Interim Results

12 November 2020

Emerging with strength and agility to accelerate our global growth

Results for six months to 30 September 2020 ('H1 2021')

	Statutory results		Underlying* results	
	H1 2021	H1 2020	**H1 2021**	H1 2020
Revenue	**£603.2m**	£486.5m	**£603.2m**	£486.5m
Operating profit	**£61.6m**	£68.5m	**£69.0m**	£59.7m
Profit after tax	**£74.2m**	£62.2m	**£57.6m**	£52.0m
Earnings per share	**13.0p**	11.0p	**10.1p**	9.2p
Interim dividend per share	**2.2p**	2.2p	**2.2p**	2.2p
Total funded order backlog			**£3,087.2m**	£3,083.6m
Total orders in the period			**£562.9m**	£410.8m
Net cash flow from operations	**£91.8m**	£77.0m	**£92.7m**	£77.0m
Net cash	**£112.7m**	£173.5m	**£112.7m**	£173.5m

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

Strong recovery performance through COVID-19 crisis

- 37% increase in orders, 17% on an organic basis, driven by EDP and MTEQ contribution
- 24% revenue growth, 8% on an organic basis, primarily driven by EMEA Services
- Underlying operating profit up 16%, flat on an organic basis, with a strong recovery in Q2
- Statutory operating profit down 10% due to a prior year £13m property disposal gain
- Strong cash performance with 134% underlying cash conversion pre-capex
- Underlying EPS up 10%; 2.2p interim dividend declared – one third of FY20 full year dividend

Strategic focus delivering solutions for our customers

- Strong growth from EDP, with £367m orders since inception at the half, £500m as at today
- 2 year LTPA transition programme ahead of schedule
- International revenue grown from £76m in FY17 H1 to £213m in FY21 H1, 35% of Group
- Portfolio optimisation with the acquisition of Naimuri and disposal of two non-core assets, Boldon James in the first half and Commerce Decisions after the end of the half

Renewed ambition and strategy to accelerate growth

- Increasing full year guidance for Group performance – expect to deliver low double-digit revenue growth (low to mid-single digit on organic basis) with FY margin consistent with the first half
- Drive sustainable growth, remaining vigilant about the potential risk of further impact from COVID-19: c.£575m revenue under contract for H2 versus c.£450m in prior year
- Embed and invest in the evolved strategy to meet needs of a new world

Steve Wadey, Group Chief Executive Officer said:

"We have delivered an excellent first half performance despite a challenging environment. The resilience and determination of our people, who have continued to deliver for our customers in uncertain times has been outstanding and I would like to thank them for their contribution.

We are entering the second half with confidence, with a significant order backlog, strong customer focus and an evolved strategy reflecting the increasing ambition of the Group and changing customer needs. We are increasing our full year guidance whilst proactively managing the potential risks from further COVID-19 disruption."

Interims results presentation:
Results will be webcast at 10.00 hours UK time on 12 November 2020. Follow the below link to register for the event:
https://qinetiqevents.webex.com/qinetiqevents/onstage/g.php?MTID=e8db73196dbd61b0eb601ac4e15a4090c

Inside information
This announcement contains inside information and the person responsible for making this announcement is Jon Messent, Company Secretary.

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.

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Basis of preparation:
Throughout this Interim Report, certain measures are used to describe the Group's financial performance which are not recognised under IFRS or other generally accepted accounting principles (GAAP). 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 (FY21, FY20, 2021, 2020) refer to the year ended 31 March. H1 2021 and H1 2020 refer to the six months ended 30 September.

Chief Executive Officer's Review

We delivered a good performance in the first half of the year and are on-track for our fifth consecutive year of organic growth, despite experiencing disruption in the first quarter. We grew orders by 37% (17% on an organic basis) and delivered revenue growth of 24% (8% on an organic basis), with operating profit margins within our short-term target range at 11.4% growing operating profit by 16% (flat on an organic basis). We also delivered a strong cash performance with 134% underlying cash conversion before capital expenditure. International revenue now represents 35% of Group revenue (H1 2020: 31%).

Strong organic growth was complemented by revenue and profit contribution from recently acquired businesses. This includes the advanced sensing solutions business formerly known as MTEQ, acquired in December 2019, training specialist NSC, acquired in February 2020 and Naimuri, a specialist in software development and data analytics, acquired in July 2020. This contribution was partially offset by the disposal of Boldon James in June 2020. These transactions were all strategy-led and reflect our ambition to grow the company by delivering mission-led innovation for our customers' advantage.

The integration of our US operations into a single unified business is progressing well, with the Special Security Agreement (SSA) now formalised, replacing the previous Proxy Agreement and improving our ability to govern our US operations and collaborate across the Group.

Successfully mitigating the challenges of COVID-19

The COVID-19 pandemic has had a profound impact on people and our society throughout 2020. With a long-term vision-based strategy focused on anticipating and adapting to customer needs, a strong balance sheet and a significant order backlog, QinetiQ is well placed to continue delivering growth through these difficult times.

Our response has focused on our three strategic priorities of protecting the health and wellbeing of our employees, continuing to deliver critical work for our customers and maintaining the strength of QinetiQ for the long-term. We have adopted a three phase approach to working through the COVID-19 pandemic:

1. Resilience phase – As we entered the COVID-19 crisis, we took necessary and decisive action to maintain the strength of our company and ensure we retained the critical skills and capabilities to drive long-term growth. We implemented a series of short-term temporary actions which included temporary salary reductions, stringent cost control, incentives paid in shares and deferral of the dividend decision. The actions taken increased the resilience of the company, allowing us to maintain a strong balance sheet and to position the company for growth as we emerge from the crisis.
2. Recovery phase – In the second quarter we successfully shifted focus to driving our recovery performance across the Group. Our focus on recovery mirrored our customers' imperative and delivered good revenue and profit performance during the second quarter, enabling us to remove the temporary measures, reinstate guidance and confirm payment of the deferred dividend.
3. Renewal phase – In the second half of the financial year we have set out a renewed ambition and evolved strategy to accelerate sustainable growth, whilst being mindful of the potential risk of further impact due to the pandemic. We have adapted to our 'new normal' ways of working with distributed and hybrid team working, delivering effectively and efficiently for our customers.

Significant strategic progress

Despite the global COVID-19 pandemic we continued to focus on executing our strategy and made significant strategic progress during the first half of 2020:

- Delivering on the LTPA – we are continuing to execute the modernisation programme, delivering successfully against all contractual KPIs and exceeding expectations. We are demonstrating the resilience of our operations with all sites remaining operational and significant volumes of activity throughout the COVID pandemic.
- Leveraging our capabilities into the global test and evaluation (T&E) market – we are successfully leveraging our UK T&E skills and experience into the global market, with wins in Australia and Canada.
- International exploitation of our UK LTPA ranges – we are successfully increasing international customers' use of LTPA ranges, including a five year contract signed with the US Air Force to train at MOD Aberporth and MOD Hebrides.
- Engineering Delivery Partner growth (EDP) – EDP is demonstrating fast growth, surpassing 1,000 tasks and £367m of orders since inception in October 2018 to the end of September 2020 and over £500m of orders to today, delivering improved supply-chain collaboration, better programme performance and long-term savings for the UK MOD.
- Becoming a strategic partner to Defence Digital (MOD's digital and information technology organisation) – winning further programmes with Defence Digital and Defence Intelligence.
- Portfolio optimisation – strategy-led decisions taken to optimise the portfolio with the disposal of non-core assets Boldon James in the first half and Commerce Decisions in the second half, for a combined enterprise value of £38.5m; and acquisition of Naimuri, for an enterprise value of £25m to support strategically aligned growth.

