Interim Results

16 November 2017

Delivering our strategy and investing for growth

Results for six months to 30 September 2017

	Statutory results		Underlying* results	
	H1 2018	H1 2017	**H1 2018**	H1 2017
Revenue	**£392.5m**	£361.8m	**£392.5m**	£361.8m
Operating profit	**£67.5m**	£51.7m	**£57.5m**	£51.9m
Profit after tax	**£64.1m**	£49.5m	**£51.1m**	£45.5m
Earnings per share	**11.3p**	8.6p	**9.0p**	7.9p
Interim dividend per share	**2.1p**	2.0p	**2.1p**	2.0p
Total funded order backlog			**£2,042.2m**	£1,270.6m
Total orders in the period			**£276.3m**	£376.8m
Net cash flow from operations	**£35.7m**	£60.6m	**£35.7m**	£60.6m
Net cash flow from operations (post-capex)			**£4.7m**	£50.9m
Net cash	**£194.7m**	£271.2m	**£194.7m**	£271.2m

Solid operational delivery

- Order intake broadly in line with prior period which included £109m 11-year, NCSISS contract
- 8% revenue growth; 3% on an organic basis
- Underlying operating profit benefited from around £6.5m of non-recurring trading items
- Cash flow reflects increased strategic capital expenditure and working capital movements
- 5% increase in interim dividend

Strategic progress

- Delivered a ballistic missile defence exercise for 8 NATO nations led by the US Navy
- Record orders in Australia including first contract to manage mine warfare facilities
- Announced a joint venture in UAE building on QinetiQ Target Systems acquisition
- 26% of revenue generated from outside the UK, up from 21% in the prior period

Focus on delivery of FY18

- Strategy implementation is key to driving growth in a rapidly changing trading environment
- 89% of FY18 revenues under contract
- Overall we are maintaining expectations for Group performance in FY18

Steve Wadey, Group Chief Executive Officer said:

"We have delivered a solid operational performance in the first half of the year despite challenging markets, achieving a 3% increase in organic revenue which builds on last year's growth."

"We are encouraged by the progress we have made to date. Over the medium term, investment in our strategy will enable us to help customers respond to their immediate security and economic challenges, win longer term programmes and contracts, as well as increase the Group's share of revenue from international markets."

* Definitions of underlying measures of performance can be found in the glossary

Interims results presentation:

There will be a presentation of the interim results at 0900 hours UK time on 16 November 2017 at the London Stock Exchange, 10 Paternoster Square, EC4M 7LS. Registration for the webcast is available at: www.QinetiQ.com/investors where the presentation will also be available. An audiocast of the event through which participants will be able to ask questions will be available by dialling +44 (0)20 3059 8125 (confirmation: QinetiQ).

About QinetiQ:

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

For further information please contact:

David Bishop, Group Director Investor Relations and Communications:	+44 (0) 7920 108675
Ian Brown, Group Head of Investor Relations:	+44 (0) 7908 251123
Jon Hay-Campbell, Group Head of External Communications:	+44 (0) 7500 856953

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 judgment 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 the document.*

Year references (FY18, FY17, 2018, 2017) refer to the year ended 31 March.

Disclaimer

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

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

Most of these factors are difficult to predict accurately and are generally beyond the control of the Company. Any forward-looking statements made by, or on behalf of, the Company speak only as of the date they are made. Save as required by 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.

Group overview of H1 results

On 1 October 2017 the Group's total funded order backlog stood at £2.0bn, compared with £1.3bn in the prior period, principally due to the LTPA amendment signed in December 2016. The Group had 89% of FY18 revenue under contract, up from 74% at the beginning of this financial year. This compares with 94% at the same time last year, principally reflecting the shorter order cycles and more lumpy revenue profile in the Global Products division.

Orders for the period were £276.3m, compared to £376.8m in the same period a year ago which included the £109m 11-year renewal from the UK Ministry of Defence (MOD) of the Naval Combat System Integration Support Services (NCSISS) contract. Excluding this contract, the RubiKon acquisition and foreign exchange, other smaller run-rate orders in the EMEA Services division fell by £30.1m. Approximately one third of this reduction was the result of the aggregation of smaller aircraft engineering orders into the Strategic Enterprise contract awarded two years ago, and two thirds relate to lower MOD commitments during the period.

Revenue was £392.5m (H1 2017: £361.8m), up 3% on an organic basis after adjusting for foreign exchange movements and the acquisition of QinetiQ Target Systems (QTS) and RubiKon in H2 2017. Overall organic growth in revenue was principally due to growth of revenue in EMEA Services which was up 3% on an organic basis. Global Products revenue was flat, after adjusting for foreign exchange and the QTS acquisition.

Underlying operating profit* was up 11% at £57.5m (H1 2017: £51.9m), assisted by around £6.5m (H1 2017: £1.3m) non-recurring trading items including a £5.3m credit relating to the release of engine servicing obligations as we invest in new aircraft for test aircrew training and retire our legacy fleet, a £5.4m charge relating to property liabilities and a number of other contract-related releases.

Excluding the non-recurring trading items, the RubiKon acquisition and the effect of foreign exchange, underlying operating profit in EMEA Services fell by £3.6m, approximately half of which was driven by the lower baseline profit rate for single source contracts in line with our expectations.

Statutory operating profit was £67.5m (H1 2017: £51.7m), including a profit of £5.2m recognised on the disposal of property and £6.2m on the sale of intellectual property.

Underlying profit after tax* was £51.1m (H1 2017: £45.5m) with underlying net finance cost* of £0.3m (H1 2017: income £0.1m) and an underlying tax charge of £6.1m (H1 2017: £6.5m).

Underlying earnings per share* for the Group increased by 14% to 9.0p (H1 2017: 7.9p), benefiting from higher profit before tax, lower effective tax rate and reduced number of shares due to the buyback programme which was completed in H2 2017. Statutory basic earnings per share for the total Group (including specific adjusting items) rose 31% to 11.3p (H1 2017: 8.6p), aided by the profit on disposal of property and intellectual property.

Net cash flow from operations was £35.7m (H1 2017: £60.6m), or post capex £4.7m (H1 2017: £50.9m), with the reduction due principally to increased capex and a reduction in negative working capital.

Net capex increased to £31.0m (H1 2017: £9.7m) as we invest in core contracts including the LTPA following the contract amendment announced in December 2016. The additional capex associated with the LTPA amendment will be recovered in full under existing terms, modernises capabilities and acts as a platform for growth. Due to uncertainty in the timing of deployment of some projects, full year total capex is expected to be £70m-£90m in FY18.

The working capital movements include the £6.5m non-recurring trading items in EMEA Services and a general unwind of £19.7m. Some of this movement relates to timing which is expected to reverse in H2 FY18. We anticipate a full year working capital unwind excluding non-recurring items of £15m-£25m.

* Definitions of underlying measures of performance can be found in the glossary

At 30 September 2017, the Group had £194.7m net cash, compared to £221.9m net cash at 31 March 2017 and £271.2m net cash at 30 September 2016. The decrease from 31 March 2017 was due to a £7.8m free cash outflow and £22.6m dividend, partially offset by £7.5m of property disposal proceeds.

Priorities for capital allocation 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 2.1p (H1 2017: 2.0p) will be paid on 9 February 2018 to shareholders on the register at 12 January 2018. The 5% increase in interim dividend reflects the Group's progressive dividend policy. The interim dividend is normally expected to represent approximately one third of the anticipated total dividend for the year.

Trading environment

QinetiQ operates principally in three home countries: the United Kingdom, the United States and Australia.

UK

The UK has restated its NATO commitment to defence spending of 2% of GDP. Despite this commitment, the MOD is under pressure to reduce costs with a target of achieving £20bn of efficiencies by 2027 and to date its real estate and headcount savings targets have not been delivered. Increasing pressure on the public purse for non-defence related expenditure creates additional uncertainty around overall availability of funding for defence. The impact of Brexit, notably the weakening of Sterling following the referendum vote, has put further pressure on defence budgets given the significant amount of US Dollar denominated programme procurement. To address some of these pressures, a National Security Capability Review has been underway since July with the objective of "adapting the force structure to the times we are in" through "adjustments rather than cuts". We believe this environment will present both opportunities and challenges for QinetiQ and we are well placed to reduce procurement and operational costs and risk through our innovative approach to the assurance of military capability.

US

The US has by far the largest defence budget globally which is also expected to show moderate growth. Despite public statements of intent to increase defence spending, the political environment remains challenging. Unpredictability exists in both the budgeting process itself and uncertainty beyond the current Continuing Resolution (due to expire on 8 December 2017) under which the Department of Defense is currently unable to fund new programmes. While the political backdrop remains challenging, the US defence market remains an attractive one for QinetiQ. The US is considered to be the largest market for military robots and is expected to grow from US$17 billion in 2017 to more than US$30 billion by 2022. With a number of Programs of Record in robotics currently being competed and our involvement in the new class of aircraft carrier, we are well placed to make the most of current and future opportunities.

International

Heightening geopolitical tensions and the greater level of threats have reinforced the rationale behind an overall increase in defence and security spending globally. QinetiQ is particularly well matched to changes in this environment and is well placed in attractive markets including Australia, Canada and the Middle East.

