Interim Results

14 November 2024

Good Group performance and increased returns

Results for six months to 30 September 2024 ('H1 FY25')

Steve Wadey, Group Chief Executive Officer, said: *"We have delivered a good operational and financial performance across the Group, set against a backdrop of political change and an evolving threat environment. Our talented people do critical work, highly relevant to our customers' mission and this is driving increasing demand for our capabilities.*

"As a result of our continued focus on disciplined capital allocation, we have extended our £100m share buyback programme by £50m to deliver increased shareholder returns. Guidance for FY25 is unchanged and we remain on track to deliver our FY27 outlook of c.£2.4 billion organic revenue at c.12% margin. We are well positioned for long-term sustainable growth with compelling value creation for shareholders."

Financial highlights

	Underlying[1] results		Statutory results	
	H1 FY25	H1 FY24	**H1 FY25**	H1 FY24
Revenue	**£946.8m**	£883.1m	**£946.8m**	£883.1m
Operating profit[2]	**£106.6m**	£100.1m	**£94.3m**	£91.3m
Profit after tax	**£80.9m**	£77.3m	**£63.0m**	£63.7m
Earnings per share	**14.2p**	13.4p	**11.1p**	11.0p
Interim dividend per share	**2.8p**	2.6p	**2.8p**	2.6p
Orders	**£1,034.8m**	£952.7m		
Order backlog	**£2,936.1m**	£3,132.0m		
Net cash flow from operations	**£130.9m**	£71.7m	**£118.1m**	£62.2m
Net debt	**£190.9m**	£273.8m		

Good overall Group financial performance

- Revenue up 7% through consistent operational performance, up 8% on an organic[3] basis
- Underlying operating profit up 7% with stable margin at 11.3%, up 7% on an organic basis
- Good cash conversion at 84%, with leverage at 0.6x[4]
- Orders up 9% at £1.03bn, with a book-to-bill of 1.3x[5] and order backlog of £2.9bn
- Continued earnings growth with underlying EPS up 6% to 14.2p
- Progressive dividend growth of 7%, with interim dividend one third of prior year total at 2.8p
- Share buyback programme extended by £50m

High relevance to our customers' mission driving increasing demand

- Strong programme execution across EMEA Services
- Global Solutions, including Avantus, performing in line with our expectations
- Significant progress on a number of strategic programmes with future growth potential
- Rapidly changing character of warfare increasing demand for our capabilities
- Healthy backlog and pipeline gives significant long-term visibility

FY25 guidance unchanged and on-track to deliver FY27 outlook

- FY25 performance set to deliver high single digit organic revenue growth at stable margin
- On-track for organic revenue growth to c.£2.4bn at c.12% margin by FY27

---

[1] Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary.
[2] Underlying operating profit refers to operating profit from segments. See note 2 for details to the interim financial statements.
[3] Organic denotes results on an organic and constant currency basis.
[4] Excluding benefit of £112m sale and leaseback of Cody Technology Park.
[5] B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract revenue of £131m (H1 FY24: £129m).

Interim results presentation:

We will be hosting an in-person results presentation at 09:30 GMT at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. Registration to join in-person or via the live webcast will be available via our website at https://www.qinetiq.com/en/ or at https://brrmedia.news/QQ_Q2_24

About QinetiQ:

QinetiQ is an integrated global defence and security company focused on mission-led innovation. QinetiQ employs c.8,500 highly-skilled people, committed to creating new ways of protecting what matters most; testing technologies, systems, and processes to make sure they meet operational needs; and enabling customers to deploy new and enhanced capabilities with the assurance they will deliver the performance required.

For further information please contact:

Stephen Lamacraft, Interim Group Investor Relations Director:	+44 (0) 7471 885817
Lindsay Walls, Group Communications Director (Media enquiries)	+44 (0) 7793 427582

Basis of preparation:

Throughout this document, 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 judgment of the Directors, the use of alternative 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 the document.

Year references (FY25, FY24, 2025, 2024) refer to the year ended 31 March.

Disclaimer

This document contains certain forward-looking statements relating to the business, strategy, financial performance and results of the Company and/or the industry in which it operates. Actual results, levels of activity, performance, achievements and events are most likely to vary materially from those implied by the forward-looking statements. The forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words 'believes',' expects', 'predicts', 'intends', 'projects', 'plans', 'estimates', 'aims', 'foresees', 'anticipates', 'targets', 'goals', 'due', 'could', 'may', 'should', 'potential', 'likely' and similar expressions, although these words are not the exclusive means of doing so. These forward-looking statements include, without limitation, statements regarding the Company's future financial position, income growth, impairment charges, business strategy, projected levels of growth in the relevant markets, projected costs, estimates of capital expenditures, and plans and objectives for future operations. Forward-looking statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nothing in this document should be regarded as a profit forecast.

The forward-looking statements, including assumptions, opinions and views of the Company or cited from third party sources, contained in this announcement are solely opinions and forecasts which are uncertain and subject to risks. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Actual results may differ materially from those expressed or implied by these forward-looking statements. A number of factors could cause actual events to differ significantly and these are set out in the principal risks and uncertainties section of this document.

Most of these factors are difficult to predict accurately and are generally beyond the control of the Company. Any forward-looking statements made by, or on behalf of, the Company speak only as of the date they are made. Save as required by applicable law, the Company will not publicly release the results of any revisions to any forward-looking statements in this document that may occur due to any change in the Directors' expectations or to reflect events or circumstances after the date of this document. All subsequent written and oral forward-looking statements attributable to either QinetiQ Group plc or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to in this disclaimer and contained elsewhere in this document.

QinetiQ Group plc and its directors accept no liability to third parties in respect of this document save as would arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Schedule 10A of the Financial Services and Markets Act 2000. It should be noted that Schedule 10A and Section 463 of the Companies Act 2006 contain limits on the liability of the directors of QinetiQ Group plc so that their liability is solely to QinetiQ Group plc.

Chief Executive Officer's Review

Overview

In the first half we delivered good, consistent operational and financial performance across the Group. We secured a record first half order intake of £1,035m, with a book-to-bill ratio of 1.3x, demonstrating our high relevance to our customers' mission. We achieved 8% organic revenue growth[6], with stable underlying operating profit margin stable at 11.3%. Cash conversion in the first half was 84%, and full year cash conversion is expected to be in-line with guidance of 90%+. Leverage remains comfortably within our target range at 0.6x. Completion of the sale and leaseback of Cody Technology Park in the second half, further strengthens our balance sheet and provides increased optionality for value accretive capital deployment.

We are increasing shareholder returns with the extension of our £100m share buyback programme by a further £50m and sustaining our dividend growth at 7%.

EMEA Services continues to maintain the order and revenue momentum from FY24, delivering 10% organic revenue growth, and strong margins of 11.5%. Orders increased by 16% delivering a robust book-to-bill of 1.2x.

Global Solutions performance is in line with our expectations, with good order intake of £304m, revenue stable at £229m and a margin of 10.3%. There is good visibility with a total funded order backlog of £376m and a book-to-bill of 1.3x, supporting our confidence for growth in the coming years.

Operational highlights

We have continued to make good progress over the first half in implementing our strategy. Major strategic achievements delivered in the first half include:

- **Next Generation German Aerial Training Services (NGGATS) contract, Germany** – A €284m, 10 year programme with the German Armed Forces (Bundeswehr), Air Force, Army, Navy, and Special Forces; the largest and longest award for our Global Threat Representation business that provides long-term visibility and further growth potential for our German operations.

- **DragonFire Minimum Deployable Capability contract, UK** - We have initiated the next phase of work towards deploying the DragonFire laser on Royal Navy warships in 2027 – a vital next generation capability to defeat evolving threats, such as airborne drones.

- **NATO Support & Procurement Agency (NSPA) contract, NATO** - A framework contract for NATO member nations to more easily access Test & Evaluation services in the UK under the Long Term Partnering Agreement (LTPA) and recently used by the Spanish and German Air Forces.

- **Major Service Provider (MSP) contract growth, Australia** - Significant orders of AU$148m for engineering services, enabling key programmes including the introduction of Abrams Battle Tank M1 A2, Spike LR2 and Naval Strike Missile.

- **TacSys Resource Partner (TRP) contract with Defence Digital, UK** - Succeeding our prior BPSS[7] contract, a three year contract, won in competition and worth up to £150m, to provide Defence Digital with programme and engineering expertise to help deliver the next generation of tactical military communications.

- **Significant on-contract growth, US** – In the US we achieved more than 10% on-contract growth, across our major five year programmes that provide engineering services and mission

---

[6] Organic revenue on a constant currency basis.

[7] BATCIS Private Sector Support (BPSS) BATCIS was the Battlefield and Tactical Communication Information Systems programme of opportunities to deliver the next generation tactical communications and information systems.

support for the Space Development Agency (SDA), the Strategic Capabilities Office (SCO) and the Tethered Aerostat Radar System (TARS) for Homeland Security.

- **Aerial Target Systems (ATS-3) contract, US** - We secured a place on the multiple-award, indefinite-delivery/indefinite-quantity (IDIQ) Aerial Target Systems contract. Through the contract, with an estimated ceiling of $95m, we become a prime contractor to the US Army by leveraging our world-leading expertise in airborne target and training services from across UK, US, Australian, German and Canadian operations.

High relevance to our customers' mission driving increased demand

We operate in a rapidly changing and highly uncertain geopolitical environment, with ongoing conflicts in Ukraine, the Middle East and growing tensions in the Indo-Pacific. This is accelerating the pace and expanding the breadth of the threat, further stretching allied capability across the globe. We are also experiencing political change with new governments taking office in the UK and US and an election in Australia next year. The importance of international cooperation, through alliances such as NATO and AUKUS will continue as governments look to respond to the increasing threat whilst balancing fiscal pressures and budget prioritisation.

