QinetiQ Group plc

For release at 0700 hours on 21 November 2013

Interim Results for the half year ended 30 September 2013

QinetiQ, the defence, security and aerospace company, announces its interim results for the half year ended 30 September which saw:

- Encouraging increase in order intake in EMEA Services with growing international customer base
- US Services stabilising post restructuring but visibility remains limited
- Decrease in US conflict-related product sales and profits against record first half of last year
- Balance sheet strength achieved by on-going high cash conversion
- Increase in interim dividend reflecting re-basing of last year's final dividend and confidence in strategy
- Maintaining guidance for full year despite challenging markets

	H1 2014	H1 2013
Business Performance		
Revenue	**£599.6m**	£685.5m
Organic change at constant currency	**(13)%**	(8)%
Underlying operating profit*	**£59.2m**	£95.3m
Underlying operating margin*	**9.9%**	13.9%
Underlying profit before tax*	**£52.3m**	£85.8m
Underlying net cash from operations (post capex)*	**£69.6m**	£95.7m
Underlying cash conversion ratio*	**118%**	101%
Net cash	**£120.5m**	£21.5m
Underlying earnings per share*	**7.0p**	10.5p
Dividend per share	**1.4p**	1.1p
Statutory Reporting		
Operating profit	**£80.7m**	£87.8m
Profit before tax	**£72.6m**	£80.0m
Earnings per share	**9.5p**	9.9p

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

"We continue to reshape the Group through our Organic-Plus strategy. Of the 'Core' businesses, EMEA Services has generated a robust performance with encouraging order intake and is expected to remain steady this year. Despite heightened market uncertainty, US Services is stabilising and the strategic review of this division will determine the path to maximum value. As expected, Global Products has seen a decrease in conflict-related sales and continues to work on broadening its portfolio especially beyond defence.

"Our newer 'Explore' businesses are making good progress with several strategic wins building a foundation for future growth.

"Although the short-term range of possible outcomes remains wider than usual, particularly in Global Products, the Board is maintaining its expectations for overall Group performance in the current year absent any material changes in customer requirements. Over the medium term, our confidence that our 'Core' businesses and newer growth opportunities will drive an increase in sustainable earnings is reflected in the increased interim dividend." ENDS

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

Other information

There will be a presentation of the interim results to analysts at 0900 hours UK time on 21 November 2013 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 will be available on the following numbers (confirmation: QinetiQ):

- *UK Freephone: 0800 368 0649*
- *International / London local: +44 (0)203 059 8125*

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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.

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Group overview

Revenue was £599.6m (H1 2013: £685.5m). In EMEA Services (formerly UK Services) performance was robust and order intake was good. The performance of US Services, though stabilising, continued to be impacted by budget uncertainty. There was a decrease in US conflicted-related sales in Global Products against a very strong comparator period which benefitted from very high levels of Q-Net® deliveries.

Underlying operating profit* decreased to £59.2m (H1 2013: £95.3m) due to the impact of US military drawdown on product sales.

Underlying profit before tax* was £52.3m (H1 2013: £85.8m) with underlying net finance costs* falling to £6.9m (H1 2013: £9.5m) as a result of lower levels of private placement debt.

Underlying earnings per share* were 7.0p (H1 2013: 10.5p) in line with the lower underlying operating profit partially offset by the reduced level of private placement debt and lower underlying effective tax rate*. The latter fell to 12.8% (H1 2013: 20.3%), reflecting the geographic split of profits between the UK and the US and is expected to be the tax rate for the full year ending 31 March 2014. Basic earnings per share were 9.5p (H1 2013: 9.9p).

The Group closed its UK defined benefit pension scheme to future accrual on 31 October 2013, transferring members into a new defined contribution section of the Trust and providing them with compensation options. This reduced the Group's pension scheme liability by £31.1m and further de-risks the scheme. The reduction in pension scheme liability and £4.0m cost of the compensation options were reported as specific adjusting items. There was no impact on underlying earnings or operating cash flow as a result of this change.

The Group remains highly disciplined about cash generation and has achieved a strong balance sheet. Underlying operating cash conversion* increased to 118% (H1 2013: 101%), delivering an underlying cash flow from operations* of £69.6m (H1 2013: £95.7m). This excluded operating cash outflows of £7.7m related to the prior year restructuring of the North American divisions. At 30 September 2013, the Group had £120.5m net cash, compared to £74.0m net cash at 31 March 2013.

An interim dividend of 1.4p (H1 2013: 1.1p) will be paid on 14 February 2014 to shareholders on the register at 17 January 2014. This represents an increase on the prior period following the re-basing of last year's final dividend, reflecting both the Group's confidence that its Organic-Plus strategy will deliver value to shareholders over the medium term and its progressive dividend policy. The interim dividend is normally expected to represent approximately one third of the anticipated total dividend for the year.

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Trading environment

Market conditions in the US remain challenging with the Federal Government failing to agree a budget for its 2014 fiscal year and operating under a Continuing Resolution. This is exacerbated by the drawdown of overseas US military forces which has reduced budgets for Overseas Contingency Operations. October's US Government shutdown interrupted some work for Federal Government customers but, to date, has not had a material impact on the full year performance of the Group due to the implementation of contingency plans. The ability to mitigate any further interruptions to Federal Government business is more limited.

The continuation of 'lowest-price-technically-acceptable' evaluations in the US is encouraging contractors to submit aggressive bids and the process of awarding contracts is slow, exacerbated by compulsory non-paid leave for Government employees (furloughs) and the routine lodging of protests by unsuccessful bidders.