In Australia defence budgets are expected to grow to 2% of GDP by 2020-21, three years earlier than the Government's 2013 election pledge. Australia is a home country for QinetiQ and we are well positioned to support the Australian Government with their ongoing recapitalisation plans and the development of a local Australian defence industry with sovereign capabilities.

In Canada, the 2017 Defence Policy Review highlighted a significant increase in defence expenditure through expansion, modernisation and recapitalisation of the Canadian armed forces and investment in innovation. We are well placed to support the Canadian government with these programmes, especially through the provision of independent pre-acquisition advice.

In the Middle East, Saudi Arabia, the UAE and Qatar are all expected to increase their defence spending by between 0.8% and 2.9% per annum. As governments in these markets grow more sophisticated in their approach to defence, their need for military capability evaluation, assurance and training are also expected to increase. Within this region we are developing meaningful relationships at government levels to provide strategic advice as well as enhancing indigenous evaluation, acceptance, and training capabilities.

Strategy

We have an integrated strategy built on our vision of becoming "The chosen partner around the world for mission-critical solutions, innovating for our customers' advantage". Our mutually-reinforcing strategic priorities are designed to grow the Company by focusing on our primary UK customer, on international customers and on innovation. Progress in the UK market underpins international growth by developing our core capabilities and providing a reference point for, and credibility with, overseas customers. Innovation, both in our technical capabilities and our approach to business winning and partnering, is key to delivering growth and actively supports our strategy.

UK Defence Test & Evaluation

Our first strategic priority is to lead and modernise UK Defence Test & Evaluation (T&E) and is critical to assuring reliable, flexible and affordable delivery of military capability to protect national interests now and in the future.

Market opportunity

The UK market for Research & Development and Test & Evaluation (RDT&E) is worth approximately £1.5bn per annum. We estimate the UK market for Defence Test & Evaluation itself is worth at least £600m per annum, of which we currently access around half. We believe that with appropriate investment we can access a greater share of this market, particularly "repatriating" evaluation work currently undertaken overseas by prime contractors. In addition to this UK market, there is further opportunity for QinetiQ in attracting overseas customers to use our UK-based facilities and expertise, as well as supporting international customers with the development of their own indigenous capabilities. We estimate that the addressable international market for RDT&E is worth approximately £5.9bn per annum. In a rapidly changing threat environment, we also expect customers' evaluation requirements to continue to broaden as they look to assure the capabilities of more complex systems and develop greater interoperability.

Investing in our capabilities and building a platform for growth

QinetiQ is uniquely placed to further access this market, principally through the Long Term Partnering Agreement (LTPA) with the UK MOD for test, evaluation and training services. The 11-year £1bn amendment to the LTPA announced in December 2016 formed a key part of our strategy, not only in our objective to modernise UK T&E but also to build an international business. In the first half of the year, we commenced the upgrade and modernisation of the Test & Evaluation capabilities at three locations under this agreement.

Investment in air ranges

As part of the LTPA amendment, we are investing approximately £95 million over 11 years into advanced tracking equipment, instrumentation, range infrastructure, communications and interoperability capabilities at the air ranges we operate at MOD Hebrides in Scotland and MOD Aberporth in Wales.

The benefits this investment brings include:

- Provides best-in-class range capabilities
- Facilitates more complex trials required by future weapons and systems
- Reduces overall operating costs, ensuring we remain competitive
- Provides a platform to repatriate T&E work that is currently undertaken overseas
- Enables coalition training exercises which attract international customers
- Keeps us at the forefront of international T&E enhancing credibility in new markets

During the period we announced a joint £17m investment programme in two new tracking radars and upgrades to existing radar facilities at MOD Hebrides. This investment will reduce overall operating costs of the ranges and ensure they provide the capabilities required to support UK defence, defence exports and attract international customers.

Investment in test aircrew training

As part of the LTPA amendment, we are investing approximately £85 million over 11 years in test aircrew training at MOD Boscombe Down to purchase eight new aircraft, replacing the oldest aircraft in the flying fleet, and to introduce a new test pilot syllabus from 2019.

Our customers are using more standardised fleets so there is less need to test the absolute boundaries of aircraft performance. Instead, there is a growing need for a broader requirement to test mission systems and upgrades which will be more important in the future. The investment we are making ensures our training, and the fleet we use to undertake it, are aligned with our customers' needs.

The benefits associated with the investment include:

- The new aircraft fleet will cost less to maintain, reducing overall running costs of the school
- An increase in overall throughput for training test pilots and flight test engineers
- Affordable test pilot training which is attracting interest from other governments
- The new syllabus gives us access to civil markets, in line with new European regulation requiring developmental test pilots and test engineers to have a rating from an approved course

During the period, we purchased two new Grob G120TP aircraft for our test aircrew training fleet at MOD Boscombe Down, an extremely capable training aircraft with a low hourly operating cost, reducing expense while maintaining capability.

Strategic use of our capital

In line with our capital allocation policy, organic investment in our company is our number one priority for capital allocation.

Under the 11-year £1bn LTPA amendment, announced in December 2016, QinetiQ will undertake £180m of capital expenditure which will primarily be spent during the first three years. This capex represents an incremental increase of £60-70m over the 11-year period compared with previously planned expenditure on that portion of the LTPA. QinetiQ will earn a return on sales based on the 2017 SSRO baseline profit rate with additional adjustments for risk and capital servicing as well as recovering capital expenditure over the duration of the contract through depreciation included in the cost base.

In addition, the upgraded capabilities enable QinetiQ to be able to undertake additional T&E services for the MOD and a growing number of international customers. As part of our broader strategy, this investment also supports our ability to grow the business outside the UK, as we leverage its associated capabilities overseas.

Building on investments in our core contracts

During the period we organised Formidable Shield 2017 at the MOD Hebrides range, the largest and most complex missile defence exercise ever undertaken in the UK, enabled by LTPA investment. Led by the US Navy, and incorporating forces from eight countries, QinetiQ managed every aspect of the training exercise to evaluate multi-nation forces' ability to track and destroy long-range ballistic missiles. This exercise was only made possible due to the unique combination of the QinetiQ team's extensive expertise at designing, managing and evaluating complex evaluation programmes and our ranges and infrastructure. This exercise promoted QinetiQ to a number of other nations, some of whom are now working with us to develop their training capabilities further.

In addition to the LTPA, we are making positive progress on our other core contracts. During the period we signed an £8m order to provide naval combat systems expertise for Type 26 Global Combat Ship which was added to the £109m 11-year Naval Combat System Integration Support Services (NCSISS) contract agreed with the MOD this time last year.

International

We are becoming a more international company, leveraging our expertise and experience into select attractive growth markets abroad. We have grown the overall contribution of international revenues to 26% in H1 2018 compared to 21% in H1 2017.

Our progress is significant, and all the more notable given that our International business unit was only established in April 2016. We are deepening our presence in our US and Australian home countries and expanding rapidly into new attractive markets internationally.

We are investing in our international capabilities both organically and through the recent strategic acquisitions of RubiKon and QinetiQ Target Systems. These acquisitions have expanded our international footprint, deepened our relationships with key customers and presented a number of revenue synergy opportunities.

Australia making strong progress, building on RubiKon acquisition and UK expertise

In Australia we delivered a strong first half with a record level of orders booked. We continue to make very positive progress as we deepen our relationship with the Australian Department of Defence.

We won several notable pieces of work including contracts to provide a Digitally Aided Range Safety System and Enterprise Architecture Modelling for the Joint Strike Fighter, and to operate the Mine Warfare Maintenance Facilities at HMAS Waterhen in Sydney, leveraging our experience and skills in the UK.

RubiKon, which we acquired in January 2017, has continued to expand the scope of work and long-term value of the AIR7000 strategic support partner contract, which supports the P-8A Poseidon maritime surveillance aircraft procurement programme. The acquisition of RubiKon enhances QinetiQ's overall position within the recapitalisation of Australian defence capabilities.

QTS integrating well and acting as an accelerant for international growth

QTS has successfully been integrated with a number of contracts novated during the first half of the year. QTS generates 90% of its revenue from outside the UK and as a company we are benefitting from its international customer base and product offering.

QTS delivered an increase in orders, including a significant order for Hammerhead targets by the Canadian Navy. Investments are being made in QTS to develop enhanced products with the business incorporating technologies from across QinetiQ into its next generation of targets.

The acquisition of QTS was strongly aligned with the delivery of our strategy. In November 2017, in line with our drive to establish partnerships to provide in-country presence, we announced that we are establishing a new joint venture company in the United Arab Emirates to manufacture aerial targets for use locally in the acceptance and evaluation of new equipment, and the training of armed forces.

The Middle East is an attractive market for QinetiQ more generally and we are working on a number of opportunities within the region to provide pre-procurement advice, capability assurance and support of defence transformation.

US well placed to capture increasing defence expenditure, particularly within robotics

In the US, building upon our expertise in electromagnetic launch and recovery equipment, we were awarded a further significant order for the new class of US Navy aircraft carriers. We also successfully delivered an upgrade programme of our Talon family of robots, extending the useful life and capabilities of the product. In a highly competitive field, we were unsuccessful on the first of a number of robotics “Programs of Record”. Despite this, we believe we are well placed for the remaining contracts.