Further detail is provided in the Operating Review section.

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 including data and information capability. 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.

Evolution of the strategy to accelerate future growth

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. Based on our updated guidance for FY21 (compared to FY16) we will have delivered 60% revenue growth and 28% operating profit growth, more than doubled our order backlog, increased our qualified order pipeline by three times to over £6bn and increased our 30 month forward revenue under contract by 55%. We have made seven acquisitions and two disposals, invested significantly to drive organic growth and modernised the LTPA contract and relationship with the UK MOD.

In light of our growth to date we are now evolving our strategy to reflect our global business, our distinctive offerings, and the innovative approach we take to solving our customers' problems. 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

Our renewed ambition is to accelerate our growth trajectory, delivering mission-led innovation for our customers at scale and increasing our international revenue from 35% to over 50%. We will invest further in the company over the next few years to step ahead, in our digital transformation programme, in further strategic acquisitions, in our people and in our capabilities, with a keen focus on delivering a strong return on capital (ROCE) for our shareholders.

A key aspect of our evolved strategy is a strong and increasing focus on environmental, social and corporate governance (ESG) factors, with clarity that this growth will be delivered responsibly, sustainably and for the benefit of all stakeholders. Our purpose is protecting lives, defending sovereign capability and securing the vital interests of our customers. We are fulfilling this through the delivery of virtual training to complement live training, hybrid electric drive technology, and technology that advances our understanding of climate change, such as the ALTIUS satellite we are building on behalf of the European Space Agency to map atmospheric ozone levels.

Outlook – FY21

On 30 September 2020 we reinstated guidance for the full year indicating we would deliver results modestly ahead of published consensus. Although there is still uncertainty around how the pandemic may develop and impact customer behaviour and operations over the coming months, with nearly £1.2bn of FY21 revenue already delivered or under contract we are again increasing full year guidance.

We now expect to deliver low double-digit revenue growth (low to mid-single digit revenue growth on an organic basis) with operating profit margins broadly consistent with our first half performance, reflecting lower COVID-19 impacts but higher digital transformation investment in the second half. Delivering this guidance will result in the Group's FY21 results being modestly ahead of current average consensus expectations*. Cash flow and capex guidance remains as provided on 30 September 2020.

* Average (mean) consensus for FY21 as at 11 November 2020: Revenue £1,146m, Operating Profit £130m

Outlook – Longer term

Longer-term, we have a renewed ambition and 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.

While we are maintaining our medium to long-term operating margin guidance of 12-13%, in the short-term we anticipate margins being around 100 basis points below this target. This reflects COVID-19 related disruption, increased investment in our digital transformation programme and the evolution of our business mix with the acquisition of MTEQ and growth of EDP.

Chief Financial Officer's Review

Operating performance

We delivered a strong performance in the period with orders of £562.9m, compared to £410.8m in the same period a year ago. Excluding foreign exchange and the impact of acquired businesses and disposals, orders grew organically by £67.7m (17%). This increase was primarily driven by the continued growth of EDP.

Revenue visibility remains good and the Group's total funded order backlog at 30 September 2020 stood at £3.1bn, the same as the comparable period last year. At the start of H2 2021, the Group had around £575m of H2 FY21 revenue under contract. This compares with circa £450m of H2 FY20 revenue at the same time last year.

Revenue was £603.2m (H1 2020: £486.5m), up 8% on an organic basis. Overall organic growth was principally due to the increase of revenue in EMEA Services which was up 13% 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 8% organically, due to COVID-19 related impact on QTS and OptaSense sales.

Underlying operating profit of £69.0m (H1 2020: £59.7m) was up 16%, including ~£2m non-recurring trading items (H1 2020: ~£2m). There was also a contribution of £8.7m from the two businesses (MTEQ and NSC) which were acquired in H2 2020 and a small contribution of £0.6m from the Naimuri business acquired in H1 2021.

Excluding the non-recurring trading items, adjusting for the impact of acquisitions, disposals and the effect of foreign exchange, underlying operating profit was flat on an organic basis. Organic operating profit in Global Products decreased by £10.0m (72%) during H1 2021 primarily as a result of COVID-19 impacting QTS and OptaSense sales. This was offset by EMEA services which saw a 22% organic increase in profit following an increase in revenue and volumes as well as improvement in project margins.

Statutory operating profit, including the impact of specific adjusting items, was £61.6m (H1 2020: £68.5m). Current period specific adjusting items reduced operating profit by £7.4m (H1 2020: £8.8m increase to operating profit) and included £5.5m amortisation of acquired intangibles. (See note 3 for full details of all specific adjusting items).

Net finance costs

Net finance income was £2.6m (H1 2020: £2.8m) primarily reflecting the defined benefit pension net finance income of £3.5m (H1 2020: £3.2m) partially offset by lease interest expense. The year-on-year decrease reflects the reduced pension surplus following the buy-in in H2 of 2020.

The underlying net finance expense was £0.9m (H1 2020: £0.4m) reflecting lower interest income.

Tax

The total tax charge is £9.5m (H1 2020: £9.1m). The underlying tax charge of £10.5m (H1 2020: £7.3m) is calculated by applying the expected effective tax rate of 15.4% for the year ending 31 March 2021 to the Group's underlying profit before tax for the six months to 30 September 2020 (H1 2020: 12.3%).

The 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 effective tax rate before the impact of RDEC would be 19.4%. The 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.

The total tax income on specific adjusting items of £1.0m (H1 2020: £1.8m expense) arises mainly in respect of amortisation of intangibles arising on acquisition. The gain on business divestments in the current year (note 3) was non-taxable. The H1 2020 expense was mainly in respect of a capital gain on sale of property.

Earnings per share

Underlying basic earnings per share for the Group were 10.1p (H1 2020: 9.2p), with the increase primarily due to the contribution from acquired businesses. Statutory basic earnings per share for the total Group (including specific adjusting items) were 13.0p (H1 2020: 11.0p) with the current year enhanced by the £19.5m gain on disposal of Boldon James.

Dividend

The final dividend in respect of the year ended 31 March 2020, usually payable in August, had been deferred whilst the impact of COVID-19 on the Company was being assessed. Due to the success of the Company's COVID-19 mitigating actions and a strong cash performance in the first half of 2021, the final dividend for 2020 will now be paid on 16 November 2020. The final dividend per share of 4.4p ensures that the total dividend for 2020 remains at the same level (of 6.6p) as the prior year.

An interim dividend of 2.2p (H1 2020: 2.2p) will be paid on 5 February 2021 to shareholders on the register at 8 January 2021. The interim dividend represents one third of the prior year total dividend reflecting our previously communicated methodology. The full year dividend will be set in May.

Cash performance

The Group delivered strong cash performance during H1 2021, with underlying net cash flows from operations of £92.7m (H1 2020: £77.0m), resulting in cash conversion before capital expenditure of 134% (H1 2020: 129%).

Working capital outflow was £10.7m in H1 2021 compared with £5.1m in H1 2020. We anticipate the potential for further working capital outflow by the year end depending upon trading performance.

Net capex for the period was £42.3m (H1 2020: £38.8m). 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 £80-90m.

At 30 September 2020 the Group had £112.7m net cash, compared to £84.7m at 31 March 2020. Retaining a strong balance sheet to manage any potential short-term uncertainty related to COVID-19 and to support investment in our long-term growth strategy is critical.

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 bolt-on 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.

Committed facilities

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

Pensions

The net pension asset under IAS 19, before adjusting for deferred tax, was £250.7m (31 March 2020: £309.7m). The key driver for the decrease in the net pension asset since the March 2020 year end was a decrease in discount rates and an increase in inflation that both contributed to an increase in the scheme liabilities, partially offset by an increase in asset values.

