Interim Results

QINETIQ

14 November 2019

Customer focus and strategic progress delivers profitable growth

Results for six months to 30 September 2019

	Statutory results		Underlying* results	
	H1 2020	H1 2019^	**H1 2020**	H1 2019^
Revenue	**£486.5m**	£420.3m	**£486.5m**	£420.3m
Operating profit	**£68.5m**	£47.8m	**£59.7m**	£51.6m
Profit after tax	**£62.2m**	£50.1m	**£52.0m**	£45.8m
Earnings per share	**11.0p**	8.9p	**9.2p**	8.1p
Interim dividend per share	**2.2p**	2.1p	**2.2p**	2.1p
Total funded order backlog			**£3,083.6m**	£1,882.1m
Total orders in the period[1]			**£410.8m**	£298.1m
Net cash flow from operations	**£77.0m**	£54.9m	**£77.0m**	£54.9m
Net cash	**£173.5m**	£220.8m	**£173.5m**	£220.8m

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary.
^ Restated due to the retrospective adoption of new accounting standard, IFRS 16, in respect of finance leases. Refer to Note 1.
[1] H1 2020 excludes LTPA contract amendment signed 5 April 2019.

Delivered strong operational and financial performance

- 38% increase in orders, 30% on an organic basis, driven by growth across the Group
- 16% revenue growth, 10% on an organic basis, driven by good performance in both divisions
- Underlying operating profit up 16% including £1.6m non-recurring trading items (H1 2019: nil), excluding them up 8% on an organic basis
- Strong cash performance with 129% underlying cash conversion pre-capex
- Underlying EPS up 14%; 2.2p interim dividend – one third of FY19 full year dividend

Continued focus on strategy implementation

- On-track with delivery of new LTPA contract for UK Ministry of Defence (MOD)
- Grown international revenue to £150.8m (H1 2019: £129.7m) – 31% of total revenue
- Won £67m secure navigation programme for UK MOD
- Good acquisition performance, including 50% growth in QinetiQ Target Systems revenue
- Announced acquisition of MTEQ; US presence to increase to c25% of Group revenue

Priorities and expectations for the remainder of the year

- Operational performance; 96% of forecast FY20 revenue under contract (H1 2019: 90%)
- Win further competitions and pursue campaigns globally
- Drive sustainable profitable growth through continued investment
- Maintaining expectations for Group operating profit in FY20

Steve Wadey, Group Chief Executive Officer said:
"Our strategy to drive value for our customers and shareholders continues to gather momentum. We delivered a strong first half result, with organic growth in orders, revenue and profit driven by a good performance across our businesses, both in the UK and internationally. We are maintaining expectations for full year operating profit with high single digit revenue growth.

"Our focus for the remainder of the year is to win further campaigns globally, successfully deliver key programmes, and complete the acquisition of MTEQ to transform the scale of our US operations as we build an integrated, global defence and security company."

Interims results presentation:

Results will be webcast at 0900 hours UK time on 14 November 2019 at: www.qinetiq.com/investors through which analysts and investors will be able to ask questions.

A listen-only audiocast of the event will also be available by dialling +44 20 3936 2999, Participant Access Code: 809002

About QinetiQ:

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

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Basis of preparation:

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

Year references (FY20, FY19, 2020, 2019) refer to the year ended 31 March. H1 2020 and H1 2019 refer to the six months ended 30 September.

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 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.

Chief Executive Officer's Review

As our growth strategy gathers momentum, we have delivered a strong first half result driven by a good performance in all our businesses, both in the UK and internationally. On an organic basis, we have grown orders by 30%, revenue by 10% and operating profit by 8% excluding non-recurring trading items. We also delivered a strong cash performance with 129% conversion before capital expenditure.

Strong organic growth was complemented by revenue and profit growth in QinetiQ Germany, previously known as EIS Aircraft Operations which we acquired in October 2018, and Inzpire, in which we acquired an 85% interest in November 2018. The integration of QinetiQ Germany is progressing well and we have been able to deploy the capabilities of both Inzpire and our new business in Germany to support Group-wide opportunities globally. As we continue to successfully grow, our focus remains on the effectiveness of our bidding, programme delivery and acquisition integration.

A significant addressable market and a clear value proposition to our customers

We have an addressable market of more than £8bn per annum across Research, Development, Test & Evaluation, Training & Rehearsal and Services & Products. By focusing on our core offerings and target markets we have plenty of opportunities for growth.

Our strategic progress and growth has been supported by a clear definition of our unique value proposition to our customers. QinetiQ's inherent strengths are the expertise of our people, our independence from the supply chain and our ability to effectively partner with academia, SMEs and other industry contractors to deliver customer solutions.

Using these strengths we help our customers to:

- Create it. We develop cutting-edge technology and turn it into capability;
- Test it. We test capabilities to ensure they work when they are critically needed; and,
- Use it. We enable our customers to be trained and operationally ready.

Good strategic progress

During H1 2020, we have made consistent progress against our strategy of leading and modernising UK test & evaluation, growing our business internationally and delivering innovation for our customers' advantage.

1. UK Test & Evaluation

We are already seeing the benefits of our investment in the Long Term Partnering Agreement (LTPA) with the UK MOD under the December 2016 contract amendment. In May, we successfully hosted Formidable Shield 2019 for the US Navy, an example of the complex international trials we can facilitate for our customers thanks to the investment and modernisation we are delivering. This event is now expected to be repeated every two years, increasing in complexity and scale to more closely reflect the threats our customers face. The investment into the LTPA secures revenues until 2028 and delivers appropriate and contracted returns – returns we are able to enhance further by driving greater throughput.

Having secured the second amendment to the LTPA in April 2019, our attention is on ensuring we successfully transition to the new ways of working which will enable us to fulfil the potential of the contract. The contract incorporates a two-year transition period from the old, input-based ways of working to modern, relevant and output-based ones. We are making good progress and during H1 successfully met two key customer milestones associated with our delivery during this transition period.

Building on the modernisation of the LTPA, we were awarded a further £19m contract to reduce the electromagnetic and acoustic signatures of the UK Royal Navy's submarines and ships, enhancing their operational effectiveness. Over a dozen services will be made available through the LTPA using the new output-based approach to deliver a more cost effective service to the Royal Navy.

2. International

Our International business unit continues to grow. In the first half of the year we grew orders in our International business unit by more than 50% on an organic basis, almost doubling them when the contribution from QinetiQ Germany is included. The strong performance of QinetiQ Target Systems (QTS), acquired in FY17, also continued as it doubled its orders and delivered a 50% increase in revenue. With carefully focused investment, QTS has developed two new products: Rattler, a low-cost supersonic target that represents missile threats, and the Next-Generation Banshee, which replicates fast flying jets and missiles. In Australia, we also grew orders and revenue as our status as a Major Service Provider (MSP) to the Australian Government increased the volume of work we won and delivered.

Shortly after the end of the period we were pleased to announce the acquisition of MTEQ, a leading US provider of advanced sensing solutions with a strong reputation for mission-led innovation. The acquisition has a number of strategic benefits to QinetiQ: MTEQ has a strong track record and further growth potential in an expanding sensors market, it accelerates our growth in the US, the world's largest defence and security market, and it strengthens implementation of our international growth and innovation strategy across the Group. For example, we expect to be able to combine MTEQ's expertise in advanced sensors with our existing capabilities in robotics and autonomy. The acquisition is subject to regulatory approval and is expected to close towards the end of FY20, creating a US operation of c.$300m and c.750 employees.

3. Innovation

We are making good progress on our innovation strategy, combining our people's expertise with commercially relevant propositions. An example of this approach in action was the award in September of a £67 million contract with the UK Government to develop the next generation of multi-constellation satellite receivers under the UK Robust Global Navigation System (R-GNS) programme. This contract was won as a result of our investment in sovereign cutting-edge technology and our innovative commercial approach, including developing a strategic partnership with Collins Aerospace (announced in May 2017). In addition to supporting the UK MOD, this contract also provides us with a platform to sell the capability to other international customers.

We have made further progress on the 10-year Engineering Delivery Partner (EDP) contract adding £60m of orders during H1 2020, bringing the total to £129m since the contract was signed in October 2019. EDP is an example of applying an innovative approach to address key customer challenges. The MOD's procurement agency DE&S is responsible for the procurement and support of equipment and services that the UK armed forces need to operate effectively, and uses EDP as the default route for procuring engineering services, with QinetiQ as prime contractor. We deliver the services working in collaboration with our partners, Atkins and BMT, and a supply chain of over 80 small and medium sized enterprises. This significantly streamlines the procurement process for engineering services for DE&S and wider MOD, improving availability and ensuring quality, particularly for highly specialised requirements. As a single source contract and given its minimal capital requirements, the margin we make on EDP, and other similar contracts, is lower than our average Group margin, but remains well in line with the defence industry more generally and delivers appropriate returns. We expect EDP to be a growth driver of our UK business in the medium to long term.

In July 2018, we were awarded a contract worth up to £95 million to deliver Private Sector Support to the Battlefield Tactical Communication and Information Systems (BATCIS) Delivery Team within Information Systems and Services which is part of the UK MOD's Joint Forces Command. The award is strategically important for QinetiQ as it demonstrates our increasing customer focus and more strategic approach to business winning. The contract was a key driver of growth of the Cyber, Information and Training (CIT) business during H1 2020.

Outlook – FY20

We delivered a strong first half result, with organic growth in orders, revenue and profit driven by good performance in all our businesses, both in the UK and internationally. We are maintaining expectations for full year operating profit with high single digit revenue growth.