While it is still early days in the implementation of our international strategy, we are making encouraging progress in commercialising the expertise we have developed in the UK in attractive markets abroad.

Innovation and business winning campaigns

We are a company which is founded upon innovation. Our people, using their extensive technical and scientific expertise, innovate to overcome some of the most challenging problems our customers face. Our ability to innovate is a core part of our strategy to grow QinetiQ and one of our major sources of competitive advantages. For example, in September we signed a €24.2m contract with the European Space Agency to develop the International Berthing and Docking Mechanism which positions us to become the international standard for spacecraft berthing and docking globally. Our QinetiQ North America business is also developing subsea simultaneous transmit and receive acoustic technology which makes it possible to create undersea data and communications wireless networks solving many challenges for Navy, and oil and gas customers.

Campaigns support near and longer-term growth opportunities and define our innovation focus

We have established business winning campaigns across the three pillars of our strategy, supported by Internal Research and Development (IRAD) to pursue growth opportunities based on major government budgeted programmes, QinetiQ strategic capabilities, near-term competitions and exploitation of investment.

Our campaign approach is defined by creating the right teams for opportunities utilising the breadth of our peoples’ skills, applying innovative business models and identifying ways to use our extensive R&D capabilities to enhance our offer. We are also applying an innovative approach to partnering. Effective partnering, be it with large prime contractors, SMEs, academia or start-ups at the cutting edge of their field, allows us to enhance our offer, best satisfy our customers’ needs and increase our probability of success.

We have identified more than 30 growth campaigns in pursuit of material opportunities, all of which are worth tens of millions of pounds and in some cases in the hundreds of millions. We are not going to win every campaign, but the scale of the total opportunity is significant.

* Definitions of underlying measures of performance can be found in the glossary

While many of these campaigns have medium to longer-term time horizons, some have the potential to come to fruition sooner. A number of these could be in the next twelve months including some notable opportunities in the Middle East.

Outlook – FY18

In EMEA Services, revenue under contract for FY18 is broadly in line with the prior year, and the division is expected to deliver modest revenue growth this year although the lower baseline profit rate for single source contracts represents a continued headwind for operating margins.

The Group's Global Products division has shorter order cycles than EMEA Services and its performance is dependent on the timing of shipments of key orders. As a result of its contracted orders and pipeline of opportunities, as well as the anticipated full year contribution from the Target Systems acquisition, the division is expected to continue to grow in FY18.

As previously stated, our cash flow will reflect the increasing strategic investment to develop our capabilities under the amendment to the Long Term Partnering Agreement announced in December 2016. Due to timing of deployment of some of these projects, full year total capex is expected to be £70m-£90m in FY18.

Overall, we are maintaining expectations for Group performance in FY18.

Business overview

EMEA Services

	H1 2018 £m	H1 2017 £m
Orders	**153.9**	284.3
Revenue	**311.6**	293.3
Underlying operating profit*	**47.3**	43.0
Underlying operating margin*(1)	**15.2%**	14.7%
Book to bill ratio(2)	**0.8x**	1.5x
Funded order backlog(2)	**750.3**	780.2
Total funded order backlog	**1,847.7**	1,098.8

(1) The H1 2018 margin excluding the £6.5m non-recurring trading items was 13.1%
(2) Excludes the £998m third term contractual renewal and £1bn amendment to the LTPA contract
B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract.

EMEA Services combines world-leading expertise with unique facilities to provide technical assurance, evaluation and training services, underpinned by long-term contracts, the most significant of which is the Long Term Partnering Agreement (LTPA) for test, evaluation and training services. EMEA Services has significant scale and depth of expertise in the air, maritime and weapons domains, alongside differentiated capabilities in C4ISR and cyber, and a niche footprint in space and land.

Financial performance

We reported orders of £153.9m (H1 2017: £284.3m), with the decrease being due primarily to the H1 2017 award of the £109m 11-year renewal from the UK Ministry of Defence (MOD) of the Naval Combat System Integration Support Services (NCSISS) contract. Excluding this contract, the RubiKon acquisition and foreign exchange, other orders fell by £30.1m. Approximately one third of this reduction was the result of the aggregation of smaller aircraft engineering orders into the Strategic Enterprise contract awarded two years ago, and two thirds relate to a lower level of MOD commitments during the period.

Reported revenue increased against the prior period by £18.3m, of which £6.2m was due to the H2 2017 acquisition of RubiKon. Excluding this and the impacts of currency movements, revenue grew 4% on an organic basis. At the start of H2, EMEA Services had 91% of its FY18 revenue under contract, compared with 93% last year and up from 79% at the beginning of this year.

Underlying operating profit* was up at £47.3m (H1 2017: £43.0m), assisted by around £6.5m non-recurring trading items including a £5.3m credit relating to the release of engine servicing obligations as we invest in new aircraft for test aircrew training and retire our legacy fleet, a £5.4m charge relating to property liabilities and a number of other contract related releases. Excluding the non-recurring trading items, the RubiKon acquisition and the effect of foreign exchange, underlying operating profit fell by £3.6m, approximately half of which was driven by the lower baseline profit rate for single source contracts in line with our expectations.

Including the LTPA contract, approximately 75% of EMEA Services revenue is derived from single source contracts, an increased proportion of which is now contracted on a long-term basis. For example, the 11-year, £1bn amendment to the LTPA, signed in December 2016, was contracted using the FY17 single source baseline profit rate with additional adjustments for risk and capital servicing. We expect that the proportion of our revenue exposed to further changes in the baseline profit rate will continue to fall following the expected repricing of the remainder of the LTPA.

* Definitions of underlying measures of performance can be found in the glossary

H1 commentary

Air & Space

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

- We continue to make good progress under the Strategic Enterprise contract for air engineering services. Strategic Enterprise delivers significant savings to the MOD by aggregating smaller contracts together, using new online tools to streamline processes and clearly defining technical requirements and desired outcomes. Given the success to date, and the mutual benefits it brings, we expect to increase the amount of work brought under the Strategic Enterprise framework and apply a similar approach to other parts of QinetiQ.
- Following the signing of the amendment to the LTPA, we have been transforming test aircrew training to meet the future requirements of the MOD and open up courses to a broader set of international customers, including those in the civil market. During H1 we purchased two new Grob G120TP aircraft as part of the upgrade to our aircraft fleet to meet growing customer requirements for the evaluation of mission systems.
- Our 5 metre wind tunnel in Farnborough is unique in the UK. It provides high quality data for flow physics and prediction of full scale aircraft performance and is critical to developing efficient take-off and landing performance. During the period we reinforced our relationship with Boeing, who use the facility to evaluate their commercial aircraft, with a c.£25m contract to provide wind tunnel services until 2024.
- Working with BAE Systems and MBDA, we integrated the Brimstone precision strike missile onto Typhoon, as part of the programme to transfer capabilities from the Tornado GR4.
- The business continues to deploy significant resources to develop the gridded ion engine electric propulsion system to be used on ESA's BepiColombo mission to Mercury. This ambitious, multi-spacecraft mission remains scheduled to launch in October 2018, though various technical issues with the electric propulsion system still need to be resolved before the launch is formally given the green light to proceed.

Maritime, Land & Weapons

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

Steve Fitz-Gerald joined QinetiQ in June 2017, becoming Managing Director of the Maritime, Land & Weapons business in July. He was Chief Executive Officer of the Marshall Aerospace and Defence Group until he stood down in early 2017, and was previously President of Cobham Aviation Services Division and Group Commercial Director for BAE Systems Avionics.

- QinetiQ organised an international maritime exercise, Formidable Shield at the MOD Hebrides range which involved eight NATO countries and was led by the United States. One of the most sophisticated and complex of its type ever undertaken in the UK, the live exercise was used to evaluate NATO countries' integrated air and missile defence capabilities.
- The business organised the initial firing of the new Sea Ceptor air defence system. QinetiQ safely delivered the trial flying Mirach aerial targets within 2km from the firing frigate HMS Argyll, instead of the previous 5km minimum distance, providing a realistic threat against which the Sea Ceptor system could be evaluated.
- In September, the business signed an £8m order from the MOD to provide naval combat systems expertise for Type 26 Global Combat Ship which was added to the £109m 11-year Naval Combat System Integration Support Services (NCSISS) contract agreed with the MOD this time last year. This assures delivered capability and enables the Royal Navy to discharge its responsibilities for overall combat system design, safety and combat safety, thereby taking the risk and cost out of combat system acquisition and through-life support.

- The German Air Force has placed a £2m contract with QinetiQ for an Advanced Medium Range Air to Air Missile (AMRAAM) trial at the MOD Hebrides range which has been utilised many times for AMRAAM firings by both UK and international customers.
- QinetiQ, in collaboration with MILREM, was awarded Defence and Security Accelerator funding for the ‘Last Mile’ programme which addresses the robotic delivery of supplies to a Combat Outpost or dismounted troops in the field.