The key assumptions used in the IAS 19 valuation of the scheme are set out in note 13.

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 2021	**H1 2020**
£/US$ - average	1.28	1.25
£/US$ - closing	1.29	1.23
£/US$ - opening	1.24	1.30
£/A$ - average	1.84	1.82
£/A$ - closing	1.80	1.82
£/A$ - opening	2.03	1.80

Trading environment

Our three home countries are the UK, US and Australia and our three priority countries, which will help drive future growth, are Canada, Germany and Belgium. We operate in-country in these six markets which collectively represent 98% of our revenue.

UK

In the UK the Integrated Review will determine the future of UK defence and security policy. While it is unclear when this Review will report, it is likely to emphasise the importance of information advantage and next generation technologies, as well as the need for improved integration between existing platforms, forces and allies to create interconnected systems, an approach that is critical to countering modern threats. We possess significant experience in conducting complex Test & Evaluation and training exercises, which are both critical to advancing interoperability between platforms, forces and nations. In addition, with a growing cyber capability and track record of working collaboratively with the customer to solve complex challenges whilst delivering savings in all domains, we believe we are well positioned to support UK customers as they balance investment in existing platforms with the development of new technologies and adapt to the evolving threat environment.

US

The US is the largest defence budget in the world, with an FY21 budget request of $716bn. In September 2020 a continuing resolution was passed, maintaining defence funding at the FY20 level through to December. President Elect Joe Biden has said he has no plans to cut defence spending and with a difficult geopolitical environment and increasingly contested technological advantage, it is likely that investment in key modernisation programmes and emerging technologies will be maintained. Our US operation has a strong reputation for delivering mission-led innovation, with expertise in autonomy, robotics and sensing solutions. 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 our US business is well positioned to continue delivering next generation capabilities to the customer, driving growth.

Australia

Australia published its Defence Strategic Update and Force Structure Plan in July 2020 in light of an increasingly tense and more contested environment in the Indo-Pacific region. With a higher perceived likelihood of conflict in the region, Australia is placing a focus on force readiness and domestic supply chains, as well as accelerating its investment to modernise defence capabilities. Over the next decade total funding in capability investment will be AUD 270bn with defence spending no longer tied to GDP. As Australia accelerates the modernisation of existing capabilities and creates new ones, we see opportunities to expand our Research, Development, Test & Evaluation offering in the region building on recent contract wins such as the contract to design and construct an unmanned aerial systems flight test range in Queensland.

Broader international markets

A core pillar of our strategy is to leverage our global capabilities to support growth. Therefore, in order to continue expanding our international presence we 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. Our priority countries to expand are Canada, Germany and Belgium and while we are focused on leveraging the skills and experience developed in our home countries to support growth in these priority countries, we also see opportunities to leverage capabilities in our priority countries to support growth in our home countries.

Operating review

EMEA Services

	H1 2021 £m	H1 2020 £m
Orders (incl. JVs)[1]	403.9	308.4
Revenue	425.4	369.1
Underlying operating profit*	57.9	46.2
Underlying operating margin*	13.6%	12.5%
Book to bill ratio[(2)]	1.3x	1.2x
Funded order backlog excl. LTPA	940.3	823.8
Total funded order backlog incl. LTPA	2,786.9	2,872.0

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary.
(1) 2020 excludes LTPA contract amendment signed 5 April 2019.
(2) 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 31% to £403.9m (H1 2020: £308.4m), driven by the ongoing growth of EDP as well as numerous greater than £5m orders across the business.

Revenue increased 13% on an organic basis as a result of new work delivered under EDP and the growth of the Major Service Provider (MSP) contract in Australia.

Underlying operating profit grew to £57.9m (H1 2020: £46.2m), including a ~£2m benefit from non-recurring trading items in H1 2021 (H1 2020: ~£2m). There was also a contribution of £1.9m from the NSC and Naimuri businesses acquired in H2 2020 and H1 2021 respectively which were not in the comparator period. Excluding non-recurring trading items, acquisitions and foreign exchange, underlying operating profit was up 22% (H1 2020: 3%) with margins elevated by improvements in long-term contract project margins.

Including the LTPA, approximately 69% of EMEA Services revenue is derived from single source contracts (H1 2020: approximately 70%). By investing in our core contracts and extending their duration we have increased the proportion of single source revenue contracted on a long-term basis providing visibility and reducing our exposure to future changes in the baseline profit rate set annually by the Single Source Regulations Office.

Business Unit commentary

Air & Space (25% 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) has continued to drive performance, surpassing 1,000 tasks and £367m of orders since inception in October 2018 to the end of September 2020 and over £500m of orders to today.
- In the first half we contracted £129m of orders including a £30m five year contract to provide mission data and technical assurance services to the RAF Typhoon Delivery Team and a £13.5m contract for technical support services to the P8 platform.
- QinetiQ has signed a pre-collaboration agreement to work alongside industry partners and the UK MOD on the UK's next generation fighter concept known as Tempest. Drawing on our

extensive T&E expertise and investment in new digital techniques we will provide capability assurance, helping streamline the development programme while also exploring how our advanced technologies could be used to enhance operational capability of the platform.
- In June 2020 we completed an Army Warfighting Experiment, with an airborne team comprising a manned helicopter and semi-autonomous unmanned aircraft working together to identify targets, the first time such a trial has taken place in the UK.

Maritime & Land (38% of EMEA Services revenue)

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

- All LTPA ranges have remained fully operational throughout the COVID-19 crisis to support critical national defence outputs. As we transition to new ways of working under the LTPA transformation programme we are successfully delivering against all key milestones, with numerous investment projects under way and a number already completed.
- Leveraging our investment in UK T&E, we were awarded a $27m contract with the US Air Force to provide training events and targets, utilising facilities at MOD Aberporth and MOD Hebrides ranges.
- In June 2020, alongside industry partners MBDA and Thales, we were appointed to lead the Weapons Sector Research Framework (WSRF) by DSTL, expected to be worth £300m over five years. The framework, which brings together over 70 industry and academic partners to develop and exploit technology for the benefit of UK, replaces the previous Weapons Science and Technology Centre (WSTC) contract, with a broader scope of research activities including directed energy weapons.

Cyber & Information (26% 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.

- As cyber capabilities and informational advantage become increasingly critical we are seeing growing demand for C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance) services across UK markets.
- We are classified as a key strategic partner to Defence Digital, the MOD’s digital and information technology organisation, and expect to continue delivering excellent growth within our Cyber and Information division.
- Following the disposal of Boldon James in June for £30m, in July 2020 we acquired Naimuri, a leading software development and data analytics company for £25m, net of cash received. Naimuri partners with QinetiQ on a number of key programmes delivering mission-led innovation to UK intelligence and law enforcement customers. We aim to invest in their capabilities to drive growth in existing security markets but also in defence markets.
- The disposal of a non-core product based business and reallocation of capital to acquire a capability that is strategically aligned and highly complementary, demonstrates stringent capital allocation to support long-term growth and create shareholder value.
- Both NSC and Inzpire are performing in line with expectations, delivering good growth.

International (11% of EMEA Services revenue)

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

- Performance in Australia remains strong and in June 2020 we were awarded a contract to design and construct an unmanned aerial systems (UAS) flight test range in Queensland. This demonstrates excellent progress in leveraging our UK T&E expertise to support international growth.