Outlook – Longer term

We will continue to grow by implementing our strategy and investing in our people, technology, systems and infrastructure. By doing so, our objective is to deliver continued organic revenue growth, further supported by acquisitions, resulting in sustainable profitable growth at stable margins.

Chief Financial Officer's Review

We delivered a strong performance in the period with orders of £410.8m, compared to £298.1m in the same period a year ago. Excluding foreign exchange and the impact of acquired businesses, orders grew organically by £89.7m (30%). This increase was primarily driven by the multi-year £67m order for the UK Robust Global Navigation System (R-GNS) programme and £60m orders through the EDP contract.

Revenue visibility remains good and the Group's total funded order backlog at 30 September 2019 stood at £3.1bn, compared with £1.9bn in the comparable period, the step-up primarily due to the LTPA contract amendment signed on 5 April 2019. At the start of H2 2020, the Group had 96% of FY20 revenue under contract, up from 74% at the beginning of the financial year. This compares with 90% at the same time last year.

Revenue was £486.5m (H1 2019: £420.3m), up 10% on an organic basis. Overall organic growth was principally due to the increase of revenue in EMEA Services which was up 9% on an organic basis, driven by new work delivered under EDP and the Battlefield Tactical Communications Information Systems (BATCIS) contract. Global Products revenue was up 14% organically, principally driven by sales of target systems.

Underlying operating profit was £59.7m (H1 2019 restated: £51.6m – see note 1), with the increase assisted by £1.6m of non-recurring trading items in H1 2020 (H1 2019: nil) in respect of a gain on sale of aircraft and spares. There was also a contribution of £2.1m from QinetiQ Germany and Inzpire Ltd which were acquired in H2 2019.

Excluding the non-recurring trading items, acquisitions and the effect of foreign exchange, underlying operating profit was up £4.2m (8%) on an organic basis. Margin pressure as a result of single source regulations has abated in this period as expected, although organic operating profit growth in EMEA Services reflects the higher volume of work under the EDP contract which, given its minimal capital requirements, delivers a margin more in line with the prevailing norm in the UK defence industry. Operating profit in Global Products increased by £3.1m (30%) during H1 2020 as the result of increased sales of higher margin products in QinetiQ Target Systems.

Statutory operating profit, including the impact of specific adjusting items, was £68.5m (H1 2019 restated: £47.8m). Current period specific adjusting items were an £8.8m gain at the operating profit level (H1 2019: £3.8m loss) and included a £13.3m profit on disposal of surplus property. See note 3 for full details of all specific adjusting items.

Underlying net finance expense was £0.4m (H1 2019 restated: £0.3m) and the underlying tax charge was £7.3m (H1 2019 restated: £5.5m). This resulted in an underlying profit after tax of £52.0m (H1 2019 restated: £45.8m).

Underlying earnings per share for the Group were 9.2p (H1 2019 restated: 8.1p), with the increase primarily due to strong trading and top line revenue growth. Statutory basic earnings per share for the total Group (including specific adjusting items) were 11.0p (H1 2019: 8.9p) with the current period enhanced by the inclusion of a £13.3m gain on disposal of surplus property.

We delivered strong cash performance during H1 2020, with net cash flows from operations of £77.0m (H1 2019 restated: £54.9m), resulting in cash conversion, before capital expenditure, of 129%.

Working capital outflow was £5.1m in H1 2020 compared with £18.5m in H1 2019. We anticipate a full year working capital outflow of £20-30m.

Net capex for the period was £38.8m (H1 2019: £48.3m). We continue to invest in core contracts including the LTPA following the contract amendment announced in April 2019. Full year total capex is expected to be in line with previous guidance of £80-100m.

In October we announced the acquisition of Manufacturing Techniques Inc. (MTEQ) on a cash-free, debt-free basis for $105m to be paid on completion, and an earn-out of $20m payable in cash and shares dependent upon performance over three years. The transaction is subject to US Government approval and is expected to close towards the end of FY20.

At 30 September 2019 the Group had £173.5m net cash, compared to £161.3m at 31 March 2019 (restated from £188.5m due to the retrospective adoption of the new accounting standard, IFRS 16, in respect of leases).

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

Our priorities for capital allocation, following this rigorous methodology, are:
1. Organic investment complemented by bolt-on acquisitions where there is a strong strategic fit;
2. The maintenance of necessary balance sheet strength;
3. A progressive dividend; and
4. The return of excess cash to shareholders.

An interim dividend of 2.2p (H1 2019: 2.1p) will be paid on 7 February 2020 to shareholders on the register at 10 January 2020. The interim dividend represents one third of the prior year total dividend reflecting our previously communicated methodology. The full year dividend will be proposed in May.

Trading environment

QinetiQ operates principally in three home countries: the United Kingdom, the United States and Australia. We define home countries as ones where we have a significant indigenous industrial presence of scale. In addition to our home countries, we sell directly from our home countries into other geographies as well as having smaller operations in countries such as Canada, Germany, Belgium and Sweden.

UK

The additional £2.2bn of funding allocated to the MOD as part of the Autumn spending round provides near term support to UK defence budgets and includes £1.2bn in FY21 for key priority programmes. With the threat environment continually evolving, the MOD is tasked with enhancing its capability, whilst also delivering efficiencies elsewhere. Defence policy therefore remains focused on driving innovation and generating new technologies to support this. With innovation at the core of our strategy QinetiQ remains well positioned to help the MOD in achieving its ambitions, as evidenced by the renegotiated LTPA contract where we are delivering enhanced Test & Evaluation to the MOD and also saving the customer £85m over the remainder of the contract.

Longer term, the budgetary environment is likely to be governed by a three-year spending review scheduled for 2020, with the outcome of this largely dependent on the nature of the UK's departure from the European Union and the outcome of the General Election in December 2019.

US

The US continues to be the largest defence market in the world and the Department of Defense (DoD) budget request for $718bn in FY20 implies further growth. In addition, a deteriorating geopolitical environment combined with the need to maintain a superior technological advantage in such an environment is likely to support growth beyond FY20. QinetiQ continues to support the US in the modernisation of its defence capabilities with our expertise in robotics and unmanned systems well aligned with the DoD's ambitions to make greater use of this technology. Our acquisition of MTEQ, a business with a strong reputation for rapidly developing and fielding operationally relevant advanced sensor solutions, enhances our offering in the US market and creates further opportunities for QinetiQ to grow in the world's largest defence market.

Australia

Modernising and enhancing defence capability remains a key priority for the Australian military with the core focus being the modernisation of naval platforms. Defence spending has grown over recent years and core defence spending is likely to hit 2% of GDP by FY21. The 2018 Defence Industrial Capability Plan outlined ten areas of focus critical to enhancing Australian sovereign industrial capability, including conducting Test & Evaluation and advancing signal processing capability in electronic warfare. We continue to grow our presence in Australia supporting the modernisation of their capability through Test and Evaluation and see further opportunities to build on this offering.

International markets

To achieve our ambition of growing international revenue to 50% of total Group revenue we will need to grow not just in our home countries but also in broader international markets. We aim to leverage the skills and expertise developed in our home countries to support allies in high growth markets in developing their own indigenous capability. We have identified Canada and Germany as priority markets and also operate three joint ventures in the Middle East. Canada is a significant market outside of our home countries and the drive to modernise defence platforms in the region supports defence spending. In Germany, the need to modernise key defence platforms continues to present opportunities and we will look to leverage both our existing in-country capability, established through the acquisition of EIS Aircraft Operations, and Group-wide expertise to support these opportunities.

Business overview

EMEA Services

	H1 2020 £m	H1 2019^ £m
Orders (incl. JVs)[1]	**308.4**	196.1
Revenue	**369.1**	319.9
Underlying operating profit*	**46.2**	41.2
Underlying operating margin*	**12.5%**	12.9%
Book to bill ratio(2)	**1.2x**	0.9x
Funded order backlog excl. LTPA	**823.8**	683.7
Total funded order backlog incl. LTPA	**2,872.0**	1,674.6

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

^ Underlying operating profit and margin have been restated due to adoption of IFRS 16 'Leases'.

(1) 2020 excludes LTPA contract amendment signed 5 April 2019.

(2) B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract.

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

Financial performance

Orders were up 57% to £308.4m (H1 2019: £196.1m), driven by a £67m contract for the UK Robust Global Navigation System (R-GNS) programme and £60m orders under the Engineering Delivery Partner (EDP) contract.

Revenue increased 9% on an organic basis as a result of new work delivered under EDP and the Battlefield Tactical Communications and Information Systems (BATCIS) contract. At the start of H2 2020, EMEA Services had 98% of its forecast FY20 revenue under contract, compared with 91% at the same point last year and up from 79% at the beginning of FY20.

Underlying operating profit grew to £46.2m (H1 2019 restated: £41.2m), including a £1.6m benefit from non-recurring trading items in H1 2020 (H1 2019: nil) in respect of a gain on sale of aircraft and spares. There was also a contribution of £2.1m from QinetiQ Germany and Inzpire Ltd acquired in H2 2019 which was not in the comparator period. Excluding non-recurring trading items, acquisitions and foreign exchange, underlying operating profit was up 3% (H1 2019: 0%) with margins impacted by the higher volume of work under the EDP contract.

Including the LTPA, approximately 70% of EMEA Services revenue is derived from single source contracts (2019: approximately 70%). By investing in our core contracts and extending their duration we have increased the proportion of single source revenue contracted on a long-term basis providing visibility and reducing our exposure to future changes in the baseline profit rate set annually by the Single Source Regulations Office.

