QINETIQ GROUP PLC

For release at 0700 hours on 21 November 2012

Interim Results for the half year ended 30 September 2012

	H1 FY2013	H1 FY2012 (restated^)	Change
Business Performance			
Revenue	**£685.5m**	£739.6m	(7)%
Organic change at constant currency	**(8)%**	(9)%	
Underlying operating profit*	**£95.3m**	£81.9m	16%
Underlying operating margin*	**13.9%**	11.1%	
Underlying profit before tax*	**£85.8m**	£71.2m	21%
Underlying net cash from operations (post capex)*	**£95.7m**	£157.1m	(39)%
Underlying cash conversion ratio*	**101%**	192%	
Net cash / (debt)	**£21.5m**	£(145.3)m	
Underlying earnings per share*	**10.5p**	8.8p	19%
Dividend per share	**1.1p**	0.9p	22%
Statutory Reporting			
Operating profit	**£87.8m**	£79.0m	
Profit before tax	**£80.0m**	£73.3m	
Earnings per share	**9.9p**	9.4p	

Headlines

- Strong first half performance in challenging markets;
- Group margin uplift driven by UK Services and Q-Net™ sales;
- Excellent cash generation;
- Net cash position achieved – net debt reduced by over £550m since 31 March 2009;
- Interim dividend: 1.1p (H1 FY12: 0.9p), reflecting solid foundation for value creation; and
- Early adoption of IAS19 (revised) “Employee benefits”.

Commenting on the results, Leo Quinn, QinetiQ Chief Executive Officer said:

“QinetiQ has delivered a strong first half performance in challenging markets and achieved a position of net cash on its balance sheet – an important milestone in the transformation of the Group.

“We are now implementing our next strategic phase, the Organic-Plus programme announced in May 2012, to grow QinetiQ’s sustainable earnings and build value over the medium term.

“Visibility remains much lower than usual, particularly in the US. Despite this uncertainty, with the benefit of the strong first half performance the Board believes the Group as a whole will perform in line with its expectations for the year, absent any material change in customer requirements.”

* Definitions of underlying measures of performance can be found in the glossary
^ IAS19 (revised) “Employee benefits” has been adopted for FY13 and the H1 FY12 comparatives have been restated accordingly

Other information

There will be a presentation of the interim results to analysts at 0900 hours UK time on 21 November 2012 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 on the morning of the results. A live audiocast of the event will be available on the following numbers (confirmation number: 9307862):

- UK Freephone: 0800 634 5205
- International / London local: +44 (0)208 817 9301

A FTSE250 company, QinetiQ uses its domain knowledge to provide technical support and know-how to customers in the global aerospace, defence and security markets. QinetiQ's unique position enables it to be a trusted partner to government organisations, predominantly in the UK and the US, including defence departments, intelligence services and security agencies. For more information see: www.QinetiQ.com.

For further information please contact:

Media relations:	**QinetiQ press office**	**+44 (0) 1252 393500**
	Liz Morley, Maitland	**+44 (0) 7798 683108**
Investor relations:	**David Bishop, QinetiQ**	**+44 (0) 7920 108675**

Disclaimer

All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and businesses of QinetiQ and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. Such forward-looking statements, which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of QinetiQ or the markets and economies in which QinetiQ operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Nothing in this document should be regarded as a profit forecast.

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

^ IAS19 (revised) "Employee benefits" has been adopted for H1 FY13 and the H1 FY12 comparatives have been restated accordingly

Group Overview

QinetiQ delivered a strong first half performance with underlying operating profit* increasing 16% to £95.3m (H1 FY12: £81.9m^). This was achieved despite revenue decreasing 8% on an organic basis at constant currency, reflecting continuing contract delays in US Services partially offset by the acceleration of Q-Net™ deliveries originally expected in the second half of the year.

The underlying operating margin* was 13.9% (H1 FY12: 11.1%^), as a result of higher utilisation rates and project margins in UK Services and the mix of Global Products sales, which included a large proportion of spares as well as a one-off credit of £6m relating to a contract extension. These improvements more than offset lower margins in US Services.

Underlying profit before tax* increased 21% to £85.8m (H1 FY12: £71.2m^). Half year underlying earnings per share* were 10.5p (H1 FY12: 8.8p^), a 19% increase.

As previously announced, the Group received a one-off net payment of £65m in April which discharges the Ministry of Defence (MOD) from its accumulated liabilities for rationalisation costs incurred in previous years. Excluding this, underlying cash flow from operations* was £95.7m (H1 FY12: £157.1m) and underlying operating cash conversion* remained strong at 101% (H1 FY12: 192%^).

At 30 September 2012, the Group had £21.5m net cash on the balance sheet, compared with net debt of £145.3m at 30 September 2011. The Group completed the previously announced programme to repay $177m of private placement debt and the earliest maturity of its borrowings is 2016.

An interim dividend of 1.1p (H1 FY12: 0.9p) will be paid on 15 February 2013 to shareholders on the register at 18 January 2013. This represents an increase of 22% on the prior period and is in line with 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.

Market Environment

Defence markets remain challenging as governments seek to re-set budgets to deliver deficit reduction goals.

Visibility remains extremely limited in the US, with delays continuing in the award of both Department of Defense (DoD) and federal civil business. The current uncertainty is expected to continue into 2013 as the US Government is operating under a Continuing Resolution and key issues remain outstanding following US Presidential and Congressional elections, including the timetable for the drawdown of troops from Afghanistan and the possibility of sequestration.

Competition is keen, with an increasing bias towards "lowest-price-technically-acceptable" solutions encouraging contractors to submit aggressive bids to maintain market share and to lodge protests where they are unsuccessful, slowing down the award of contracts. However, the US Government contracting market remains large, and the DoD is committed to protecting investments in areas such as C4ISR, space, cyberspace and unmanned systems, in which QinetiQ possesses deep domain expertise.

In the UK, the MOD has made considerable progress in balancing its budget and the planned one third reduction in MOD civil servants by 2015 is likely to increase the requirement for support from the private sector. In defence research, where QinetiQ is the private sector market leader, spending has been stabilised at about £390m per annum until 2015, with an increasing proportion likely to be delivered by industry.

* Definitions of underlying measures of performance can be found in the glossary
^ IAS19 (revised) "Employee benefits" has been adopted for H1 FY13 and the H1 FY12 comparatives have been restated accordingly

The MOD's defence transformation programme includes a review of its "Yellow Book" pricing terms and conditions for single-source contracts, devolution of responsibility for capability management to the single service commands, and the Materiel Strategy, the reform of the MOD's procurement agency Defence Equipment and Support (DE&S). While this creates some short-term uncertainty, over the medium term it presents an opportunity for QinetiQ as a major supplier of client-side technical services to the MOD.

Outlook

QinetiQ has delivered a strong first half performance in challenging markets and achieved a position of net cash on its balance sheet – an important milestone in the transformation of the Group.

The Organic-Plus programme, the next strategic phase announced in May 2012, is now being implemented to grow QinetiQ's sustainable earnings and build value over the medium term.

Visibility remains much lower than usual, particularly in the US. Despite this uncertainty, with the benefit of the strong first half performance the Board believes the Group as a whole will perform in line with its expectations for the year, absent any material change in customer requirements.

Organic-Plus programme

QinetiQ's transformation began in May 2010 with a 24 month self-help programme. The portfolio was refocused to align with customers' changing needs, ensure a full understanding of where profits are made, and determine which businesses are truly scalable. The Group is now organised as distinct investable businesses, each representing one of QinetiQ's key areas of capability, with an accountable leader and a clear route map to maximise future performance.