The UK Government's priorities for defence are financial stability and transformation, with the MOD making considerable progress in balancing its budget. 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 to be delivered by industry. The review of 'Yellow Book' compliance obligations and pricing terms for single-source contracts is continuing.

While the UK Government's defence transformation programme is creating some short-term uncertainty, it is likely to increase demand for the provision of technical services particularly through contract vehicles that have an established track record of delivering 'more for less.' The transfer of responsibility for managing military capability and budget to the single service commands is also presenting opportunities to demonstrate to customers the potential efficiencies of through-life services.

Strategy

QinetiQ continues to implement its Organic-Plus programme, the second phase of its development, to drive both a sustainable increase in underlying earnings and opportunities for growth from its portfolio. The programme continues the disciplines established during the prior self-help phase, particularly the focus on strong cash management and long-term cultural transformation into a more competitive and commercial company.

The Group will meet its goals of delivering growing, high quality returns by investing in its strong 'Core' capabilities to win market share, while nurturing a select number of established ('Explore') services and solutions to determine their ability to deliver both UK and international growth. Early stage ('Test for Value') offerings are evaluated as they are generated to determine their potential for value and how best to realise this, including through partnerships and licensing. Investments in growth are managed through a rigorous process for prioritising resources and monitoring returns.

A strategic review was announced in May to determine the route to maximise the performance and value of US Services. The division possesses some strong capabilities and market positions and the Group is working with its advisors to evaluate its options, including a market testing exercise.

A comprehensive business-by-business update on the Organic-Plus programme is provided in the Business overview.

Summary of ‘Core’, ‘Explore’ and ‘Test for Value’ capabilities

‘Core’ **c90% of revenue**	**‘Explore’** **c8% of revenue**	**‘Test for Value’** **c2% of revenue**
EMEA Services (majority): • Weapons • Air • Maritime • C4ISR • Acquisition Services	• International ranges • Protective monitoring • Training and Simulation • UAS Services	• International procurement advice • Smart metering assurance
US Services (majority): • Aerospace Operations • Mission Solutions • Defense Solutions	• Cyveillance®	
Global Products (partial): • TALON® • Q-Net® • LAST® Armor	• OptaSense® • Robotic applique kits • Robotic controllers • Space products	• ALARM™ • E-X-Drive® • Integrated Warrior System™ • MEWS™ • Power Line Sensors (Linewatch™)

Outlook

The Group continues to be reshaped through the Organic-Plus strategy. Of the ‘Core’ businesses, EMEA Services has generated a robust performance with encouraging order intake and is expected to remain steady this year. Despite heightened market uncertainty, US Services is stabilising and the strategic review of this division will determine the path to maximum value. As expected, Global Products has seen a decrease in conflict-related sales and continues to work on broadening its portfolio especially beyond defence.

The newer ‘Explore’ businesses are making good progress with several strategic wins building a foundation for future growth.

Although the short-term range of possible outcomes remains wider than usual, particularly in Global Products, the Board is maintaining its expectations for overall Group performance in the current year absent any material changes in customer requirements. Over the medium term, the Board’s confidence that QinetiQ’s ‘Core’ businesses and newer growth opportunities will drive an increase in sustainable earnings is reflected in the increased interim dividend.

Business overview

EMEA Services

	H1 2014 £m	H1 2013 £m
Orders[(1)]	**217.5**	201.2
Revenue	**289.9**	289.6
Underlying operating profit*	**40.3**	38.3
Underlying operating margin*	**13.9%**	13.2%
Book to bill ratio[(1)]	**1.1x**	1.0x
Funded backlog[(1)]	**662.2**	639.6

(1) Excludes the £998m third term contractual renewal of the LTPA contract
B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract.

Market and operational review

EMEA Services (formerly UK Services) delivered a robust performance during the first half of the year. Orders grew 8% to £217.5m (H1 2013: £201.2m), demonstrating the unique strengths of the division and its highly differentiated position in the UK market. International order intake was also encouraging, and the division was renamed EMEA Services during the period to reflect its current and potential geographic end markets.

Underlying operating profit* increased to £40.3m (H1 2013: £38.3m) on flat revenue. The resulting underlying margin* of 13.9% (H1 2013: 13.2%) was a result of continued productivity improvements and better project execution embedded during the self-help phase, enhanced by increased utilisation in certain businesses and higher margin work in new geographies.

Organic-Plus update

EMEA Services combines world-leading expertise with unique facilities to provide technical assurance, test and evaluation, and training services. These capabilities are delivered mainly under long-term managed services contracts, such as the 25-year Long Term Partnering Agreement (LTPA), which was re-priced in February for its third five-year period. The division is also a market leader in research and advice in specialist areas such as C4ISR, acquisition services and cyber security. EMEA Services is well placed to capitalise on opportunities created by the UK Government's defence transformation programme due to its market focus and its capabilities across the lifecycle of military equipment. The division is also pursuing a strong pipeline of international opportunities which leverage its core strengths.

QinetiQ's Air business combines unique facilities, capabilities and world class experts to de-risk complex aviation programmes by testing military aircraft and equipment, evaluating the risks and assuring safety. The period saw continued improvements to project delivery and initial successes in winning market share. The business won its first major maintenance contract which will support the anticipated life extension of the RAF's Hawk aircraft fleet, and grew its civil aerospace work through the award of a contract by Bombardier for noise testing. In the 'Explore' category, the Air business is building on its track record of delivering remotely piloted and Unmanned Air System (UAS) services, signing an agreement with Llanbedr Airfield to extend the airspace available in Wales for UAS development.