Cyber, Information & Training (CIT)

The CIT business helps government and commercial customers respond to fast-evolving threats based on its expertise in training, secure communications and devices, intelligence gathering and surveillance sensors, and cyber security. The business delivers information advantage to customers in the defence and intelligence markets, and is increasingly diversifying into the commercial but highly regulated Critical National Infrastructure (CNI) market, and overseas.

James Willis joined QinetiQ in July 2017 as Managing Director for CIT. Formerly Head of Defence & Security at Vodafone, James brings excellent customer relationships, a proven track record of growing businesses and significant experience working in international markets.

- In September, the CIT business enabled the connection of the RAF’s Rivet Joint Squadron’s own simulator to the Air Battlespace Training Centre at RAF Waddington for the first time, allowing the Squadron to join a collaborative training exercise. The milestone is part of an ongoing programme to achieve savings by transforming operational training through the application and integration of synthetic technologies.
- Building on our expertise in cyber protection, the CNI sector is a significant opportunity for QinetiQ which can be addressed with a range of new techniques and solutions with the aim of protecting critical infrastructure assets on land, at sea and in the air. One example is our work with the maritime industry to provide cyber resilience that meets the requirements of the International Maritime Organisation (IMO) and a broad range of maritime stakeholders. This capability can also be applied to other markets that have a complex mix of IT and operational technology.
- The CIT business is the MOD’s leading supplier of C4ISR research, fulfilling the role of innovation integrator by managing a network of more than 100 UK SMEs. During the period it led a multi-industry team from the Secure Information Infrastructure and Services research programme to deliver a low-size-weight-and-power communication information system to 30 users as part of Exercise Joint Venture 2017.

International

Our International business drives our activities in our non-UK Home countries and other attractive international markets. The division leverages our expertise and skills developed in the UK and applies them to opportunities in attractive markets globally.

Our Australian business delivered a strong first half with a record level of orders. The business delivered a number of strategic milestones that included:

- Building upon our maritime expertise, a contract to manage the explosive ordinance engineering and logistics services at the mine warfare maintenance facilities at HMAS Waterhen in Sydney. Through this contract, QinetiQ will assume design authority to maintain, update and operate exercise mines and other equipment in support of Australian naval training and readiness requirements.
- A contract to design and build a number of innovative engine change cranes to enable safe removal of engines from Royal Australian Air Force’s C27J aircraft which will also be suitable for use with other aircraft.
- Our AIR7000 contract acquired through the February 2017 purchase of RubiKon received an increase in contract ceiling value from AU$24m to AU$35m.

In Canada:

- We successfully completed a project for the Canadian Coast Guard, as part of its Fleet Renewal Plan, to provide advice that will assist decisions that shape a future fleet for the next 50 years.
- We were awarded a C$5m order from the Canadian Navy for over 40 Hammerhead Unmanned Surface Vehicle Targets and various payloads. The order was placed under an existing five-year C$35m framework contract with the Canadian Department of National Defence. The order brings total worldwide Hammerhead orders to over 425, the highest of any surface target in production.
- We introduced a new service to the Canadian Navy, conducting a live demonstration to emulate the threat of small multi-rotor drones to large naval vessels. To achieve this we flew our Snyper multi-rotor target alongside Lockheed Martin’s Indago quadcopter using our Universal Target Control Station (UTCS), which facilitates the operation of multiple unmanned systems from a single command centre.

In Sweden we secured contracts with four new customers for training at the Flight Physiological Centre that we operate on behalf of the Swedish defence department.

After the period end, and building upon our acquisition of QTS, we announced that we are establishing a new joint venture company in the United Arab Emirates to manufacture aerial targets for use locally in the acceptance and evaluation of new equipment and the training of armed forces.

The Middle East is an attractive market for QinetiQ more generally and we are working on a number of opportunities within the region to provide pre-procurement advice, capability assurance and support of defence transformation.

EMEA Services FY18 outlook

We reiterate our guidance for FY18, as originally stated at our FY17 results in May.

In EMEA Services revenue under contract for FY18 is broadly in line with the prior year, and the division is expected to deliver modest revenue growth this year although the lower baseline profit rate for single source contracts represents a headwind for operating margins.

Global Products

	H1 2018 £m	H1 2017 £m
Orders	**122.4**	92.5
Revenue	**80.9**	68.5
Underlying operating profit*	**10.2**	8.9
Underlying operating margin*	**12.6%**	13.0%
Book to bill ratio	**1.5x**	1.4x
Funded order backlog	**194.5**	171.8

Global Products delivers innovative solutions to meet customer requirements and undertakes customer-funded research and development, developing intellectual property in partnership with key customers and through internal funding with potential for new revenue streams.

Financial performance

Orders grew to £122.4m (H1 2017: £92.5m) due to a £13.2m contribution from the QinetiQ Target Systems acquisition, favourable foreign exchange movements and the €24.2m spacecraft docking mechanism order with the European Space Agency.

Reported revenue was up 18% to £80.9m (H1 2017: £68.5m), driven by the QinetiQ Target Systems acquisition and favourable foreign exchange movements. Revenue was flat on an organic basis, excluding the impact of acquisitions and foreign exchange.

At the beginning of H2, the division had 80% of its FY18 revenue under contract compared to 98% in the prior period and up from 55% at the beginning of the financial year, reflecting the shorter contract cycle of the division.

Underlying operating profit* increased to £10.2m (H1 2017: £8.9m), with an underlying operating profit margin* of 12.6% (H1 2017: 13.0%). The prior period was assisted by a credit of £1.3m relating to the resolution of an overseas licensing dispute. Removing this, as well as the impact of foreign exchange and the QinetiQ Target Systems acquisition, underlying operating profit was up £1.0m on an organic basis.

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 delivered a good financial performance during the period with underlying organic revenue and profit growth.

- QNA received significant orders in H1 especially in the maritime market where orders totalled US$45m. Building on previous work, we were awarded a further significant contract for electromagnetic launch and recovery equipment for the new class of US aircraft carriers. Separately, and in a potential new growth area, the business performed a successful demonstration of its Dolphin acoustic undersea communication technology.
- The business is a leading provider of land system solutions including unmanned systems and survivability products. During the period, notable achievements included the demonstration of our open architecture Universal Tactical Controller directing unmanned systems in a shared network operating environment. We supported extensive US Government trials with our Titan unmanned ground system to deliver soldiers' equipment transport needs. We also received key orders for our air armour and Q-Net RPG protection product lines.

* Definitions of underlying measures of performance can be found in the glossary

- The business was presented with a Supplier Quality Award by Lockheed Martin in recognition of the LAST Armour product line. The award is presented to the top two percent of Lockheed Martin's supply base of 1,400.
- In September, we learned we were unsuccessful on the Man Transportable Robotics System (MTRS) INC II program. QNA is currently competing for two further robotics “Programs of Record” for the Department of Defence. While Unmanned Systems remains a very competitive field, we are confident in our propositions for the remaining programs.
- QNA recently moved its core manufacturing to Franklin, MA. The new advanced manufacturing facility allows us to centralise manufacturing and improve overall effectiveness as well as realising additional cost efficiencies.

OptaSense

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

Performance improved in H1 as the business started to see returning confidence in oil field investment combined with the benefits of diversification into adjacent markets. In support of this performance, OptaSense has introduced a more customer-aligned organisation and focused on effective commercial delivery.

OptaSense’s leading and proven technology has continued to be an attractive differentiator for major in-well customers. We are well placed to benefit from the oil industry’s accelerating focus on production and efficiency.

- Stretching over 1,800 kilometres, we are involved with the delivery of the Trans Anatolian Natural Gas Pipeline Project (TANAP). During the period we delivered equipment to our partners in Turkey which is the latest milestone of a multi-year effort to secure and deliver a significant international pipeline project.
- The relative stabilisation of the oil price has resulted in increased capital expenditure commitments in specific regions and basins while the interest in and adoption of the technology by more operators gains pace.
- We have seen increased adoption and future commitment across the Middle East for both oil and water transport assurance.
- Security opportunities have become increasingly evident during H1 with perimeter and linear asset protection solutions for power facilities and rail lines attracting significant interest.

Space Products

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

- QinetiQ’s Space Products business signed a €24.2m contract with the European Space Agency (ESA) to produce a new docking mechanism for the International Space Station. Under the three-year deal, QinetiQ will qualify and produce the first flight model of its International Berthing and Docking Mechanism, designed under a previous ESA contract. The system is lighter and more versatile than competing designs, can accommodate large or small spacecraft, and is compatible with the newly agreed International Docking Standard, which seeks to allow docking between multiple types of spacecraft.

EMEA Products

EMEA Products provides research services and bespoke technological solutions developed from intellectual property spun out from EMEA Services.

- QinetiQ's AS3 communications intelligence system has been added as a payload for Thales's Watchkeeper unmanned aerial vehicle. It enables the operator to detect signals from military communication devices and then locate, identify and listen to the individuals using them. It allows Watchkeeper to undertake communications intelligence missions that would normally be carried out by larger platforms, such as multi-engine business jets.
- We developed a Counter-Unmanned Aerial Vehicle (C-UAV) solution that is being trialled with a number of customers both in the UK and abroad, taking our existing military radar technology and miniaturising it for C-UAV use.
- QinetiQ is also working on a number of other airborne surveillance systems, secure communications and asset tracking opportunities.