The self-help programme also addressed the Group's immediate financial situation, driving a reduction in net debt of over £550m since 31 March 2009. Today the Group's balance sheet has the strength necessary in challenging defence markets and the capacity for careful investment choices.

The Organic-Plus programme continues the disciplines established during phase one, with investments in growth managed through a rigorous process for prioritising resources and monitoring returns.

The Group is driving value from the portfolio by investing in its significant 'Core' capabilities to win market share. At the same time, the Group is nurturing a select number of ('Explore') services and products to determine their ability to scale. Some early stage technologies ('Test for Value') are also under evaluation to determine the best route to maximising value including potential partnerships. An update on the Organic-Plus programme is provided in the Operations Overview.

* Definitions of underlying measures of performance can be found in the glossary
^ IAS19 (revised) "Employee benefits" has been adopted for H1 FY13 and the H1 FY12 comparatives have been restated accordingly

Operations Overview

UK Services

UK Services combines world-leading expertise and unique facilities to provide technical assurance, test and evaluation, training and simulation, force / base protection, information and intelligence, cyber security, and acquisition services.

	H1 FY13	H1 FY12^
	£m	£m
Orders	**201.2**	203.1
Revenue	**289.6**	290.9
Underlying operating profit*	**38.3**	28.0
Underlying operating margin*	**13.2%**	9.6%
Book to bill ratio(1)	**1.0x**	1.0x
Funded backlog(1)	**639.6**	592.3

(1) B2B ratio is orders won divided by revenue recognised, excluding the 25 year LTPA contract. Backlog also excludes the 25 year LTPA contract.

UK Services delivered a strong first half performance with underlying operating profit* increasing 37% to £38.3m (H1 FY12: £28.0m^) on flat revenue. The resulting underlying margin* of 13.2% (H1 FY12: 9.6%^) reflects a more competitive cost base and processes for better project execution, but also benefitted from short-term demand in selected areas driving higher levels of utilisation and from the completion of certain programmes. The managed services business in Australia, which reports into the UK Services division, is also demonstrating both revenue and margin progression following recent leadership changes.

Discussions have commenced with the MOD regarding the five yearly periodic review of the Long-Term Partnering Agreement (LTPA) for test and evaluation services. These discussions are expected to be completed by the end of the financial year.

Under the UK Government's defence transformation programme, the single service commands are taking on greater responsibility for managing military capability and budget. UK Services is supporting this new role by promoting new ways for service commands to work with industry. One example of this approach is the opening of a capability development centre for unmanned air systems (UAS) at Boscombe Down, which is supporting the rapid development of UAS programmes.

While the MOD's transformation programme, particularly the proposal to introduce a GoCo (government-owned, contractor-operated) model for its procurement agency DE&S, is creating some short-term uncertainty, over the medium term it presents opportunities for UK Services as the MOD's leading supplier of client-side technical services. UK Services' pipeline also includes opportunities to expand the provision of test and evaluation services to international customers.

QinetiQ's deep domain expertise in C4ISR was reflected in the award of a £6m research framework for information and communications systems, and the extension of a research contract for electronic surveillance.

Within the 'Explore' category, the Group is investing to scale up its Training and Simulation Services (TSS) business, which uses Commercial-Off-The-Shelf (COTS) technology to reduce the cost of training. During the period, a new Training Innovations Facility was opened in Farnborough, and activity ramped up at the Defence Simulation Centre in Boscombe Down, which the business operates on behalf of the MOD to promote common architectures and industry standards for simulation.

At the end of the first half, TSS was awarded an 18 month, £7m extension to its flagship Distributed Synthetic Air Land Training (DSALT) contract under which it delivers value-for-money training solutions to the UK military at RAF Waddington. It also delivered a virtual training facility to the Royal Navy for close range weapons training.

* Definitions of underlying measures of performance can be found in the glossary
^ IAS19 (revised) "Employee benefits" has been adopted for FY13 and the H1 FY12 comparatives have been restated accordingly

US Services

US Services supports customers across the US federal marketplace, delivering mission assurance, engineering, data analysis, IT systems and software engineering and integration, cyber solutions, modelling, training and simulation, logistics, managed services, mobility solutions and field support.

	H1 FY13	H1 FY12
	£m	£m
Orders[1]	**283.5**	343.0
Revenue	**241.6**	268.4
Underlying operating profit*	**13.4**	16.9
Underlying operating margin*	**5.5%**	6.3%
Book to bill ratio	**1.2x**	1.3x
Funded Backlog[1]	**243.8**	265.2

(1) Not including unfunded or Indefinite Delivery Indefinite Quantity (IDIQ) contracts

Revenue was £241.6m (H1 FY12: £268.4m), a 12% decrease on an organic basis at constant currency, reflecting the considerable uncertainties in the federal services market. These uncertainties have led to the delay of new and incremental orders, the de-scoping of some existing work, and the cancellation of some re-competes with shorter term extensions being awarded in their place. The division's centralised business development, pricing strategy and proposal functions are focussed on driving new revenue with 100 outstanding bids, the majority of which are unlikely to be decided until the issue of sequestration is resolved.

Underlying operating profit* was £13.4m (H1 FY12 £16.9m) and the underlying margin* fell to 5.5% (H1 FY12: 6.3%), as a result of the reduction in volume, a more competitive environment and a comparative change in revenue mix, partially offset by a reduction in indirect costs which provided some support to the margin compared with the second half of last year.

To retain competitive rates in challenging market conditions, action continues to be taken to reduce costs in line with demand.

Despite current uncertainties, the US Government contracting market remains large and US Services has a broad customer base both within, and beyond, defence. Following commencement of work in March 2011, revenue has continued to increase on the NASA Engineering Services Contract at the Kennedy Space Center. The division's strategy is to leverage growth in space services to compete for new business with NASA and the United States Air Force (USAF). During the period, US Services won new mission planning work with USAF Electronics Systems Center at the Hanscom Air Force Base, and was selected for the TAASC II IDIQ contract by the USAF Material Command.

The provision of engineering services for fleet management and logistics support remained relatively resilient. New contracts included a $17m award for condition-based monitoring from the US Army's Tank Automotive Command and contracts for logistics support from the US Army's Aviation and Missile Command. The division is also working to expand its base of support contracts in the maritime domain and was selected for a five-year blanket purchase agreement with a total ceiling value of $27m by the US Coast Guard National Pollution Funds Center.

Within the 'Explore' category, a new leader has been appointed for the Cyveillance® business which delivers cyber intelligence solutions principally for US Fortune 500 customers. The business is focusing on the delivery of commercial services, larger contracts and higher margin offerings.

* Definitions of underlying measures of performance can be found in the glossary
^ IAS19 (revised) "Employee benefits" has been adopted for H1 FY13 and the H1 FY12 comparatives have been restated accordingly

Global Products

Global Products focuses on the provision of product-based solutions to meet customer requirements, complemented by contract-funded research and development.

	H1 FY13 £m	H1 FY12 £m
Orders	**120.5**	148.1
Revenue	**154.3**	180.3
Underlying operating profit*	**43.6**	37.0
Underlying operating margin*	**28.3%**	20.5%
Book to bill ratio	**0.8x**	0.8x
Funded backlog	**124.6**	209.1

Global Products delivered a strong first half performance, with underlying operating profit* increasing 18% to £43.6m (H1 FY12: £37.0m) at an underlying profit margin* of 28.3% (H1 FY12: 20.5%), even though revenues were 14% lower on an organic basis.