The Weapons business provides independent research, evaluation and training services for integrated weapons systems. During the period it won a four-year contract to manage the Weapons Science and Technology Centre and delivery of £8m per annum research into complex weapons, munitions and energetics. The business is also working with its customers and supply chain partners to combat the growing threat from Fast-In-Shore Attack Craft and is assessing options for the more efficient management of the UK's £6bn munitions inventory.

International demand for test and evaluation services is encouraging with the award of new contracts from South Korea's Agency for Defence Development and European government customers.

QinetiQ's Maritime business provides independent research, design, integration, test and evaluation to naval clients worldwide, underpinned by three long-term contracts, all of which have been renewed or positively assessed for value-for-money over the past 24 months. In addition to providing front-line and waterfront support to UK warships and submarines, the business has successfully completed acceptance tests of the new Astute Class submarine, and is currently supporting the 'Successor' (future nuclear deterrent) programme through the provision of design advice and incremental testing using its world-leading hydrodynamic test facilities. International demand is also strong with the business winning new contracts to support naval programmes in Australia, Canada and South Korea.

QinetiQ Australia, a multi-disciplinary engineering and consultancy business, won positions on a number of defence framework contracts during the period and achieved growth in the adjacent rail and maritime markets. Whilst changes in the political landscape resulting from September's federal election may cause some short-term uncertainties, they are likely to present further opportunities for the business in the longer term.

QinetiQ's C4ISR business is a leading supplier of research and advice on sensors, communications and intelligence. Its deep domain expertise is in demand in the UK to support the transition required following the Afghanistan conflict and from international customers to advise on the procurement of complex C4ISR technology. During the period the business unseated the incumbent supplier to win an enabling contract for defence logistics research and was awarded a £14m contract from a government in the Middle East.

QinetiQ's UK Cyber Security business protects critical national infrastructure and high-value commercial enterprises through the provision of consultancy, managed security services, secure information exchange, and threat and risk assessments. Order flow from civil government customers so far this year has been encouraging with the business awarded an £8m contract to provide data security services to the UK Government's smart meter programme and selected for a multi-year protective monitoring contract by the Ministry of Justice.

Training and Simulation Services (TSS) is an 'Explore' business which uses COTS (commercial off-the-shelf) simulation technology to 'deliver more for less.' In the US, a key potential market, QinetiQ opened an office during the period in Orlando at the heart of the US simulation community. The business has subsequently signed partnering agreements with a number of companies with established contracting vehicles, with the aim of accelerating the time to enter the US military modelling, simulation and training market.

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

US Services

	H1 2014 £m	H1 2013 £m
Orders	**247.7**	283.5
Revenue	**228.7**	241.6
Underlying operating profit*	**9.4**	13.4
Underlying operating margin*	**4.1%**	5.5%
Book to bill ratio	**1.1x**	1.2x
Funded backlog	**209.3**	243.8

Market and operational review

The performance of US Services was impacted by market conditions which remain challenging due to uncertainties in US Government budget and a slower contracting environment. October's US Government shutdown interrupted some work for Federal Government customers but, to date, has not had a material impact on the full year performance of the Group due to the implementation of contingency plans. The ability to mitigate any further interruptions to Federal Government business is more limited.

Orders fell to £247.7m (H1 2013: £283.5m) as a result of customer delays to decision-making on both new and incremental orders, exacerbated by furloughs and the routine lodging of protests by unsuccessful bidders. The majority of new orders were extensions and expansions to existing contracts. At the end of the period, US Services had 120 bids outstanding, with a total contract value of approximately $1bn.

Revenue declined 7% on an organic basis at constant currency, impacted by funding reductions on certain contracts, some contracts ending in period, and the switching of some work to small business set-aside contracts.

Compared with H1 2013, underlying operating profit* fell to £9.4m (H1 2013 £13.4m) as a result of the reduction in volume, a more competitive environment and on-going change in revenue mix as lower margin NASA work replaced higher margin sales. However, this was an increase on H2 2013 when underlying operating profit was £8.5m, with performance benefitting from the decision last year to cut management and property costs and from on-going control of overheads to maintain competitive rates.

Organic-Plus update

US Services is a leading provider of technical services and solutions to the US federal government. The division has a broad customer base both within and beyond defence. Despite budget pressures, the US federal services market remains robust at more than $200bn a year. A strategic review was announced in May to determine the route to maximise the performance and value of US Services. The division possesses some strong capabilities and market positions and the Group is working with its advisors to evaluate its options, including a market testing exercise.

At the beginning of the year, the division's two defence-focused businesses – Lifecycle Solutions and Software & Systems Engineering, were integrated to create Defense Solutions which provides systems engineering, fleet management and software development services to defence agencies, and modelling and simulation for training. The business has an excellent record in helping customers, particularly the US Army, manage their fleets and supply chains, which positions it well for opportunities as the US military returns from Afghanistan. The US Government's "pacific pivot" represents a resource shift to naval markets, and during the period the business built on its strong base of contracts in the maritime domain by winning small awards and extensions from the Space and Naval Warfare System Command (SPAWAR) on both the Pacific and Atlantic coasts.