Our strategy and unique value proposition are well matched to respond to these market dynamics as the need for strong national defence and security endures, focused on greater resilience and rapid modernisation. This is driving our customers' capability and investment priorities to enable them to maintain technological superiority, acceleration of capabilities and operational advantage. In turn, this is increasing demand for our differentiated capabilities in Research & Development, Engineering Services, Test & Training and Cyber & Intelligence. These remain highly relevant and critical to national defence and security priorities underpinning our sustainable growth and is why we have delivered organic revenue at broadly double the growth rate of national defence budgets over the last five years.

Clear purpose driven strategy delivering for our customers

Our purpose of protecting lives and serving the national security interests of our customers has never been more relevant. It guides our strategy which has three inter-related components:

1. Delivering six distinctive and mutually supportive offerings: We co-create high-value differentiated solutions for our customers in experimentation, test, training, information, engineering and autonomous systems;
2. Applying disruptive and innovative technology and business models: We invest in and apply disruptive business models, digitisation and advanced technologies to enable our customers' operational mission at pace; and,
3. Leveraging those capabilities across our global operations: We are developing an integrated global defence and security company that leverages our capability in the UK, the US, Australia, Canada and Germany.

By focusing on our customers' needs, partnering with industry and investing in our capabilities, we have won larger longer-term programmes enabling us to deliver consistent organic growth and attractive returns. We have a healthy order backlog of £3.5bn and a pipeline aligned to major programme opportunities that is worth more than £11bn over the next five years. This gives us significant revenue visibility and underpins our long-term sustainable growth for many years.

We continue to invest in our people, technology and capabilities to drive organic growth. The delivery of our strategy and focused execution of our order book is dependent on the highly-skilled people we employ. We continue to make progress creating an environment where they can all thrive and have achieved our highest ever level of employee engagement. We invest c.£20m per year in R&D aligned to our customers' priorities and to create more value for our customers and support future growth opportunities. We're also investing in our digital platform to improve the exchange of technology and information as well as collaborative working. Investing in our business and organic growth is core to our strategy to build a differentiated company so that we can continue to deliver long-term value for our customers and shareholders.

Leadership changes

We have our strengthened leadership team, through the arrival of Martin Cooper (Group Chief Financial Officer) and Iain Stevenson (Chief Operating Officer), both providing increased oversight of our growing and increasingly global company.

Outlook: FY25 expectations unchanged and on track to deliver FY27 guidance

Our FY25 guidance remains unchanged. We expect to deliver high single-digit organic[8] revenue growth, compared to FY24, at a stable operating profit margin. We are on-track to achieve c.£2.4bn organic revenue at c.12% margin by FY27. This will deliver an attractive return on capital employed at or above the upper end of the 15-20%+ range.

Cash conversion will remain high at 90%+ with capital expenditure within the £90m to £120m range. Our strengthened balance sheet provides optionality, through disciplined deployment of capital, for bolt-on acquisitions to compound growth at 11-12% margin and further shareholder returns.

Following the completion of the sale and leaseback of the Cody Technology Park year-end Net Debt will be improved by c.£50m reflecting the net position after the in-year impact of the extended buy-back programme.

Summary

I am pleased with the continued progress we have made in the first half. Building on our strong track record we have delivered good consistent operational and financial performance across the Group. We remain on-track to deliver £2.4bn organic revenue at c.12% margin by FY27 and our visibility to achieve this goal is increasing. Faced with continued rising global instability, I'm incredibly proud of the outstanding skills and capabilities of our people, fulfilling our purpose by serving the national security interests of our customers. In summary, we are well positioned and have a clear strategy to deliver long-term sustainable growth and compelling value creation for shareholders.

[8] Organic denotes results on an organic and constant currency basis. The average USD rate for H1 FY25 was 1.29. A 5c movement in the USD rate would impact Group revenue by c.£15m.

Trading environment

Global context

We are operating in an environment of escalating regional conflicts and geopolitical tension, with outcomes remaining uncertain in the Middle East and Ukraine as well as the threat posed by China's growing military power coupled with its push to change global norms and potentially threaten its neighbours.

Strategic response

To meet these increasing challenges, our three home countries of Australia, the UK, the US as well as their allies continue to review their evolving defence and security capabilities and are focusing on high-priority areas aligned with our strategy.

UK

The new Labour government launched a Strategic Defence Review (SDR) in July 2024 and is due to report in the first half of 2025. This will inform the decisions of a multi-year Spending Review, due to be published in Spring 2025. Although a timetable has yet to be set, Labour has committed to an increase in Defence spending to 2.5% GDP from its current 2.32% GDP[9].

We remain well positioned to enable the UK to remain at the forefront of current and next-generation capabilities through the application of mission-led innovation.

US

The 2025 Department of Defense Budget request of $895bn in discretionary funding for national defense, including approximately $850bn for the Department of Defense (DOD), continues to deliver on the 2022 National Security Strategy[10]. A Continuing Resolution is now in place until December 20th 2024 and new agreed funding levels will follow the inauguration of Donald Trump as the next US president on January 20 2025.

We serve our US customers' mission in the areas of Intelligence, Surveillance and Reconnaissance (ISR), mission operations, advanced cyber, information advantage, multi-domain autonomous solutions and systems and engineering and innovation.

Australia

2024 Integrated Investment Program (IIP) detailing a generational investment in the Australian Defence Force's posture, capability and structure. The commensurate increase in annual funding will see the Defence budget grow to more than AUD$100bn by 2033-34[11].

We continue to support the Australian forces in modernising sovereign defence capabilities, leveraging expertise across the global business.

Broader international markets

Global defence spending continues to rise. The 2025 forecast for global defence spending stands at USD$2.5tn[12]. Total NATO spending increased by 11% in 2024, compared to 3% in 2023. Growth was even stronger among NATO's European members, who increased their combined military spending by 19% in real terms in 2024[13].

---

[9] https://www.rusi.org/explore-our-research/publications/commentary/uk-defence-spending-decisions-cant-wait-strategic-defence-review

[10] https://comptroller.defense.gov/Portals/45/Documents/defbudget/FY2025/FY2025_Budget_Request_Overview_Book.pdf

[11] https://www.minister.defence.gov.au/media-releases/2024-04-17/2024-national-defence-strategy

[12] Janes Defence Budget Spreadsheet, figure in real USD$, database accessed 27th October 2024

[13] https://www.iiss.org/online-analysis/military-balance/2024/07/nato-defence-spending-a-bumper-year/

While priority and investment focus will be attached to the prosecution of our three home country strategies (Australia, UK and US), we continue to conduct business in the support of allied nations whether through the use of our LTPA sites in the UK with the Spanish and German Air Forces, or through the Next Generation Aerial Training Services contract recently signed in Germany.

Chief Financial Officer's Review

Operating performance

We delivered good orders performance in the period with orders of £1,034.8m (H1 FY24: £952.7m), up 9% on a reported basis. On a consistent currency basis, orders grew 10% year on year. Orders won include €284m for the continuation of the threat representation training contract that underpins our German business on a long term ten year plus basis. In the US the next year of funding was received for contracts won last year, together with new business and on contract growth on the Space Development Agency and Strategic Capabilities Office programmes. Due to the multi-year phasing and funding approach to contract awards in the US we continue to only book awards in-line with our prudent order recognition policy.

Revenue visibility remains good and the Group's total funded order backlog at 30 September 2024 stood at £2.9bn in line with year end 2024 when taking into account our foreign exchange headwind. As we deliver revenue on our large long-term contracts (with orders booked in prior years, most significantly with the Long Term Partnering Agreement) backlog will naturally reduce, it is therefore pleasing to see backlog maintained by a strong book to bill of 1.3x in the period. At the start of H2 FY25, the Group had approximately £854m of H2 FY25 revenue under contract. This compares with approximately £840m of H2 FY24 revenue at the same time last year.

Revenue was £946.8m (H1 FY24: 883.1m), up 7% on a reported basis. On a consistent currency basis, revenue grew 8% compared to the same period last year. Organic growth was driven by strong performance in our engineering delivery contracts in the UK and Australia, together with increased volumes in aerial targets across the world.

Operating profit was £106.6m (H1 FY24: £100.1m), up 7% on a constant currency basis. The Group's operating margin was 11.3% for H1 FY25, consistent with H1 FY24 and the FY24 outturn.

Operating profit from segments excludes income from Research and Development Expenditure Credits (RDEC). RDEC income was £12.6m (H1 F24: £11.9m).

Specific adjusting items

The total impact of specific adjusting items on operating profit (which are excluded from underlying performance) was an expense of £24.9m (H1 FY24: £20.7m).

Acquisition and disposal costs of £0.8m (H1 FY24: £0.6m) include costs relating to the disposal (sale and leaseback) of Cody Technology Park. Acquisition related remuneration of £0.4m relates to specific post-acquisition retention arrangements for Avantus employees which were anticipated at the time of the transaction. Acquisition integration costs of £1.7m relate to the one-off costs of integrating both Avantus and Air Affairs with the existing Group operations.

We continue to deliver on our discrete investment project to build our digital platform to enable our global growth strategy and our AUKUS customers' needs. The majority of the costs in the first half are reported as specific adjusting items in the P&L given their one-off nature, with ongoing recurring operating costs (such as licence costs and overheads) remaining within underlying operating costs. In H1 FY25 the exceptional cost element of the digital investment programme within specific adjusting items totals £9.9m (FY24: £5.1m).

Amortisation of acquisition intangibles was £12.1m (H1 FY24: £12.7m), with the variance due to foreign exchange.

Also included within specific adjusting items in H1 FY24 were a gain on the sale of property in the UK of £2.1m and impairment of right of use lease assets in the US following space relocation of £0.7m.