Despite reduced demand for military products associated with the drawdown of the US troop presence in Iraq and Afghanistan, the division received two key orders for the Q-Net™ vehicle survivability product, with a combined value of $44m, earlier in the year than originally expected. These orders were for Navistar's MaxxPro® MRAP vehicles and for the US Army's Heavy Expanded Mobility Tactical Truck (HEMTT) – the first time Q-Net™ has been fitted to a large haulage vehicle. The orders were delivered during the first half of the year and this, together with a high proportion of spares sales, more than compensated for lower sales in other major product lines.

In the UK, capability has been re-aligned with customer demand, resulting in improved performance. The business also received a one-off credit of £6m relating to a contract extension for additional work already undertaken.

To reduce the volatility of its revenue profile over time, the division is seeking to increase its portfolio of products and to find new markets and applications for its existing offerings. Although the demand for TALON® robots has reduced as a result of the drawdown, the period included $8m of TALON® orders for Poland and the Czech Republic, further orders from the US Marine Corps for the new, lightweight Dragon Runner ™ 10 robot and sales of innovative robotic applique kits to convert Bobcats into remote-control and semi-autonomous systems for route clearance missions.

Within the 'Explore' category, the OptaSense® fibre-optic sensing business has won a contract to protect a strategic pipeline corridor in Iraq and negotiations continue in relation to other vertical markets such as rail. The business is also making steady progress in oilfield services through both the continuation of its partnership with Shell and the launch of a new vertical seismic profiling application which is commercially available to all operators and oilfield services companies.

A number of early stage technologies in the 'Test for Value' category are being developed for customer-funded programmes. During the period, E-X-Drive® hybrid electric drive transmissions were delivered to the prime contractor for the technology development phase of the US Army's Ground Combat Vehicle Program and the Proba V micro-satellite, being developed for the European Space Agency (ESA), entered its final test phase.

* Definitions of underlying measures of performance can be found in the glossary
^ IAS19 (revised) "Employee benefits" has been adopted for H1 FY13 and the H1 FY12 comparatives have been restated accordingly

Financial items

IAS19 (revised) "Employee benefits" has been adopted for FY13 and the prior year comparatives have been restated accordingly. There are three specific impacts on the income statement, as outlined below:

- A reclassification of the administration costs of the defined benefit pension scheme, including the levy for the Pension Protection Fund, from finance expense to underlying operating profit;
- A change in the calculation of the interest income on plan assets. This was previously based on the expected returns on the various asset types held within the investment portfolio. It is now calculated at the same rate used to calculate the interest expense on the pension liability, being a discount rate derived from corporate bonds. The difference between this calculated return and the actual return is reported as an actuarial gain/loss through reserves; and
- The reporting of a combined net figure within finance expense, rather than showing the pension interest income and pension interest expense gross, within finance income and finance expense respectively.

The pension net finance expense, calculated under the revised standard, is reported as a specific adjusting item to better reflect the underlying performance of the Group. For further details see Note 1 on significant accounting policies. The adoption of the revised standard is a non-cash change and has no impact on the closing net pension liability or on net assets.

The full impact on the income statement, for the half year and the full year, is set out in the table in Note 1. The impact of the restatement on the prior year H1 reported financial measures is set out below:

	Underlying reported HY12	Reclassify administration costs	Change in investment return calculation	Reclassify pension net finance expense to "middle column" of income statement	**Underlying restated HY12**
	£m	£m	£m	£m	**£m**
Revenue	739.6	-	-	-	739.6
Operating profit	**82.6**	**(0.7)**	-	-	**81.9**
Net interest	(7.7)	0.7	(7.2)	3.5	(10.7)
Profit before tax	**74.9**	-	**(7.2)**	**3.5**	**71.2**
Tax	(14.8)	-	1.8	(0.9)	(13.9)
Earnings	**60.1**	-	**(5.4)**	**2.6**	**57.3**
EPS basic	**9.2p**	-	**(0.8)p**	**0.4p**	**8.8p**
Net pension deficit (pre tax) – 30 Sep 11	**(228.1)**				**(228.1)**

Net finance costs

Net finance costs were £10.3m (H1 FY12: £14.2m^). The underlying net finance costs are £9.5m (H1 FY12: £10.7m), with an additional £0.8m (H1 FY12: £3.5m) in respect of the pension net finance expense reported within specific adjusting items. The reduction in underlying net finance costs is the result of lower levels of private placement debt. The reduced pension net finance expense is due to a lower discount rate applied to a lower net pension liability at the beginning of the period.

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

^ IAS19 (revised) "Employee benefits" has been adopted for H1 FY13 and the H1 FY12 comparatives have been restated accordingly

Tax

The Group's underlying effective tax rate* was 20.3% (H1 FY12: 19.5%^) which reflects the expected tax rate for the year ending 31 March 2013. The rate is primarily dependent on the geographic split of profits between the UK and the US businesses, and the availability of UK research and development relief.

The UK Government has been consulting on its proposal to introduce an above-the-line credit for research and development as a replacement for the current tax credit with effect from 1 April 2013. At present it is unclear how any proposed changes will be implemented and what impact there will be on the Group. At the beginning of the accounting period, the Group had unused tax losses of £200m (30 September 2011: £192m) that are available to offset against future profits.

Earnings per share

Underlying earnings per share* were 10.5p (H1 FY12: 8.8p^) benefiting from the increase in underlying operating profit and the reduced level of private placement debt. Basic earnings per share were 9.9p (H1 FY12: 9.4p^).

Dividend

An interim dividend of 1.1p (H1 FY12: 0.9p) will be paid on 15 February 2013 to shareholders on the register at 18 January 2013. This represents an increase of 22% on the prior period and is in line with the Group's progressive dividend policy which takes into account the profitability of QinetiQ's businesses, longer term growth prospects, capital requirements and cash flows, while maintaining an appropriate level of dividend cover. The interim dividend is normally expected to represent approximately one third of the anticipated total dividend for the year.

Cash flow, net debt and liquidity

As previously announced, the Group received a one-off net payment of £65m in April which discharges the MOD from its accumulated liabilities for rationalisation costs incurred in previous years. Excluding this, underlying cash flow from operations* was £95.7m (H1 FY12: £157.1m) and underlying operating cash conversion* remained strong at 101% (H1 FY12: 192%^).

At 30 September 2012, the Group had £21.5m net cash on the balance sheet, compared with net debt of £145.3m at 30 September 2011. The Group completed the previously announced programme to repay $177m of private placement debt. Total committed facilities amounted to £425.4m at 30 September 2012, with no maturity before 2016.

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 Group seeks to mitigate the effect of translational exposures by matching the net investment in overseas operations with borrowings denominated in their functional currencies unless the cost of such hedging activity is uneconomic. This is achieved by borrowing in the local currency or, in some cases, indirectly through the use of forward foreign exchange contracts.

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

^ IAS19 (revised) "Employee benefits" has been adopted for H1 FY13 and the H1 FY12 comparatives have been restated accordingly

The principal exchange rate affecting the Group was the Sterling to US Dollar exchange rate.