- In Canada we are making good progress and secured a contract to develop a roadmap for the modernisation of Royal Canadian Air Force (RCAF) air weapons ranges. This is a critical step in accommodating Canada's next generation of fighter aircraft and a major step in becoming a trusted partner in the region.
- In Germany despite COVID-19 impacting flying hours in Q1, in Q2 flying activity recovered strongly resulting in flying hours on our main contracts ahead of prior year. We secured a 12 month contract renewal for the delivery of Slow Speed Aerial Target Services and believe we are well positioned for growth in Germany.

Global Products

	H1 2021 £m	H1 2020 £m
Orders	159.0	102.4
Revenue	177.8	117.4
Underlying operating profit*	11.1	13.5
Underlying operating margin*	6.2%	11.5%
Book to bill ratio	0.9x	0.9x
Funded order backlog	300.3	211.6

* 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 55% to £159.0m (H1 2020: £102.4m). This was driven by the H2 2020 MTEQ acquisition helping to offset an 18% organic decline due to the impact of COVID-19 on QTS and OptaSense sales.

Reported revenue was up 51% to £177.8m (H1 2020: £117.4m), due to the acquisition of MTEQ. Revenue was down 8% (£9.4m) on an organic, constant currency basis due to the COVID-19 impact on QTS and OptaSense.

Underlying operating profit decreased 18% to £11.1m (H1 2020: £13.5m), with an underlying operating profit margin of 6.2% (H1 2020: 11.5%). This was driven by decreased sales of higher margin QinetiQ Target Systems products due to the impact of COVID-19 and a loss at OptaSense.

Business Unit commentary

<u>United States (66% of Global Products revenue)</u>

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

- In July 2020 we signed an agreement with the Defense Counterintelligence & Security Agency enabling us to operate all of our US defence operations under a Special Security Agreement. This replaces the previous Proxy Agreement, fundamentally changing how we approach the world's largest defence market.
- Our US business has experienced some COVID-19 related impact, with contracting delays in the first half. However, despite this our US operation delivered modest revenue and profit growth in the first half compared to the prior period, when including MTEQ performance in the prior year comparator (before QinetiQ ownership).
- We won a number of notable contracts in the first half including: a $24m four year sensor services contract; a $21m three year contract to provide architecture and multi-modal sensor integration for mounted and dismounted war fighters; and three contracts totalling $47m across sensor research, development, engineering services.

Space Products (11% of Global Products revenue)

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

- We secured a new contract with the European Space Agency worth €8.5m for the development and production of microgravity based heat transfer experiments, expected to be installed on the International Space Station in 2026. This represents further progress as we build on our €4m investment into new, higher grade cleanroom facilities in Belgium.

OptaSense (4% of Global Products revenue)

OptaSense provides innovative fibre sensing solutions to deliver decision-ready data in multiple vertical markets.

- Performance at OptaSense remained challenging resulting in a loss in the period, impacted by weakness in Oil and Gas markets and COVID-19.

EMEA Products (19% 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.

- Working in partnership with BAE Systems, our E-X-Drive technology has been selected for use by the US Army for their prototype hybrid-electric Bradley Fighting Vehicle. This prototype contract is an excellent example of deploying our IP to support the modernisation and sustainability of existing platforms.
- QinetiQ Target Systems has experienced significant short-term disruption due to COVID-19. Trials and deployments were cancelled in light of travel restrictions around the world and while some customer trials have resumed we anticipate disruption continuing through the second half. Despite short-term disruption, as a provider of advanced target systems with complete integration into Test and Evaluation at an attractive price point, we believe the longer-term outlook for the business remains positive.
- In June 2020 we completed the sale of Boldon James to HelpSystems International Limited for an enterprise value of £30m. Boldon James provides data classification and secure email solutions, generating £9m in revenue in the year ended 31 March 2020.
- QinetiQ today announces it has reached an agreement to sell Commerce Decisions Ltd ("Commerce Decisions") to Harris Computer, a division of Constellation Software, for an initial consideration of £8.5m (on a cash free debt free basis) and deferred consideration of £1.5m dependent on performance to March 2022. QinetiQ acquired Commerce Decisions in 2008 and it has become a market leader providing software and consultancy services to enable some of the largest and most complex procurements around the world. In the year ended 31 March 2020 Commerce Decisions generated revenue of £8.3m. The decision to divest Commerce Decisions was a strategic choice to allow increased focus on our core capabilities.

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 annual report which is available for download at: https://www.qinetiq.com/en/investors

A summary of the significant risks and uncertainties is set out below:

Strategic risks

- UK Government budget constraints lead to reduced spending in core markets in which we operate. This and the ever increasing pace of modernising ways of evaluating capability results in a risk that our approaches/offerings may not remain relevant. There remains the potential for this risk to be exacerbated by the EU exit should the UK experience a loss of market confidence and further reduction in collaborative EU funding. In addition to this, the significant economic uncertainty and financial disruption created by the COVID-19 pandemic could impact on Defence spend and budgets;
- Plans to grow our international business may be impacted by external influences outside of our control, such as geopolitical risks, or specific risks arising from working in new markets and globalised operations;
- Failure to create a global culture encompassing new ways of working and innovation or to invest adequately in, or create value from, innovation, digital transformation and strategic workforce planning. As well as the risks arising from the introduction of disruptive technologies/alternative business models and digital transformation of our business;
- A material element of the Group's revenue is dependent on a number of large contracts: Government budget constraints could lead to a material change to these.

Operational risks

- Significant breach of relevant laws and regulations: the Group operates in highly regulated environments and recognises that non-compliance has the potential to compromise our ability to conduct business in certain jurisdictions and would potentially have an impact on a variety of stakeholders;
- Security and IT systems: a breach of physical or data security, cyber-attacks or IT systems failure could have an adverse impact on our and our customers' operations;
- COVID-19 Pandemic: COVID-19 and the associated public health management strategies may require QinetiQ, our customers and suppliers to stop or delay some activities resulting in impacts to QinetiQ operations.

Condensed consolidated income statement

All figures in £ million unless stated otherwise	Note	**H1 2021 (unaudited)** Underlying*	**Specific adjusting items***	**Total**	H1 2020 (unaudited) Underlying*	Specific adjusting items*	Total
Revenue	2	**603.2**	**-**	**603.2**	**486.5**	**-**	**486.5**
Operating costs excluding depreciation, impairment and amortisation		(513.8)	(1.9)	(515.7)	(409.0)	(1.4)	(410.4)
Other income		4.5	-	4.5	4.0	13.3	17.3
EBITDA (earnings before interest, tax, depreciation and amortisation)		**93.9**	**(1.9)**	**92.0**	**81.5**	**11.9**	**93.4**
Depreciation of property, plant and equipment		(22.9)	-	(22.9)	(20.0)	**-**	(20.0)
Amortisation of intangible assets		(2.0)	(5.5)	(7.5)	(1.8)	(3.1)	(4.9)
Operating profit/(loss)		**69.0**	**(7.4)**	**61.6**	**59.7**	**8.8**	**68.5**
Gain on divestment of business	5	-	19.5	19.5	-	-	-
Finance income	6	0.2	3.5	3.7	0.7	3.2	3.9
Finance expense	6	(1.1)	-	(1.1)	(1.1)	-	(1.1)
Profit before tax		**68.1**	**15.6**	**83.7**	**59.3**	**12.0**	**71.3**
Taxation (expense)/income	7	(10.5)	1.0	(9.5)	(7.3)	(1.8)	(9.1)
Profit for the period		**57.6**	**16.6**	**74.2**	**52.0**	**10.2**	**62.2**
Attributable to:							
Owners of the Company		57.4	16.6	74.0	51.9	10.2	62.1
Non-controlling interests		0.2	-	0.2	0.1	-	0.1
Profit for the period		**57.6**	**16.6**	**74.2**	**52.0**	**10.2**	**62.2**
Earnings per share for profit attributable to the owners of the Company							
Basic	8	**10.1**		**13.0**	9.2p		11.0p
Diluted	8	**10.0**		**12.9**	9.1p		10.9p