H1 commentary

Air & Space

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

- In June 2019, the transformed Empire Test Pilots' School (ETPS) was formally opened by Air Chief Marshal Sir Stephen Hillier. Following investment under the December 2016 LTPA amendment, ETPS is now equipped to provide relevant, affordable and world-class test aircrew training. Building on this investment we have experienced strong demand for both short and long ETPS courses, in particular from international customers.
- Engineering Delivery Partner (EDP), our innovative delivery model for engineering services to the MOD's procurement agency DE&S, continued to drive performance in our Air & Space business, with total orders of £60m in H1 and £129m since the contract was signed. Within this we secured an £11m contract to provide independent technical evaluation services on the F35 Lightning II aircraft, to ensure it meets the requirements of the UK RAF and Royal Navy.

Maritime, Land & Weapons (MLW)

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

- In April 2019, we signed a £1.3bn amendment to the LTPA to cover sites and capabilities not included in the December 2016 amendment. QinetiQ is now in a two year transition period to deliver the new modern ways of working covered under the contract. Key milestones during the transition period have been agreed with the customer, and we were pleased to have successfully met the first two of these on time. We are focused on the successful delivery of this transition period, the conclusion of which will enable us to realise the full benefits of the modernised LTPA.
- We successfully supported the delivery of Formidable Shield 2019, a live-fire exercise testing integrated air and missile defence capabilities led by the US Navy, involving over 3,300 personnel and 12 warships. Increasingly complex trials such as Formidable Shield 2019 have been facilitated by our investment in UK T&E and are aligned with growing customer requirements.
- We were awarded a £19m contract to provide electromagnetic and acoustic mapping services to the Royal Navy through the LTPA contract. The Operational Assessment of Signatures Informing Susceptibility (OASIS) contract will help reduce the detectability of the Royal Navy's ships and submarines, improving their operational advantage.

Cyber, Information & Training (CIT)

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

- The CIT business secured a £67m contract with the UK MOD to develop secured satellite navigation receivers. Under the UK Robust Global Navigation System (R-GNS) programme, QinetiQ, along with our partner Collins Aerospace, will deliver an accurate and resilient positioning, navigation and timing capability to the UK MOD. This is a significant strategic milestone for our CIT business supported by our expertise in secure communications systems.
- Building on our expertise in secure communication systems we booked £16m orders under a new £20m contract to provide assurance and testing services on a new air-to-ground communications system for all police and air ambulance aircraft.
- The on-going delivery of BATCIS, where QinetiQ is supporting the development of next

generation Tactical Communication and Information Systems is progressing well and made a notable contribution to a good performance in the first half.
- In November 2018 we completed a strategic investment in Inzpire, the highly regarded provider of training services principally to the Royal Air Force and British Army. Inzpire has performed well and is delivering growth since we made this strategic investment.

International

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

- We have delivered a very positive performance across our International business in H1 2020, with strong growth in orders, revenue and operating profit.
- Performance in Australia, the largest component of our International business, has been strong during H1 2020, underpinned by its status as a Major Service Provider to the Australian Government working in partnership with Nova Systems.
- The integration of QinetiQ Germany following the completion of the acquisition in October 2018 is proceeding well and we have been able to leverage its capabilities in other key markets. As part of the LTPA air range modernisation programme agreed in December 2016, QinetiQ Germany has secured a €10m contract to provide range clearance services in the UK over the next nine years. These services will utilise QinetiQ Germany's fleet of PC-12 aircraft configured as maritime patrol aircraft.

Global Products

	H1 2020 £m	H1 2019^ £m
Orders	**102.4**	102.0
Revenue	**117.4**	100.4
Underlying operating profit*	**13.5**	10.4
Underlying operating margin*	**11.5%**	10.4%
Book to bill ratio	**0.9x**	1.0x
Funded order backlog	**211.6**	207.5

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary.
^ Underlying operating profit and margin have been restated due to adoption of IFRS 16 'Leases'.

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

Financial performance

Orders were stable at £102.4m (H1 2019: £102.0m).

Reported revenue was up 17% to £117.4m (H1 2019: £100.4m), principally driven by QinetiQ Target Systems. Revenue was up 14% (£14.0m) on an organic basis, excluding foreign exchange.

At the beginning of H2, the division had 89% of its forecast FY20 revenue under contract compared to 86% at the same point last year and up from 60% at the beginning of the financial year.

Underlying operating profit increased to £13.5m (H1 2019 restated: £10.4m), with an underlying operating profit margin of 11.5% (H1 2019: 10.4%). This was driven by increased sales of higher margin products in QinetiQ Target Systems.

H1 commentary

QinetiQ North America

QinetiQ North America (QNA) develops and produces innovative military protection products, specialising in unmanned systems, survivability and maritime systems, along with products in related commercial markets.

- QNA continues to provide innovative solutions in the Land and Maritime domains for our customers, with strong performance in the period primarily driven by robotics orders.
- In March 2019, we were awarded the US Army's Common Robotic System-Individual (CRS(I)) program of record. QNA has successfully completed the first set of deliveries under the CRS(I) production contact.
- In larger unmanned ground vehicles, QNA has partnered with Pratt & Miller Defense to submit a bid based on a variant of the Expeditionary Modular Autonomous Vehicle into the competition for the Robotic Combat Vehicle program of record. This submission will leverage QNA's modular open architecture unmanned ground vehicle control systems integrated with Pratt & Miller's advanced mobility platform.
- In the maritime domain, QNA was awarded a contract by General Dynamics Electric Boat to design, test and qualify a next generation Electronic Grounding Unit for Virginia Class submarines.

OptaSense

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

- OptaSense performance during the period was positive with growth in revenues and profits.
- Orders declined slightly, following a tougher comparator in the prior period and slippage of confirmed orders into H2.
- While the oil and gas end market remains challenging, we have seen encouraging progress in the uptake of OptaSense in key international basins.
- Demand for linear assets protection, pipelines, perimeters and transport, also continued to improve with significant uptake in North and South America.

Space Products

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

- Our new higher grade clean room facility in Kruibeke, Belgium, was officially opened in the period by Frank De Winne, the first European commander of the International Space Station. This new facility enables us to produce up to four major products at any one time and will support growth in satellites and docking systems production.
- Leveraging these new clean room facilities, we were awarded a €9m three year contract to build equipment that will support experiments in the International Space Station.

EMEA Products

EMEA Products provides research services and bespoke technological solutions developed from intellectual property spun out from EMEA Services. We also report QinetiQ Target Systems under this heading.

- QinetiQ Target Systems (QTS), acquired in FY17, delivered strong performance in H1 2020 as it doubled its orders and delivered a 50% increase in revenue.
- QTS developed two new products in the period. The first, our Next Generation Banshee target replicates fast flying jets, and enables customers to conduct Test & Evaluation and live-fire training exercises against faster, higher flying, more manoeuvrable and less detectable targets. Launched at the DSEI trade show in September 2019 we have already seen strong customer interest for the Next Generation Banshee target.
- We also released the Air-Launched 'Rattler' target, a low-cost supersonic target used to accurately replicate anti-radiation missiles and supersonic/high-diving threats, and have received our first orders from the UK Royal Navy.
- These product developments underline our ambition to continue delivering cutting edge test & evaluation and training & rehearsal for customers around the world supported by our target product portfolio.
- Beyond QTS, we were awarded a £3m contract to conduct research into the latest vehicle technologies to boost the performance of UK Future Ground Combat Vehicles. The project, led by QinetiQ will focus on innovative solutions for ground vehicle mobility exploiting the potential provided by electric drive systems.
- We are seeing encouraging demand for our broader product portfolio, including Obsidian, our counter drone technology specifically designed to detect, identify and track small drones and Bracer, our secure commercial satellite communication system.

Financial items

Net finance costs

Net finance income was £2.8m (H1 2019 restated: £3.8m) primarily reflecting the defined benefit pension net finance income of £3.2m (H1 2019: £4.1m). The year-on-year decrease reflects the reduced pension surplus following the buy-in in H2 of 2019. The prior year comparative for total net finance income has been restated following the retrospective adoption of the new accounting standard (IFRS 16) in respect of leases. See below and Note 1 to the financial statements for more details.

The underlying net finance expense was £0.4m (H1 2019 restated: £0.3m).

Tax

The total tax charge was £9.1m (H1 2019: £2.6m). The underlying tax charge was £7.3m (H1 2019: £5.5m) with an underlying effective tax rate of 12.3% (H1 2019: 10.7%). The effective tax rate continues to be below the UK statutory rate, primarily as a result of the benefit of research and development expenditure credits (RDEC) in the UK. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any tax legislation changes, variations in the geographic mix of profits, the future recognition of unrecognised tax losses and while the benefit of net RDEC retained by the Group remains part of the tax line.

Following adoption of the new accounting standard, IFRIC 23 'Uncertainty over income tax treatment', the Group's tax provisions have been re-assessed and recalculated. QinetiQ has chosen to apply the transition approach and has not restated comparative information in the financial statements. Rather, IFRIC 23 has been applied as an adjustment (to the value of £2.1m) to retained earnings at the beginning of the current financial year. Refer to note 1 for more details.

The total tax expense on specific adjusting items of £1.8m (H1 2019: £2.9m income) arises mainly on a capital gain on the sale of property while the H1 2019 credit arises mainly in respect of initial recognition of corporate tax deductions for certain equity-settled share based payment schemes.