Net finance costs

Underlying net finance expense on the group’s net debt position was £8.2m (H1 FY24: £7.7m). In H1 FY24 interest payable and receivable on the interest rate swap derivatives were presented gross. For H1 FY25, consistent with the FY24 year end, these items are presented on a net basis in the income statement. The pension net finance income, which is a specific adjusting item of £0.4m (H1 FY24: £2.2m) reduced due to a lower opening net pension surplus. Net finance expense was £7.8m (H1 FY24: £5.5m).

Tax

The total tax charge is £23.5m (H1 FY24: £22.1m). The underlying tax charge of £30.1m (H1 FY24: £27.0m) is calculated by applying the expected underlying effective tax rate at a jurisdictional level for the year ending 31 March 2025 to the underlying profit before tax for the six months to 30 September 2024.

The Group's full year expected underlying effective tax rate is 27.2% in line with the half year underlying effective tax rate of 27.1% (H1 FY24: 25.9%). The increase on last year is due to the jurisdictional mix of profits.

In future we expect the effective rate to be above the UK statutory rate subject to the jurisdictional mix of profits and the recognition of deferred tax in respect of overseas tax losses and excess interest deductions.

Tax on specific adjusting items includes a £3.5m credit for tax on the amortisation of acquisition intangibles and a £3.1m credit in respect of other pre-tax specific adjusting items. The total specific adjusting items tax credit was £6.6m (H1 FY24: £4.9m).

Return on Capital Employed (ROCE)

ROCE is calculated as underlying operating profit less amortisation for the previous 12 months / (average capital employed less net pension asset), where average capital employed is defined as shareholders’ equity plus net debt (or minus net cash).

For H1 FY25 Group ROCE was 20.1% (H1 FY24: 25.5%). This reduced due to the full year impact of capital employed with the acquisitions completed in H2 FY23. ROCE is expected to increase modestly following the completion of the sale and leaseback of Cody Technology Park at the end of October.

Earnings per share

Underlying basic earnings per share for the Group was 14.2p up 6% on the prior year first half (H1 FY24: 13.4p), with the increase primarily due to the increase in profits. Statutory basic earnings per share (including specific adjusting items) were marginally up at 11.1p (H1 FY24: 11.0p), with the increase in underlying operating profit offset by specific adjusting items.

Dividend

An interim dividend of 2.8p (H1 FY24: 2.6p) will be paid on 7 February 2025 to shareholders on the register on 9 January 2025. The interim dividend represents one third of the prior year total dividend reflecting our previously communicated methodology. The full year proposed dividend will be announced with our full year preliminary results in May 2025.

Cash performance

Underlying net cash flows from operations was £130.9m (H1 FY24: £71.7m), resulting in an improved cash conversion before capital expenditure of 84% (H1 FY24: 50%). H1 FY24 operating cash flow was adversely impacted by the timing of customer billing milestones and receipts. There are some seasonal impacts between the first and the second half which impact H1 cash conversion, such as the timing of receiving RDEC income (with the prior year income received in cash in H2). We are on-track to deliver full year underlying operating cash conversion of approximately 90%, in-line with our previous guidance.

Capex for the period was £48.6m (H1 FY24: £46.9m). We continue to invest in core contracts including the LTPA following the contract amendment announced in April 2019. Full year total capex is expected to be in-line with previous guidance of £90-120m.

At 30 September 2024 the Group had £190.9m net debt, compared to £151.2m at 31 March 2024. The increase is due to £47.2m free cash flow being more than offset with shareholder distributions comprising dividend payment of £32.2m and £46.2m of share repurchases due to the ongoing share buyback programme.

The reported H2 FY24 and H1 FY25 EBITDA and 30 September 2024 net debt position result in a leverage ratio of 0.6x (31 March 2024: 0.5x).

The net debt balance as at 30 September 2024 includes £3.1m of net financial derivative assets, predominantly the interest rate swaps which have been taken out to hedge future interest rate exposure on the term loan, £2.9m of capitalised bank fees and £53.8m of lease liabilities.

We maintain a rigorous approach to the deployment of our capital, scrutinising organic and inorganic opportunities to ensure returns to our shareholders are appropriate. Our capital allocation policy as follows:

1. Invest in our organic growth;
2. Complement with value accretive acquisitions;
3. Provide a progressive dividend to shareholders; and
4. Return of excess cash to shareholders.

Committed facilities

The Group has a £333m Term Loan split into two Tranches: GBP Term Loan £273m (Tranche A); and, USD Term Loan £60m (Tranche B), and has a 3-year term with two 1-year extension options. Participating banks have lent on a 2-tier basis, 3-banks at £67m and 4-banks at £35m. In-line with Group policy, £270m (c.80%) of the floating rate debt has been fixed using SONIA interest rate swaps split over a 3-year and 5-year tenure at a weighted average rate of 3.29%. Including all fees and charges, the weighted average cost of debt is 5.21%.

The Group has a £290m bank revolving credit facility with an additional ‘accordion’ facility to increase the limit up to £400m. The facility which will mature on 22 April 2027 was undrawn at 30 September 2024 and provides the Group with significant scope to execute its strategic growth plans.

We adopt a strict policy on managing counterparty risk through a combination of diversification of investments and regular reviews of counterparty limits using credit rating assessments. We are proud that our debt sits with our key relationship banks who have strong credit ratings and diverse portfolios demonstrating their resilience to the bank turmoil. The banks have been selected for their capabilities in our home countries to support our business.

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 FY25	H1 FY24
£/US$ - average	**1.29**	1.25
£/US$ - closing	**1.34**	1.22
£/US$ - opening	**1.26**	1.24
£/AU$ - average	**1.93**	1.91
£/AU$ - closing	**1.93**	1.89
£/AU$ - opening	**1.94**	1.85

Foreign exchange translation has provided a modest headwind to revenue and operating profit compared to the previous half year. Most significantly, the US Dollar has strengthened with the average exchange rate to Sterling increasing from 1.25 to 1.29. In H1 FY25, c.20% of our total Group revenue was generated in the US. As a result of the strengthening US Dollar and other FX movements in year, revenue decreased by £4.7m and operating profit decreased by £0.3m. Every 5c movement in the USD rate would impact Group revenue by c.£15m.

Pensions

The net pension asset under IAS 19, before adjusting for deferred tax, was £31.1m (31 March 2024: £18.4m). The key driver for the increase in the net pension asset since the March 2024 year end was the net actuarial gain on scheme net assets.

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

Post balance sheet events

On 30 September 2024 the Group announced an agreement for the sale and leaseback of our site at Cody Technology Park, Farnborough, UK, to Tristan Capital Partners. The assets, comprising the land, buildings, plant and machinery relating to the site have been reclassified from Property, Plant and Equipment to Assets held for sale.

On 31 October 2024, subsequent to the period end, the transaction was completed. A cash receipt of £112m was received and a new 15 year lease was entered into. The sale and leaseback accounting under IFRS16, which will be completed in H2 FY25, is expected to result in a one-off, non-cash, accounting loss of approximately £30m, which will be calculated based on the varying values of assets being sold and those being leased back

Operating review

EMEA Services

	H1 FY25 £m	H1 FY24 £m
Orders	**730.4**	631.1
Revenue	**717.8**	654.8
Underlying operating profit*	**82.9**	77.4
Underlying operating margin*	**11.5%**	11.8%
Book-to-bill ratio(1)	**1.2x**	1.2x
Order backlog	**£2,559.8**	2,732.8

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary
(1) B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract

Overview

EMEA (Europe, Middle East and Australasia) Services combines world-leading expertise with unique facilities to generate and assure capability. We do this through capability integration, threat representation and operational readiness, underpinned by long-term contracts that provide good revenue visibility and cash generation.

Financial performance

Orders were up 16% to £730.4m (H1 FY24: £631.1m), underpinned by a €284m order for the continuation of threat representation and training services for the German Armed Forces, delivering a strong book to bill ratio of 1.2x. The funded order backlog was £2.6bn, in line with 31 March 2024, increasing by 5% excluding LTPA.

Revenue increased 10% on an organic basis on the back of strong orders won last year and strong programme execution on that backlog.

Underlying operating profit increased by 7% on an organic basis to £82.9m (H1 FY24: £77.4m). This has been achieved at a margin of 11.5% in line with expectations (H1 FY24: 11.8%).

Including the LTPA, approximately 66% of EMEA Services revenue is derived from single source contracts (H1 FY24: approximately 67%) demonstrating our critical and unique capabilities for our customers.

Sector commentary

<u>UK Defence (59% of EMEA Services revenue)</u>

The UK Defence sector delivers mission critical solutions, innovating for our Air, Maritime and Land customers' advantage. The sector maximises growth through our framework contracts, building new core offerings through our global campaigns and exploring new growth opportunities; it improves coherence of our distinctive offerings across our customer base, with the embedding of enabling functions bringing greater cohesion to operational strategy execution for business performance excellence. The sector manages a number of large long-term contracts, including the LTPA for test, trials, training and evaluation and the Engineering Delivery Partner (EDP).

- Through the LTPA, during the first half we have both tested new military capabilities and developed facilities to support future operational requirements. To defeat the drone threat in a more cost effective way, we have enabled the successful Martlet missile test firing from a Wildcat against a representative target – demonstrating a new way to neutralise airborne threats. In addition, to better protect against attempts to disrupt the UK's military capabilities, we received a £15m order to deliver a large scale anechoic chamber capable of testing large platforms, such as F-35 – enabling us to help secure platforms and systems in the most challenging of electromagnetic threat environments.