Global Products FY18 Outlook

We reiterate our guidance for FY18, as originally stated at our FY17 results in May.

The Group's Global Products division has shorter order cycles than EMEA Services and its performance is dependent on the timing of shipments of key orders. As a result of its contracted orders and pipeline of opportunities, as well as the anticipated full year contribution from the Target Systems acquisition, the division is expected to continue to grow in FY18.

Financial items

Net finance costs

Net finance income was £1.8m (H1 2017: cost £0.5m) including the defined benefit pension net finance income of £2.1m (H1 2017: cost £0.6m). The underlying net finance cost* was £0.3m (H1 2017: income £0.1m).

Tax

The underlying effective tax rate of 10.7% (H1 2017: 12.5%) continues to be below the UK statutory rate, primarily as a result of the benefit of research and development expenditure credits in the UK. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to the impact of any tax legislation changes, the geographic mix of profits and the assumption that the benefit of net R&D expenditure credits retained by the Group remains in the tax line.

The total tax charge is £5.2m (H1 2017: £1.7m). The underlying* tax charge of £6.1m (H1 2017: £6.5m) is calculated by applying the expected underlying effective tax rate for the year to the underlying* profit before tax for the six month period. A deferred tax asset of £1.7m has been recognised in the period (H1 2017: £4.1m), with the income statement credit classified as a specific adjusting item. This asset is in respect of UK non-trade loan relationship losses, whereas the prior year related to an element of the Group's UK and Canadian trading losses. Together with a £0.8m tax effect of the items impacting specific adjusting items PBT, the total specific adjusting items tax income is £0.9m (H1 2017: £4.8m).

At 30 September 2017, the Group had unused tax losses of £133.1m (31 March 2017: £141.7m) which are available for offset against future profits. No deferred tax asset is recognised in respect of £114.6m of losses due to uncertainty over the timing of their utilisation.

The current tax liability is £31.1m as at 30 September 2017 (31 March 2017: £43.7m). This includes a tax liability in the US related to an unfavourable court decision in respect of the tax treatment of the Group's acquisition of Dominion Technology Resources, Inc. in 2008. An insurance policy was taken out by the Group at the point of acquisition which covers the remaining liability from this dispute. Hence, an offsetting receivable is reported on the balance sheet as at 30 September 2017 (included within trade and other receivables).

Earnings per share

Underlying earnings per share* for the Group increased by 14% to 9.0p (H1 2017: 7.9p) benefiting from the higher profit before tax, lower effective tax rate and reduced number of shares due to the buyback programme which was completed in H2 2017. Basic earnings per share for the total Group (including specific adjusting items) rose 31% to 11.3p (H1 2017: 8.6p), aided by the profit on disposal of property and intellectual property.

Dividend

An interim dividend of 2.1p (H1 2017: 2.0p) will be paid on 9 February 2018 to shareholders on the register at 12 January 2018. The 5% increase in interim dividend reflects the Group's progressive dividend policy. The interim dividend is normally expected to represent approximately one third of the anticipated total dividend for the year.

Pensions

The net pension asset under IAS 19, before adjusting for deferred tax, was £247.7m (31 March 2017: asset £156.0m; 30 September 2016: liability £65.6m). The key driver for the increase in the net pension asset since 31 March 2017 is due to a reduction in life expectancy assumptions and increasing discount rates. The key assumptions used in the IAS 19 valuation of the scheme were:

* Definitions of underlying measures of performance can be found in the glossary

Assumption	30 September 2017	31 March 2017
Discount rate	2.7%	2.6%
CPI Inflation	2.4%	2.4%
Life expectancy - male (currently aged 40)	90	91
Life expectancy - female (currently aged 40)	92	93

Each assumption is selected by the Group in consultation with the Company actuary and takes account of industry practice amongst comparator listed companies. The sensitivity of the gross Scheme liabilities to each of the key assumptions is shown in the table below.

Key assumptions	Change in assumption	Indicative impact on Scheme liabilities
Discount rate – small movement*	Increase/decrease by 0.1%	Decrease/increase by £34m
Discount rate – large movement*	Increase by 1.0%	Decrease by £303m
Discount rate – large movement*	Decrease by 1.0%	Increase by £401m
Rate of inflation	Increase/decrease by 0.1%	Increase/decrease by £32m
Life expectancy	Increase by one year	Increase by £43m

*Due to a compounding effect, it would not be accurate to extrapolate the 0.1% discount rate sensitivity to estimate a large increase or decrease in discount rates. Therefore, the table above also sets out the impact of a larger change in the discount rate (+1.0% and -1.0%), allowing for the compounding effect.

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 2017 this hedges against approximately 72% of the interest rate risk and 100% of the inflation rate risk, as measured on the Trustees' gilt-funded basis.

The market value of the assets at 30 September 2017 was £1,913.3m (31 March 2017: £1,926.3m; 30 September 2016: £1,776.4m) and the present value of scheme liabilities was £1,665.6m (31 March 2017: £1,770.3m; 30 September 2016: £1,842.0m).

The previous triennial valuation of the scheme, on a funding basis, was a net surplus of £31m as at 30 June 2014. There has been no change to the cash contributions required under the recovery plan, which continues to require £13m of company contributions per annum until 31 March 2018. The triennial valuation of the scheme on a funding basis as at 30 June 2017 is currently in progress.

Committed facilities

Total committed facilities, which are undrawn, amounted to £240.6m at 30 September 2017, with no maturity before 2019.

Foreign exchange

The Group's income and expenditure is largely settled in the functional currency of the relevant Group entity, mainly Sterling or US 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 rate affecting the Group was the Sterling to US Dollar exchange rate.

	6 months to 30 September 2017	6 months to 30 September 2016
£/US$ - average	1.29	1.38
£/US$ - closing	1.34	1.30
£/US$ - opening	1.25	1.44

IFRS 15 implementation

The adoption of accounting standard IFRS 15 for our FY19 financial year is not expected to have a significant impact on QinetiQ's reported financial performance, given the nature of our contracts and the existing method of accounting (using 'percentage of completion' accounting for service contracts as opposed to milestone accounting). Work continues to assess this in more detail, and the Group will provide an updated view of the anticipated impact at the full year results in May 2018, prior to its adoption in the financial year FY19.

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/Pages/default.aspx.

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

- Reduced spending in the core markets in which the Group operates;
- Failure to execute the international strategy or adequately to mitigate specific risks arising from international business;
- Failure to create a culture of innovation or to invest adequately in, or create value from, our innovation investment;
- The transformation programme does not result in change that embeds and created value from increased innovation and competitiveness;
- A future skills shortage;
- Group performance is adversely affected by application of the Single Source Contract Regulations;
- A breach of data security, cyber-attacks or IT systems failure could have an adverse impact on our customers' operations;
- The Group operates in highly regulated environments and recognises that its operations have the potential to have an impact on a variety of stakeholders; and
- A material element of the Group's revenue is derived from one contract (the LTPA contract).

Condensed consolidated income statement

all figures in £ million	note	6 months ended 30 September 2017 (unaudited) Underlying*	Specific adjusting items*	Total	6 months ended 30 September 2016 (unaudited) Underlying*	Specific adjusting items*	Total
Revenue		**392.5**	**-**	**392.5**	**361.8**	**-**	**361.8**
Operating costs excluding depreciation and amortisation		(325.8)	-	(325.8)	(301.0)	-	(301.0)
Other income		4.3	11.4	15.7	4.3	-	4.3
EBITDA (earnings before interest, tax, depreciation and amortisation)		**71.0**	**11.4**	**82.4**	**65.1**	**-**	**65.1**
Depreciation of property, plant and equipment		(11.7)	-	(11.7)	(12.0)	-	(12.0)
Amortisation of intangible assets		(1.8)	(1.4)	(3.2)	(1.2)	(0.2)	(1.4)
Operating profit/(loss)		**57.5**	**10.0**	**67.5**	**51.9**	**(0.2)**	**51.7**
Finance income	4	0.3	2.1	2.4	0.7	-	0.7
Finance expense	4	(0.6)	-	(0.6)	(0.6)	(0.6)	(1.2)
Profit/(loss) before tax		**57.2**	**12.1**	**69.3**	**52.0**	**(0.8)**	**51.2**
Taxation (expense)/income	5	(6.1)	0.9	(5.2)	(6.5)	4.8	(1.7)
Profit for the year attributable to equity shareholders		**51.1**	**13.0**	**64.1**	**45.5**	**4.0**	**49.5**
Earnings per share							
Basic	6	9.0p		11.3p	7.9p		8.6p
Diluted	6	9.0p		11.3p	7.8p		8.5p