Earnings per share

Underlying earnings per share for the Group were 9.2p (H1 2019 restated: 8.1p), with the increase primarily due to strong trading and top line revenue growth. Statutory basic earnings per share for the total Group (including specific adjusting items) were 11.0p (H1 2019 restated: 8.9p) with the current year enhanced by the inclusion of a £13.3m gain on disposal of surplus property.

Dividend

An interim dividend of 2.2p (H1 2019: 2.1p) will be paid on 7 February 2020 to shareholders on the register at 10 January 2020. The interim dividend represents one third of the prior year total dividend reflecting our previously communicated methodology. The full year dividend will be set in May.

Pensions

The net pension asset under IAS 19, before adjusting for deferred tax, was £295.5m (31 March 2019: £259.1m). The key driver for the increase in the net pension asset since the March 2019 year end was net re-measurement gains on scheme assets in excess of net actuarial losses on scheme liabilities (with decreasing discount rates which increase the present value of scheme liabilities).

The key assumptions used in the IAS 19 valuation of the scheme are set out in note 11.

Committed facilities

The Group has available a £275m bank financing facility with an additional 'accordion' facility to expand this up to a maximum of £400m. The facility has an initial term of five years but with two one-year options to extend the final maturity to 27 September 2025. The facility has yet to be drawn down on. Such a facility provides significant scope to execute the Group's strategic growth plans.

Foreign exchange

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

	6 months to 30 September 2019	**6 months to 30 September 2018**
£/US$ - average	1.25	1.32
£/US$ - closing	1.23	1.30
£/US$ - opening	1.30	1.40
£/A$ - average	1.82	1.80
£/A$ - closing	1.82	1.80
£/A$ - opening	1.80	1.83

IFRS 16 implementation

The new leases standard became effective for periods beginning on or after 1 January 2019, i.e. FY20 for QinetiQ, using either the full retrospective approach or the modified retrospective approach. QinetiQ has adopted the new standard on the required effective date, 1 April 2019, using the full retrospective approach.

Under the new standard, companies will recognise new assets and liabilities, bringing added transparency to the balance sheet. IFRS eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice i.e. lessors continue to classify leases as finance leases and operating leases.

The impact on the income statement for QinetiQ is negligible at a 'profit before tax' level with no impact on EPS, but EBITDA is increased, offset by an increase in depreciation and an increase in finance expense. See note 1 for details.

The impact on the balance sheet is the recognition of a new 'right of use' asset within Property Plant & Equipment and the recognition of a new lease liability. The latter is incorporated within the Group's definition (see glossary) of net cash, hence the most significant impact on the Group's financial KPIs is this change to net cash (reducing previously reported net cash at 31 March 2019 by £27.2m). There is no impact on 'free cash flow' as a result of implementing IFRS 16.

Prior year comparatives have been restated (to the extent impacted by IFRS 16) and more details are set out in Note 1 to the financial statements.

Principal risks and uncertainties

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

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

Strategic risks

- UK defence test and evaluation strategy - UK Government budget constraints lead to reduced spending in the core markets in which the Group operates. This and the ever increasing pace of technology is modernising the ways of evaluating capability resulting in a risk that our approaches/offerings may not remain relevant. EU exit causes a loss of market confidence and reduction in collaborative EU funding;
- International strategy - Plans to grow our international business may be impacted by external influences outside of our control, such as geopolitical risks, or specific risks arising from working in new markets;
- Innovation strategy - Failure to create a culture of innovation or to invest adequately in, or create value from, our innovation investment. As well as the risks arising from the introduction of disruptive technologies/alternative business models;
- A material element of the Group's revenue is dependent on a number of UK Government contracts – Government budget constraints could impact QinetiQ's ability to grow;
- Single Source Contract Regulations - Group performance is adversely affected by application of the regulations from the SSRO.

Operational risks

- Recruitment and retention - The Group operates in many specialised engineering, technical and scientific domains where key capabilities and competencies may be lost through failure to recruit and retain employees or a lack of domain specific graduates leads to a future skills shortage;
- Significant breach of relevant laws and regulations - The Group operates in highly regulated environments and recognises that non-compliance has the potential to compromise our ability to conduct business in certain jurisdictions and would potentially have an impact on a variety of stakeholders;
- Security and IT systems - A breach of physical or data security, cyber-attacks or IT systems failure could have an adverse impact on our customers' operations.

Condensed consolidated income statement

All figures in £ million unless stated otherwise	Note	**6 months ended 30 September 2019 (unaudited)**			6 months ended 30 September 2018 (unaudited/restated)^		
		Underlying*	**Specific adjusting items***	**Total**	Underlying*	Specific adjusting items*	Total
Revenue	2	**486.5**	**-**	**486.5**	**420.3**	**-**	**420.3**
Operating costs excluding depreciation, impairment and amortisation		(409.0)	(1.4)	(410.4)	(355.3)	(0.2)	(355.5)
Other income		4.0	13.3	17.3	4.9	0.1	5.0
EBITDA (earnings before interest, tax, depreciation and amortisation)		**81.5**	**11.9**	**93.4**	**69.9**	**(0.1)**	**69.8**
Depreciation and impairment of property, plant and equipment		(20.0)	**-**	(20.0)	(16.8)	(2.6)	(19.4)
Amortisation of intangible assets		(1.8)	(3.1)	(4.9)	(1.5)	(1.1)	(2.6)
Operating profit/(loss)		**59.7**	**8.8**	**68.5**	**51.6**	**(3.8)**	**47.8**
Gain on sale of investment		-	-	-	-	1.1	1.1
Finance income	4	0.7	3.2	3.9	0.7	4.1	4.8
Finance expense	4	(1.1)	-	(1.1)	(1.0)	-	(1.0)
Profit before tax		**59.3**	**12.0**	**71.3**	**51.3**	**1.4**	**52.7**
Taxation (expense)/income	5	(7.3)	(1.8)	(9.1)	(5.5)	2.9	(2.6)
Profit for the period attributable to equity shareholders		**52.0**	**10.2**	**62.2**	**45.8**	**4.3**	**50.1**
Attributable to:							
Owners of the parent		51.9	10.2	62.1	45.8	4.3	50.1
Non-controlling interests		0.1	-	0.1	-	-	-
Profit for the period attributable to equity shareholders		**52.0**	**10.2**	**62.2**	**45.8**	**4.3**	**50.1**
Earnings per share							
Basic	6	9.2p		11.0p	8.1p		8.9p
Diluted	6	9.1p		10.9p	8.1p		8.8p

* 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.
^ Further details of the restatement of the prior year due to the implementation of IFRS 16 'Leases' can be found in Note 1.

Condensed consolidated statement of comprehensive income

All figures in £ million	**6 months ended 30 September 2019 (unaudited)**	6 months ended 30 September 2018 (unaudited/ restated)
Profit for the period	**62.2**	**50.1**
Items that will not be reclassified to profit and loss:		
Actuarial gain recognised in defined benefit pension schemes	31.2	31.2
Tax on items that will not be reclassified to the income statement	(5.3)	(5.4)
Total items that will not be reclassified to the income statement	**25.9**	**25.8**
Movement in deferred tax on foreign currency translation	(0.4)	(0.4)
Foreign currency translation gains for foreign operations	7.5	6.7
Increase in fair value of hedging derivatives	0.9	2.6
Movement on deferred tax on hedging derivatives	(0.2)	(0.2)
Recycling of gains to the income statement on disposal of investments	-	(1.1)
Fair value gains on available for sale investments	-	0.7
Total items that may be reclassified to the income statement	**7.8**	**8.3**
Other comprehensive income for the period, net of tax	**33.7**	**34.1**
Total comprehensive income for the period, net of tax	**95.9**	**84.2**

Condensed consolidated statement of changes in equity

All figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 31 March 2019 (as originally stated)	**5.7**	**40.8**	**147.6**	**(0.2)**	**3.8**	**581.1**	**778.8**	**2.2**	**781.0**
Change in accounting policy – adoption of IFRS 16	-	-	-	-	-	(2.0)	(2.0)	-	(2.0)
At 31 March 2019 (unaudited, restated)	**5.7**	**40.8**	**147.6**	**(0.2)**	**3.8**	**579.1**	**776.8**	**2.2**	**779.0**
Change in accounting policy – adoption of IFRIC 23	-	-	-	-	-	2.1	2.1	-	2.1
Profit for the period	-	-	-	-	-	62.1	62.1	0.1	62.2
Other comprehensive income for the period, net of tax	-	-	-	0.7	7.1	25.9	33.7	-	33.7
Purchase of own shares	-	-	-	-	-	(0.4)	(0.4)	-	(0.4)
Share-based payments charge	-	-	-	-	-	3.0	3.0	-	3.0
Deferred tax on share options	-	-	-	-	-	(1.0)	(1.0)	-	(1.0)
Dividends paid	-	-	-	-	-	(25.5)	(25.5)	-	(25.5)
At 30 September 2019 (unaudited)	**5.7**	**40.8**	**147.6**	**0.5**	**10.9**	**645.3**	**850.8**	**2.3**	**853.1**
At 31 March 2018 (as originally stated)	**5.7**	**40.8**	**147.6**	**(1.8)**	**(0.4)**	**552.2**	**744.1**	**0.2**	**744.3**
Change in accounting policy – adoption of IFRS 16	-		-	-	-	(2.3)	(2.3)	-	(2.3)
At 31 March 2018 (unaudited, restated)	**5.7**	**40.8**	**147.6**	**(1.8)**	**(0.4)**	**549.9**	**741.8**	**0.2**	**742.0**
Profit for the period	-	-	-	-	-	50.1	50.1	-	50.1
Other comprehensive income for the period, net of tax	-	-	-	2.4	6.3	25.4	34.1	-	34.1
Purchase of own shares	-	-	-	-	-	(0.3)	(0.3)	-	(0.3)
Share-based payments charge	-	-	-	-	-	2.2	2.2	-	2.2
Deferred tax on share options	-	-	-	-	-	1.1	1.1	-	1.1
Dividends paid	-	-	-	-	-	(23.8)	(23.8)	-	(23.8)
At 30 September 2018 (unaudited - restated)	**5.7**	**40.8**	**147.6**	**0.6**	**5.9**	**604.6**	**805.2**	**0.2**	**805.4**