	6 months to 30 September 2012	6 months to 30 September 2011
£/US$ - average	1.58	1.62
£/US$ - closing	1.62	1.56
£/US$ - opening	1.60	1.60

Pensions

The net pension liability under IAS19, after deducting deferred tax, was £64.0m (31 March 2012: £18.2m; 30 September 2011: £171.1m). The change in net pension liability since the year end is primarily driven by macro-economic factors, principally unprecedented low levels of gilt yields potentially distorted by quantitative easing, causing a reduction in the discount rate used to value the scheme liabilities. The adoption of IAS19 (revised) "Employee benefits" has no impact on the closing net pension liability.

The key assumptions used in the IAS19 valuation of the scheme are:

Assumption	30 September 2012	31 March 2012
Discount rate	4.4%	4.8%
RPI Inflation	2.9%	3.4%
CPI Inflation	2.4%	2.6%
Salary increase	3.4%	3.6%
Life expectancy - male (currently aged 40)	90	90
Life expectancy - female (currently aged 40)	92	92

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 each of the key assumptions is shown in the table below.

Assumption	Change in assumption	Indicative effect on scheme liabilities (before deferred tax)
Discount rate	Increase / decrease by 0.1%	Decrease / increase by £24m
Inflation	Increase / decrease by 0.1%	Increase / decrease by £24m
Salary increase	Increase / decrease by 0.1%	Increase / decrease by £4m
Life expectancy	Increase by 1 year	Increase by £25m

The market value of the assets at 30 September 2012 was £1,126.4m (31 March 2012: £1,107.9m; 30 September 2011: £949.4m) and the present value of scheme liabilities was £1,215.2m (31 March 2012: £1,139.4m; 30 September 2011: £1,177.5m).

* Definitions of underlying measures of performance can be found in the glossary
^ IAS19 (revised) "Employee benefits" has been adopted for H1 FY13 and the H1 FY12 comparatives have been restated accordingly

Condensed consolidated income statement

all figures in £ million	note	6 months ended 30 September 2012 (unaudited)			6 months ended 30 September 2011 (unaudited and restated, note 1)		
		Underlying	**Specific adjusting items***	**Total**	Underlying	Specific adjusting items*	Total
Revenue		**685.5**	**-**	**685.5**	739.6	-	739.6
Other operating costs excluding depreciation and amortisation		**(577.7)**	**-**	**(577.7)**	(638.9)	8.9	(630.0)
Share of post-tax profit of equity accounted joint ventures and associates		**0.1**	**-**	**0.1**	0.1	-	0.1
Rental income		**2.8**	**-**	**2.8**	2.5	-	2.5
EBITDA (earnings before interest, tax, depreciation and amortisation)		**110.7**	**-**	**110.7**	103.3	8.9	112.2
Depreciation and impairment of property, plant and equipment		**(13.1)**	**-**	**(13.1)**	(16.1)	-	(16.1)
Amortisation of intangible assets		**(2.3)**	**(7.5)**	**(9.8)**	(5.3)	(11.8)	(17.1)
Operating profit/(loss)		**95.3**	**(7.5)**	**87.8**	81.9	(2.9)	79.0
Gain on business divestments and disposal of investments	3	**-**	**2.5**	**2.5**	-	8.5	8.5
Finance income	4	**0.9**	**-**	**0.9**	1.0	-	1.0
Finance expense	4	**(10.4)**	**(0.8)**	**(11.2)**	(11.7)	(3.5)	(15.2)
Profit/(loss) before tax		**85.8**	**(5.8)**	**80.0**	71.2	2.1	73.3
Taxation	5	**(17.4)**	**1.9**	**(15.5)**	(13.9)	1.8	(12.1)
Profit/(loss) for the period attributable to equity shareholders		**68.4**	**(3.9)**	**64.5**	57.3	3.9	61.2
Earnings per share							
Basic	7	**10.5p**		**9.9p**	8.8p		9.4p
Diluted	7	**10.4p**		**9.8p**	8.6p		9.2p

* Specific adjusting items include amortisation of intangibles arising from acquisitions, pension net finance expense, gains on business divestments and disposal of investments, profit on disposal of property, restructuring costs, net gain in respect of previously capitalised DTR-programme bid costs and tax thereon.

Note: IAS19 (revised) “Employee benefits” has been adopted for FY13 and the H1 FY12 comparatives have been restated accordingly (refer to Note 1).

Condensed consolidated statement of comprehensive income

all figures in £ million	**6 months ended 30 September 2012 (unaudited)**	6 months ended 30 September 2011 (unaudited and restated, note 1)
Profit for the period	**64.5**	61.2
Items that will not be reclassified to profit and loss:		
Actuarial loss recognised in defined benefit pension schemes	**(64.6)**	(107.6)
Tax on items that will not be reclassified to profit and loss	**15.5**	28.0
Total items that will not be reclassified to profit or loss	**(49.1)**	(79.6)
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	**(6.0)**	8.1
Increase/(decrease) in fair value of hedging derivatives	**0.3**	(0.2)
Reclassification of hedging derivatives to the income statement	**-**	0.2
Fair value (losses)/gains on available for sale investments	**(0.2)**	0.1
Tax on items that may be reclassified to profit or loss	**(0.1)**	-
Total items that may be reclassified subsequently to profit or loss	**(6.0)**	8.2
Other comprehensive income for year, net of tax	**(55.1)**	(71.4)
Total comprehensive income for year, net of tax	**9.4**	(10.2)

Condensed consolidated statement of changes in equity

all figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 April 2012	**6.6**	**39.9**	**147.6**	**0.1**	**19.7**	**385.4**	**599.3**	**0.1**	**599.4**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**64.5**	**64.5**	**-**	**64.5**
Other comprehensive income/(expense) for the period, net of tax	**-**	**-**	**-**	**0.2**	**(6.0)**	**(49.3)**	**(55.1)**	**-**	**(55.1)**
Purchase of own shares	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**(0.2)**	**-**	**(0.2)**
Share-based payments - settlement	**-**	**-**	**-**	**-**	**-**	**0.7**	**0.7**	**-**	**0.7**
Share-based payments - charge	**-**	**-**	**-**	**-**	**-**	**2.5**	**2.5**	**-**	**2.5**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(13.0)**	**(13.0)**	**-**	**(13.0)**
At 30 September 2012	**6.6**	**39.9**	**147.6**	**0.3**	**13.7**	**390.6**	**598.7**	**0.1**	**598.8**
At 1 April 2011	6.6	39.9	147.6	0.2	21.6	241.5	457.4	0.1	457.5
Profit for the period - restated	-	-	-	-	-	61.2	61.2	-	61.2
Other comprehensive income/(expense) for the period, net of tax - restated	-	-	-	-	8.1	(79.5)	(71.4)	-	(71.4)
Purchase of own shares	-	-	-	-	-	(11.0)	(11.0)	-	(11.0)
Share-based payments charge	-	-	-	-	-	2.4	2.4	-	2.4
Dividends paid	-	-	-	-	-	(10.5)	(10.5)	-	(10.5)
At 30 September 2011	6.6	39.9	147.6	0.2	29.7	204.1	428.1	0.1	428.2