* Definitions of underlying measures of performance can be found in the glossary

Condensed consolidated statement of comprehensive income

all figures in £ million	**6 months ended 30 September 2017 (unaudited)**	6 months ended 30 September 2016 (unaudited)
Profit for the period	**64.1**	**49.5**
Items that will not be reclassified to the income statement:		
Actuarial gain/(loss) recognised in defined benefit pension schemes	82.1	(33.7)
Tax on items that will not be reclassified to the income statement	(14.0)	6.7
Total items that will not be reclassified to the income statement	**68.1**	**(27.0)**
Items that may be reclassified subsequently to the income statement:		
Foreign currency translation (losses)/gains for foreign operations	(5.0)	9.0
Decrease in fair value of hedging derivatives	(1.5)	(0.6)
Movement on deferred tax on hedging derivatives	0.3	0.1
Fair value (losses)/gains on available for sale investments	(0.3)	0.4
Total items that may be reclassified to the income statement	**(6.5)**	**8.9**
Other comprehensive income/(expense) for the period, net of tax	**61.6**	**(18.1)**
Total comprehensive income for the period, net of tax	**125.7**	**31.4**

Condensed consolidated statement of changes in equity

all figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 April 2017	**5.7**	**40.8**	**147.6**	**-**	**10.3**	**328.0**	**532.4**	**0.2**	**532.6**
Profit for the period	-	-	-	-	-	64.1	64.1	-	64.1
Other comprehensive income/(expense) for the period, net of tax	-	-	-	(1.2)	(5.0)	67.8	61.6	-	61.6
Purchase of own shares	-	-	-	-	-	(0.4)	(0.4)	-	(0.4)
Share-based payments charge	-	-	-	-	-	1.3	1.3	-	1.3
Dividends paid	-	-	-	-	-	(22.6)	(22.6)	-	(22.6)
At 30 September 2017 (unaudited)	**5.7**	**40.8**	**147.6**	**(1.2)**	**5.3**	**438.2**	**636.4**	**0.2**	**636.6**
At 1 April 2016	**5.9**	**40.6**	**147.6**	**-**	**(1.9)**	**132.4**	**324.6**	**0.2**	**324.8**
Profit for the period	-	-	-	-	-	49.5	49.5	-	49.5
Other comprehensive income/(expense) for the period, net of tax	-	-	-	(0.5)	9.0	(26.6)	(18.1)	-	(18.1)
Purchase of own shares	-	-	-	-	-	(0.4)	(0.4)	-	(0.4)
Purchase and cancellation of shares	(0.2)	0.2	-	-	-	(26.0)	(26.0)	-	(26.0)
Share-based payments charge	-	-	-	-	-	0.9	0.9	-	0.9
Dividends paid	-	-	-	-	-	(21.9)	(21.9)	-	(21.9)
At 30 September 2016 (unaudited)	**5.7**	**40.8**	**147.6**	**(0.5)**	**7.1**	**107.9**	**308.6**	**0.2**	**308.8**

Condensed consolidated balance sheet

all figures in £ million	note	**30 September 2017 (unaudited)**	30 September 2016 (unaudited)	31 March 2017 (audited)
Non-current assets				
Goodwill		104.8	77.7	107.8
Intangible assets		40.7	7.9	34.7
Property, plant and equipment		245.9	230.6	238.8
Other financial assets		-	0.4	0.5
Investments		1.6	1.0	1.5
Retirement benefit surplus	11	247.7	-	156.0
Deferred tax asset		4.5	13.2	5.4
		645.2	**330.8**	**544.7**
Current assets				
Inventories		34.6	19.6	28.9
Other financial assets		16.1	11.1	10.7
Trade and other receivables		165.5	119.7	175.6
Assets held for sale		4.8	-	-
Investments		0.8	2.1	1.3
Cash and cash equivalents		181.1	260.8	211.8
		402.9	413.3	428.3
Total assets		**1,048.1**	**744.1**	**973.0**
Current liabilities				
Trade and other payables		(283.3)	(306.6)	(322.1)
Current tax	5	(31.1)	(27.5)	(43.7)
Provisions		(3.8)	(4.7)	(6.2)
Other financial liabilities		(1.7)	(0.4)	(0.8)
		(319.9)	**(339.2)**	**(372.8)**
Non-current liabilities				
Retirement benefit obligation	11	-	(65.6)	-
Deferred Tax Liability		(54.5)	-	(37.0)
Provisions		(16.7)	(16.0)	(17.8)
Other financial liabilities		(0.8)	(0.7)	(0.3)
Other payables		(19.6)	(13.8)	(12.5)
		(91.6)	(96.1)	(67.6)
Total liabilities		**(411.5)**	**(435.3)**	**(440.4)**
Net assets		**636.6**	**308.8**	**532.6**
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 and translation reserve		4.1	6.6	10.3
Retained earnings		438.2	107.9	328.0
Capital and reserves attributable to shareholders of the parent company		**636.4**	**308.6**	**532.4**
Non-controlling interest		0.2	0.2	0.2
Total shareholders' funds		**636.6**	**308.8**	**532.6**

* Definitions of underlying measures of performance and specific adjusting items can be found in the glossary

Condensed consolidated cash flow statement

all figures in £ million	note	**6 months ended 30 September 2017 (unaudited)**	6 months ended 30 September 2016 (unaudited)	Year ended 31 March 2017 (audited)
Net cash inflow from operations	7	**35.7**	**60.6**	**111.9**
Tax paid		(12.5)	(8.8)	(3.0)
Interest received		0.3	0.6	1.0
Interest paid		(0.3)	(0.3)	(0.6)
Net cash inflow from operating activities		**23.2**	**52.1**	**109.3**
Purchases of intangible assets		(4.6)	(0.8)	(2.2)
Purchases of property, plant and equipment		(26.4)	(8.9)	(30.7)
Proceeds from sale of property, plant and equipment		7.5	-	14.3
Acquisition of business and investment in joint venture		(1.1)	-	(65.7)
Net cash outflow from investing activities		**(24.6)**	**(9.7)**	**(84.3)**
Purchase of own shares		(0.4)	(26.3)	(48.1)
Investments in available for sale investments		(5.0)	-	-
Dividends paid to shareholders		(22.6)	(21.9)	(33.4)
Net cash outflow from financing activities		**(28.0)**	**(48.2)**	**(81.5)**
Decrease in cash and cash equivalents		**(29.4)**	**(5.8)**	**(56.5)**
Effect of foreign exchange changes on cash and cash equivalents		(1.3)	3.1	4.8
Cash and cash equivalents at beginning of period		211.8	263.5	263.5
Cash and cash equivalents at end of period		**181.1**	**260.8**	**211.8**

Reconciliation of movement in net cash

all figures in £ million	note	**6 months ended 30 September 2017 (unaudited)**	6 months ended 30 September 2016 (unaudited)	Year ended 31 March 2017 (audited)
Decrease in cash and cash equivalents		(29.4)	(5.8)	(56.5)
Add back net outflows not impacting net cash - investments		5.0	-	-
Decrease in net cash resulting from cash flows		**(24.4)**	**(5.8)**	**(56.5)**
Other movements including foreign exchange		(2.8)	2.5	3.9
Decrease in net cash as defined by the Group		**(27.2)**	**(3.3)**	**(52.6)**
Net cash as defined by the Group at beginning of period		221.9	274.5	274.5
Net cash as defined by the Group at end of period	8	**194.7**	**271.2**	**221.9**
Less: other financial asset and liabilities		(13.6)	(10.4)	(10.1)
Total cash and cash equivalents	8	**181.1**	**260.8**	**211.8**

* Definitions of underlying measures of performance and specific adjusting items can be found in the glossary

Notes to the condensed interim financial statements

1. Significant accounting policies

Basis of preparation

QinetiQ Group plc ‘the Company’ is a company domiciled in the United Kingdom. The condensed consolidated interim financial statements of the Group for the six months ended 30 September 2017 comprise statements for the Company and its subsidiaries (together referred to as the ‘Group’) and were approved by the Board of Directors on 16 November 2017.

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 and Transparency Rules of the Financial Conduct Authority. They do not comprise statutory accounts within the meaning of Section 498 (2) or (3) 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 2017.

In the income statement, the Group presents specific adjusting items separately. In the judgment 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:

- amortisation of intangible assets arising from acquisitions;
- pension net finance income/expense;
- gains/losses on business divestments and disposal of property, investments and intellectual property;
- impairment of goodwill and other intangible assets;
- tax on the above items; and
- other significant non-recurring deferred tax movements.

All items treated as a specific adjusting item in the current and prior year 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 2017.

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 2017 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 2017 have been reported on by the Group’s previous auditors and 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 2017 are available upon request from the Company’s registered office at Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

2. Segmental analysis

Operating segments

For the six months ended 30 September

all figures in £ million	**H1 2018 (unaudited)**		H1 2017 (unaudited)	
	Revenue	**Underlying operating profit***	Revenue	Underlying operating profit*
EMEA Services	311.6	47.3	293.3	43.0
Global Products	80.9	10.2	68.5	8.9
Total operating segments	**392.5**	**57.5**	**361.8**	**51.9**
*Underlying operating margin**		*14.6%*		*14.3%*

Reconciliation of total operating segments to total on an organic, constant currency basis

For the six months ended 30 September

all figures in £ million	**H1 2018 (unaudited)**		H1 2017 (unaudited)	
	Revenue	**Underlying operating profit***	Revenue	Underlying operating profit*
Total operating segments	**392.5**	**57.5**	**361.8**	**51.9**
Less: acquired businesses	(15.6)	(2.8)	-	-
Total operating segments on an organic basis	**376.9**	**54.7**	**361.8**	**51.9**
Adjust to constant prior year exchange rates	(4.7)	(0.2)	-	-
Total operating segments on an organic, constant currency basis	**372.2**	**54.5**	**361.8**	**51.9**
*Organic revenue growth at constant currency**	*3%*		*(3%)*	

Reconciliation of segmental results to total profit

For the six months ended 30 September

all figures in £ million	Note	**H1 2018 (unaudited)**	H1 2017 (unaudited)
Underlying operating profit[1]		57.5	51.9
Specific adjusting items operating profit/(loss)	3	10.0	(0.2)
Operating profit		**67.5**	**51.7**
Net finance income/(expense)	4	1.8	(0.5)
Profit before tax		**69.3**	**51.2**
Taxation expense	5	(5.2)	(1.7)
Profit for the period attributable to equity shareholders		**64.1**	**49.5**

[1] The measure of profit presented to the chief operating decision maker is underlying operating profit (as defined in glossary).