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Aerospace Operations and Systems is one of the largest contractors to NASA and the largest contractor at the Kennedy Space Centre providing spaceflight and launch support, mission analytics, satellite integration, scientific data analysis and independent launch verification. During the period the business made a significant contribution to the future launch programme at Kennedy, designing equipment for the space and mobile launch systems, and was awarded a contract extension for the environmental test and integration services it provides at the Goddard Space Centre. Future opportunities exist to leverage this experience in space services to compete for new business with NASA, as well as with the United States Air Force (USAF) and commercial space companies, and the business is already providing mission assurance, integration and support to several commercial customers involved in NASA's commercial crew programme, the satellite industry and space insurance providers.

Mission Solutions provides enterprise IT and integrated software solutions to defence, federal, civil and intelligence customers and delivers systems to national and homeland security customers. Although spending is reducing on non-differentiated IT professional services and 'lowest-price-technically-acceptable' acquisitions are common, specialist expertise is in demand and the business increased its revenue from the intelligence community. Mission Solutions was awarded a $9m extension to the contract under which it provides infrastructure support to the Customs and Border Protection Agency. After period end, the business was awarded a position on the Department of Homeland Security's EAGLE II contract that will serve as a department-wide platform for acquiring IT services over the next five to seven years.

Within the 'Explore' category, Cyveillance® provides open source threat intelligence and remediation to customers across the world including many of the US Fortune 500. A new leadership team has commercialised the business, launching a 24x7 response centre, and is now implementing a growth strategy based on expansion of its higher margin, repeatable services. Company IT security teams are setting up their own threat intelligence centres to combat 'hacktivism' and denial-of-service attacks, and Cyveillance® is well placed to meet increasing demand for predictive cyber intelligence due to its ability to aggregate and prioritise threat information. This business does not form part of the current strategic review.

Global Products

	H1 2014	H1 2013
	£m	£m
Orders	**68.5**	120.5
Revenue	**81.0**	154.3
Underlying operating profit*	**9.5**	43.6
Underlying operating margin*	**11.7%**	28.3%
Book to bill ratio	**0.8x**	0.8x
Funded backlog	**94.5**	124.6

Market and operational review

The performance of Global Products was impacted by a reduction in demand for US conflict-related products against a very strong comparator period that included $90m of Q-Net® systems and spares revenues. On-going budgetary pressures and the accelerated pace of drawdown of overseas US military forces led to a decline in budgets for Overseas Contingency Operations, the principal funding source for US military acquisitions of survivability products and unmanned systems in recent years. Performance in the UK Products business was more encouraging, with revenue growing as a result of deliveries of the ALARM™ radar system and the Modular Electronic Warfare System (MEWS™).

Orders were £68.5m (H1 2013: £120.5m) due to the reduced demand for US military products and spares. The division has shorter order cycles than the services divisions and visibility of significant orders and their timing remains limited. $28m of unmanned systems orders were booked at the end of the period and an $18m order was received for the Q-Net® vehicle survivability product in October, both of which were originally expected earlier in the year and will now largely be delivered during the second half.

Revenue was £81.0m (H1 2013: £154.3m), illustrating the lumpy profile of the division's revenue and its dependency on the timing of shipments of key orders. Q-Net® revenue in the first half of the year was $9m (H1 2013: $90m) with minimal spares sales.

Underlying operating profit* was £9.5m (H1 2013: £43.6m), the record comparator period benefitting from the extremely high level of Q-Net® deliveries including spares, and a one-off £6m contract extension, partially offset by the completion of certain projects in this period. The US Products business, which cut its management and property costs last year, is continuing to actively manage discretionary spending.

Organic-Plus update

Global Products provides technology-based solutions to meet customer requirements and contract-funded research and development. The division combines a cutting-edge technology base with an intimate understanding of customer problems and strong productisation skills. To reduce the volatility of its revenue profile over time, QinetiQ is seeking to increase its portfolio of products and to find new markets and applications for its existing offerings.

The survivability business provides innovative products to US and allied governments, enabling them to protect people and assets, thereby saving lives. Just after the end of the first half, the business received an $18m order from Oshkosh to fit Q-Net® to MATV vehicles. It is also finding new markets outside the US, receiving a $2m order for its Precision Air Drop System (PADS®) from a Middle Eastern customer and a similar sized order from Germany for SWATS™ (Shoulder-Worn Acoustic Targeting System) which locates the source of gunfire. The business has leveraged its detailed understanding of personal safety in dangerous situations to develop an Integrated Warrior System™ that enables a soldier to plug-and-play multiple COTS sensors through a lightweight

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vest and access data via a tablet or smartphone. The system has a wide range of applications including training, mission rehearsal and operations.

The Unmanned Systems business is a world-leading provider of military robots. Although US military demand has reduced, the business received $8m of TALON® robot orders for Pakistan and $20m for Iraq which will be delivered mainly during the second half of the year. Unmanned Systems is also increasing its portfolio of products by developing new offerings, such as low-cost, lightweight robots that can be controlled by mobile devices.

Global Products continues to diversify its product portfolio with a particular emphasis on non-conflict technologies.

The most mature of the 'Explore' opportunities in QinetiQ's portfolio is the OptaSense® bespoke fibre sensing business, a platform technology that delivers Decision Ready Data™ to multiple vertical markets. The largest and most advanced of these is the down-hole oil and gas market, where it is now clear that the necessary access and scale will in due course require appropriate partnership with Oil Field Services companies. Well completion trials are underway with oil and gas companies including BP, Chesapeake, Conoco Philips and others following the end of the exclusivity period with Shell earlier in 2013. The business continues to expand its relationship with Shell having recently signed a contract extension to marinise its products to address the subsea / deep water market. In other markets, OptaSense® signed a £2m contract in the mining sector and over £1m of contracts for rail monitoring in Europe and the US. It is also engaged in four proof-of-concept trials for border security.