Condensed consolidated balance sheet

all figures in £ million	note	**30 September 2012 (unaudited)**	30 September 2011 (unaudited)	31 March 2012 (audited)
Non-current assets				
Goodwill		**513.1**	530.8	519.3
Intangible assets		**61.7**	86.9	71.8
Property, plant and equipment		**248.0**	249.9	246.6
Other financial assets		**5.7**	7.4	6.9
Investments		**5.0**	5.9	5.8
Deferred tax asset		**15.7**	65.3	17.0
		849.2	946.2	867.4
Current assets				
Inventories		**19.8**	30.3	31.2
Other financial assets		**2.7**	3.1	2.4
Trade and other receivables		**270.4**	341.7	404.8
Investments		**0.9**	2.4	1.1
Assets classified as held for sale	8	**-**	5.1	5.1
Cash and cash equivalents		**176.6**	132.9	117.8
		470.4	515.5	562.4
Total assets		**1,319.6**	1,461.7	1,429.8
Current liabilities				
Trade and other payables		**(418.6)**	(451.8)	(498.7)
Current tax		**(4.3)**	(17.8)	(13.7)
Provisions		**(3.7)**	(11.2)	(3.4)
Other financial liabilities		**(2.0)**	(4.2)	(84.9)
		(428.6)	(485.0)	(600.7)
Non-current liabilities				
Retirement benefit obligation	12	**(88.8)**	(228.1)	(31.5)
Deferred tax liability		**(9.8)**	-	-
Provisions		**(13.5)**	(13.2)	(13.2)
Other financial liabilities		**(161.5)**	(284.5)	(164.4)
Other payables		**(18.6)**	(22.7)	(20.6)
		(292.2)	(548.5)	(229.7)
Total liabilities		**(720.8)**	(1,033.5)	(830.4)
Net assets		**598.8**	428.2	599.4
Capital and reserves				
Ordinary shares		**6.6**	6.6	6.6
Capital redemption reserve		**39.9**	39.9	39.9
Share premium account		**147.6**	147.6	147.6
Hedging and translation reserve		**14.0**	29.9	19.8
Retained earnings		**390.6**	204.1	385.4
Capital and reserves attributable to shareholders of the parent company		**598.7**	428.1	599.3
Non-controlling interest		**0.1**	0.1	0.1
Total shareholders' funds		**598.8**	428.2	599.4

Condensed consolidated cash flow statement

all figures in £ million	note	**6 months ended 30 September 2012 (unaudited)**	6 months ended 30 September 2011 (unaudited)	Year ended 31 March 2012 (audited)
Net cash inflow from operations before UK restructuring cash flows	9	**106.1**	161.8	250.8
Net cash inflow/(outflow) relating to UK restructuring		**64.9**	(7.3)	(8.9)
Net cash inflow from operations		**171.0**	154.5	241.9
Tax received/(paid)		**2.0**	(7.9)	(23.3)
Interest received		**0.5**	0.2	1.0
Interest paid		**(29.8)**	(20.2)	(39.5)
Net cash inflow from operating activities		**143.7**	126.6	180.1
Purchases of intangible assets		**(0.2)**	(0.3)	(0.7)
Purchases of property, plant and equipment		**(10.8)**	(8.3)	(22.0)
Proceeds from sale of property, plant and equipment		**0.6**	3.9	7.3
Proceeds from sale of investments		**3.4**	0.9	3.6
Proceeds from sale of interests in subsidiary undertakings		**-**	11.2	11.2
Purchase of subsidiary undertakings		**-**	-	(0.9)
Net cash (outflow)/inflow from investing activities		**(7.0)**	7.4	(1.5)
Repayment of bank borrowings		**(63.0)**	(84.2)	(133.6)
Settlement of forward contracts		**(1.3)**	-	(1.6)
Purchase of own shares		**(0.2)**	(11.0)	(12.0)
Dividends paid to shareholders		**(13.0)**	(10.5)	(16.4)
Capital element of finance lease rental payments		**(1.4)**	(1.4)	(2.8)
Capital element of finance lease rental receipts		**1.5**	2.1	3.0
Net cash outflow from financing activities		**(77.4)**	(105.0)	(163.4)
Increase in cash and cash equivalents		**59.3**	29.0	15.2
Effect of foreign exchange changes on cash and cash equivalents		**(0.5)**	(0.1)	0.4
Cash and cash equivalents at beginning of period		**117.8**	102.2	102.2
Cash and cash equivalents at end of period		**176.6**	131.1	117.8

Reconciliation of movement in net cash/debt

all figures in £ million	note	**6 months ended 30 September 2012 (unaudited)**	6 months ended 30 September 2011 (unaudited)	Year ended 31 March 2012 (audited)
Increase in cash and cash equivalents		**59.3**	29.0	15.2
Add back net cash outflows not impacting net debt (repayment of loans, private placement and other financial instruments)		**64.2**	83.5	135.0
Change in net debt resulting from cash flows		**123.5**	112.5	150.2
Other movements including foreign exchange		**20.2**	3.1	(11.5)
Decrease in net debt		**143.7**	115.6	138.7
Net debt at beginning of period		**(122.2)**	(260.9)	(260.9)
Net cash / (debt) at end of period	10	**21.5**	(145.3)	(122.2)

Notes to the condensed interim financial statements (continued)

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 2012 comprise statements for the Company and its subsidiaries (together referred to as the "Group") and were approved by the Board of Directors on 21 November 2012.

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 Services 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 2012.

The Group separately presents "specific adjusting" items in the income statement which in the judgement of the Directors need to be disclosed separately from the "underlying" financial measures, by virtue of their size and incidence, to provide a more relevant indication of underlying business. Specific adjusting items include amortisation of intangibles arising from acquisitions, pension curtailment gains/losses and past service credits/costs, pension net finance expense, gains/losses on business divestments and disposal of investments, restructuring costs, gains/losses on disposal of property, impairment of property, impairment of intangible assets, net gain in respect of previously capitalised DTR-programme bid costs and tax thereon. Pension finance income and pension finance expense were, prior to this accounting period, reported within underlying performance. With effect from this accounting period the pension net finance expense is included within specific adjusting items in the middle column of the income statement and the comparative financial information has been restated accordingly. In the judgement of the Directors the volatility of this non-cash financial item (which can swing from net expense to net income) leads to a better understanding of the financial information when excluded from the underlying performance.

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.

Comparative data and restatement

The Company has implemented IAS19 (revised) in the six months to September 2012, electing to adopt this standard early. There are three specific impacts on the income statement, as outlined below:

- A reclassification of the administration costs of the defined benefit pension scheme, including the levy for the Pension Protection Fund, from finance expense to underlying operating profit;
- A change in the calculation of the interest income on plan assets. This was previously based on the expected returns on the various asset types held within the investment portfolio. It is now calculated at the same rate used to calculate the interest expense on the pension liability, being a discount rate derived from corporate bonds. The difference between this calculated return and the actual return is reported as an actuarial gain/loss through reserves; and
- The reporting of a combined net figure within finance expense, rather than showing the pension interest income and pension interest expense gross, within finance income and finance expense respectively.

Notes to the condensed interim financial statements (continued)

Subsequent to the early adoption of IAS19 (revised), the Group has also elected to disclose the finance expense on the net pension liability as a specific adjusting item within the middle column of the consolidated income statement. The comparative figures for the income statement for the six months to 30 September 2011 have been restated to show the effect of this early adoption and the reclassification as a specific adjusting item.

There is no change to the net pension liability or to net assets as a result of the early adoption of IAS19 (revised). As a result no restatement of the balance sheet is required.

(i) Restatement of six months ended 30 September 2011

The effect of adopting IAS19 (revised) on the Group's profit is to reduce both underlying and total reported profit after tax by £5.4m for the comparable six-month period ended 30 September 2011. The subsequent effect of the reclassification of net finance expense from underlying performance to within specific adjusting items is to increase underlying profit by £2.6m, although it has no impact on total reported operating profit. The combined effect of the two adjustments on the Group's profit for the six-month period to 30 September 2011 is therefore to reduce the underlying profit after tax by £2.8m to £57.3m and to reduce total reported profit after tax by £5.4m to £61.2m.