- Through the EDP framework, we continue to win and deliver services for a range of vitally important UK MOD programmes. The orders won include the £12m ‘New Style of IT’ project to deliver a secure, technologically advanced communications and information service for the UK MOD. In delivery, we played a crucial role in achieving the Military Permit to Fly for the new E-7 Wedgetail Airborne Early Warning and Control capability enabling the first flight in September. To demonstrate the leverage of extant capability in conjunction with new technology, we successfully trialled the UK’s first Crewed-Uncrewed-Teaming demonstration between a crewed aircraft and autonomous jet drones.

- To promote and maximise the use of our facilities and skills internationally, we signed a framework contract with NATO Support & Procurement Agency (NSPA), enabling NATO member nations easier access to our LTPA Test & Evaluation services in the UK. This is an important development for the UK within NATO with the new arrangements used in the first half by both the Spanish and German Air Forces to test their military capabilities.

- We continue to demonstrate our central role in global defence and security, through one of the world’s largest tests of naval and missile defences, Formidable Shield. The exercise harnesses advanced technologies to enable a joint NATO force to operate seamlessly together and creating better understanding of how to defeat complex evolving threats. We secured additional orders of £11.5m in support of the next exercise taking place in May ‘25.

- We secured a £14m order for the next phase of the DragonFire programme that advances the technology towards a Minimum Deployable Capability for the UK MOD. This phase further develops the DragonFire system, In partnership with MBDA and Leonardo, with the ultimate aim being to have a directed laser energy weapon on Royal Navy warships in 2027. This technology is a key capability needed to defeat evolving threats such as aerial drones.

<u>UK Intelligence (29% of EMEA Services revenue)</u>

The UK Intelligence sector utilises its unique domain knowledge across C5ISTAR (Command, Control, Communications, Computers, Cyber, Intelligence, Surveillance and Reconnaissance), allied to its research, innovation and applied engineering pedigree, to support UK Government in the development, assurance, integration and deployment of mission critical capabilities at pace. We are a key industry partner to the MOD, and continue to be well placed to deliver critical digital change programmes over the coming years to Defence Digital, Defence Intelligence and Defence Science and Technology Laboratory (Dstl). During the first half, highlights include:

- We won the three-year TacSys Resource Partner (TRP) programme worth up to £150m. This is the competed, successor contract to the BATCIS Private Sector Support[14] (BPSS) programme and provides Defence Digital with programme and engineering expertise to support delivery of the next generation of tactical military communications. The contract is part of the broader Land Environment Tactical Communications and Information Systems (LETacCIS) programme, which enables the British Army to make better-informed and more timely decisions when operating on the front line.

- SOCIETAS, a competed opportunity won in H2 FY23, is successfully delivering and achieving positive feedback from the MOD Joint Electronic Warfare Operational Support Centre (JEWOSC) customer. Through the programme we sustain and enhance delivery of Electronic Warfare (EW) mission data and related intelligence outputs to the UK joint force on an assured and enduring basis – supporting all UK military platforms, such as Typhoon and the E-7 Wedgetail.

- Following the successful win in H2 FY23 of the follow-on Accelerated Capability Environment (ACE) contract by our Vivace consortium, our partnership with the Home Office continues on a positive trajectory. We had good first half orders at £27m, with commissions from across Government, including the NHS and Ministry for Justice. Across the last six years, our Vivace

[14] BATCIS Private Sector Support (BPSS) BATCIS is the Battlefield and Tactical Communication Information Systems programme of opportunities to deliver the next generation tactical communications and information systems.

team has delivered more than 300 commissions, totalling £200m, across 40 government departments, through utilising a community of 350 organisations ranging from tech giants through to Small-to-Medium sized Enterprises (SMEs) and academia. Successful mission challenges have been undertaken that include assisting in counter-terror operations, tackling serious organised crime, protecting from online harms, increasing aviation security, and enhancing COVID vaccine security.

Australia (12% of EMEA Services revenue)

Our Australia sector comprises our specialist advisory and engineering business in Australia and also includes our threat representation business operating in Australia, the UK, Germany and Canada.

- In Germany, we won the Next Generation German Aerial Training Services (NGGATS) contract, worth €284m over 10 years. Through the programme, we provide training services including Joint Terminal Attack Controller (JTAC); Red Air and close air support; maritime air operations; ground control intercept training; air traffic control training; and, target towing for ground based air defence.

- There continues to be demand for our advisory and engineering services expertise in Australia. Our Major Service Provider (MSP) contract has delivered significant orders of AU$148m in the period as we support a number of vital defence programmes. These include the introduction of the US supplied Abrams Battle Tank M1 A2 where our project management support is helping deliver 75 new platforms into service; accelerating the acquisition and introduction of the Naval Strike Missile; and, delivering the new long range Spike LR2 missile ahead of schedule for the Australian Army.

- Since 2021, the QinetiQ-run Army MakerSpace programme, delivered in collaboration with the Australian Army, has equipped soldiers with the technical and creative skills to anticipate and solve the challenges that future warfare scenarios may require. The MakerSpace contract was renewed for its fourth year with a contract value of AU$4.8m and has been extended to deliver across nine Australian Army sites.

- In September, we launched 'Team TECSA', a collaborative initiative bringing together Australian industry and academia in response to the government's National Defence Strategy and Defence Industry Development Strategy identifying Test and Evaluation, Certification and Systems Assurance (TECSA) as one of the Sovereign Defence Industrial Priorities. The collaboration, through our leadership, is focused on building a partnership to develop the workforce, infrastructure, and creating the innovation needed to meet Australia's growing defence needs.

Global Solutions

	H1 FY25 £m	H1 FY24 £m
Orders	**304.4**	321.6
Revenue	**229.0**	228.3
Underlying operating profit*	**23.7**	22.7
Underlying operating margin*	**10.3%**	9.9%
Book to bill ratio	**1.3x**	1.4x
Order backlog	**376.3**	399.2

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

Global Solutions combines our world-leading technology-based products and services. Our strategy is to expand the portfolio of solutions to win larger, longer-term programmes providing good visibility of revenue and cash flows.

Financial performance

Orders decreased by 3% on an organic (constant currency) basis to £304.4m (H1 FY24: £321.6m), following a strong prior year performance in the US. Book to bill was 1.3x as we saw good order flow from US funding on 2024 contract awards and on contract growth, together with high demand for aerial targets. Funded order backlog is up 17% from the full year at £0.4bn and together with strong US unfunded orders of £0.6bn there is good visibility, our confidence for growth in the coming years.

Revenue was flat at £229.0m (H1 FY24: £228.3m) in line with expectations. US revenue decreased due to the completion of the CRSi robot programme, partially offset by growth in the legacy Avantus business driven by the SDA, SCO and TARS contracts. We also benefited from higher levels of revenue from our targets and other product lines.

Underlying operating profit increased to £23.7m (H1 FY24: £22.7m), with an underlying operating profit margin of 10.3% (H1 FY24: 9.9%) reflecting the high level of product sales.

Sector commentary

United States (74% of Global Solutions revenue)

Our US sector provides design, development, rapid prototyping, systems engineering, and integration and manufacture of speciality defence mission products and solutions related to robotics, autonomy, maritime and sensors. We provide a complementary suite of services related to mission support, modernisation, enablement and operations, technical advisory, cyber, information advantage for US Defense, Federal, Homeland and National Security customers.

- We competed and were awarded a place on the Aerial Target Systems (ATS) multiple-award, indefinite-delivery/indefinite-quantity (IDIQ) contract. Through the contract, with an estimated ceiling of $95m, we become a prime contractor to the US Army and are leveraging our world-leading expertise in airborne training and target services from across UK, US, Australian, German and Canadian operations. To deliver the contract, we are now conducting final assembly and test of aerial targets at our Massachusetts facilities in the US.

- Building on our surveillance growth strategy and our $170m, 5-year TARS win announced in November 2023, we have increased support to Homeland Security's mission through adding electro-optical/infrared and long-range ground surveillance services. In addition, we continue to perform on our mission services programmes to the SDA and SCO. We have achieved more than 10% on-contract growth across these programmes.

- In our continuing provision of engineering services for the US Army C5ISR[15] Center, we won two multi-year contracts totalling $74m in support of integrated sensor architecture development and intelligent sensor processing and optics advanced research.

[15] Command, Control, Communications, Computers, Cyber, Intelligence, Surveillance and Reconnaissance.

- We achieved successful delivery of two Robotic Combat Vehicle (RCV) platform prototypes to the US Army in August. These developmental systems are being used for performance test and soldier integration assessments as part of the competitive downselect on the RCV programme scheduled to take place in 2025.

Other Products and Solutions (26% of Global Solutions revenue)

The portfolio of our Global Solutions products provide research services and bespoke technological solutions derived from EMEA Services, and includes QinetiQ Target Systems (QTS). As a key component of our Threat Representation offering, QTS provides products and product related services to global defence customers in support of their training, test and evaluation requirements. Our portfolio includes multi-role fixed-wing aerial targets and maritime surface vessels which are remotely-operated and deliver comprehensive threat simulation scenarios, as well as customised uncrewed special mission vehicles, command and control systems, and teams, scoring systems, and launchers.

- We continue to see high levels of demand for uncrewed aerial and maritime surface targets used in complex operational test and training environments and are on track to achieve the significant production milestone of 10,000 Banshee and 750 Hammerhead targets during FY25.

- Our UK Intelligence sector continues to see demand for its product portfolio. Through achieving the Release 1 milestone with the UK MOD for the Robust Global Navigation System (RGNS) programme, we now have a qualified, market ready ‘Q40’ positioning, navigation and timing (PNT) chip. This mission critical product, suitable for military, critical national infrastructure, industrial and demanding commercial applications will be available to the UK and key allies, and we achieved the first sale of Q40 to Abaco Systems in the US. In addition, in the period we delivered more than 1,500 of the High-Dynamics Q20s for indoor and outdoor positioning and timing, to key customers in the US and Europe.