* 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 2021 (unaudited)**	H1 2020 (unaudited)
Profit for the period	**74.2**	**62.2**
Items that will not be reclassified to profit and loss:		
Actuarial (loss)/gain recognised in defined benefit pension schemes	**(62.0)**	31.2
Tax on items that will not be reclassified to the income statement	**11.8**	(5.3)
Total items that will not be reclassified to the income statement	**(50.2)**	**25.9**
Items that may be reclassified to profit and loss:		
Movement in deferred tax on foreign currency translation	0.3	(0.4)
Foreign currency translation (losses)/gains for foreign operations	(1.6)	7.5
Increase in fair value of hedging derivatives	0.4	0.9
Movement on deferred tax on hedging derivatives	(0.1)	(0.2)
Total items that may be reclassified to the income statement	**(1.0)**	**7.8**
Other comprehensive (expense)/income for the period, net of tax	**(51.2)**	**33.7**
Total comprehensive income for the period, net of tax	**23.0**	**95.9**

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 31 March 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 options	-	-	-	-	-	(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**
At 31 March 2019 (as originally stated)	**5.7**	**40.8**	**147.6**	**(0.2)**	**3.8**	**581.1**	**778.8**	**2.2**	**781.0**
Change in accounting policy – adoption of IFRS 16	-	-	-	-	-	(2.0)	(2.0)	-	(2.0)
At 31 March 2019 (restated)	**5.7**	**40.8**	**147.6**	**(0.2)**	**3.8**	**579.1**	**776.8**	**2.2**	**779.0**
Change in accounting policy – adoption of IFRIC 23	-	-	-	-	-	2.1	2.1	-	2.1
Profit for the period	-	-	-	-	-	62.1	62.1	0.1	62.2
Other comprehensive income for the period, net of tax	-	-	-	0.7	7.1	25.9	33.7	-	33.7
Purchase of own shares	-	-	-	-	-	(0.4)	(0.4)	-	(0.4)
Share-based payments charge	-	-	-	-	-	3.0	3.0	-	3.0
Deferred tax on share options	-	-	-	-	-	(1.0)	(1.0)	-	(1.0)
Dividends paid	-	-	-	-	-	(25.5)	(25.5)	-	(25.5)
At 30 September 2019 (unaudited)	**5.7**	**40.8**	**147.6**	**0.5**	**10.9**	**645.3**	**850.8**	**2.3**	**853.1**

Condensed consolidated balance sheet

All figures in £ million	Note	**30 September 2020 (unaudited)**	30 September 2019 (unaudited)	31 March 2020 (audited)
Non-current assets				
Goodwill		176.5	152.3	180.8
Intangible assets		143.9	90.0	138.9
Property, plant and equipment		389.7	333.4	375.6
Other financial assets		1.0	1.1	1.0
Equity accounted investments		3.5	3.3	3.6
Retirement benefit surplus	13	250.7	295.5	309.7
Deferred tax asset		13.3	8.9	13.3
		978.6	**884.5**	**1,022.9**
Current assets				
Inventories		50.1	49.2	52.3
Other financial assets		2.1	0.5	6.7
Trade and other receivables		263.1	178.3	250.0
Assets classified as held for sale	17	30.8	1.2	-
Current tax receivable		4.4	1.9	0.2
Cash and cash equivalents		141.1	201.2	105.8
		491.6	432.3	415.0
Total assets		**1,470.2**	**1,316.8**	**1,437.9**
Current liabilities				
Trade and other payables		(376.2)	(311.7)	(379.8)
Current tax payable		(2.1)	-	(4.1)
Provisions		(2.2)	(6.2)	(1.8)
Liabilities of disposal group classified as held for sale	17	(7.1)	-	-
Other financial liabilities		(8.2)	(9.3)	(8.9)
		(395.8)	**(327.2)**	**(394.6)**
Non-current liabilities				
Deferred tax liability		(97.1)	(87.6)	(101.3)
Provisions		(9.0)	(10.2)	(9.7)
Other financial liabilities		(23.3)	(20.0)	(19.9)
Other payables		(19.5)	(18.7)	(25.3)
		(148.9)	(136.5)	(156.2)
Total liabilities		**(544.7)**	**(463.7)**	**(550.8)**
Net assets		**925.5**	**853.1**	**887.1**
Capital and reserves				
Ordinary shares		5.7	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	0.5	0.4
Translation reserve		7.0	10.9	8.3
Retained earnings		721.1	645.3	681.9
Capital and reserves attributable to shareholders of the parent company		**922.9**	**850.8**	**884.7**
Non-controlling interest		2.6	2.3	2.4
Total shareholders' funds		**925.5**	**853.1**	**887.1**

Condensed consolidated cash flow statement

All figures in £ million	Note	**H1 2021 (unaudited)**	H1 2020 (unaudited)	Year ended 31 March 2020 (audited)
Underlying net cash inflow from operations		**92.7**	**77.0**	**177.8**
Less specific adjusting items	10	(0.9)	-	(11.3)
Net cash inflow from operations	10	**91.8**	**77.0**	**166.5**
Tax paid		(11.7)	(8.9)	(10.0)
Interest received		0.2	0.7	1.2
Interest paid		(0.8)	(0.9)	(1.7)
Net cash inflow from operating activities		**79.5**	**67.9**	**156.0**
Purchases of intangible assets		(6.6)	(7.1)	(16.7)
Purchases of property, plant and equipment		(35.7)	(33.3)	(92.7)
Proceeds from disposals of plant and equipment	10	-	-	1.6
Proceeds from sale of property		-	14.1	12.5
Proceeds from disposal of subsidiary (net of cash disposed)		26.6	-	-
Acquisition of businesses (net of cash acquired)		(24.6)	(0.1)	(90.2)
Net cash outflow from investing activities		**(40.3)**	**(26.4)**	**(185.5)**
Purchase of own shares		(5.2)	(0.4)	(0.7)
Dividends paid to shareholders		-	(25.5)	(38.0)
Payment of bank facility arrangement fee		(0.3)	(0.2)	(0.3)
Capital element of finance lease payments		(4.6)	(5.0)	(9.7)
Net cash outflow from financing activities		**(10.1)**	**(31.1)**	**(48.7)**
Increase/(decrease) in cash and cash equivalents		**29.1**	**10.4**	**(78.2)**
Effect of foreign exchange changes on cash and cash equivalents		6.2	-	(6.8)
Cash and cash equivalents at beginning of period		105.8	190.8	190.8
Cash and cash equivalents at end of period		**141.1**	**201.2**	**105.8**

Reconciliation of movement in net cash

All figures in £ million	Note	**H1 2021 (unaudited)**	H1 2020 (unaudited)	Year ended 31 March 2020 (audited)
Increase/(decrease) in cash and cash equivalents		**29.1**	**10.4**	**(78.2)**
Add back net cash flows not impacting net cash		4.9	5.2	10.0
Change in net cash resulting from cash flows		**34.0**	**15.6**	**(68.2)**
Lease liabilities derecognised on disposal of subsidiary		0.4	-	-
Leases liabilities recognised on acquisition of subsidiary	4	(1.3)	-	(2.7)
Net increase in lease obligation		(7.6)	(3.1)	(4.0)
Other movements including foreign exchange		2.5	(0.3)	(0.9)
Increase/(decrease) in net cash as defined by the Group		**28.0**	**12.2**	**(75.8)**
Net cash as defined by the Group at beginning of the period		84.7	161.3	160.5
Net cash as defined by the Group at end of the period	9	**112.7**	**173.5**	**84.7**
Less: non-cash net financial liabilities	9	28.4	27.7	21.1
Total cash and cash equivalents	9	**141.1**	**201.2**	**105.8**

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 2020 comprise statements for the Company and its subsidiaries (together referred to as the 'Group') and were approved by the Board of Directors on 12 November 2020.