If the reclassification of pension finance income and pension finance expense had been made in isolation, without early adoption of IAS19 (revised), there would have been no impact on the Group's total reported profit for the period. Underlying profit after tax for the six months ended 30 September 2011 would have decreased by £2.2m, with an equal increase in profit after tax in respect of the specific adjusting items in the middle column of the income statement.

The full impact on the income statement is set out in the following table:

all figures in £ million	6 months ended 30 September 2011 (restated)			6 months ended 30 September 2011 (reported)		
	Underlying	**Specific adjusting items**	**Total**	Underlying	Specific adjusting items	Total
Operating profit	**81.9**	**(2.9)**	**79.0**	82.6	(2.9)	79.7
Gain on disposals	**-**	**8.5**	**8.5**	-	8.5	8.5
Finance income	**1.0**	**-**	**1.0**	34.2	-	34.2
Finance expense	**(11.7)**	**(3.5)**	**(15.2)**	(41.9)	-	(41.9)
Tax	**(13.9)**	**1.8**	**(12.1)**	(14.8)	0.9	(13.9)
Profit after tax	**57.3**	**3.9**	**61.2**	60.1	6.5	66.6
EPS - basic	**8.8p**	**0.6p**	**9.4p**	9.2p	1.0p	10.2p
EPS - diluted	**8.6p**	**0.6p**	**9.2p**	9.0p	1.0p	10.0p

The impact on the statement of comprehensive income is as follows:

all figures in £ million	**6 months ended 30 September 2011 (restated)**	6 months ended 30 September 2011 (reported)
Profit for the period	**61.2**	66.6
Other comprehensive income for the period, net of tax	**(71.4)**	(76.8)
Total comprehensive income for the period attributable to equity shareholders	**(10.2)**	(10.2)

Notes to the condensed interim financial statements (continued)

(ii) Restatement of prior full year period to 31 March 2012

The effect of adopting IAS19 (revised) on the Group's profit for the prior full-year period is to reduce both underlying and total reported profit after tax by £11.6m. The subsequent effect of the reclassification of net finance expense from underlying performance to within specific adjusting items is to increase underlying profit by £5.5m, although it has no impact on total reported profit. The combined effect of the two adjustments on the Group's profit for the full-year period to 31 March 2012 is therefore to reduce the underlying profit after tax by £6.1m to £88.7m and to reduce total reported profit after tax by £11.6m to £246.3m.

If the reclassification of pension finance income and pension finance expense had been made in isolation, without early adoption of IAS19 (revised), there would have been no impact on the Group's total reported profit for the period. Underlying profit after tax for the year ended 31 March 2012 would have decreased by £4.9m, with an equal increase in profit after tax in respect of specific adjusting items in the middle column of the income statement.

The full impact on the income statement is set out in the table below:

all figures in £ million	Year ended 31 March 2012 (restated)			Year ended 31 March 2012 (reported)		
	Underlying	**Specific adjusting items**	**Total**	Underlying	Specific adjusting items	Total
Operating profit	**159.6**	**201.7**	**361.3**	161.3	201.7	363.0
Gain on disposals	**-**	**11.6**	**11.6**	-	11.6	11.6
Finance income	**2.2**	**-**	**2.2**	69.8	-	69.8
Finance expense	**(51.6)**	**(7.2)**	**(58.8)**	(112.8)	-	(112.8)
Tax	**(21.5)**	**(48.5)**	**(70.0)**	(23.5)	(50.2)	(73.7)
Profit after tax	**88.7**	**157.6**	**246.3**	94.8	163.1	257.9
EPS - basic	**13.6p**	**24.3p**	**37.9p**	14.6p	25.0p	39.6p
EPS - diluted	**13.5p**	**24.1p**	**37.6p**	14.5p	24.9p	39.4p

The impact on the statement of comprehensive income is as follows:

all figures in £ million	**Year ended 31 March 2012 (restated)**	Year ended 31 March 2012 (reported)
Profit for the year	**246.3**	257.9
Other comprehensive income for the year, net of tax	**(79.1)**	(90.7)
Total comprehensive income for the year attributable to equity shareholders	**167.2**	167.2

The comparative figures for the year ended 31 March 2012 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 2012 have been reported on by the Group's 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 2012 are available upon request from the Company's registered office at Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

Notes to the condensed interim financial statements (continued)

Recent accounting developments

Except for the early adoption of IAS19 (revised) previously described and those items described below, 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 2012.

The following EU-endorsed amendments, improvements and interpretations of published standards are effective for accounting periods beginning after 1 April 2012 and have been adopted with no material impact on the Group's financial statements:

- Amendments to IFRS 1, *First-time Adoption of IFRS;*
- Amendment to IFRS 7, *Financial instruments: Disclosures;*
- Amendment to IAS 12, *Deferred Tax.*

2. Segmental analysis

Operating segments

all figures in £ million	**6 months ended 30 September 2012 (unaudited)**		6 months ended 30 September 2011 (unaudited and restated, note 1)	
	Revenue	**Operating Profit[1]**	Revenue	Operating Profit[1]
UK Services	**289.6**	**38.3**	290.9	28.0
US Services	**241.6**	**13.4**	268.4	16.9
Global Products	**154.3**	**43.6**	180.3	37.0
Total operating segments	**685.5**	**95.3**	739.6	81.9
Operating profit before specific adjusting items[1]		**95.3**		81.9
Net gain in respect of previously capitalised DTR-programme bid costs		-		*4.1*
Gain on disposal of property		-		*4.2*
Other income		-		*0.6*
Specific adjusting operating costs before amortisation, depreciation and impairment		-		8.9
Amortisation of intangible assets arising from acquisitions		**(7.5)**		(11.8)
Operating profit		**87.8**		79.0
Underlying net finance expense*		***(9.5)***		*(10.7)*
Interest on pension scheme net liabilities		***(0.8)***		*(3.5)*
Net finance expense		**(10.3)**		(14.2)
Gain on business divestments and disposal of investments		**2.5**		8.5
Profit before tax		**80.0**		73.3
Taxation		**(15.5)**		(12.1)
Profit for the period		**64.5**		61.2

[1] The measure of profit presented to the chief operating decision maker is operating profit stated before specific adjusting items. The specific adjusting items are set out in the table above.

* Definitions of specific adjusting items can be found in the glossary

Notes to the condensed interim financial statements (continued)

3. Gain on business divestments and disposal of investments

all figures in £ million	**6 months ended 30 September 2012 (unaudited)**	6 months ended 30 September 2011 (unaudited)
Gain on business divestments	**-**	4.9
Gain on disposal of investments	**2.5**	3.6
Gain on business divestments and disposal of investments	**2.5**	**8.5**

The £2.5m gain on disposal of investments relates to the disposal of the Group's investment in Infoscitex for consideration of $6.0m. Of the £4.9m gain on business divestments in the prior year, £4.7m relates to the disposal of Spectro Inc. to SFW Partners for consideration before costs of $20.5m. Of the £3.6m gain on disposal of investments in the prior year, £2.8m relates to the sale of QinetiQ's investment in Nomad Holdings Limited.