- In September, we entered into a strategic partnership agreement with RENK Group AG, a leading supplier of military and civilian propulsion solutions. The partnership focuses on hybrid drive solutions for military land platforms, including Uncrewed Ground Vehicles (UGVs). By leveraging our technology, alongside RENK’s global expertise, we have established a powerful combination to address our customers’ future military requirements for ground vehicles.

Principal risks and uncertainties

There are a number of risks and uncertainties which management continue to identify, assess and mitigate to minimise their potential impact on performance. An explanation of risks and their mitigations, together with details of our risk management framework can be found in the 2024 Annual Report and Accounts (on pages 56 to 61) which is available for download at: https://www.qinetiq.com/investors.

Having considered recent geopolitical and macroeconomic events, the Group believes the principal risks and uncertainties for the remainder of FY25 are included in, and are therefore unchanged from, those reported in the 2024 Annual Report and Accounts. The Group's principal risks and uncertainties at 31 March 2024 related to the following areas: competitive landscape, disruptive technologies, acquisition integration, climate change, organisational culture, cyber security, management of change, health, safety & wellbeing, information security, IT infrastructure, licence to operate, P3M capability and strategic capability planning.

Condensed consolidated income statement

All figures in £ million unless stated otherwise	Note	**H1 FY25 (unaudited)** Underlying*	**H1 FY25 (unaudited)** Specific adjusting items*	**H1 FY25 (unaudited)** Total	H1 FY24 (unaudited) Underlying*	H1 FY24 (unaudited) Specific adjusting items*	H1 FY24 (unaudited) Total
Revenue	1,2	**946.8**	**-**	**946.8**	**883.1**	**-**	**883.1**
Operating costs excluding depreciation, impairment and amortisation		(808.8)	(12.8)	(821.6)	(757.8)	(9.4)	(767.2)
Other income	1	18.1	-	18.1	18.2	2.1	20.3
EBITDA* (earnings before interest, tax, depreciation and amortisation)		**156.1**	**(12.8)**	**143.3**	**143.5**	**(7.3)**	**136.2**
Depreciation and impairment of property, plant and equipment		(31.5)	-	(31.5)	(28.1)	(0.7)	(28.8)
Amortisation of intangible assets		(5.4)	(12.1)	(17.5)	(3.4)	(12.7)	(16.1)
Operating profit/(loss)	2	**119.2**	**(24.9)**	**94.3**	**112.0**	**(20.7)**	**91.3**
Finance income	5	3.4	0.4	3.8	8.9	2.2	11.1
Finance expense	5	(11.6)	-	(11.6)	(16.6)	-	(16.6)
Profit/(loss) before tax		**111.0**	**(24.5)**	**86.5**	**104.3**	**(18.5)**	**85.8**
Taxation (expense)/income	6	(30.1)	6.6	(23.5)	(27.0)	4.9	(22.1)
Profit/(loss) for the period, attributable to the owners of the parent company		**80.9**	**(17.9)**	**63.0**	**77.3**	**(13.6)**	**63.7**
Earnings per share for profit attributable to the owners of the Company							
Basic (pence)	7	14.2		11.1	13.4		11.0
Diluted (pence)	7	14.0		10.9	13.2		10.9

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

Condensed consolidated statement of comprehensive income

All figures in £ million	**H1 FY25 (unaudited)**	H1 FY24 (unaudited)
Profit for the period	**63.0**	**63.7**
Items that will not be reclassified to the income statement:		
Actuarial gain/(loss) recognised in defined benefit pension schemes	13.0	(26.5)
Tax on items that will not be reclassified to the income statement	(3.3)	6.6
Total items that will not be reclassified to the income statement	**9.7**	**(19.9)**
Items that may be reclassified to the income statement:		
Foreign currency translation (loss)/gain for foreign operations	(31.1)	6.7
Movement in deferred tax on foreign currency translation	0.6	(0.1)
(Decrease)/increase in fair value of hedging derivatives	(4.3)	5.3
Movement on deferred tax on hedging derivatives	1.1	(1.3)
Total items that may be reclassified to the income statement	**(33.7)**	**10.6**
Other comprehensive expense for the period, net of tax	**(24.0)**	**(9.3)**
Total comprehensive income for the period, net of tax	**39.0**	**54.4**

Condensed consolidated statement of changes in equity

All figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Hedging reserve	Translation reserve	Retained earnings	Total equity
At 1 April 2024	**5.7**	**40.8**	**147.6**	**6.4**	**(16.7)**	**742.3**	**926.1**
Profit for the period	-	-	-	-	-	63.0	63.0
Other comprehensive (expense)/income, net of tax	-	-	-	(3.2)	(30.5)	9.7	(24.0)
Purchase of own shares	(0.1)	0.1	-	-	-	(12.3)	(12.3)
Share-based payments charge	-	-	-	-	-	6.3	6.3
Tax on share-based payments	-	-	-	-	-	1.1	1.1
Dividends	-	-	-	-	-	(32.2)	(32.2)
At 30 September 2024 (unaudited)	**5.6**	**40.9**	**147.6**	**3.2**	**(47.2)**	**777.9**	**928.0**

At 1 April 2023	**5.8**	**40.8**	**147.6**	**6.3**	**(4.2)**	**772.0**	**968.3**
Profit for the period	-	-	-	-	-	63.7	63.7
Other comprehensive income/(expense), net of tax	-	-	-	4.0	6.6	(19.9)	(9.3)
Purchase of own shares	-	-	-	-	-	(0.4)	(0.4)
Share-based payments charge	-	-	-	-	-	4.2	4.2
Tax on share-based payments	-	-	-	-	-	(0.2)	(0.2)
Dividends	-	-	-	-	-	(30.6)	(30.6)
At 30 September 2023 (unaudited)	**5.8**	**40.8**	**147.6**	**10.3**	**2.4**	**788.8**	**995.7**

Condensed consolidated balance sheet

All figures in £ million	Note	**30 September 2024 (unaudited)**	30 September 2023 (unaudited)	31 March 2024 (audited)
Non-current assets				
Goodwill	12	382.2	413.2	401.4
Intangible assets		301.2	333.4	321.8
Property, plant and equipment		454.2	518.0	531.8
Other financial assets		3.2	8.9	4.9
Equity accounted investments		2.5	1.6	2.2
Net pension asset	13	31.1	95.0	18.4
Deferred tax asset		35.7	33.4	36.7
		1,210.1	**1,403.5**	**1,317.2**
Current assets				
Inventories		92.9	75.9	89.2
Other financial assets		5.7	7.3	6.2
Trade and other receivables		420.4	448.7	456.8
Assets classified as held for sale	18	98.4	-	-
Current tax asset		4.9	5.7	5.8
Cash and cash equivalents		189.6	104.0	231.0
		811.9	641.6	**789.0**
Total assets		**2,022.0**	**2,045.1**	**2,106.2**
Current liabilities				
Trade and other payables		(574.0)	(485.5)	(654.7)
Current tax payable		-	(4.7)	(6.6)
Provisions		(15.6)	(20.1)	(15.3)
Other financial liabilities		(11.3)	(7.9)	(9.2)
		(600.9)	**(518.2)**	**(685.8)**
Non-current liabilities				
Deferred tax liability		(97.3)	(112.3)	(94.4)
Provisions		(4.2)	(3.6)	(4.2)
Borrowings and other financial liabilities		(378.1)	(386.1)	(384.1)
Other payables		(13.5)	(29.2)	(11.6)
		(493.1)	(531.2)	**(494.3)**
Total liabilities		**(1,094.0)**	**(1,049.4)**	**(1,180.1)**
Net assets		**928.0**	**995.7**	**926.1**
Equity				
Issued share capital		5.6	5.8	5.7
Capital redemption reserve		40.9	40.8	40.8
Share premium		147.6	147.6	147.6
Hedging reserve		3.2	10.3	6.4
Translation reserve		(47.2)	2.4	(16.7)
Retained earnings		777.9	788.8	742.3
Total equity		**928.0**	**995.7**	**926.1**

Condensed consolidated cash flow statement

All figures in £ million	Note	**H1 FY25 (unaudited)**	H1 FY24 (unaudited)	FY24 (audited)
Underlying net cash inflow from operations	**9**	**130.9**	**71.7**	**320.2**
Less: specific adjusting items	9	(12.8)	(9.5)	(26.1)
Net cash inflow from operations	9	**118.1**	**62.2**	294.1
Tax paid		(27.8)	(18.9)	(36.9)
Interest received		3.4	8.9	5.3
Interest paid		(10.7)	(15.7)	(19.4)
Net cash inflow from operating activities		**83.0**	**36.5**	**243.1**
Purchases of intangible assets		(7.0)	(4.0)	(10.9)
Purchases of property, plant and equipment		(41.6)	(42.9)	(85.4)
Proceeds from sale of property		-	2.1	2.1
Proceeds from sale of plant and equipment		-	-	0.2
Acquisition of businesses		(0.2)	(4.9)	(5.1)
Net cash outflow from investing activities		**(48.8)**	**(49.7)**	**(99.1)**
Purchase of own shares		(46.2)	(0.4)	(17.1)
Dividends paid to shareholders		(32.2)	(30.6)	(45.6)
Payment of debt financing arrangement fees		(1.6)	(0.5)	(0.5)
Capital element of finance lease payments		(4.0)	(3.2)	(6.8)
Cash flow relating to intercompany loan hedges		10.3	1.3	6.8
Net cash outflow from financing activities		**(73.7)**	**(33.4)**	**(63.2)**
(Decrease)/increase in cash and cash equivalents		**(39.5)**	**(46.6)**	**80.8**
Effect of foreign exchange changes on cash and cash equivalents		(1.9)	(0.6)	(1.0)
Cash and cash equivalents at beginning of period		231.0	151.2	151.2
Cash and cash equivalents at end of period		**189.6**	**104.0**	**231.0**