Condensed consolidated balance sheet

All figures in £ million	Note	**30 September 2019 (unaudited)**	30 September 2018 (unaudited/ restated)	31 March 2019 (unaudited/ restated)
Non-current assets				
Goodwill		152.3	105.0	148.6
Intangible assets		90.0	41.3	88.5
Property, plant and equipment		333.4	304.5	322.4
Other financial assets		1.1	-	0.9
Equity accounted investments		3.3	1.8	4.5
Retirement benefit surplus	11	295.5	353.8	259.1
Deferred tax asset		8.9	7.3	7.8
		884.5	**813.7**	**831.8**
Current assets				
Inventories		49.2	40.0	40.1
Other financial assets		0.5	-	0.5
Trade and other receivables		178.3	142.4	208.5
Assets held for sale		1.2	1.2	1.9
Current tax receivable		1.9	-	1.5
Cash and cash equivalents		201.2	251.0	190.8
		432.3	434.6	443.3
Total assets		**1,316.8**	**1,248.3**	**1,275.1**
Current liabilities				
Trade and other payables		(311.7)	(291.3)	(346.6)
Current tax payable		-	(0.2)	(8.5)
Provisions		(6.2)	(9.0)	(6.2)
Other financial liabilities		(9.3)	(8.6)	(10.8)
		(327.2)	**(309.1)**	**(372.1)**
Non-current liabilities				
Deferred tax liability		(87.6)	(77.9)	(72.7)
Provisions		(10.2)	(13.7)	(10.7)
Other financial liabilities		(20.0)	(21.6)	(20.1)
Other payables		(18.7)	(20.6)	(20.5)
		(136.5)	(133.8)	(124.0)
Total liabilities		**(463.7)**	**(442.9)**	**(496.1)**
Net assets		**853.1**	**805.4**	**779.0**
Capital and reserves				
Ordinary shares		5.7	5.7	5.7
Capital redemption reserve		40.8	40.8	40.8
Share premium account		147.6	147.6	147.6
Hedging reserve		0.5	0.6	(0.2)
Translation reserve		10.9	5.9	3.8
Retained earnings		645.3	604.6	579.1
Capital and reserves attributable to shareholders of the parent company		**850.8**	**805.2**	**776.8**
Non-controlling interest		2.3	0.2	2.2
Total shareholders' funds		**853.1**	**805.4**	**779.0**

Condensed consolidated cash flow

All figures in £ million	Note	**6 months ended 30 September 2019 (unaudited)**	6 months ended 30 September 2018 (unaudited/ restated)	Year ended 31 March 2019 (unaudited/ restated)
Underlying net cash inflow from operations		**77.0**	**54.9**	**135.0**
Less specific adjusting items		-	-	(0.7)
Net cash inflow from operations	8	**77.0**	**54.9**	**134.3**
Tax paid		(8.9)	(4.8)	(10.7)
Interest received		0.7	0.7	1.3
Interest paid		(0.9)	(0.9)	(1.7)
Net cash inflow from operating activities		**67.9**	**49.9**	**123.2**
Purchases of intangible assets		(7.1)	(4.6)	(10.6)
Purchases of property, plant and equipment		(33.3)	(43.7)	(77.0)
Proceeds from sale of property, plant and equipment		14.1	4.4	12.2
Proceeds from sale of investment		-	1.5	1.5
Acquisition of business and investment in joint venture		(0.1)	(0.2)	(62.8)
Proceeds from disposal of available-for-sale investments		-	15.7	15.7
Net cash outflow from investing activities		**(26.4)**	**(26.9)**	**(121.0)**
Purchase of own shares		(0.4)	(0.3)	(0.7)
Dividends paid to shareholders		(25.5)	(23.8)	(35.7)
Repayment of external bank loan		-	-	(20.0)
Payment of bank facility arrangement fee		(0.2)	-	(1.5)
Capital element of finance lease payments		(5.0)	(3.5)	(8.1)
Net cash outflow from financing activities		**(31.1)**	**(27.6)**	**(66.0)**
Increase/(decrease) in cash and cash equivalents		**10.4**	**(4.6)**	**(63.8)**
Effect of foreign exchange changes on cash and cash equivalents		-	1.5	0.5
Cash and cash equivalents at beginning of period		190.8	254.1	254.1
Cash and cash equivalents at end of period		**201.2**	**251.0**	**190.8**

Reconciliation of movement in net cash

All figures in £ million	Note	**6 months ended 30 September 2019 (unaudited)**	6 months ended 30 September 2018 (unaudited/ restated)	Year ended 31 March 2019 (unaudited/ restated)
Increase/(decrease) in cash and cash equivalents		**10.4**	**(4.6)**	**(63.8)**
Add back net cash flows not impacting net cash		5.2	(12.2)	13.9
Change in net cash resulting from cash flows		**15.6**	**(16.8)**	**(49.9)**
Finance leases and debt recognised on acquisition		-	-	(22.7)
Increase in lease obligation		(3.1)	(2.7)	(5.8)
Other movements including foreign exchange		(0.3)	2.6	2.0
Increase/(decrease) in net cash as defined by the Group		**12.2**	**(16.9)**	**(76.4)**
Net cash as defined by the Group at beginning of period		161.3	237.7	237.7
Net cash as defined by the Group at end of period	7	**173.5**	**220.8**	**161.3**
Exclude: non-cash items (other financial asset and liabilities)	7	27.7	30.2	29.5
Total cash and cash equivalents	7	**201.2**	**251.0**	**190.8**

Notes to the condensed interim financial statements

1. Significant accounting policies

Basis of preparation

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

The condensed consolidated interim financial statements of the Group for the six months ended 30 September 2019 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 2019.

These condensed Group interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the requirements of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority. They do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's financial statements for the year ended 31 March 2019 which have been prepared in accordance with IFRS as adopted by the European Union.

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

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

All items treated as a specific adjusting item in the current and prior period are detailed in note 3.

The accounting policies adopted in the preparation of these condensed consolidated financial statements are consistent with the policies applied by the Group in its consolidated financial statements for the year ended 31 March 2019 (with the exception of the implementation of IFRS 16 and IFRIC 23).

Recent accounting developments adopted by the Group

IFRS 16 'Leases'

Under the new standard, the Group has recognised new assets and liabilities, bringing added transparency to the balance sheet. IFRS 16 has eliminated the current dual accounting model for lessees, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 has brought about a single, on-balance sheet accounting model that is similar to current finance lease accounting, Lessor accounting remains similar to previous practice i.e. lessors have continued to classify leases as finance and operating leases.

The standard became effective for periods beginning on or after 1 January 2019, i.e. FY20 for QinetiQ. The Group has adopted the new standard on the required effective date, 1 April 2019, using the full retrospective approach. Under the full retrospective approach, QinetiQ has applied IFRS 16 to all periods presented as if it had always been applied by restating comparative periods.

Under IFRS 16, a liability is recognised at lease inception equal to the discounted lease payments under the lease. The lease payments also include extension options, where reasonably certain to be exercised by the Group. The lease liability is subsequently measured using the effective interest method, with the liability increasing to reflect the accretion of interest and reduced by lease payments made, with interest charged to finance costs. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, for example a change in the lease term or non-fixed lease payments.

The initial cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, expected asset restoration costs and lease payments made at or before the commencement date, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and the economic life of the asset. The right-of-use asset is tested for impairment where appropriate.

When applying the full retrospective approach, QinetiQ elected to use the short-term lease and low-value asset exemptions for leases less than 12 months and lease assets under £5,000. QinetiQ also elected to reassess all leases using new IFRS 16 lease definitions and have not elected to use the practical expedient which exempts entities from doing so.

The comparative information presented in these financial statements has been restated as disclosed in the tables below. The main restatement impacts to the balance sheet related to the recognition of right-to-use assets and additional lease obligations. Trade and other receivables and trade and other payables have been restated to remove balances related to leases such as lease incentives, advance payments and accrued liabilities.

'Net cash' (as defined by the Group, see Glossary) decreases through implementation of IFRS 16. As well as the recognition of right-of-use assets on the balance sheet (increasing property, plant and equipment) IFRS 16 also creates a finance lease liability, which impacts the Group's 'net cash' measure. Net cash as defined by the Group combines cash and cash equivalents with other financial assets and liabilities, primarily available for sale investments, derivative financial instruments and finance lease assets/liabilities. There is no impact on 'free cash flow' as a result of implementing IFRS 16.