4. Finance income and expense

all figures in £ million	**6 months ended 30 September 2012 (unaudited)**	6 months ended 30 September 2011 (unaudited and restated, note 1)
Receivable on bank deposits	**0.5**	0.4
Finance lease income	**0.4**	0.6
Finance income	**0.9**	1.0
Amortisation of recapitalisation fee	**(0.3)**	(0.3)
Payable on bank loans and overdrafts	**(0.7)**	(0.8)
Payable on US-dollar private placement debt	**(8.4)**	(9.6)
Finance lease expense	**(0.3)**	(0.5)
Unwinding of discount on financial liabilities	**(0.7)**	(0.5)
Finance expense before specific adjusting items	**(10.4)**	(11.7)
Interest on pension scheme net liabilities	**(0.8)**	(3.5)
Finance expense	**(11.2)**	(15.2)
Net finance expense	**(10.3)**	(14.2)

5. Taxation

The tax charge has been based on the expected tax rate of 20.3% for the year ending 31 March 2013 (30 September 2011: 19.5%, restated for early adoption of IAS19 – note 1) on the Group's profit before tax and specific adjusting items*. The tax impact of the specific adjusting items* is £1.9m for the six months ended 30 September 2012 (30 September 2011 restated: £1.8m).

* Definitions of specific adjusting items can be found in the glossary

Notes to the condensed interim financial statements (continued)

6. Dividends

An analysis of the dividends paid and proposed in respect of the period ended 30 September 2012 and comparative periods is provided below:

	Pence per ordinary share	£m	Date paid/payable
Interim FY2013	**1.1**	**7.1**	**Feb 2013**
Interim FY2012	0.9	5.8	Feb 2012
Final FY2012	2.0	13.0	Sep 2012
Total for the year ended 31 March 2012	2.9	18.8	

The Directors propose an interim dividend of 1.1p (Interim FY2012: 0.9p). The dividend will be paid on 15 February 2013. The ex-dividend date is 16 January 2013 and the record date is 18 January 2013.

7. 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.

		6 months ended 30 September 2012 (unaudited)	6 months ended 30 September 2011 (unaudited and restated, note 1)
Basic EPS			
Profit attributable to equity shareholders	£m	**64.5**	61.2
Weighted average number of shares	million	**650.1**	653.6
Basic EPS	pence	**9.9**	9.4
Diluted EPS			
Profit attributable to equity shareholders	£m	**64.5**	61.2
Weighted average number of shares	million	**650.1**	653.6
Effect of dilutive securities	million	**5.9**	9.8
Dilutive number of shares	million	**656.0**	663.4
Diluted EPS	pence	**9.8**	9.2

Notes to the condensed interim financial statements (continued)

		6 months ended 30 September 2012 (unaudited)	6 months ended 30 September 2011 (unaudited and restated, note 1)
Underlying* basic EPS			
Profit attributable to equity shareholders	£m	**64.5**	61.2
Profit/(loss) after tax in respect of specific adjusting items*	£m	**3.9**	(3.9)
Underlying profit after taxation	£m	**68.4**	57.3
Weighted average number of shares	million	**650.1**	653.6
Underlying basic EPS	pence	**10.5**	8.8

		6 months ended 30 September 2012 (unaudited)	6 months ended 30 September 2011 (unaudited and restated, note 1)
Underlying* diluted EPS			
Profit attributable to equity shareholders	£m	**64.5**	61.2
Profit/(loss) after tax in respect of specific adjusting items*	£m	**3.9**	(3.9)
Underlying profit after taxation	£m	**68.4**	57.3
Weighted average number of shares	million	**650.1**	653.6
Effect of dilutive securities	million	**5.9**	9.8
Dilutive number of shares	million	**656.0**	**663.4**
Underlying diluted EPS	pence	**10.4**	**8.6**

8. Assets held for sale

The Group does not hold any assets classified as "held for sale" as at the balance sheet date. Assets previously held for sale included various properties in the UK that are surplus to the Group's requirements and are being marketed for sale. These assets no longer meet the criteria for disclosure under IFRS 5; the prospective buyer has withdrawn and hence the sale of these assets is no longer expected to complete within the forthcoming twelve months.

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

Notes to the condensed interim financial statements (continued)

9. Cash flows from operations

All figures in £ million	**6 months ended 30 September 2012 (unaudited)**	6 months ended 30 September 2011 (unaudited and restated, note 1)	Year ended 31 March 2012 (audited and restated, note 1)
Profit after tax for the period	**64.5**	61.2	246.3
Adjustments for:			
Taxation	**15.5**	12.1	70.0
Net finance costs	**10.3**	14.2	56.6
Gain on business divestments and disposal of investments	**(2.5)**	(8.5)	(11.6)
Net gain in respect of previously capitalised DTR-programme bid costs	**-**	(4.1)	(4.1)
Amortisation and impairment of purchased or internally developed intangible assets	**2.3**	5.3	9.0
Amortisation of intangible assets arising from acquisitions	**7.5**	11.8	20.3
Depreciation and impairment of property, plant and equipment	**13.1**	16.1	32.5
Loss/(profit) on disposal of property, plant and equipment	**1.0**	(1.9)	(5.8)
Share of post-tax profit of equity accounted entities	**(0.1)**	(0.1)	(0.1)
Share-based payments charge	**3.6**	3.0	4.2
Changes in retirement benefit obligations	**(8.1)**	(7.6)	(60.7)
Pension curtailment gain	**-**	-	(1.1)
Pension past service gain	**-**	-	(141.4)
Net movement in provisions	**0.3**	(8.7)	(15.8)
	107.4	92.8	198.3
Decrease in inventories	**11.3**	11.8	12.1
Decrease in trade and other receivables	**132.5**	65.9	1.2
(Decrease)/increase in payables	**(80.2)**	(16.0)	30.3
Changes in working capital	**63.6**	61.7	43.6
Cash generated from operations	**171.0**	154.5	241.9
Add back: net cash (inflow)/outflow relating to UK restructuring†	**(64.9)**	7.3	8.9
Net cash flow from operations before UK restructuring cash flows	**106.1**	161.8	250.8

†Net cash inflow in the six months to 30 September 2012 includes a payment of £65.0m from the UK MOD. This related to the agreement reached in March 2012 involving the discharging of MOD from its accumulated liabilities for rationalisation costs incurred in previous years, together with MOD agreement to changes in its Special Shareholder rights, and certain other operational issues.

Notes to the condensed interim financial statements (continued)

10. Analysis of net cash/debt

All figures in £ million	**6 months ended 30 September 2012 (unaudited)**	6 months ended 30 September 2011 (unaudited)	Year ended 31 March 2012 (audited)
Due within one year:			
Bank and cash	**176.6**	132.9	117.8
Bank overdraft	**-**	(1.8)	-
Recapitalisation fee	**0.6**	0.6	0.6
Finance lease receivables	**2.3**	3.0	2.3
US-dollar private placement	**-**	-	(83.2)
Finance lease payables	**(2.2)**	(3.0)	(2.2)
Derivative financial assets	**0.4**	0.1	-
Derivative financial liabilities	**(0.5)**	-	-
	177.2	131.8	35.3
Due after one year:			
Recapitalisation fee	**0.8**	1.4	1.0
US-dollar private placement	**(157.0)**	(278.4)	(159.0)
Finance lease receivables	**5.7**	7.3	6.8
Finance lease payables	**(5.3)**	(7.5)	(6.4)
Derivative financial assets	**0.1**	0.1	0.1
	(155.7)	(277.1)	(157.5)
Total net cash / (debt) as defined by the Group	**21.5**	(145.3)	(122.2)

11. 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. A deduction has been made from retained earnings at 30 September 2012 in respect of 11,463,475 own shares (30 September 2011: 12,385,871).