Reconciliation of movement in net debt

All figures in £ million	Note	**H1 FY25 (unaudited)**	H1 FY24 (unaudited)	FY24 (audited)
Decrease in cash and cash equivalents		**(39.5)**	**(46.6)**	**80.8**
Add back net cash flows not impacting net debt		5.6	3.7	7.3
Change in net debt resulting from cash flows		**(33.9)**	**(42.9)**	**88.1**
Net increase in lease obligations		(3.3)	(26.4)	(31.2)
Net movement in derivative financial instruments		(4.4)	4.3	(0.5)
Other movements including foreign exchange		1.9	(1.9)	(0.7)
Movement in net debt as defined by the Group		(39.7)	(66.9)	55.7
Opening net debt as defined by the Group		(151.2)	(206.9)	(206.9)
Closing net debt as defined by the Group	8	**(190.9)**	**(273.8)**	**(151.2)**
Less: non-cash net financial liabilities	8	380.5	377.8	382.2
Total cash and cash equivalents	8	**189.6**	**104.0**	**231.0**

Notes to the condensed interim financial statements

1. Revenue from contracts with customers and other income

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

All figures in £ million	**H1 FY25 (unaudited)**	H1 FY24 (unaudited)
Service contracts with customers	888.0	843.6
Sale of goods contracts with customers	50.5	37.9
Royalties and licences	8.3	1.6
Total revenue	**946.8**	**883.1**
Adjust to constant prior year exchange rates	4.7	-
Total revenue on an organic, constant currency basis	**951.5**	**883.1**
Organic revenue growth at constant currency	*8%*	*19%*

Other income

All figures in £ million	**H1 FY25 (unaudited)**	H1 FY24 (unaudited)
Share of joint ventures' and associates' profit after tax	0.3	0.2
Research and development expenditure credits (RDEC)	12.6	11.9
Other income: property related	5.2	6.1
Other income: underlying	**18.1**	**18.2**
Specific adjusting item: gain on sale of property	-	2.1
Other income: total	**18.1**	**20.3**

Revenue by customer geographical location

All figures in £ million	**H1 FY25 (unaudited)**	H1 FY24 (unaudited)
United Kingdom (UK)	628.0	581.4
United States of America (US)	174.6	196.3
Australia	83.3	63.8
Home countries (94% and 95% of total revenue for H1 FY25 and H1 FY24 respectively)	**885.9**	**841.5**
Europe	34.8	22.5
Rest of World	26.1	19.1
Total revenue	**946.8**	**883.1**

Revenue by major customer type

For the six months ended 30 September

All figures in £ million	**H1 FY25 (unaudited)**	H1 FY24 (unaudited)
UK Government	582.4	543.8
US Government	161.1	186.0
Other	203.3	153.3
Total revenue	**946.8**	**883.1**

2. Segmental analysis

Operating segments

All figures in £ million	**H1 FY25 (unaudited)**		H1 FY24 (unaudited)	
	Revenue from external customers	**Underlying* operating profit***	Revenue from external customers	Underlying* operating profit
EMEA Services	717.8	82.9	654.8	77.4
Global Solutions	229.0	23.7	228.3	22.7
Total operating segments	**946.8**	**106.6**	**883.1**	**100.1**
*Operating profit margin from segments**		*11.3%*		*11.3%*
Total operating segments	946.8	106.6	883.1	100.1
Research and development expenditure credits (RDEC)		12.6		11.9
Underlying operating profit		119.2		112.0

Reconciliation of segmental results to total profit

All figures in £ million	Note	**H1 FY25 (unaudited)**	H1 FY24 (unaudited)
Operating profit from segments*		106.6	100.1
Research and development expenditure credits (RDEC)		12.6	11.9
Underlying operating profit*		**119.2**	**112.0**
Specific adjusting items operating loss	3	(24.9)	(20.7)
Operating profit		**94.3**	**91.3**
Net finance expense		(7.8)	(5.5)
Profit before tax		**86.5**	**85.8**
Taxation expense		(23.5)	(22.1)
Profit for the period attributable to equity shareholders		**63.0**	**63.7**

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

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 FY25 (unaudited)**	H1 FY24 (unaudited)
Acquisition and disposal costs		(0.8)	(0.6)
Acquisition integration costs		(1.7)	(2.6)
Acquisition related remuneration		(0.4)	(1.1)
Digital investment		(9.9)	(5.1)
Gain on sale of property		-	2.1
Specific adjusting items before depreciation, amortisation and impairment		**(12.8)**	**(7.3)**
Impairment of property		-	(0.7)
Amortisation of intangible assets arising from acquisition		(12.1)	(12.7)
Specific adjusting items operating loss		**(24.9)**	**(20.7)**
Defined benefit pension scheme net finance income	13	0.4	2.2
Specific adjusting items loss before tax		**(24.5)**	**(18.5)**
Specific adjusting items – tax expense	6	6.6	4.9
Total specific adjusting items loss after tax		**(17.9)**	**(13.6)**

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

All figures in £ million	**H1 FY25 (unaudited)**	H1 FY24 (unaudited)
Underlying profit after tax	80.9	77.3
Total specific adjusting items loss after tax (see above)	(17.9)	(13.6)
Total profit for the period attributable to equity shareholders	**63.0**	**63.7**

The total impact of specific adjusting items on operating profit (which are excluded from underlying performance) was an expense of £24.9m (H1 FY24: £20.7m).

Acquisition and disposal costs of £0.8m (H1 FY24: £0.6m) include costs relating to the disposal (sale and leaseback) of Cody Technology Park. Acquisition related remuneration of £0.4m relates to specific post-acquisition retention arrangements for Avantus employees which were anticipated at the time of the transaction. Acquisition integration costs of £1.7m relate to the one-off costs of integrating both Avantus and Air Affairs with the existing Group operations.

Our digital investment programme continues to deliver improvements to the infrastructure, digital tools and operating systems of the company – the majority of the costs in the first half are reported as specific adjusting items in the P&L given their one-off nature, with ongoing recurring operating costs (such as licence costs and overheads) remaining within underlying operating costs. In H1 FY25 the exceptional cost element of the digital investment programme within specific adjusting items totals £9.9m (FY24: £5.1m).

Amortisation of acquisition intangibles was £12.1m (H1 FY24: £12.7m), with the variance due to foreign exchange.

Also included within specific adjusting items in H1 FY24 were a gain on the sale of property in the UK of £2.1m and impairment of right of use lease assets in the US following space relocation of £0.7m.

4. Business combinations

There were no acquisitions in H1 FY25 or H1 FY24. The cash flow statement for H1 FY24 included £3.8m of deferred consideration which was settled in respect of the Air Affairs acquisition. A further £1.1m of deferred consideration was settled in H1 FY24 in respect of legacy acquisitions made by the Avantus business before its acquisition by QinetiQ.

5. Finance income and expense

All figures in £ million	**H1 FY25 (unaudited)**	H1 FY24 (unaudited)
Receivable on bank deposits	3.4	8.9
Underlying finance income	**3.4**	**8.9**
Amortisation of recapitalisation fee	(0.8)	(0.6)
Interest on bank loans and overdrafts	(9.3)	(14.6)
Lease expense	(1.5)	(1.3)
Other interest expense	-	(0.1)
Underlying finance expense	**(11.6)**	**(16.6)**
Underlying net finance expense	**(8.2)**	**(7.7)**
Specific adjusting items:		
Defined benefit pension scheme net finance income	0.4	2.2
Net finance expense	**(7.8)**	**(5.5)**

6. Taxation

All figures in £ million unless stated otherwise	H1 FY25 (unaudited) Underlying	H1 FY25 (unaudited) Specific adjusting items	H1 FY25 (unaudited) Total	H1 FY24 (unaudited) Underlying	H1 FY24 (unaudited) Specific adjusting items	H1 FY24 (unaudited) Total
Profit/(loss) before tax	**111.0**	**(24.5)**	**86.5**	**104.3**	**(18.5)**	**85.8**
Taxation (expense)/income	(30.1)	6.6	(23.5)	(27.0)	4.9	(22.1)
Profit/(loss) for the period attributable to equity shareholders	**80.9**	**(17.9)**	**63.0**	**77.3**	**(13.6)**	**63.7**
Effective tax rate	**27.1%**			**25.9%**		

The total tax charge is £23.5m (H1 FY24: £22.1m). The underlying tax charge of £30.1m (H1 FY24: £27.0m) is calculated by applying the expected underlying effective tax rate at a jurisdictional level for the year ending 31 March 2025 to the underlying profit before tax for the six months to 30 September 2024.

The Group's full year expected underlying effective tax rate is 27.2% which is higher than the half year underlying effective tax rate of 27.1% (H1 FY24: 25.9%) due to the jurisdictional mix of profits in H1 FY25.

In future we expect the effective rate to be above the UK statutory rate subject to the jurisdictional mix of profits and the recognition of deferred tax in respect of overseas tax losses and excess interest deductions.

Tax losses and specific adjusting items

At 30 September 2024 the Group had unused tax losses and surplus interest costs of £221.2m (31 March 2024: £212.3m) which are available for offset against future profits.

Within deferred tax assets recognised on the balance sheet is £24.7m in respect of £117.8m of US net operating losses, £4.1m in respect of £17.6m of Canadian net operating losses and £3.3m in respect of £10.2m of German trade losses and excess interest.