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

3. ‘Specific adjusting items’

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

all figures in £ million	Note	**H1 2018 (unaudited)**	H1 2017 (unaudited)
Profit on disposal of property		5.2	-
Profit on disposal of intellectual property		6.2	-
Specific adjusting items before amortisation, depreciation and impairment		**11.4**	**-**
Amortisation of intangible assets arising from acquisition		(1.4)	(0.2)
Specific adjusting items operating profit/(loss)		**10.0**	**(0.2)**
Defined benefit pension scheme net finance income/(expense)		2.1	(0.6)
Specific adjusting items profit/(loss) before tax		**12.1**	**(0.8)**
Specific adjusting items - tax	5	0.9	4.8
Total specific adjusting items profit after tax		**13.0**	**4.0**

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

all figures in £ million	**H1 2018 (unaudited)**	H1 2017 (unaudited)
Underlying profit after tax - total Group	51.1	45.5
Total specific adjusting items profit after tax (see above)	13.0	4.0
Total profit for the period attributable to equity shareholders	**64.1**	**49.5**

4. Finance income and expense

All figures in £ million	**H1 2018 (unaudited)**	H1 2017 (unaudited)
Receivable on bank deposits	0.3	0.7
Finance income before specific adjusting items*	**0.3**	**0.7**
Amortisation of recapitalisation fee	(0.2)	(0.2)
Interest on bank loans and overdrafts	(0.3)	(0.3)
Unwinding of discount on financial liabilities	(0.1)	(0.1)
Finance expense before specific adjusting items*	(0.6)	(0.6)
Underlying net finance (expense)/income	**(0.3)**	**0.1**
Defined benefit pension scheme net finance income/(expense)	2.1	(0.6)
Net finance income/(expense)	**1.8**	**(0.5)**

* Definitions of underlying measures of performance and specific adjusting items can be found in the glossary

5. Taxation

all figures in £ million	**H1 2018 (unaudited)**			H1 2017 (unaudited)		
	Underlying*	**Specific adjusting items***	**Total**	Underlying*	Specific adjusting items*	Total
Profit/(loss) before tax	**57.2**	**12.1**	**69.3**	**52.0**	**(0.8)**	**51.2**
Taxation (expense)/income	(6.1)	0.9	(5.2)	(6.5)	4.8	(1.7)
Profit for the period attributable to equity shareholders	**51.1**	**13.0**	**64.1**	**45.5**	**4.0**	**49.5**
Effective tax rate	**10.7%**			**12.5%**		

The total tax charge is £5.2m (H1 2017: £1.7m). The underlying* tax charge of £6.1m (H1 2017: £6.5m) is calculated by applying the expected effective tax rate of 10.7% for the year ending 31 March 2018 to the Group's underlying profit before tax for the six months to 30 September 2017 (September 2016: 12.5%). 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, the geographic mix of profits and the assumption that the benefit of net RDEC retained by the Group remains in the tax line. Future recognition of unrecognised tax losses will also affect future tax charges.

Tax losses and specific adjusting items
A deferred tax asset of £1.7m (representing UK non-trading losses of £8.5m) has been recognised in the period (H1 2017: £4.1m, in respect of an element of the Group's UK and Canada trading losses). The income statement credit is classified as a specific adjusting item. Together with a £0.8m tax effect of the items impacting specific adjusting items profit before tax, the total specific adjusting items tax credit is £0.9m (H1 2017 credit: £4.8m).

At 30 September 2017 the Group had unused tax losses of £133.1m which are available for offset against future profits. No deferred tax asset is recognised in respect of £114.6m of losses due to uncertainty over the timing and extent of their utilisation. The Group has £62.2m of time-limited losses of which US capital losses of £28.0m will expire in 2020. Of the remaining £34.2m time-limited losses, £4.2m will expire in 2034, £21.2m in 2035 and £8.8m in 2036. Deferred tax has been calculated using the enacted future statutory tax rates.

Current tax liability
The current tax liability is £31.1m as at 30 September 2017 (31 March 2017: £43.7m). The decrease in the liability is primarily due to timing of the recovery of the research and development expenditure credit. The liability includes taxes payable in respect of the Group's acquisition of Dominion Technology Resources, Inc. in October 2008. An insurance policy was taken out by the Group at the point of acquisition which covers the remaining liability from this dispute. Hence, an offsetting receivable for the residual balance is reported on the balance sheet as at 30 September 2017 (included within trade and other receivables).

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. Underlying basic earnings per share* figures are presented below in addition to the basic and diluted earnings per share as 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, as defined in the Glossary.

Basic and diluted EPS

		H1 2018 (unaudited)	H1 2017 (unaudited)
Profit attributable to equity shareholders	£m	64.1	49.5
Weighted average number of shares	Million	564.9	578.9
Basic EPS	**Pence**	**11.3**	**8.6**
Profit attributable to equity shareholders	£m	64.1	49.5
Weighted average number of shares	Million	564.9	578.9
Effect of dilutive securities	Million	2.1	2.6
Dilutive number of shares	Million	567.0	581.5
Diluted EPS	**Pence**	**11.3**	**8.5**

Underlying basic EPS*

		H1 2018 (unaudited)	H1 2017 (unaudited)
Profit attributable to equity shareholders	£m	64.1	49.5
Remove profit after tax in respect of specific adjusting items*	£m	(13.0)	(4.0)
Underlying profit after taxation*	£m	51.1	45.5
Weighted average number of shares	Million	564.9	578.9
Underlying basic EPS*	**Pence**	**9.0**	**7.9**

Underlying diluted EPS*

		H1 2018 (unaudited)	H1 2017 (unaudited)
Profit attributable to equity shareholders	£m	64.1	49.5
Remove profit after tax in respect of specific adjusting items*	£m	(13.0)	(4.0)
Underlying profit after taxation*	£m	51.1	45.5
Weighted average number of shares	Million	564.9	578.9
Effect of dilutive securities	Million	2.1	2.6
Diluted number of shares	Million	567.0	581.5
Underlying diluted EPS*	**Pence**	**9.0**	**7.8**

* Definitions of underlying measures of performance and specific adjusting items can be found in the glossary

7. Cash flows from operations

All figures in £ million	H1 2018 (unaudited)	H1 2017 (unaudited)	Year ended 31 March 2017 (audited)
Profit after tax for the period	64.1	49.5	123.3
Adjustments for:			
Taxation expense	5.2	1.7	8.2
Net finance (income)/expense	(1.8)	0.5	1.2
Gain on sale of intellectual property	(6.2)	-	-
Gain on sale of property	(5.2)	-	(18.4)
Transaction costs in respect of acquisition of business	-	-	1.0
Amortisation of purchased or internally developed intangible assets	1.8	1.2	2.6
Amortisation of intangible assets arising from acquisitions	1.4	0.2	1.0
Depreciation of property, plant and equipment	11.7	12.0	26.4
Loss on disposal of plant and equipment	0.1	-	1.2
Share of post-tax loss/(profit) of equity accounted entities	0.4	-	(0.5)
Share-based payments charge	1.3	1.2	2.1
Retirement benefit contributions in excess of income statement	(7.5)	(6.4)	(11.4)
Net movement in provisions	(3.4)	1.4	4.5
(Increase)/decrease in inventories	(6.4)	0.4	-
Decrease in receivables	7.8	41.5	2.9
Decrease in payables	(27.6)	(42.6)	(32.2)
Changes in working capital	(26.2)	(0.7)	(29.3)
Net cash inflow from operations	**35.7**	**60.6**	**111.9**

Reconciliation of net cash flow from operations to underlying net cash flow from operations (post capex)*

All figures in £ million	H1 2018 (unaudited)	H1 2017 (unaudited)	Year ended 31 March 2017 (audited)
Net cash flow from operations	35.7	60.6	111.9
Purchases of intangible assets	(4.6)	(0.8)	(2.2)
Purchases of property, plant and equipment	(26.4)	(8.9)	(30.7)
Underlying net cash flow from operations (post capex)*	**4.7**	**50.9**	**79.0**

Underlying cash conversion ratio*

	H1 2018 (unaudited)	H1 2017 (unaudited)	Year ended 31 March 2017 (audited)
Underlying operating profit* - £ million	57.5	51.9	116.3
Underlying net cash flow from operations (post capex)* - £ million	4.7	50.9	79.0
Underlying cash conversion ratio* - %	**8%**	**98%**	**68%**