In the six months to 30 September 2012 the Group granted/awarded 7.8 million (30 September 2011: 8.7 million) new share-based awards to employees.

12. 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 2012 (unaudited)**	30 September 2011 (unaudited)	31 March 2012 (audited)
Total market value of scheme assets	**1,126.4**	949.4	1,107.9
Present value of scheme liabilities	**(1,215.2)**	(1,177.5)	(1,139.4)
Net pension liability before deferred tax	**(88.8)**	(228.1)	(31.5)
Deferred tax asset	**24.8**	57.0	13.3
Net pension liability	**(64.0)**	(171.1)	(18.2)

Changes to the net pension liability before deferred tax

all figures in £ million	**30 September 2012 (unaudited)**	30 September 2011 (unaudited and restated, note 1)	31 March 2012 (audited and restated, note 1)
Opening net pension liability before tax	**(31.5)**	(124.6)	(124.6)
Actuarial loss on scheme assets	**(64.6)**	(107.6)	(102.9)
Contributions by the employer	**18.7**	18.0	83.2
Current service cost and administration costs	**(10.6)**	(10.3)	(22.5)
Interest cost	**(0.8)**	(3.5)	(7.2)
Past service cost	**-**	(0.1)	142.5
Closing net pension liability before deferred tax	**(88.8)**	(228.1)	(31.5)

Assumptions

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

	30 September 2012 (unaudited)	30 September 2011 (unaudited)	31 March 2012 (audited)
Rate of increase in salaries	**3.4%**	4.3%	3.6%
Rate of increase in pensions in payment	**2.4%**	3.3%	3.6%
Discount rate applied to scheme liabilities	**4.4%**	5.1%	4.8%
RPI inflation assumption	**2.9%**	3.3%	3.4%
CPI inflation assumption	**2.4%**	2.4%	2.6%
Assumed life expectancies in years:			
Future male pensioners (currently aged 60)	**88**	88	88
Future female pensioners (currently aged 60)	**90**	90	90
Future male pensioners (currently aged 40)	**90**	90	90
Future female pensioners (currently aged 40)	**92**	91	92

13. Contingent liabilities and assets

The Group, including subsidiary undertakings, has given unsecured guarantees primarily on leased properties and bank lines of £53.1m at 30 September 2012 (30 September 2011: £56.8m) in the ordinary course of business.

The Group is aware of claims and potential claims by or on behalf of current and former employees, including former employees of the MOD and DERA and contractors, in respect of intellectual property, employment rights and industrial illness and injury which involve or may involve legal proceedings against the Group. The Directors are of the opinion, having regard to legal advice received and the Group's insurance arrangements, that it is unlikely that these matters will, in aggregate, have a material effect on the Group's financial position, results of operations and liquidity.

The Group has not recognised contingent amounts receivable relating to the Chertsey property which was disposed of during 2004 or the Fort Halstead property disposed of in September 2005. Additional consideration, subject to claw-back by the MOD pursuant to the arrangements referred to in note 31 of the 2012 annual report, is potentially due upon the purchasers obtaining additional planning consents, with the quantum dependent on the scope of the consent achieved.

The Group has also not recognised contingent amounts receivable relating to property impairments in prior years that may potentially be recovered from the MOD. It is not considered practicable to calculate the value of this contingent asset.

14. Related party transactions with equity accounted investments

There were no related party transactions between the Group and its joint ventures and associates in the period.

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. Pages 26-29 of the 2012 Annual Report and Accounts detail the principal risks and uncertainties which have not materially changed and these are expected to continue to be relevant for the remaining six months of the year. A summary of the significant risks and uncertainties is set out below:

- A change in demand from reduced military operations in Iraq and Afghanistan;
- A change in either US or UK Government spending on defence and security;
- Change in the timing of contracts;
- Financial position of the defined benefit pension scheme;
- Policies or attitudes may change towards Organisational Conflicts of Interest (OCI);
- Tax liabilities may change as a result of changes in tax legislation;
- A material element of the Group's revenue and operating profit is derived from one contract;
- Failure to comply with laws and regulations, particularly trading restrictions and export controls;
- Exchange rate movement;
- Raising external funding and volatility in interest rates;
- Fixed price contracts;
- Acquisition of businesses;
- Inherent risks from trading in a global marketplace;
- Highly competitive marketplace;
- Failure of information technology systems and breaches of data security;
- Realisation of value from intellectual property may be delayed.

The Directors have considered the Financial Reporting Council's guidance around consideration of heightened country and currency risk in interim financial reports but the Group is not directly exposed to significant overseas sovereign and currency risks (other than translation risk), although it is exposed indirectly to increased counter party risk. The Group attempts to mitigate risk by counter party monitoring and the avoidance of concentrations of counter party risk. The significant Group risks remain those referred to above.

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 2012.

By order of the Board

Mark Elliott	Leo Quinn	David Mellors
Chairman	Chief Executive Officer	Chief Financial Officer
21 November 2012	21 November 2012	21 November 2012

Independent review report to QinetiQ Group plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2012 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Cash Flow Statement and the related explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the UK FSA.

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union (EU). The condensed set of financial statements included in this interim financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of review

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 UK. 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 Ireland) 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 September 2012 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the Disclosure and Transparency Rules of the UK FSA.

A J Sykes
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square, London E14 5GL
21 November 2012

Glossary

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

C4ISR Command, control, communications, computers, intelligence, surveillance and reconnaissance

DTR MOD's Defence Training Rationalisation programme

EBITDA Earnings before interest, tax, depreciation and amortisation

EPS Earnings per share

Funded backlog The expected future value of revenue from contractually committed and funded customer orders (excluding £3.5bn value of the remaining 15 years of the LTPA contract)

IAS International Accounting Standards

IDIQ Indefinite delivery indefinite quantity

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

NASA National Aeronautics and Space Administration (USA)

Organic Growth The level of year-on-year growth, expressed as a percentage, calculated at constant foreign exchange rates, adjusting comparatives to incorporate the results of acquired entities and excluding the results for any disposals or discontinued operations for the same duration of ownership as the current period

Specific adjusting items Amortisation of intangibles arising from acquisitions; pension curtailment gains/losses and past service credit/costs; pension net finance expense; gains/losses on business combinations and divestments and disposal of investments; restructuring costs; gains/losses on disposal of property; impairment of property; impairment of intangible assets; net gain in respect of previously capitalised DTR-programme bid costs; and tax thereon.

Underlying basic earnings per share Basic earnings per share as adjusted to exclude 'specific adjusting items'

Underlying effective tax rate The tax charge for the year excluding the tax impact of 'specific adjusting items' expressed as a percentage of underlying profit before tax

Underlying net cash from operations (post capex) Net cash inflow from operations before restructuring costs less net cash outflow on purchase/sale of intangible assets and property, plant and equipment

Underlying operating cash conversion The ratio of underlying net cash from operations (post capex) to underlying operating profit excluding share of post tax result of equity accounted joint ventures and associates

Underlying operating margin Underlying operating profit expressed as a percentage of revenue

Underlying operating profit Operating profit as adjusted to exclude 'specific adjusting items'

Underlying profit before tax Profit before tax as adjusted to exclude 'specific adjusting items.'