No deferred tax asset is recognised in respect of the £75.5m of US interest deductions due to uncertainty over the timing and extent of their utilisation. Full recognition of the US interest deductions would increase the deferred tax asset by £20.4m. The Group has recognised £29.9m of time-limited US net operating losses of which £21.1m will expire in 2035 and £8.8m in 2036. Deferred tax has been calculated using the enacted future statutory tax rates.

Tax on specific adjusting items includes a £3.5m credit for tax on the amortisation of acquisition intangibles and a £3.1m credit in respect of other pre-tax specific adjusting items. The total specific adjusting items tax credit was £6.6m (H1 FY24: charge of £4.9m).

7. 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 potentially dilutive ordinary shares arising from unvested share-based awards including share options.

		H1 FY25 (unaudited)	H1 FY24 (unaudited)
Weighted average number of shares	**Million**	**569.1**	**577.3**
Effect of dilutive securities	Million	8.3	7.1
Diluted number of shares	**Million**	**577.4**	**584.4**

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 basic and diluted EPS		**H1 FY25 (unaudited)**	**H1 FY24 (unaudited)**
Profit attributable to the owners of the Company	£ million	63.0	63.7
Remove loss after tax in respect of specific adjusting items	£ million	17.9	13.6
Underlying profit after taxation	**£ million**	**80.9**	**77.3**
Weighted average number of shares	Million	569.1	577.3
Underlying basic EPS	**Pence**	**14.2**	**13.4**
Diluted number of shares	Million	577.4	584.4
Underlying diluted EPS	**Pence**	**14.0**	**13.2**

Basic and diluted EPS		**H1 FY25 (unaudited)**	**H1 FY24 (unaudited)**
Profit attributable to the owners of the Company	£ million	63.0	63.7
Weighted average number of shares	Million	569.1	577.3
Basic EPS – total Group	**Pence**	**11.1**	**11.0**
Diluted number of shares	Million	577.4	584.4
Diluted EPS – total Group	**Pence**	**10.9**	**10.9**

8. Net debt

All figures in £ million	**30 September 2024 (unaudited)**	**30 September 2023 (unaudited)**	**31 March 2024 (audited)**
Current financial (liabilities)/assets			
Deferred financing costs	1.2	1.2	1.0
Derivative financial assets	4.5	6.1	5.2
Lease liabilities	(9.0)	(7.0)	(8.1)
Derivative financial liabilities	(2.3)	(0.9)	(1.1)
Total current net financial liabilities	**(5.6)**	**(0.6)**	**(3.0)**
Non-current financial (liabilities)/assets			
Deferred financing costs	1.7	1.5	1.1
Derivative financial assets	1.5	7.4	3.8
Lease liabilities	(44.8)	(47.3)	(47.4)
Borrowings – Term loan	(332.7)	(338.5)	(336.3)
Derivative financial liabilities	(0.6)	(0.3)	(0.4)
Total non-current net financial liabilities	(374.9)	**(377.2)**	**(379.2)**
Total net financial liabilities	**(380.5)**	**(377.8)**	**(382.2)**
Cash and cash equivalents	189.6	104.0	231.0
Total net debt as defined by the Group	**(190.9)**	**(273.8)**	**(151.2)**

9. Cash flows from operations

All figures in £ million	H1 FY25 (unaudited)	H1 FY24 (unaudited)	FY24 (audited)
Profit after tax for the period	63.0	63.7	139.6
Adjustments for:			
Taxation expense	23.5	22.1	43.1
Net finance expense	7.8	5.5	9.8
(Gain)/loss on disposal of PPE and intangibles	(0.3)	-	0.9
Gain on sale of property	-	(2.1)	(2.1)
Impairment of property, plant and equipment	-	0.7	0.7
Amortisation of purchased or internally developed intangible assets	5.4	3.4	7.4
Amortisation of intangible assets arising from acquisitions	12.1	12.7	25.2
Depreciation of property, plant and equipment	31.5	28.1	58.1
Share of post-tax gain of equity accounted entities	(0.3)	(0.2)	(0.8)
Share-based payments charge	6.8	4.6	9.4
Retirement benefit contributions lower/(higher) than income statement expense	0.7	0.5	(1.9)
Net movement in provisions	0.3	(2.6)	(5.1)
	150.5	136.4	284.3
Increase in inventories	(6.9)	(6.8)	(21.4)
Decrease/(Increase) in receivables	21.6	4.1	(10.0)
(Decrease)/Increase in payables	(47.1)	(71.5)	41.2
Changes in working capital	(32.4)	(74.2)	9.8
Net cash inflow from operations	**118.1**	**62.2**	**294.1**

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

All figures in £ million	H1 FY25 (unaudited)	H1 FY24 (unaudited)	FY24 (audited)
Net cash inflow from operations	118.1	62.2	294.1
Add back cash impact of specific adjusting item: acquisition and disposal costs (including integration and acquisition related remuneration costs)	2.9	4.4	9.2
Add back cash impact of specific adjusting item: digital investment	9.9	5.1	16.9
Underlying net cash inflow from operations	**130.9**	**71.7**	320.2
Less: tax and net interest payments	(35.1)	(25.7)	(51.0)
Less: purchases of intangible assets and property, plant & equipment	(48.6)	(46.9)	(96.1)
Free cash flow	**47.2**	**(0.9)**	**173.1**

Underlying cash conversion ratio

	H1 FY25 (unaudited)	H1 FY24 (unaudited)	FY24 (audited)
Underlying EBITDA - £ million	156.1	143.5	307.9
Underlying net cash flow from operations - £ million	130.9	71.7	320.2
Underlying cash conversion ratio - %	**84%**	**50%**	**104%**

10. 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 2024. 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 2024, are as follows:

All figures in £ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Current derivative financial instruments	-	4.5	-	4.5
Non-current derivative financial instruments	-	1.5	-	1.5
Liabilities:				
Current derivative financial instruments	-	(2.3)	-	(2.3)
Non-current derivative financial instruments	-	(0.6)	-	(0.6)
Total	**-**	**3.1**	**-**	**3.1**

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2024:

All figures in £ million	Level 1	Level 2	Level 3	Total
Assets:				
Current derivative financial instruments	-	5.2	-	5.2
Non-current derivative financial instruments	-	3.8	-	3.8
Liabilities:				
Current derivative financial instruments	-	(1.1)	-	(1.1)
Non-current derivative financial instruments	-	(0.4)	-	(0.4)
Total	**-**	**7.5**	**-**	**7.5**

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.

11. Dividends

An analysis of the dividends paid and proposed in respect of the period ended 30 September 2024 and comparative periods is provided below:

	Pence per ordinary share	**£m**	**Date paid/payable**
Interim FY25	2.80	15.6	**Feb 2025**
Interim FY24	2.60	15.0	Feb 2024
Final FY24	5.65	32.2	Aug 2024
Total for the year ended 31 March 2024	8.25	47.2	

The interim dividend is 2.8p (Interim FY24: 2.6p). The dividend will be paid on 7 February 2025. The ex-dividend date is 9 January 2025 and the record date is 10 January 2025.

12. Goodwill

Goodwill is allocated across six Cash Generating Units (CGUs) within the EMEA Services segment and four CGUs within the Global Solutions segment. The full list of CGUs that have goodwill allocated to them is as follows:

All figures in £ million	Primary reporting segment	30 September 2024 (unaudited)	30 September 2023 (unaudited)	31 March 2024 (audited)
US Technology Solutions	Global Solutions	40.7	44.6	43.1
US C5ISR	Global Solutions	33.9	37.3	36.0
US Avantus	Global Solutions	238.2	261.2	252.5
Target Systems	Global Solutions	24.1	24.5	24.4
Germany	EMEA Services	2.6	2.7	2.7
Inzpire	EMEA Services	11.7	11.7	14.8
QinetiQ Training and Simulation	EMEA Services	7.8	7.8	11.7
Naimuri	EMEA Services	14.8	14.8	7.8
Australia	EMEA Services	5.6	5.7	5.6
Air Affairs	EMEA Services	2.8	2.9	2.8
Net book value		**382.2**	**413.2**	**401.4**

Goodwill is attributable to the excess of consideration over the fair value of net assets acquired and includes expected synergies, future growth prospects and employee knowledge, expertise and security clearances. The Group tests each CGU for impairment annually, or more frequently if there are indications that goodwill might be impaired. No indicators of potential impairment have been identified at the current time. Impairment testing is dependent on management's estimates and judgments, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates.

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 2024 (unaudited)	30 September 2023 (unaudited)	31 March 2024 (audited)
Fair value of plan assets	**1,269.8**	**1,236.2**	1,316.2
Present value of Scheme liabilities	(1,238.7)	(1,141.2)	(1,297.8)
Net pension asset before deferred tax	**31.1**	**95.0**	**18.4**
Deferred tax liability	(12.8)	(29.4)	(9.6)
Net pension asset after deferred tax	**18.3**	**65.6**	**8.8**

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

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 2024 (unaudited)	30 September 2023^ (unaudited)	31 March 2024 (audited)
Equities	16.2	24.6	21.8
Liability driven investment	415.4	302.9	414.9
Asset backed security investments	72.8	4.5	35.5
Alternative bonds[1]	241.0	263.1	253.8
Corporate bonds[2]	109.2	111.2	151.7
Cash and cash equivalents	49.1	31.4	36.5
Equity derivative financial instruments[3]	(3.1)	9.8	15.8
Corporate credit derivative financial instruments[4]	2.0	2.3	2.2
Other derivatives (forward FX contracts)[5]	6.8	(6.3)	1.6
Insurance buy-in policies	485.4	492.7	507.4
Borrowings	(125.0)	-	(125.0)
Total market value of Scheme assets	**1,269.8**	**1,236.2**	**1,316.2**

^ Restated to reclassify equity and corporate credit derivatives based on fair values
[1] Primarily private market debt investments.
[2] Includes unlisted corporate bonds with commercial property held as security.
[3] The fair value of equity derivative financial instruments is negative £3.1m. This reflects the marked to market valuation of all equity derivatives held by the Scheme. The exposure to equities is significantly greater than the fair value, with a notional value of the equity derivative financial instruments of £180.0m as at 30 September 2024, and a total economic exposure value of £176.9m.
[4] The fair value of corporate credit derivative financial instruments is £2.0m. This is in respect of various credit default swap financial instruments held by the Scheme. These provide significantly greater exposure to corporate bonds. The notional value of these financial instruments was £95.8m as at 30 September 2024, with a total economic exposure value of £97.8m.
[5] The fair value of other derivative financial instruments is £6.8m. This is in respect of various foreign exchange contracts held by the Scheme. The exposure to foreign exchange risk is significantly greater than the £6.8m marked to market value of the forward contracts. The notional value of these financial instruments was £164.9m as at 30 September 2024, with a total economic exposure value of £171.7m.