These condensed Group interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU 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 434 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 2020 which have been prepared in accordance with IFRS as adopted by 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. Underlying measures of performance exclude specific adjusting items. Specific adjusting items include:

Item	Distorting due to irregular nature year on year	Distorting due to fluctuating nature (size and 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.

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 2020.

The Group recognises an expense and liability for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation. Historically, bonuses have been paid in cash and the plan is to continue to pay future bonuses in cash. However, due to the COVID-19 pandemic, the Group has implemented short term actions which included a decision to temporarily settle bonus incentives in shares, rather than cash, to allow the Group to maintain a strong balance sheet. Accordingly, last year's bonus that had previously been treated as a financial liability as at 31 March 2020, has been reclassified as an equity-settled liability in the period.

Recent accounting developments adopted by the Group

The following EU-endorsed amendments are effective for accounting periods beginning on or after 1 January 2020 and have been adopted with no material impact on the Group's financial statements:

Business combinations (definition of a business) – amendment to IFRS 3
The amendment will help improve the definition of a business and help companies determine whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in form of dividends, lower costs or other economic benefits to investors and others.

Interest rate benchmark reform – amendments to IFRS 9, IAS 39 and IFRS 7
These amendments consider reliefs to hedge accounting in the period before the reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. The relief provided by the amendments requires an entity to assume that the interest rate on which the hedge cash flows are based does not change as a result of the reform.

Going-concern basis

The Group meets its day-to-day working capital requirements through its available cash funds and its bank facilities. The COVID-19 crisis has introduced considerably more uncertainty across markets globally. As such the market conditions in which the Group operates have been, and are expected to continue to be, challenging as spending from the Group's key customers in its primary markets in the UK and US remains under pressure. Despite these challenges, and considering the decisive action already taken by management to maintain the strength of the business, the Directors believe that the Group is well positioned to manage its overall business risks successfully. After making enquiries, 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.

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.

Comparative data

The comparative figures for the year ended 31 March 2020 (and half year ended 30 September 2019) 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 2020 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 2020 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 2021 (unaudited)**	H1 2020 (unaudited)
Service contracts with customers	552.2	426.9
Sale of goods contracts with customers	47.2	55.0
Royalties and licences	3.8	4.6
Revenue	**603.2**	**486.5**
Less: adjust current year for of acquired businesses*	(79.6)	-
Less: adjust prior year for disposed businesses*	-	(1.5)
Adjust to constant prior year exchange rates	0.6	-
Total revenue on an organic, constant currency basis	**524.2**	**485.0**
Organic revenue growth at constant currency	***8%***	*10%*

*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 2021 (unaudited)**	H1 2020 (unaudited)
Share of joint ventures' and associates' loss after tax	(0.2)	(1.0)
Other income	4.7	5.0
Other income – underlying	**4.5**	**4.0**
Specific adjusting item: gain on sale of property	-	13.3
Total other income	**4.5**	**17.3**

Revenue by customer geographical location

For the six months ended 30 September

All figures in £ million	**H1 2021 (unaudited)**	H1 2020 (unaudited)
US	120.2	52.5
Australia	39.7	32.6
Europe	41.8	37.5
Middle East	2.0	8.9
Rest of World	9.5	19.3
International (35% and 31% of total revenue for H1 2021 and H1 2020 respectively)	**213.2**	**150.8**
United Kingdom	390.0	335.7
Total revenue	**603.2**	**486.5**

Revenue by major customer type

For the six months ended 30 September

All figures in £ million	**H1 2021 (unaudited)**	H1 2020 (unaudited)
UK Government	373.2	306.6
US Government	98.9	43.4
Other	131.1	136.5
Total revenue	**603.2**	**486.5**

'Other' does not contain any customers with revenue in excess of 10% of total Group revenue.

Operating segments

For the six months ended 30 September

All figures in £ million	**H1 2021 (unaudited)**		H1 2020 (unaudited)	
	Revenue from external customers	**Underlying operating profit***	Revenue from external customers	Underlying operating profit*
EMEA Services	425.4	57.9	369.1	46.2
Global Products	177.8	11.1	117.4	13.5
Total operating segments	**603.2**	**69.0**	**486.5**	**59.7**
*Underlying operating margin**		*11.4%*		*12.3%*

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

Reconciliation of segmental results to total profit

For the six months ended 30 September

All figures in £ million	Note	**H1 2021 (unaudited)**	H1 2020 (unaudited)
Underlying operating profit		69.0	59.7
Specific adjusting items operating (loss)/profit	3	(7.4)	8.8
Operating profit		**61.6**	**68.5**
Gain on divestment of business		19.5	-
Net finance income		2.6	2.8
Profit before tax		**83.7**	**71.3**
Taxation expense		(9.5)	(9.1)
Profit for the period attributable to equity shareholders		**74.2**	**62.2**

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 2021 (unaudited)**	H1 2020 (unaudited)
Gain on sale of property		-	13.3
Acquisition costs		(0.9)	(1.4)
Acquisition related remuneration		(1.0)	-
Specific adjusting items before amortisation, depreciation and impairment		**(1.9)**	**11.9**
Amortisation of intangible assets arising from acquisition		(5.5)	(3.1)
Specific adjusting items operating (loss)/profit		**(7.4)**	**8.8**
Defined benefit pension scheme net finance income		3.5	3.2
Gain on divestment of business	5	19.5	-
Specific adjusting items profit before tax		**15.6**	**12.0**
Specific adjusting items - tax	7	1.0	(1.8)
Total specific adjusting items profit after tax		**16.6**	**10.2**

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

All figures in £ million	**H1 2021 (unaudited)**	H1 2020 (unaudited)
Underlying profit after tax	57.6	52.0
Total specific adjusting items profit after tax (see above)	16.6	10.2
Total profit for the period attributable to equity shareholders	**74.2**	**62.2**

4. Business combinations

Acquisition 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 year of £0.9m are reported separately within operating cash flow and operating profit (note 3).

Naimuri Limited
On 13 July 2020 the Group acquired 100% of the issued share capital of Naimuri for £28.4m (£24.4m net of cash acquired). Naimuri is a leading software development and data analytics company, providing agile cloud-based services and technology to the UK Intelligence and Law Enforcement communities. QinetiQ partners with Naimuri on several critical programmes and delivering mission-led innovation around data-intensive challenges and will invest and build upon Naimuri's strong capabilities in data analytics, data intelligence and agile software development to meet customer needs and drive growth in both the security and defence sectors. Naimuri will be reported in EMEA Services, managed within the Cyber & Information business. If the acquisition had occurred on the first day of the financial year, Group revenue for the period would have been £606.1m and the Group profit before tax would have been £84.3m.

Identifiable assets acquired and liabilities assumed
The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition and the adjustments required to the book values of the assets and liabilities in order to present the net assets of these businesses at fair value and in accordance with Group accounting policies. The fair values remain provisional, but will be finalised within 12 months of acquisition.