Impact on the condensed consolidated balance sheet at 30 September 2019

All figures in £ million	**Pre IFRS 16**	IFRS 16 adjustments	**As reported**
Assets			
Property, plant and equipment	309.4	24.0	333.4
Deferred tax asset	8.9	-	8.9
Trade and other receivables	178.3	-	178.3
Other assets	796.2	-	796.2
	1,292.8	24.0	1,316.8
Liabilities			
Trade and other payables	(311.7)	-	(311.7)
Other financial liabilities	(2.7)	(26.6)	(29.3)
Deferred tax liability	(87.2)	(0.4)	(87.6)
Other liabilities	(35.1)	-	(35.1)
	(436.7)	(27.0)	(463.7)
Net assets	**856.1**	**(3.0)**	**853.1**
Capital and reserves			
Retained earnings	648.3	(3.0)	645.3
Other	205.5	-	205.5
Capital and reserves attributable to shareholders of the parent company	**853.8**	**(3.0)**	**850.8**
Non-controlling interest	2.3	-	2.3
Total shareholders' funds	**856.1**	**(3.0)**	**853.1**

Impact on net cash at 30 September 2019

Net cash (as defined by the Group – see glossary)	**200.1**	**(26.6)**	**173.5**

Impact on the condensed consolidated balance sheet at 31 March 2019

All figures in £ million	**As reported**	IFRS 16 adjustments	Restated
Assets			
Property, plant and equipment	298.0	24.4	322.4
Deferred tax asset	7.8	-	7.8
Trade and other receivables	208.5	-	208.5
Other assets	736.4	-	736.4
	1,250.7	24.4	1,275.1
Liabilities			
Trade and other payables	(346.6)	-	(346.6)
Other financial liabilities	(3.7)	(27.2)	(30.9)
Deferred tax liability	(73.1)	0.4	(72.7)
Other liabilities	(46.3)	0.4	(45.9)
	(469.7)	(26.4)	(496.1)
Net assets	**781.0**	(2.0)	**779.0**
Capital and reserves			
Retained earnings	581.1	(2.0)	579.1
Other	197.7	-	197.7
Capital and reserves attributable to shareholders of the parent company	**778.8**	(2.0)	**776.8**
Non-controlling interest	2.2	-	2.2
Total shareholders' funds	**781.0**	(2.0)	**779.0**

Impact on net cash at 31 March 2019

Net cash (as defined by the Group – see glossary)	**188.5**	**(27.2)**	**161.3**

Impact on the condensed consolidated balance sheet at 30 September 2018

All figures in £ million	**As reported**	IFRS 16 adjustments	Restated
Assets			
Property, plant and equipment	278.9	25.6	304.5
Deferred tax asset	7.3	-	7.3
Trade and other receivables	142.4	-	142.4
Other assets	794.1	-	794.1
	1,222.7	25.6	1,248.3
Liabilities			
Trade and other payables	(291.3)	-	(291.3)
Other financial liabilities	(1.9)	(28.3)	(30.2)
Deferred tax liability	(78.3)	0.4	(77.9)
Other liabilities	(43.5)	-	(43.5)
	(415.0)	(27.9)	(442.9)
Net assets	**807.7**	**(2.3)**	**805.4**
Capital and reserves			
Retained earnings	606.9	(2.3)	604.6
Other	200.6	-	200.6
Capital and reserves attributable to shareholders of the parent company	**807.5**	**(2.3)**	**805.2**
Non-controlling interest	0.2	-	0.2
Total shareholders' funds	**807.7**	**(2.3)**	**805.4**

Impact on net cash at 30 September 2018

Net cash (as defined by the Group – see glossary)	**249.1**	**(28.3)**	**220.8**

Impact on the condensed consolidated income statement

The impact to the Income Statement as a result of adopting IFRS 16 was insignificant. Operating profit increased, reflecting the removal of the operating lease expenses previously charged to profit, partially offset by the inclusion of depreciation of the right-of-use assets.

	6 months ended 30 September 2019 (unaudited)			6 months ended 30 September 2018 (unaudited)		
All figures in £ million unless stated otherwise	**Pre-IFRS 16**	**IFRS 16 adjustment**	**Reported**	As originally stated	IFRS 16 adjustment	Restated
EBITDA (earnings before interest, tax, depreciation and amortisation)	**88.3**	**5.1**	**93.4**	**65.8**	**4.0**	**69.8**
Depreciation and impairment of property, plant and equipment	(15.4)	(4.6)	(20.0)	(15.9)	(3.5)	(19.4)
Amortisation of intangible assets	(4.9)	-	(4.9)	(2.6)	-	(2.6)
Operating profit	**68.0**	**0.5**	**68.5**	**47.3**	**0.5**	**47.8**
Gain on sale of investment	-	-	-	1.1	-	1.1
Finance income	3.9	-	3.9	4.8	-	4.8
Finance expense	(0.6)	(0.5)	(1.1)	(0.5)	(0.5)	(1.0)
Profit before tax	**71.3**	-	**71.3**	**52.7**	-	**52.7**
Taxation expense	(9.1)	-	(9.1)	(2.6)	-	(2.6)
Profit for the period attributable to equity shareholders	**62.2**	-	**62.2**	**50.1**	-	**50.1**
Attributable to:						
Owners of the parent	62.1	-	62.1	50.1	-	50.1
Non-controlling interests	0.1	-	0.1	-	-	-
Profit for the period attributable to equity shareholders	**62.2**	-	**62.2**	**50.1**	-	**50.1**
Earnings per share						
Basic	11.0p		11.0p	8.9p		8.9p
Diluted	10.9p		10.9p	8.8p		8.8p

Underlying measures:

	6 months ended 30 September 2019 (unaudited)			6 months ended 30 September 2018 (unaudited)		
All figures in £ million unless stated otherwise	**Pre-IFRS 16**	**IFRS 16 adjustment**	**Reported**	As originally stated	IFRS 16 adjustment	Restated
Operating profit	59.2	0.5	59.7	51.1	0.5	51.6
Profit after tax	52.0	-	52.0	45.8	-	45.8
Earnings per share (Basic)	9.2p		9.2p	8.1p		8.1p
Earnings per share (Diluted)	9.1p		9.1p	8.1p		8.1p

IFRIC 23 'Uncertainty over income tax treatment'

This interpretation was published in June 2017 and is required to be applied in the determination of taxable profits / losses and tax attributes, when there is uncertainty over their treatment under IAS 12. The primary impact on QinetiQ's financial statements arises in relation to the provision for potential overseas tax liabilities in territories where the Group does not have a registered taxable presence (i.e. territories to which the Group exports goods or provides short-term services).

The Group previously recorded provisions under IAS 12 reflecting the potential risk of QinetiQ's many activities across many jurisdictions. These provisions have been reassessed and recalculated to meet the more prescriptive threshold for recognition under IFRIC 23, which explicitly requires consideration of each tax jurisdiction individually. Combined with an assessment of other tax reserves, the impact of the adoption of IFRIC 23 in FY20 is a reduction in tax provisions (within current tax payable) of £2.1m.

QinetiQ has chosen to apply the transition approach for adopting IFRIC 23 and not restate comparative information in the first year of adoption. An adjustment, to the value of £2.1m, has been made to retained earnings at the beginning of the first period of adoption i.e. in the six months to 30 September 2019.

Going-concern basis

The Group meets its day-to-day working capital requirements through its available cash funds and its bank facilities. The market conditions in which the Group operates have been, and are expected to continue to be, challenging as spending from the Group's key customers in its primary markets in the UK and US remains under pressure. Despite these challenges, the Directors believe that the Group is well positioned to manage its overall business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going-concern basis in preparing its interim financial statements.

The Group is exposed to various risks and uncertainties, the principal ones being summarised in the 'Principal risks and uncertainties' section. Crystallisation of such risks, to the extent not fully mitigated, would lead to a negative impact on the Group's financial results but none are deemed sufficiently material to prevent the Group from continuing as a going concern for at least the next 12 months.

Comparative data

The comparative figures for the year ended 31 March 2019 do not contain all of the information required for full annual financial statements. The Group's full annual financial statements for the year ended 31 March 2019 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 2019 are available upon request from the Company's registered office at Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

2. Disaggregation of revenue and segmental analysis

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

For the six months ended 30 September

All figures in £ million	**H1 2020 (unaudited)**	H1 2019 (unaudited)
Service contracts with customers	426.9	369.7
Sale of goods contracts with customers	55.0	44.3
Royalties and licences	4.6	6.3
Revenue	**486.5**	**420.3**
Less: inorganic revenue of acquired businesses*	(20.7)	-
Adjust to constant prior year exchange rates	(2.6)	-
Total revenue on an organic, constant currency basis	**463.2**	**420.3**
Organic revenue growth at constant currency	*10%*	*8%*

*For the period during which there was no contribution in the equivalent period in the prior year which was pre-ownership by the Group.

Other income

All figures in £ million	**H1 2020 (unaudited)**	H1 2019 (unaudited)
Share of joint ventures' and associates' loss after tax	(1.0)	(0.2)
Other income	5.0	5.1
Other income – underlying	**4.0**	**4.9**
Gain on sale of assets	13.3	0.1
Total other income	**17.3**	**5.0**

Revenue by customer geographical location

For the six months ended 30 September

All figures in £ million	**H1 2020 (unaudited)**	H1 2019 (unaudited)
US	52.5	48.2
Australia	32.6	27.3
Europe	37.5	25.5
Middle East	8.9	8.5
Rest of World	19.3	20.2
International (31% and 31% of total revenue for 2020 and 2019 respectively)	**150.8**	**129.7**
United Kingdom	335.7	290.6
Total revenue	**486.5**	**420.3**

Revenue by major customer type

For the six months ended 30 September

All figures in £ million	**H1 2020 (unaudited)**	H1 2019 (unaudited)
UK Government	306.6	258.9
US Government	43.4	39.5
Other	136.5	121.9
Total revenue	**486.5**	**420.3**

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

Operating segments

For the six months ended 30 September

All figures in £ million	**H1 2020 (unaudited)**		H1 2019 (unaudited, restated^)	
	Revenue from external customers	**Underlying operating profit***	Revenue from external customers	Underlying operating profit*
EMEA Services	369.1	46.2	319.9	41.2
Global Products	117.4	13.5	100.4	10.4
Total operating segments	**486.5**	**59.7**	**420.3**	**51.6**
*Underlying operating margin**		*12.3%*		*12.3%*

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

^See Note 1 for details of the restatement following adoption of IFRS 16.