QinetiQ Space Products provides satellites, payload instruments, sub-systems and ground station services. The latest of its Proba family of mini satellites was launched by the European Space Agency in May.

In the 'Test for Value' category, early stage offerings are being tested to determine the best route to maximise value. A £4m order was secured for MEWS™, which is being taken to market with L-3 TRL. The E-X-Drive® hybrid electric drive continues to be developed for customer-funded programmes and received an additional £4m funding. The period also saw the first licence sale of QinetiQ's stealth wind turbine technology.

Global Products is also leveraging the innovative, products-focused culture of its employees to develop technology-based solutions for non-defence markets. An example of this approach is the Linewatch™ smart sensor system that precisely measures voltage and current on power grids to monitor performance and help automate distribution networks. A pilot is currently underway with a major North American hydro-electric company to support its smart metering programme and demonstration units have also been delivered to other utility companies.

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Financial items

Net finance costs

Net finance costs were £8.1m (H1 2013: £10.3m). The underlying net finance costs were £6.9m (H1 2013: £9.5m), with an additional £1.2m (H1 2013: £0.8m) 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.

Tax

The Group's underlying effective tax rate* was 12.8% (H1 2013: 20.3%) which reflects the expected tax rate for the year ending 31 March 2014. The rate is primarily dependent on the geographic split of profits between the UK and the US businesses.

The effective tax rate continues to be below the statutory rate in the UK, primarily as a result of the benefit of research and development relief in the UK and the availability of brought-forward losses. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any tax legislation changes and the geographic mix of profits. The 2013 Finance Act allows the continued super-deduction approach for R&D expenditure until April 2016, when mandatory R&D Expenditure Credit ('RDEC') treatment is introduced, which could increase the Group's effective tax rate over time to a blend of the US and UK corporation tax rates.

At 31 March 2013, the Group had unused tax losses of £202.7m (30 March 2012: £200.0m) that are available to offset against future profits.

Earnings per share

Underlying earnings per share* were 7.0p (H1 2013: 10.5p) due to the reduction in underlying operating profit partially offset by a lower interest expense on the reduced level of private placement debt and a lower underlying effective tax rate*. Basic earnings per share were 9.5p (H1 2013: 9.9p).

Dividend

An interim dividend of 1.4p (H1 2013: 1.1p) will be paid on 14 February 2014 to shareholders on the register at 17 January 2014. This represents an increase on the prior period, following the re-basing of last year's final dividend, 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 cash and liquidity

Underlying cash flow from operations* was £69.6m (H1 2013: £95.7m) and underlying operating cash conversion* remained strong at 118% (H1 2013: 101%). This excluded operating cash outflows of £7.7m related to the prior year restructuring of the North American divisions.

At 30 September 2013, the Group had £120.5m net cash, compared to £74.0m net cash at 31 March 2013. Total committed facilities amounted to £272.5m at 30 September 2013, with no maturity before 2016.

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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.

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

	6 months to 30 September 2013	**6 months to 30 September 2012**
£/US$ - average	1.54	1.58
£/US$ - closing	1.62	1.62
£/US$ - opening	1.52	1.60

Pensions

The net pension liability under IAS 19, after deducting deferred tax, was £20.3m (31 March 2013: £40.4m; 30 September 2012: £64.0m). The change in net pension liability since the year end is primarily a result of the closure of the company's defined benefit pension scheme to future accrual. This generated a reduction in scheme liabilities of £31.1m, which is reported as a 'specific adjusting item' in the income statement. Additional movement is driven by macro-economic factors, with a slightly lower inflation assumption reducing the scheme liabilities. Scheme assets were materially unchanged since year end. The key assumptions used in the IAS 19 valuation of the scheme were:

Assumption	**30 September 2013**	**30 September 2012**
Discount rate	4.4%	4.4%
CPI Inflation	2.6%	2.4%
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 £26m
Inflation	Increase / decrease by 0.1%	Increase / decrease by £26m
Life expectancy	Increase by 1 year	Increase by £28m

The market value of the assets at 30 September 2013 was £1,261.7m (31 March 2013: £1,256.5m; 30 September 2012: £1,126.4m) and the present value of scheme liabilities was £1,286.5m (31 March 2013: £1,310.6m; 30 September 2012: £1,215.2m). The funding basis of calculating scheme funding requirements differs from IAS 19 in that it does not use corporate bonds as a basis for the discount rate but instead uses the risk free rate from UK gilts, prudently adjusted for long-term expected returns for pre-retireds. Given the current extremely low gilt yields, perhaps exacerbated by quantitative easing, a funding valuation of the scheme would probably have resulted in a bigger deficit than the IAS 19 methodology if performed at the period end.