All figures in £ million	**Note**	**Book value**	**Fair value adjustment**	**Fair value at acquisition**
Intangible assets		-	11.2	11.2
Property, plant and equipment		1.6	-	1.6
Trade and other receivables		2.0	-	2.0
Cash and cash equivalents		4.0	-	4.0
Trade and other payables		(1.3)	-	(1.3)
Lease liabilities		(1.3)	-	(1.3)
Corporation tax		0.1	-	0.1
Deferred tax asset		0.1	-	0.1
Deferred tax liabilities		-	(2.1)	(2.1)
Net assets acquired		**5.2**	**9.1**	**14.3**
Goodwill				14.1
Consideration				**28.4**

The consideration of £28.4m was satisfied entirely in cash in the financial period, with no deferred consideration.

The fair value adjustments include £11.2m in relation to the recognition of acquired intangible assets of which £9.3m relates to customer relationships and £1.9m relates to existing technology. The goodwill is attributable mainly to the skills and technical talent of the Naimuri's work force and the synergies expected to be achieved from integrating the company into the Group's existing business.

5. Gain on business divestments

All figures in £ million	H1 2021 (unaudited)	H1 2020 (unaudited)
Gain on business divestments	**19.5**	**-**

The gain on business divestments relates to the sale of the Boldon James Limited business on 24 June 2020 for consideration before costs of £31.9m and a gain on disposal of £19.5m. Proceeds received in the period, net of transaction costs and cash divested with the business, were £26.6m. There is no deferred consideration receivable.

6. Finance income and expense

All figures in £ million	H1 2021 (unaudited)	H1 2020 (unaudited)
Receivable on bank deposits	0.2	0.7
Underlying finance income	**0.2**	**0.7**
Amortisation of recapitalisation fee	(0.2)	(0.2)
Interest on bank loans and overdrafts	(0.3)	(0.4)
Lease expense	(0.5)	(0.5)
Unwinding of discount on financial liability	(0.1)	-
Underlying finance expense	**(1.1)**	**(1.1)**
Underlying net finance expense	**(0.9)**	**(0.4)**
Specific adjusting items:		
Defined benefit pension scheme net finance income	3.5	3.2
Net finance income	**2.6**	**2.8**

7. Taxation

	H1 2021 (unaudited)			H1 2020 (unaudited)		
All figures in £ million unless stated otherwise	**Underlying**	**Specific adjusting items**	**Total**	Underlying	Specific adjusting items	Total
Profit before tax	**68.1**	**15.6**	**83.7**	**59.3**	**12.0**	**71.3**
Taxation (expense)/income	(10.5)	1.0	(9.5)	(7.3)	(1.8)	(9.1)
Profit for the period attributable to equity shareholders	**57.6**	**16.6**	**74.2**	**52.0**	**10.2**	**62.2**
Effective tax rate	**15.4%**			**12.3%**		

The total tax charge is £9.5m (H1 2020: £9.1m). The underlying tax charge of £10.5m (H1 2020: £7.3m) is calculated by applying the expected effective tax rate of 15.4% for the year ending 31 March 2021 to the Group's underlying profit before tax for the six months to 30 September 2020 (H1 2020: 12.3%). The 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 effective tax rate before the impact of RDEC would be 19.4%. The 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 2020 the Group had unused tax losses and surplus interest expenses of £81.7m (31 March 2020: £90.3m) which are available for offset against future profits. Within deferred tax assets recognised on the balance sheet is £6.6m (31 March 2020: £7.8m) in respect of £31.3m (31 March 2020: £37.3m) of US net operating losses and £2.4m (31 March 2020: £1.5m) in respect of £8.5m (31 March 2020: £5.8m) of US surplus interest expenses. No deferred tax asset is recognised in respect of the remaining £42.0m (31 March 2020: £47.2m) of losses/US surplus interest expenses due to uncertainty over the timing and extent of their utilisation. The Group has £31.3m of time-limited US net operating losses of which £17.3m will expire in 2035, £9.1m in 2036, £1.5m in 2038 and £3.4m in 2040. Deferred tax has been calculated using the enacted future statutory tax rates.

The total tax income on specific adjusting items of £1.0m (H1 2020: £1.8m expense) arises mainly in respect of amortisation of intangibles arising on acquisition. The gain on business divestments in the current year (note 3) was non-taxable. The H1 2002 expense was mainly in respect of a capital gain on the sale of property.

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 2021 (unaudited)	H1 2020 (unaudited)
Weighted average number of shares	**Million**	**567.8**	**566.7**
Effect of dilutive securities	Million	5.7	4.0
Diluted number of shares	**Million**	**573.5**	**570.7**

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 2021 (unaudited)	H1 2020 (unaudited)
Profit attributable to the owners of the Company	£ million	74.0	62.1
Remove profit after tax in respect of specific adjusting items	£ million	(16.6)	(10.2)
Underlying profit after taxation	**£ million**	**57.4**	**51.9**
Weighted average number of shares	Million	567.8	566.7
Underlying basic EPS	**Pence**	**10.1**	**9.2**
Diluted number of shares	Million	573.5	570.7
Underlying diluted EPS	**Pence**	**10.0**	**9.1**

Basic and diluted EPS		H1 2021 (unaudited)	H1 2020 (unaudited)
Profit attributable to the owners of the Company	£ million	74.0	62.1
Weighted average number of shares	Million	567.8	566.7
Basic EPS – total Group	**Pence**	**13.0**	**11.0**
Diluted number of shares	Million	573.5	570.7
Diluted EPS – total Group	**Pence**	**12.9**	**10.9**

9. Net cash

All figures in £ million	30 September 2020 (unaudited)	30 September 2019 (unaudited)	31 March 2020 (audited)
Current financial assets/(liabilities)			
Deferred financing costs	0.3	0.4	0.4
Leases	(8.1)	(8.6)	(8.6)
Derivative financial assets	1.8	0.1	6.3
Derivative financial liabilities	(0.1)	(0.7)	(0.3)
Total current net financial liabilities	(6.1)	(8.8)	(2.2)
Non-current financial assets/(liabilities)			
Deferred financing costs	1.0	1.0	0.9
Leases	(23.2)	(19.8)	(19.3)
Derivative financial assets	-	0.1	0.1
Derivative financial liabilities	(0.1)	(0.2)	(0.6)
Total non-current net financial liabilities	(22.3)	(18.9)	(18.9)
Total net financial liabilities	**(28.4)**	**(27.7)**	**(21.1)**
Cash and cash equivalents	141.1	201.2	105.8
Total net cash as defined by the Group	**112.7**	**173.5**	**84.7**

10. Cash flows from operations

All figures in £ million	H1 2021 (unaudited)	H1 2020 (unaudited)	Year ended 31 March 2020 (audited)
Profit after tax for the period	74.2	62.2	106.5
Adjustments for:			
Taxation expense	9.5	9.1	16.6
Net finance income	(2.6)	(2.8)	(5.5)
Gain on sale of investment	(19.5)	-	-
Gain on sale of property	-	(13.3)	(14.0)
Impairment reversal in respect of property, plant and equipment	-	-	(0.4)
Impairment of goodwill	-	-	14.1
Transaction costs in respect of acquisition on business	-	1.4	-
Acquisition relation remuneration costs not paid as at year end	1.0	-	0.5
Amortisation of purchased or internally developed intangible assets	2.0	1.8	4.3
Amortisation of intangible assets arising from acquisitions	5.5	3.1	7.5
Depreciation of property, plant and equipment	22.9	20.0	41.4
Loss/(profit) on disposal of plant and equipment	1.0	(1.6)	(1.6)
Share of post-tax loss of equity accounted entities	0.2	1.0	0.7
Share-based payments charge	8.2	3.6	7.4
Retirement benefit contributions in excess of income statement expense	0.5	(2.0)	(4.3)
Net movement in provisions	(0.4)	(0.4)	(5.4)
Increase in inventories	(8.6)	(7.6)	(11.3)
(Increase)/decrease in receivables	(19.5)	32.5	(25.5)
Increase/(decrease) in payables	17.4	(30.0)	35.5
Changes in working capital	(10.7)	(5.1)	(1.3)
Net cash flow from operations	**91.8**	**77.0**	**166.5**