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

All figures in £ million	Note	**H1 2020 (unaudited)**	H1 2019 (unaudited, restated^)
Underlying operating profit		59.7	51.6
Specific adjusting items operating profit/(loss)	3	8.8	(3.8)
Operating profit		**68.5**	**47.8**
Gain on sale of investment		-	1.1
Net finance income		2.8	3.8
Profit before tax		**71.3**	**52.7**
Taxation expense		(9.1)	(2.6)
Profit for the period attributable to equity shareholders		**62.2**	**50.1**

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 2020 (unaudited)**	H1 2019 (unaudited)
Gain on sale of property		13.3	0.1
Acquisition costs		(1.4)	(0.2)
Specific adjusting items before amortisation, depreciation and impairment		**11.9**	**(0.1)**
Impairment of property		-	(2.6)
Amortisation of intangible assets arising from acquisition		(3.1)	(1.1)
Specific adjusting items operating profit/(loss)		**8.8**	**(3.8)**
Defined benefit pension scheme net finance income		3.2	4.1
Gain on sale of investment		-	1.1
Specific adjusting items profit before tax		**12.0**	**1.4**
Specific adjusting items - tax	5	(1.8)	2.9
Total specific adjusting items profit after tax		**10.2**	**4.3**

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

All figures in £ million	**H1 2020 (unaudited)**	H1 2019 (unaudited, restated^)
Underlying profit after tax	52.0	45.8
Total specific adjusting items profit after tax (see above)	10.2	4.3
Total profit for the period attributable to equity shareholders	**62.2**	**50.1**

4. Finance income and expense

All figures in £ million	**H1 2020 (unaudited)**	H1 2019 (unaudited, restated^)
Receivable on bank deposits	0.7	0.7
Underlying finance income	**0.7**	**0.7**
Amortisation of recapitalisation fee	(0.2)	(0.1)
Interest on bank loans and overdrafts	(0.4)	(0.4)
Finance lease expense	(0.5)	(0.5)
Underlying finance expense	**(1.1)**	**(1.0)**
Underlying net finance expense	**(0.4)**	**(0.3)**
Specific adjusting items:		
Defined benefit pension scheme net finance income	3.2	4.1
Net finance income	**2.8**	**3.8**

^See Note 1 for details of the restatement following adoption of IFRS 16.

5. Taxation

All figures in £ million unless stated otherwise	H1 2020 (unaudited) Underlying	H1 2020 (unaudited) Specific adjusting items	H1 2020 (unaudited) Total	H1 2019 (unaudited, restated) Underlying	H1 2019 (unaudited, restated) Specific adjusting items	H1 2019 (unaudited, restated) Total
Profit before tax	**59.3**	**12.0**	**71.3**	**51.3**	**1.4**	**52.7**
Taxation (expense)/income	(7.3)	(1.8)	(9.1)	(5.5)	2.9	(2.6)
Profit for the period attributable to equity shareholders	**52.0**	**10.2**	**62.2**	**45.8**	**4.3**	**50.1**
Effective tax rate	**12.3%**			**10.7%**		

The total tax charge is £9.1m (H1 2019: £2.6m). The underlying tax charge of £7.3m (H1 2019: £5.5m) is calculated by applying the expected effective tax rate of 12.3% for the year ending 31 March 2020 to the Group's underlying profit before tax for the six months to 30 September 2019 (H1 2019: 10.7%). The effective tax rate continues to be below the UK statutory rate, primarily as a result of the benefit of research and development expenditure credits ('RDEC') in the UK which are accounted for under IAS12 within the tax line. The adjusted effective tax rate before the impact of RDEC would be 18.6%. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any tax legislation changes, variations in the geographic mix of profits, the future recognition of unrecognised tax losses and while the benefit of net RDEC retained by the Group remains in the tax line.

Tax losses and specific adjusting items
At 30 September 2019 the Group had unused tax losses and surplus interest costs of £119.5m which are available for offset against future profits. A deferred tax asset of £5.0m (31 March 2019: £4.9m) is recognised in respect of £23.2m (31 March 2019: £21.1m) of US net operating losses. No deferred tax asset is recognised in respect of the remaining £96.3m of losses/interest costs due to uncertainty over the timing and extent of their utilisation. The Group has £61.8m of time-limited losses of which US capital losses of £29.9m will expire in 2020 and US net operating losses of £20.8m will expire in 2035, £9.6m in 2036 and £1.5m in 2038. Deferred tax has been calculated using the enacted future statutory tax rates.

The total specific adjusting items tax charge of £1.8m (H1 2019: credit £2.9m) arises mainly on a capital gain on the sale of property while the H1 2019 credit arises mainly in respect of initial recognition of corporate tax deductions for certain equity-settled share based payment schemes.

Adoption of IFRIC 23 'Uncertainty over income tax treatment'
Following adoption of the new accounting standard, IFRIC 23 'Uncertainty over income tax treatment', the Group's tax provisions have been re-assessed and recalculated. QinetiQ has chosen to apply the transition approach and has not restated comparative information in the financial statements. Rather, IFRIC 23 has been applied as an adjustment (to the value of £2.1m) to retained earnings at the beginning of the current financial year. Refer to note 1 for more details.

Current tax liability
The current tax recoverable is £1.9m as at 30 September 2019 (31 March 2019: liability £7.0m).

6. Earnings per share

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

		H1 2020 (unaudited)	H1 2019 (unaudited)
Weighted average number of shares	**Million**	**566.7**	**565.7**
Effect of dilutive securities	Million	4.0	2.7
Diluted number of shares	**Million**	**570.7**	**568.4**

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 EPS		**H1 2020 (unaudited)**	**H1 2019 (unaudited)**
Profit attributable to equity shareholders	£ million	62.2	50.1
Remove profit after tax in respect of specific adjusting items	£ million	(10.2)	(4.3)
Underlying profit after taxation	**£ million**	**52.0**	**45.8**
Weighted average number of shares	Million	566.7	565.7
Underlying basic EPS	**Pence**	**9.2**	**8.1**
Diluted number of shares	Million	570.7	568.4
Underlying diluted EPS	**Pence**	**9.1**	**8.1**

Basic and diluted EPS		**H1 2020 (unaudited)**	**H1 2019 (unaudited)**
Profit attributable to equity shareholders	£ million	62.2	50.1
Weighted average number of shares	Million	566.7	565.7
Basic EPS – total Group	**Pence**	**11.0**	**8.9**
Diluted number of shares	Million	570.7	568.4
Diluted EPS – total Group	**Pence**	**10.9**	**8.8**

7. Net cash

All figures in £ million	**30 September 2019 (unaudited)**	**30 September 2018 (unaudited, restated)**	**31 March 2019 (unaudited, restated)**
Current financial assets/(liabilities)			
Deferred financing costs	0.4	-	0.4
Finance leases	(8.6)	(7.0)	(9.7)
Derivative financial assets	0.1	-	0.1
Derivative financial liabilities	(0.7)	(1.6)	(1.1)
Total current net financial liabilities	(8.8)	(8.6)	(10.3)
Non-current financial assets/(liabilities)			
Deferred financing costs	1.0	-	0.9
Finance leases	(19.8)	(21.3)	(19.8)
Derivative financial assets	0.1	-	-
Derivative financial liabilities	(0.2)	(0.3)	(0.3)
Total non-current net financial liabilities	(18.9)	(21.6)	(19.2)
Total net financial liabilities	**(27.7)**	**(30.2)**	**(29.5)**
Cash and cash equivalents	201.2	251.0	190.8
Total net cash as defined by the Group	**173.5**	**220.8**	**161.3**

8. Cash flows from operations

All figures in £ million	H1 2020 (unaudited)	H1 2019 (unaudited/ restated)	Year ended 31 March 2019 (unaudited/ restated)
Profit after tax for the period	62.2	50.1	113.9
Adjustments for:			
Taxation expense	9.1	2.6	9.3
Net finance income	(2.8)	(3.8)	(7.3)
Gain on sale of investment	-	(1.1)	(1.1)
Gain on sale of property	(13.3)	(0.1)	(0.2)
Impairment of property	-	2.6	6.4
Pension past service cost	-	-	0.7
Transaction costs in respect of acquisition of business	1.4	0.2	1.3
Amortisation of purchased or internally developed intangible assets	1.8	1.5	3.2
Amortisation of intangible assets arising from acquisitions	3.1	1.1	3.9
Depreciation of property, plant and equipment	20.0	16.8	37.5
(Profit)/loss on disposal of plant and equipment	(1.6)	0.9	(5.5)
Share of post-tax loss/(profit) of equity accounted entities	1.0	0.2	(0.6)
Share-based payments charge	3.6	2.4	6.1
Retirement benefit contributions in excess of income statement expense	(2.0)	(2.3)	(1.8)
Net movement in provisions	(0.4)	2.3	(3.6)
Increase in inventories	(7.6)	(0.3)	(0.5)
Decrease/(increase) in receivables	32.5	5.4	(48.7)
(Decrease)/increase in payables	(30.0)	(23.6)	21.3
Changes in working capital	(5.1)	(18.5)	(27.9)
Net cash flow from operations	**77.0**	**54.9**	**134.3**