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 2024 (unaudited)	30 September 2023 (unaudited)	31 March 2024 (audited)
Opening net pension asset before deferred tax	18.4	119.8	119.8
Net finance income	0.4	2.2	5.6
Net actuarial gain/(loss)	13.0	(26.5)	(108.9)
Administration expenses	(0.7)	(0.5)	(1.5)
Contributions by the employer	-	-	3.4
Closing net pension asset before deferred tax	**31.1**	**95.0**	**18.4**

Assumptions

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

	30 September 2024 (unaudited)		30 September 2023 (unaudited)		31 March 2024 (audited)	
	Un-insured members	Insured members	Un-insured members	Insured members	Un-insured members	Insured members
Discount rate applied to Scheme liabilities	5.05%	5.00%	5.40%	5.50%	4.80%	4.80%
CPI inflation assumption	2.55%	2.50%	2.70%	2.65%	2.60%	2.55%
Net rate (discount rate less inflation)	2.50%	2.50%	2.70%	2.85%	2.20%	2.25%
Assumed life expectancies(at age 60) in years:						
For males currently aged 40	27.7	n/a	27.9	n/a	28.3	n/a
For females currently aged 40	30.2	n/a	30.3	n/a	30.7	n/a
For males currently aged 60^	26.4	22.0	26.2	21.5	26.7	22.3
For females currently aged 60^	28.9	24.6	28.2	23.3	29.1	24.8

^For pensioners (insured members) at age 65 currently aged 65

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

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

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

Key assumptions	**Indicative impact on Scheme assets**	**Indicative impact on Scheme liabilities**	**Indicative impact on net pension asset**
Decrease discount rate by 0.25%	Increase by £11.9m	Increase by £39.3m	Decrease by £27.3m
Increase rate of inflation by 0.25%	Increase by £11.5m	Increase by £38.6m	Decrease by £27.0m
Increase life expectancy by one year	Increase by £12.9m	Increase by £32.2m	Decrease by £19.3m

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 2024 this hedges against approximately 100% of the interest rate risk and also approximately 100% of the inflation rate risk, as measured on the actuarial funding valuation 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 unquoted alternative bonds, unquoted corporate bonds and unquoted equities of £241.0m, £109.2m and £16.2m respectively are the assets with most uncertainty as to valuation as at 30 September 2024.

The accounting assumptions noted are used to calculate the year end net pension asset 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 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.

The most recent completed full actuarial valuation of the Scheme was undertaken as at 30 June 2023 and resulted in an actuarially assessed surplus of £11.4m (relative to the technical provisions i.e. the level of assets agreed by the Trustee and the Company as being appropriate to meet member benefits, assuming the Scheme continues as a going concern). The next triennial valuation will be performed as at 30 June 2026. Under the new schedule of contributions agreed at the conclusion of the recent triennial valuation, and reflecting the Scheme being in surplus, there are no employer contributions required. Separately to the schedule of contributions the Company does have a cash commitment to the Scheme in respect of an asset-backed funding arrangement established in 2012. The annual distribution in the year to 31 March 2025 will be £3.5m, which will increase thereafter, indexed by reference to CPI, until 2032.

In June 2023, in Virgin Media Limited v NTL Pension Trustees II Limited, the UK High Court ruled that specific historical amendments to contracted-out defined benefit schemes in the period from 6 April 1997 to 5 April 2016 were invalid as they lacked a confirmation under section 37 of the Pension Schemes Act 1993 from the scheme's actuary. A comprehensive review of the relevant deeds relating to the QinetiQ Pension Scheme has commenced and is ongoing. Given the ongoing nature of this review, it is not currently possible to assess or quantify with any certainty the potential financial impact.

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 2024 are 2,706,072 shares (31 March 2024: 2,767,125 shares).

In H1 FY25 the Group granted 5.7 million new share-based awards to employees (H1 FY24: 7.4 million).

15. Related party transactions with equity accounted investments

During H1 FY25 there were sales to associates and joint ventures of £2.1m (H1 FY24: £1.4m). At the period end there were outstanding receivables from associates and joint ventures of £1.3m (31 March 2024: £2.8m).

16. Capital commitments

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

All figures in £ million	**30 September 2024 (unaudited)**	31 March 2024 (audited)
Contracted	47.3	57.8

Capital commitments at 30 September 2024 include £42.2m (31 March 2024: £49.7m) 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. Contingent liabilities

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

18. Post balance sheet events

On 30 September 2024 the Group announced an agreement for the sale and leaseback of our site at Cody Technology Park, Farnborough, UK, to Tristan Capital Partners. The assets, comprising the land, buildings, plant and machinery relating to the site have been reclassified from Property, Plant and Equipment to Assets held for sale.

On 31 October 2024, subsequent to the period end, the transaction was completed. A cash receipt of £112m was received and a new 15 year lease was entered into. The sale and leaseback accounting under IFRS16, which will be completed in H2 FY25, is expected to result in a one-off, non-cash, accounting loss, which will be calculated based on the varying values of assets being sold and those being leased back

19. Material 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 2024 comprise statements for the Company and its subsidiaries (together referred to as the 'Group') and were approved by the Board of Directors on 14 November 2024.

The financial statements have been reviewed, not audited.

This condensed consolidated interim financial report for the half-year reporting period ended 30 September 2024 has been prepared in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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

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

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

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 2024.

Going-concern basis

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

Comparative data

These condensed interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The comparative figures for the year ended 31 March 2024 (and half year ended 30 September 2023) 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 2024 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 2024 are available upon request from the Company's registered office at Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX, or at the Company's website (www.QinetiQ.com).

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

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

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

The Directors of QinetiQ Group plc are listed in the QinetiQ Group plc Annual Report for 31 March 2024. A list of current directors is maintained on the QinetiQ Group plc website: www.qinetiq.com.

By order of the Board

Steve Wadey Chief Executive Officer 14 November 2024	Martin Cooper Chief Financial Officer 14 November 2024

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 2024 (the "period").

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

The interim financial statements comprise:

- the Condensed consolidated balance sheet as at 30 September 2024;
- the Condensed consolidated income statement and Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated cash flow statement for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

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

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom ("ISRE (UK) 2410"). 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.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

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. In preparing the Interim Results, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Results based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. 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.

PricewaterhouseCoopers LLP
Chartered Accountants
Southampton
14 November 2024

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
MOD	UK Ministry of Defence
RDEC	Research and Development Expenditure Credits
SSRO	Single Source Regulations Office

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 year-on-year growth, expressed as a percentage, calculated at constant prior year foreign exchange rates, adjusting for business acquisitions and disposals to reflect equivalent composition of the Group	Note 1
Operating profit from segments	Total operating profit from segments which excludes ‘specific adjusting items’ and research and development expenditure credits (‘RDEC’)	Note 2
Operating profit margin from segments	Operating profit from segments expressed as a percentage of revenue	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	Operating Review
Underlying net finance income/(expense)	Net finance income/(expense) as adjusted to exclude ‘specific adjusting items’	Note 5
Underlying profit before/after tax	Profit before/after tax as adjusted to exclude ‘specific adjusting items’	Note 6
Underlying effective tax rate	The tax charge for the year excluding the tax impact of ‘specific adjusting items’ expressed as a percentage of underlying profit before tax	Note 6
Underlying basic and diluted EPS	Basic and diluted earnings per share as adjusted to exclude ‘specific adjusting items’	Note 7
Orders	The level of new orders (and amendments to existing orders) booked in the year	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 year to revenue for the year, adjusted to exclude revenue from the 25-year LTPA contract due to significant size and timing differences of LTPA order and revenue recognition which distort the ratio calculation	N/A
Underlying net cash flow from operations	Net cash flow from operations before cash flows of specific adjusting items	Note 9
Underlying operating cash conversion or cash conversion ratio	The ratio of underlying net cash from operations to underlying EBITDA.	Note 9
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 disposals of plant and equipment	Note 9
Net debt	Net debt as defined by the Group combines cash and cash equivalents with borrowings and other financial assets and liabilities, primarily available for sale investments, derivative financial instruments and lease liabilities. Net debt does not include liabilities relating to irrevocable share buyback obligations	Note 8
Return on capital employed	Calculated as: Underlying EBITA / (average capital employed less net pension asset), where average capital employed is defined as shareholders equity plus net debt (or minus net cash)	CFO Review
Specific adjusting items	Amortisation of intangible assets arising from acquisitions; impairment of property and goodwill; gains/losses on disposal of property, investments and businesses; net pension finance income; transaction, integration and acquisition-related remuneration costs in respect of business acquisitions and disposals; digital investment; tax impact of the preceding items and significant non-recurring tax and RDEC movements	Note 3
FY	The financial year ended 31 March	n/a