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

All figures in £ million	H1 2021 (unaudited)	H1 2020 (unaudited)	Year ended 31 March 2020 (audited)
Net cash flow from operations	91.8	77.0	166.5
Add back specific adjusting item: acquisition related remuneration costs	-	-	3.8
Add back specific adjusting item: acquisition related transaction costs	0.9	-	7.5
Underlying net cash flow from operations	**92.7**	**77.0**	**177.8**
Add: proceeds from disposal of plant and equipment	-	1.6	1.6
Less: tax and net interest payments	(12.3)	(9.1)	(10.5)
Less: purchases of intangible assets and property, plant & equipment	(42.3)	(40.4)	(109.4)
Free cash flow	**38.1**	**29.1**	**59.5**

Underlying cash conversion ratio

	H1 2021 (unaudited)	H1 2020 (unaudited/ restated)	Year ended 31 March 2020 (audited)
Underlying operating profit - £ million	69.0	59.7	133.2
Underlying net cash flow from operations - £ million	92.7	77.0	177.8
Underlying cash conversion ratio - %	**134%**	**129%**	**133%**

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 2020. 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 2020, are as follows:

all figures in £ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Current derivative financial instruments	-	1.8	-	1.8
Non-current derivative financial instruments	-	-	-	-
Liabilities:				
Current derivative financial instruments	-	(0.1)	-	(0.1)
Non-current derivative financial instruments	-	(0.1)	-	(0.1)
Total	**-**	**1.6**	**-**	**1.6**

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2020:

all figures in £ million	Level 1	Level 2	Level 3	Total
Assets:				
Current derivative financial instruments	-	6.3	-	6.3
Non-current derivative financial instruments	-	0.1	-	0.1
Liabilities:				
Current derivative financial instruments	-	(0.3)	-	(0.3)
Non-current derivative financial instruments	-	(0.6)	-	(0.6)
Total	**-**	**5.5**	**-**	**5.5**

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 2020 and comparative periods is provided below:

	Pence per ordinary share	**£m**	**Date paid/payable**
Interim 2021	**2.2**	**12.6**	**Feb 2021**
Interim 2020	2.2	12.5	Feb 2020
Final 2020	4.4	25.1	Nov 2020
Total for the year ended 31 March 2020	6.6	37.6	

The interim dividend is 2.2p (Interim 2020: 2.2p). The dividend will be paid on 5 February 2021. The ex-dividend date is 7 January 2021 and the record date is 8 January 2021. The deferred final dividend is 4.4p and will be paid on 16 November 2020. The ex-dividend date was 8 October 2020 and the record date was 9 October 2020.

13. 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 2020 (unaudited)	30 September 2019 (unaudited)	31 March 2020 (audited)
Total market value of Scheme assets	**2,171.7**	**2,184.2**	**1,912.3**
Present value of Scheme liabilities	(1,921.0)	(1,888.7)	(1,602.6)
Net pension asset before deferred tax	**250.7**	**295.5**	**309.7**
Deferred tax liability	(52.7)	(54.6)	(63.8)
Net pension asset after deferred tax	**198.0**	**240.9**	**245.9**

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.

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 2020 (unaudited)	30 September 2019 (unaudited)	31 March 2020 (audited)
Equities – quoted	135.5	139.7	113.5
Equities – unquoted	43.0	53.1	47.3
Liability driven investment	336.8	415.3	347.5
Asset backed security investments	583.2	452.0	465.0
Alternative bonds - quoted	228.6	328.3	215.3
Property funds	208.9	145.2	167.0
Cash and other equivalents	20.1	41.0	15.8
Derivatives	(1.4)	1.4	(5.1)
Insurance buy-in policy	617.0	608.2	546.0
Total market value of Scheme assets	**2,171.7**	**2,184.2**	**1,912.3**

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 2020 (unaudited)	30 September 2019 (unaudited)	31 March 2020 (audited)
Opening net pension asset before deferred tax	309.7	259.1	259.1
Net finance income	3.5	3.2	6.5
Net actuarial (loss)/gain	(62.0)	31.2	39.8
Contributions by the employer	-	2.7	5.5
Administration expenses	(0.5)	(0.7)	(1.2)
Past service cost	-	-	-
Closing net pension asset before deferred tax	**250.7**	**295.5**	**309.7**

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. The main assumptions, and sensitivities thereon, are set out below.

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

	30 September 2020 (unaudited)	**30 September 2019 (unaudited)**	**31 March 2020 (audited)**
Discount rate applied to Scheme liabilities	1.65%	1.85%	2.30%
CPI inflation assumption	2.20%	2.30%	1.90%
Assumed life expectancies in years:			
Future male pensioners (currently aged 60)	87	87	87
Future female pensioners (currently aged 60)	90	89	90
Future male pensioners (currently aged 40)	89	89	89
Future female pensioners (currently aged 40)	91	91	91

The sensitivity of the gross Scheme liabilities to each of the key assumptions is shown in the following table:

Key assumptions	**Change in assumption**	**Indicative impact on Scheme liabilities**	**Indicative impact on net pension asset**
Discount rate	Increase by 0.1%	Decrease by £39m	Decrease by £10m
Rate of inflation	Increase by 0.1%	Increase by £27m	Increase by £14m
Life expectancy	Increase by one year	Increase by £70m	Decrease by £50m

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 2020 this hedges against approximately 90% of the interest rate and 89% 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 £208.9m and the unquoted equities of £43.0m are the assets with most uncertainty as to valuation as at 30 September 2020.

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 £139.7m as at 30 June 2017. The triennial valuation as at 30 June 2020 is currently in progress. 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.

14. 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 2020 are 5,101,927 shares (31 March 2020: 6,123,406 shares).

In the six months to 30 September 2020 the Group granted 0.1 million new share-based awards to employees (30 September 2019: 0.5 million).

15. Related party transactions with equity accounted investments

During the period there were sales to associates and joint ventures of £2.9m (30 September 2019: £2.4m). At the period end there were outstanding receivables from associates and joint ventures of £1.0m (30 September 2019: £1.5m).

16. Capital commitments

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

all figures in £ million	**30 September 2020 (unaudited)**	31 March 2020 (audited)
Contracted	16.5	32.0

Capital commitments at 30 September 2020 include £13.6m (31 March 2020: £19.1m) 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.

17. Post balance sheet events (disposal group held for sale)

Subsequent to the period end the Group completed a transaction for the disposal of the non-core Commerce Decisions business for an initial consideration of £8.5m (on a cash free debt free basis) and deferred consideration of £1.5m dependent on performance to March 2022. Another of the Group's non-core businesses is currently subject to a sale process and the disposal is expected to be announced in the coming weeks. These businesses assets and liabilities, of £30.8m and £7.1m respectively as at 30 September 2020, are classified as held for sale.

As at the prior half year assets held for sale of £1.2m were in respect of property subsequently disposed prior to 31 March 2020.

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

The Directors confirm to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year 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 year; and
  - (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Directors of QinetiQ Group plc are listed in the QinetiQ Group plc Annual Report for 31 March 2020.

By order of the Board

Steve Wadey
Chief Executive Officer
12 November 2020

David Smith
Chief Financial Officer
12 November 2020

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 2020. 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 International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union 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 2020;
- 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 have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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
12 November 2020

Glossary

CPI	Consumer Price Index
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
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; 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. Includes share of orders won by joint ventures	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