Condensed consolidated income statement

		6 months ended 30 September 2013 (unaudited)			6 months ended 30 September 2012 (unaudited)		
all figures in £ million	note	**Underlying**	**Specific adjusting items***	**Total**	Underlying	Specific adjusting items*	Total
Revenue		**599.6**	**-**	**599.6**	685.5	-	685.5
Other operating costs excluding depreciation and amortisation		**(531.2)**	**27.1**	**(504.1)**	(577.7)	-	(577.7)
Share of post-tax profit of equity accounted joint ventures and associates		**-**	**-**	**-**	0.1	-	0.1
Rental income		**3.4**	**-**	**3.4**	2.8	-	2.8
EBITDA (earnings before interest, tax, depreciation and amortisation)		**71.8**	**27.1**	**98.9**	110.7	-	110.7
Depreciation and impairment of property, plant and equipment		**(12.1)**	**-**	**(12.1)**	(13.1)	-	(13.1)
Amortisation of intangible assets		**(0.5)**	**(5.6)**	**(6.1)**	(2.3)	(7.5)	(9.8)
Operating profit/(loss)		**59.2**	**21.5**	**80.7**	95.3	(7.5)	87.8
Gain on disposal of investment	3	**-**	**-**	**-**	-	2.5	2.5
Finance income	4	**0.9**	**-**	**0.9**	0.9	-	0.9
Finance expense	4	**(7.8)**	**(1.2)**	**(9.0)**	(10.4)	(0.8)	(11.2)
Profit/(loss) before tax		**52.3**	**20.3**	**72.6**	85.8	(5.8)	80.0
Taxation (expense)/income	5	**(6.7)**	**(3.8)**	**(10.5)**	(17.4)	1.9	(15.5)
Profit/(loss) for the period attributable to equity shareholders		**45.6**	**16.5**	**62.1**	68.4	(3.9)	64.5
Earnings per share							
Basic	7	**7.0p**		**9.5p**	**10.5p**		**9.9p**
Diluted	7	**6.9p**		**9.5p**	**10.4p**		**9.8p**

* Specific adjusting items include amortisation of intangibles arising from acquisitions, pension net finance expense, reduction in liabilities realised on defined benefit pension scheme closure and related mitigation costs, disposal of investments, restructuring costs and tax thereon.

Condensed consolidated statement of comprehensive income

all figures in £ million	**6 months ended 30 September 2013 (unaudited)**	6 months ended 30 September 2012 (unaudited)
Profit for the period	**62.1**	64.5
Items that will not be reclassified to the income statement:		
Actuarial gain/(loss) recognised in defined benefit pension schemes	**1.3**	(64.6)
Tax on items that will not be reclassified to the income statement	**(0.3)**	15.5
Total items that will not be reclassified to the income statement	**1.0**	(49.1)
Items that may be reclassified subsequently to the income statements:		
Foreign currency translation differences for foreign operations	**(14.6)**	(6.0)
Increase in fair value of hedging derivatives	**0.5**	0.3
Reclassification of hedging derivatives to the income statement	**(0.2)**	-
Fair value gains/(losses) on available for sale investments	**0.9**	(0.2)
Tax on items that may be reclassified to the income statement	**-**	(0.1)
Total items that may be reclassified subsequently to the income statement	**(13.4)**	(6.0)
Other comprehensive income for period, net of tax	**(12.4)**	(55.1)
Total comprehensive income for period, net of tax	**49.7**	9.4

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 2013	**6.6**	**39.9**	**147.6**	**-**	**44.3**	**200.0**	**438.4**	**0.1**	**438.5**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**62.1**	**62.1**	**-**	**62.1**
Other comprehensive income/(expense) for the period, net of tax	**-**	**-**	**-**	**0.3**	**(14.6)**	**1.9**	**(12.4)**	**-**	**(12.4)**
Purchase of own shares	**-**	**-**	**-**	**-**	**-**	**(0.2)**	**(0.2)**	**-**	**(0.2)**
Share-based payments – settlement	**-**	**-**	**-**	**-**	**-**	**0.9**	**0.9**	**-**	**0.9**
Share-based payments - charge	**-**	**-**	**-**	**-**	**-**	**2.4**	**2.4**	**-**	**2.4**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(17.6)**	**(17.6)**	**-**	**(17.6)**
At 30 September 2013	**6.6**	**39.9**	**147.6**	**0.3**	**29.7**	**249.5**	**473.6**	**0.1**	**473.7**
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

Condensed consolidated balance sheet

all figures in £ million	note	**30 September 2013 (unaudited)**	30 September 2012 (unaudited)	31 March 2013 (audited)
Non-current assets				
Goodwill		**274.1**	513.1	290.4
Intangible assets		**50.0**	61.7	57.8
Property, plant and equipment		**233.6**	248.0	241.4
Other financial assets		**3.1**	5.7	4.3
Investments		**0.4**	5.0	0.4
Deferred tax asset		**15.4**	15.7	32.4
		576.6	849.2	626.7
Current assets				
Inventories		**20.5**	19.8	25.5
Other financial assets		**2.8**	2.7	2.6
Trade and other receivables		**222.5**	270.4	284.2
Investments		**2.2**	0.9	1.4
Cash and cash equivalents		**276.5**	176.6	240.4
		524.5	470.4	554.1
Total assets		**1,101.1**	1,319.6	1,180.8
Current liabilities				
Trade and other payables		**(394.5)**	(418.6)	(458.0)
Current tax		**(7.6)**	(4.3)	(14.2)
Provisions		**(7.5)**	(3.7)	(12.4)
Other financial liabilities		**(1.8)**	(2.0)	(2.0)
		(411.4)	(428.6)	(486.6)
Non-current liabilities				
Retirement benefit obligation	12	**(24.8)**	(88.8)	(54.1)
Deferred tax liability		**(3.3)**	(9.8)	-
Provisions		**(19.1)**	(13.5)	(22.7)
Other financial liabilities		**(160.1)**	(161.5)	(171.3)
Other payables		**(8.7)**	(18.6)	(7.6)
		(216.0)	(292.2)	(255.7)
Total liabilities		**(627.4)**	(720.8)	(742.3)
Net assets		**473.7**	598.8	438.5
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		**30.0**	14.0	44.3
Retained earnings		**249.5**	390.6	200.0
Capital and reserves attributable to shareholders of the parent company		**473.6**	598.7	438.4
Non-controlling interest		**0.1**	0.1	0.1
Total shareholders' funds		**473.7**	598.8	438.5

