnings per share as adjusted to exclude 'specific adjusting items'.	Note 8
Specific adjusting items	Amortisation of intangible assets arising from acquisitions; acquisition-related costs; impairment of property; gains/losses on disposal of property, investments and intellectual property; net pension finance income; pension past service costs, acquisition costs; tax impact of the preceding items; and significant non-recurring tax movements.	Note 3
Orders	The level of new orders (and amendments to existing orders) booked in the period.	N/A
Backlog, funded backlog or order book	The expected future value of revenue from contractually committed and funded customer orders.	N/A
Book to bill ratio	Ratio of funded orders received in the period to revenue for the period, adjusted to exclude revenue from the 25-year LTPA contract due to the significant size and timing differences of LTPA order and revenue recognition which may distort the ratio calculation.	N/A
Net cash	Net cash as defined by the Group combines cash and cash equivalents with other financial assets and liabilities, primarily available for sale investments, derivative financial instruments and lease assets/ liabilities.	Note 9
Underlying net cash flow from operations	Net cash flow from operations before cash flows of specific adjusting items.	Note 10
Underlying operating cash conversion	The ratio of underlying net cash flow from operations to underlying operating profit.	Note 10
Free cash flow	Underlying net cash flow from operations less net tax and interest payments less purchases of intangible assets and property, plant and equipment plus proceeds from disposal of plant and equipment.	Note 10