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

All figures in £ million	H1 2020 (unaudited)	H1 2019 (unaudited/ restated)	Year ended 31 March 2019 (unaudited/ restated)
Net cash flow from operations	77.0	54.9	134.3
Add back specific adjusting item: acquisition integration costs	-	-	0.7
Underlying net cash flow from operations	**77.0**	**54.9**	**135.0**
Add: proceeds from disposal of plant and equipment	1.6	-	6.9
Less: tax and net interest payments	(9.1)	(5.0)	(11.1)
Less: purchases of intangible assets and property, plant & equipment	(40.4)	(48.3)	(87.6)
Free cash flow	**29.1**	**1.6**	**43.2**

Underlying cash conversion ratio

	H1 2020 (unaudited)	H1 2019 (unaudited/ restated)	Year ended 31 March 2019 (unaudited/ restated)
Underlying operating profit - £ million	59.7	51.6	124.9
Underlying net cash flow from operations - £ million	77.0	54.9	135.0
Underlying cash conversion ratio - %	**129%**	**106%**	**108%**

9. 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 2019. 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 2019, are as follows:

all figures in £ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Current derivative financial instruments	-	0.1	-	0.1
Non-current derivative financial instruments	-	0.1	-	0.1
Liabilities:				
Current derivative financial instruments	-	(0.7)	-	(0.7)
Non-current derivative financial instruments	-	(0.2)	-	(0.2)
Total	**-**	**(0.7)**	**-**	**(0.7)**

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2019:

all figures in £ million	Level 1	Level 2	Level 3	Total
Assets:				
Current derivative financial instruments	-	0.1	-	0.1
Non-current derivative financial instruments	-	-	-	-
Liabilities:				
Current derivative financial instruments	-	(1.1)	-	(1.1)
Non-current derivative financial instruments	-	(0.3)	-	(0.3)
Total	**-**	**(1.3)**	**-**	**(1.3)**

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.

10. Dividends

An analysis of the dividends paid and proposed in respect of the period ended 30 September 2019 and comparative periods is provided below:

	Pence per ordinary share	**£m**	**Date paid/payable**
Interim 2020	**2.2**	**12.5**	**Feb 2020**
Interim 2019	2.1	11.9	Feb 2019
Final 2019	4.5	25.5	Aug 2019
Total for the year ended 31 March 2019	6.6	37.4	

The interim dividend is 2.2p (interim 2019: 2.1p). The dividend will be paid on 7 February 2020. The ex-dividend date is 9 January 2020 and the record date is 10 January 2020.

11. Post-retirement benefits

Set out below is a summary of the financial position of the Group's defined benefit pension scheme ('the Scheme'). The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods, and thus inherently uncertain, are as follows:

all figures in £ million	30 September 2019 (unaudited)	30 September 2018 (unaudited)	31 March 2019 (audited)
Equities – quoted	139.7	127.7	127.0
Equities – unquoted	53.1	60.5	51.8
Liability driven investment	415.3	969.7	690.8
Corporate bonds	-	308.9	96.0
Asset backed security investments	452.0	-	-
Alternative bonds - quoted	328.3	201.8	304.4
Alternative bonds - unquoted	-	78.4	-
Property funds	145.2	144.9	145.6
Cash and other equivalents	41.0	75.9	75.1
Derivatives	1.4	(0.9)	2.5
Insurance buy-in policy	608.2	-	566.4
Outstanding payment due in respect of buy-in	-	-	(96.0)
Total market value of Scheme assets	**2,184.2**	**1,966.9**	**1,963.6**
Present value of Scheme liabilities	(1,888.7)	(1,613.1)	(1,704.5)
Net pension asset before deferred tax	**295.5**	**353.8**	**259.1**
Deferred tax liability	(54.6)	(64.9)	(48.6)
Net pension asset after deferred tax	**240.9**	**288.9**	**210.5**

Changes to the net pension asset

all figures in £ million	30 September 2019 (unaudited)	30 September 2018 (unaudited)	31 March 2019 (audited)
Opening net pension asset before deferred tax	259.1	316.2	316.2
Net finance income	3.2	4.1	8.2
Net actuarial gain/(loss)	31.2	31.2	(66.4)
Contributions by the employer	2.7	2.7	2.7
Administration expenses	(0.7)	(0.4)	(0.9)
Past service cost	-	-	(0.7)
Closing net pension asset before deferred tax	**295.5**	**353.8**	**259.1**

Assumptions

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

	30 September 2019 (unaudited)	30 September 2018 (unaudited)	31 March 2019 (audited)
Discount rate applied to Scheme liabilities	1.85%	2.90%	2.45%
CPI inflation assumption	2.30%	2.35%	2.35%
Assumed life expectancies in years:			
Future male pensioners (currently aged 60)	87	88	87
Future female pensioners (currently aged 60)	89	90	89
Future male pensioners (currently aged 40)	89	90	89
Future female pensioners (currently aged 40)	91	92	91

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

Key assumptions	Change in assumption	Indicative impact on Scheme liabilities	Indicative impact on net pension asset
Discount rate	Increase by 0.1%	Decrease by £38m	Decrease by £14m
Rate of inflation	Increase by 0.1%	Increase by £38m	Increase by £14m
Life expectancy	Increase by one year	Increase by £65m	Decrease by £44m

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 2019 this hedges against approximately 86% of the interest rate and 92% of the inflation rate risk, as measured on the Trustees' gilt-funded basis.

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

The accounting assumptions noted above are used to calculate the period end present value of Scheme liabilities in accordance with the relevant accounting standard, IAS 19 (revised) 'Employee benefits'. Changes in these assumptions have no impact on the Group's cash payments into the Scheme. The payments into the Scheme are reassessed after every triennial valuation. The latest triennial valuation of the Scheme was a net surplus of £139.7m as at 30 June 2017. 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.

Per the Scheme rules, the Company has an unconditional right to a refund of any surplus that 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.

12. 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 2019 are 6,174,168 shares (31 March 2019: 6,946,678 shares).

In the six months to 30 September 2019 the Group granted 0.5 million new share-based awards to employees (30 September 2018: 0.1 million).

13. Related party transactions with equity accounted investments

During the period there were sales to associates and joint ventures of £2.4m (30 September 2018: £6.3m). At the period end there were outstanding receivables from associates and joint ventures of £1.5m (30 September 2018: £5.3m).

14. Capital commitments

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

all figures in £ million	**30 September 2019 (unaudited)**	31 March 2019 (audited)
Contracted	35.7	40.6

Capital commitments at 30 September 2019 include £22.1m (31 March 2019: £20.6m) in relation to property, plant and equipment that will be wholly funded by a third party customer under a long-term contract arrangements. These primarily relate to investments under the LTPA contract.

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

The Directors confirm to the best of our knowledge:

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

The Directors of QinetiQ Group plc are listed in the QinetiQ Group plc Annual Report for 31 March 2019.

By order of the Board

Neil Johnson	Steve Wadey	David Smith
Chairman	Chief Executive Officer	Chief Financial Officer
14 November 2019	14 November 2019	14 November 2019

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 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Condensed consolidated balance sheet as at 30 September 2019;
- the Condensed consolidated income statement and Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated cash flow statement for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

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

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

What a review of interim financial statements involves

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

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

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

PricewaterhouseCoopers LLP
Chartered Accountants
Southampton
14 November 2019

Glossary

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

Alternative performance measures ('APMs')

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

Measure	**Explanation**	**Note reference to calculation or reconciliation to statutory measure**
Organic growth	The level of period-on-period growth, expressed as a percentage, calculated at constant prior year foreign exchange rates, adjusting for business acquisitions and disposals to reflect equivalent composition of the Group	Note 2
Underlying operating profit	Operating profit as adjusted to exclude 'specific adjusting items'	Note 2
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue	Note 2
Underlying net finance income/expense	Net finance income/expense as adjusted to exclude 'specific adjusting items'	Note 4
Underlying profit before/after tax	Profit before/after tax as adjusted to exclude 'specific adjusting items'	Note 5
Underlying effective tax rate	The tax charge for the period excluding the tax impact of 'specific adjusting items' expressed as a percentage of underlying profit before tax	Note 5
Underlying basic and diluted EPS	Basic and diluted earnings per share as adjusted to exclude 'specific adjusting items'	Note 6
Specific adjusting items	Amortisation of intangible assets arising from acquisitions; impairment of property; gains/losses on disposal of property, investments and intellectual property; net pension finance income; pension past service costs, acquisition costs; tax impact of the preceding items; and significant non-recurring tax movements	Note 3
Orders	The level of new orders (and amendments to existing orders) booked in the period. Includes share of orders won by joint ventures	N/A
Backlog, funded backlog or order book	The expected future value of revenue from contractually committed and funded customer orders	N/A
Book to bill ratio	Ratio of funded orders received in the period to revenue for the period, adjusted to exclude revenue from the 25-year LTPA contract due to the significant size and timing differences of LTPA order and revenue recognition which may distort the ratio calculation.	N/A
Net cash	Net cash as defined by the Group combines cash and cash equivalents with other financial assets and liabilities, primarily available for sale investments, derivative financial instruments and finance lease assets/liabilities.	Note 7
Underlying net cash flow from operations	Net cash flow from operations before cash flows of specific adjusting items	Note 8
Underlying operating cash conversion	The ratio of underlying net cash flow from operations to underlying operating profit	Note 8
Free cash flow	Underlying net cash flow from operations less net tax and interest payments less purchases of intangible assets and property, plant and equipment plus proceeds from disposal of plant and equipment.	Note 8