* Definitions of underlying measures of performance and specific adjusting items can be found in the glossary

8. Analysis of net cash and reconciliation to cash and cash equivalents

All figures in £ million	H1 2018 (unaudited)	H1 2017 (unaudited)	Year ended 31 March 2017 (audited)
Due within one year:			
Bank and cash	181.1	260.8	211.8
Available for sale investment	15.6	10.2	10.4
Recapitalisation fee	0.3	0.3	0.3
Derivative financial assets	0.2	0.6	-
Derivative financial liabilities	(1.7)	(0.4)	(0.8)
	195.5	271.5	221.7
Due after one year:			
Recapitalisation fee	-	0.3	0.2
Derivative financial assets	-	0.1	0.3
Derivative financial liabilities	(0.8)	(0.7)	(0.3)
	(0.8)	(0.3)	0.2
Total net cash as defined by the Group	**194.7**	**271.2**	**221.9**
Less: other financial asset and liabilities	(13.6)	(10.4)	(10.1)
Total cash and cash equivalents	**181.1**	**260.8**	**211.8**

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 2017. 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 2017, are as follows:

all figures in £ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Available for sale investment	15.6	-	-	15.6
Current other investments	0.8	-	-	0.8
Current derivative financial instruments	-	0.2	-	0.2
Non-current other investments	-	-	0.1	0.1
Non-current derivative financial instruments	-	-	-	-
Liabilities:				
Current derivative financial instruments	-	(1.7)	-	(1.7)
Non-current derivative financial instruments	-	(0.8)	-	(0.8)
Total	**16.4**	**(2.3)**	**0.1**	**14.2**

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2017:

all figures in £ million	Level 1	Level 2	Level 3	Total
Assets:				
Available for sale investments	10.4	-	-	10.4
Current other investments	1.3	-	-	1.3
Non-current other investments	-	-	0.1	0.1
Non-current derivative financial instruments	-	0.3	-	0.3
Liabilities:				
Current derivative financial instruments	-	(0.8)	-	(0.8)
Non-current derivative financial instruments	-	(0.3)	-	(0.3)
Total	**11.7**	**(0.8)**	**0.1**	**11.0**

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 2017 and comparative periods is provided below:

	Pence per ordinary share	£m	Date paid/payable
Interim 2018	**2.1**	**11.9**	**Feb 2018**
Interim 2017	2.0	11.5	Feb 2017
Final 2017	4.0	22.6	Sep 2017
Total for the year ended 31 March 2017	6.0	34.1	

The interim dividend is 2.1p (interim 2017: 2.0p). The dividend will be paid on 9 February 2018. The ex-dividend date is 11 January 2018 and the record date is 12 January 2018.

11. Post-retirement benefits

Set out below is a summary of the financial position of the Group's defined benefit pension 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 2017 (unaudited)	30 September 2016 (unaudited)	31 March 2017 (audited)
Equities – quoted	233.7	408.2	284.0
Equities – unquoted	67.8	71.7	71.4
LDI investment	920.5	626.2	968.2
Liquidity fund	76.0	69.9	-
Corporate bonds	327.1	345.4	340.6
Alternative bonds	146.8	124.3	132.3
Property	131.3	124.0	126.7
Cash and other	10.1	6.7	3.1
Total market value of scheme assets	**1,913.3**	**1,776.4**	**1,926.3**
Present value of scheme liabilities	(1,665.6)	(1,842.0)	(1,770.3)
Net pension asset/(liability) before deferred tax	**247.7**	**(65.6)**	**156.0**
Deferred tax (liability)/asset	(47.0)	6.8	(31.4)
Net pension asset/(liability) after deferred tax	**200.7**	**(58.8)**	**124.6**

Changes to the net pension liability before deferred tax

all figures in £ million	30 September 2017 (unaudited)	30 September 2016 (unaudited)	31 March 2017 (audited)
Opening net pension asset/(liability) before deferred tax	156.0	(37.7)	(37.7)
Re-measurement (loss)/gain on scheme assets	(28.1)	352.9	492.0
Actuarial gain/(loss) on scheme liabilities	110.2	(386.6)	(308.7)
Contributions by the employer	7.9	7.0	12.9
Administration costs	(0.4)	(0.6)	(1.5)
Net finance income/(expense)	2.1	(0.6)	(1.0)
Closing net pension asset/(liability) before deferred tax	**247.7**	**(65.6)**	**156.0**

Assumptions

The major assumptions (weighted to reflect individual scheme differences) were:

	30 September 2017 (unaudited)	30 September 2016 (unaudited)	31 March 2017 (audited)
Discount rate applied to scheme liabilities	2.7	2.3%	2.6%
CPI inflation assumption	2.4	2.2%	2.4%
Assumed life expectancies in years:			
Future male pensioners (currently aged 60)	88	89	89
Future female pensioners (currently aged 60)	90	91	91
Future male pensioners (currently aged 40)	90	91	91
Future female pensioners (currently aged 40)	92	93	93

* Definitions of underlying measures of performance and specific adjusting items can be found in the glossary

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 gross Scheme liabilities
Discount rate – small movement*	Increase/decrease by 0.1%	Decrease/increase by £34m
Discount rate – large movement*	Increase by 1.0%	Decrease by £303m
Discount rate – large movement*	Decrease by 1.0%	Increase by £401m
Rate of inflation	Increase/decrease by 0.1%	Increase/decrease by £32m
Life expectancy	Increase by one year	Increase by £43m

*Due to a compounding effect, it would not be accurate to extrapolate the 0.1% discount rate sensitivity to estimate a large increase or decrease in discount rates. Therefore, the table above also sets out the impact of a larger change in the discount rate (+1.0% and -1.0%), allowing for the compounding effect.

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 2017 this hedges against approximately 72% of the interest rate and 100% 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 net pension liability 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 £31.0m as at 30 June 2014. 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. Due to this use of different assumptions a funding valuation of the scheme would probably have resulted in a smaller net surplus at period end if one had been performed.

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 2017 are 7,852,192 shares (31 March 2017: 8,957,048 shares).

In the six months to 30 September 2017 the Group granted/awarded 0.1 million new share-based awards to employees (30 September 2016: 3.1 million).

13. Related party transactions with equity accounted investments

During the period there were sales to associates of £3.2m (30 September 2016: £1.7m). At the period end there were outstanding receivables from associates of £0.9m (30 September 2016: £0.3m).

14. Capital commitments

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

all figures in £ million	**H1 2018**	H1 2017
Contracted	176.4	31.5

Capital commitments at 30 September 2017 include £175.0m (30 September 2016: £31.4m) 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 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 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 2017.

By order of the Board

Mark Elliott	Steve Wadey	David Smith
Chairman	Chief Executive Officer	Chief Financial Officer
16 November 2017	16 November 2017	16 November 2017

* Definitions of underlying measures of performance and specific adjusting items can be found in the glossary

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 2017. 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 2017;
- 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.

What a review of interim financial statements involves (continued)

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
16 November 2017

a) The maintenance and integrity of the QinetiQ Group plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim financial statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Glossary

C4ISR	Command, control, communications, computers, intelligence, surveillance and reconnaissance
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: 25-year contract established in 2003 to manage the MOD's test and evaluation ranges
MOD	UK Ministry of Defence
SSRO	Single Source Regulations Office

Alternative performance measures ('APM's)

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

Measure	**Explanation**	**Note reference to calculation or reconciliation to statutory measure**
Organic growth	The level of year-on-year growth, expressed as a percentage, calculated at constant prior year foreign exchange rates, adjusting for business acquisitions and disposals to reflect equivalent composition of the Group	Note 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 after tax	Profit after tax as adjusted to exclude 'specific adjusting items'	Note 3
Underlying effective tax rate	The tax charge for the period excluding the tax impact of 'specific adjusting items' expressed as a percentage of underlying profit before tax	Note 5
Underlying basic EPS	Basic earnings per share as adjusted to exclude 'specific adjusting items'	Note 6
Orders	The level of new orders (and amendments to existing orders) booked in the year.	N/A
Backlog, funded backlog or order book	The expected future value of revenue from contractually committed and funded customer orders (excluding the remaining revenue to come from the five-year third-term re-pricing of the LTPA contract)	N/A
Book to bill ratio	Ratio of funded orders received in the year to revenue for the year, adjusted to exclude revenue from the 25-year LTPA contract due to significant size and timing differences of LTPA order and revenue recognition which may distort the ratio calculation.	N/A
Net cash flow from operations (post capex)	Net cash flow from operations before cash flows of specific adjusting items, less cash outflow on purchase of intangible assets and plant and equipment, plus proceeds from sale of plant and equipment.	Note 7
Underlying operating cash conversion	The ratio of net cash from operations (post capex) to underlying operating profit	Note 7
Specific adjusting items	Amortisation of intangible assets arising from acquisitions; impairment of goodwill and intangible assets; gains/losses on business divestments and disposal of property, investments and intellectual property; net pension finance income/expense; tax impact of the preceding items; and significant non-recurring deferred tax movements	Note 3