Condensed consolidated cash flow statement

all figures in £ million	note	6 months ended 30 September 2013 (unaudited)	6 months ended 30 September 2012 (unaudited)	Year ended 31 March 2013 (audited)
Net cash inflow from operations before restructuring cash flows	8	**77.7**	106.1	194.4
Net cash (outflow)/inflow relating to restructuring		**(7.7)**	64.9	63.1
Net cash inflow from operations		**70.0**	171.0	257.5
Tax received/(paid)		**1.2**	2.0	(1.6)
Interest received		**0.4**	0.5	0.8
Interest paid		**(6.6)**	(29.8)	(35.8)
Net cash inflow from operating activities		**65.0**	143.7	220.9
Purchases of intangible assets		**(1.4)**	(0.2)	(0.6)
Purchases of property, plant and equipment		**(10.3)**	(10.8)	(27.1)
Proceeds from sale of property, plant and equipment		**3.6**	0.6	9.2
Equity accounted investments and other investment funding		**-**	3.4	3.8
Net cash outflow from investing activities		**(8.1)**	(7.0)	(14.7)
Repayment of bank borrowings		**-**	(63.0)	(63.0)
Settlement of forward contracts		**-**	(1.3)	(1.3)
Purchase of own shares		**(0.2)**	(0.2)	(0.4)
Dividends paid to shareholders		**(17.6)**	(13.0)	(20.1)
Capital element of finance lease rental payments		**(1.4)**	(1.4)	(2.8)
Capital element of finance lease rental receipts		**1.5**	1.5	3.0
Net cash outflow from financing activities		**(17.7)**	(77.4)	(84.6)
Increase in cash and cash equivalents		**39.2**	59.3	121.6
Effect of foreign exchange changes on cash and cash equivalents		**(3.1)**	(0.5)	1.0
Cash and cash equivalents at beginning of period		**240.4**	117.8	117.8
Cash and cash equivalents at end of period		**276.5**	176.6	240.4

Reconciliation of movement in net cash/debt

all figures in £ million	note	6 months ended 30 September 2013 (unaudited)	6 months ended 30 September 2012 (unaudited)	Year ended 31 March 2013 (audited)
Increase in cash and cash equivalents		**39.2**	59.3	121.6
Add back net cash flows not impacting net debt		**(0.1)**	64.2	64.1
Change in net cash resulting from cash flows		**39.1**	123.5	185.7
Other movements including foreign exchange		**7.4**	20.2	10.5
Increase in net cash		**46.5**	143.7	196.2
Net cash/(debt) at beginning of period		**74.0**	(122.2)	(122.2)
Net cash at end of period	9	**120.5**	21.5	74.0

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 2013 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 2013.

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 2013.

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 amendment/curtailment gains/losses and past service credits/costs, pension scheme closure 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 and tax thereon.

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

The comparative figures for the year ended 31 March 2013 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 2013 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 2013 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 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 2013.

The following EU-endorsed amendments, improvements and interpretations of published standards are effective for accounting periods beginning on or after 1 April 2013 and have been adopted with no material impact on the Group's financial statements:

- IFRS 13 'Fair value measurement'*;*
- Two amendments to IFRS 1, *First time adoption;*
- Amendment to IAS 1, *Presentation of financial statements;*
- Amendment to IFRS 7, *Financial instruments, disclosures;*
- Annual improvements 2011.

2. Segmental analysis

Operating segments

all figures in £ million	**6 months ended 30 September 2013 (unaudited)**		6 months ended 30 September 2012 (unaudited)	
	Revenue	**Operating Profit[(1)]**	Revenue	Operating Profit[(1)]
EMEA Services	**289.9**	**40.3**	289.6	38.3
US Services	**228.7**	**9.4**	241.6	13.4
Global Products	**81.0**	**9.5**	154.3	43.6
Total operating segments	**599.6**	**59.2**	685.5	95.3
Operating profit before specific adjusting items[(1)]		**59.2**		95.3
Reduction in liabilities realised on defined benefit pension scheme closure		***31.1***		-
Pension scheme closure mitigation costs		***(4.0)***		-
Specific adjusting operating costs before amortisation, depreciation and impairment		**27.1**		-
Amortisation of intangible assets arising from acquisitions		**(5.6)**		(7.5)
Operating profit		**80.7**		87.8
Underlying net finance expense*		***(6.9)***		*(9.5)*
DB pension scheme net finance expense		***(1.2)***		*(0.8)*
Net finance expense		**(8.1)**		(10.3)
Gain on disposal of investments		**-**		2.5
Profit before tax		**72.6**		80.0
Taxation		**(10.5)**		(15.5)
Profit for the period		**62.1**		64.5

[(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 disposal of investment

all figures in £ million	**6 months ended 30 September 2013 (unaudited)**	6 months ended 30 September 2012 (unaudited)
Gain on disposal of investment	**-**	2.5

The prior period £2.5m gain on disposal of investment relates to the disposal of the Group's investment in Infoscitex for consideration of $6.0m.

4. Finance income and expense

all figures in £ million	**6 months ended 30 September 2013 (unaudited)**	6 months ended 30 September 2012 (unaudited)
Receivable on bank deposits	**0.7**	0.5
Finance lease income	**0.2**	0.4
Finance income	**0.9**	0.9
Amortisation of recapitalisation fee	**(0.3)**	(0.3)
Payable on bank loans and overdrafts	**(1.0)**	(0.7)
Payable on US-dollar private placement debt	**(5.8)**	(8.4)
Finance lease expense	**(0.2)**	(0.3)
Unwinding of discount on financial liabilities	**(0.5)**	(0.7)
Finance expense before specific adjusting item	**(7.8)**	(10.4)
Defined benefit pension scheme net finance expense	**(1.2)**	(0.8)
Finance expense	**(9.0)**	(11.2)
Net finance expense	**(8.1)**	(10.3)

5. Taxation

The tax charge has been based on the expected tax rate of 12.8% for the year ending 31 March 2014 (30 September 2012 expected full year rate: 20.3%) on the Group's profit before tax and specific adjusting items*. The tax impact of the specific adjusting items* is £3.8m for the six months ended 30 September 2013 (30 September 2012: £1.9m income).

* 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 2013 and comparative periods is provided below:

	Pence per ordinary share	£m	Date paid/payable
Interim 2014	**1.4**	**9.1**	**Feb 2014**
Interim 2013	1.1	7.1	Feb 2013
Final 2013	2.7	17.6	Sep 2013
Total for the year ended 31 March 2013	3.8	24.7	

The interim dividend is 1.4p (Interim 2013: 1.1p). The dividend will be paid on 14 February 2014. The ex-dividend date is 15 January 2014 and the record date is 17 January 2014.

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 2013 (unaudited)	6 months ended 30 September 2012 (unaudited)
Basic EPS			
Profit attributable to equity shareholders	£m	**62.1**	64.5
Weighted average number of shares	Million	**650.8**	650.1
Basic EPS	Pence	**9.5**	9.9
Diluted EPS			
Profit attributable to equity shareholders	£m	**62.1**	64.5
Weighted average number of shares	Million	**650.8**	650.1
Effect of dilutive securities	Million	**5.4**	5.9
Dilutive number of shares	Million	**656.2**	656.0
Diluted EPS	Pence	**9.5**	9.8

Notes to the condensed interim financial statements (continued)

		6 months ended 30 September 2013 (unaudited)	6 months ended 30 September 2012 (unaudited)
Underlying* basic EPS			
Profit attributable to equity shareholders	£m	**62.1**	64.5
(Profit)/loss after tax in respect of specific adjusting items*	£m	**(16.5)**	3.9
Underlying profit after taxation	£m	**45.6**	68.4
Weighted average number of shares	Million	**650.8**	650.1
Underlying basic EPS	Pence	**7.0**	10.5

		6 months ended 30 September 2013 (unaudited)	6 months ended 30 September 2012 (unaudited)
Underlying* diluted EPS			
Profit attributable to equity shareholders	£m	**62.1**	64.5
(Profit)/loss after tax in respect of specific adjusting items*	£m	**(16.5)**	3.9
Underlying profit after taxation	£m	**45.6**	68.4
Weighted average number of shares	Million	**650.8**	650.1
Effect of dilutive securities	Million	**5.4**	5.9
Dilutive number of shares	Million	**656.2**	656.0
Underlying diluted EPS	Pence	**6.9**	10.4

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

Notes to the condensed interim financial statements (continued)

8. Cash flows from operations

All figures in £ million	**6 months ended 30 September 2013 (unaudited)**	6 months ended 30 September 2012 (unaudited)	Year ended 31 March 2013 (audited)
Profit/(loss) after tax for the period	**62.1**	64.5	(133.2)
Adjustments for:			
Taxation expense/(income)	**10.5**	15.5	(3.8)
Net finance costs	**8.1**	10.3	17.9
Gain on business divestments and disposal of investments	**-**	(2.5)	(2.9)
Impairment of investments	**-**	-	0.6
Pension closure mitigation costs	**4.0**	-	-
Amortisation of purchased or internally developed intangible assets	**0.5**	2.3	4.0
Amortisation of intangible assets arising from acquisitions	**5.6**	7.5	14.0
Impairment of goodwill	**-**	-	255.8
Depreciation and impairment of property, plant and equipment	**12.1**	13.1	32.0
Loss on disposal of plant and equipment	**0.4**	1.0	0.8
Share of post-tax profit of equity accounted entities	**-**	(0.1)	(0.1)
Share-based payments charge	**2.9**	3.6	5.5
Changes in retirement benefit obligations	**1.9**	(8.1)	(20.1)
Reduction in scheme liabilities arising on closure	**(31.1)**	-	-
Pension curtailment gain on restructuring	**-**	-	(0.7)
Net movement in provisions	**(8.1)**	0.3	17.7
	68.9	107.4	187.5
Decrease in inventories	**4.1**	11.3	6.6
Decrease in receivables	**55.6**	132.5	124.1
Decrease in payables	**(58.6)**	(80.2)	(60.7)
Changes in working capital	**1.1**	63.6	70.0
Cash generated from operations	**70.0**	171.0	257.5
Add back: net cash outflow/(inflow) relating to restructuring†	**7.7**	(64.9)	(63.1)
Net cash flow from operations before restructuring cash flows	**77.7**	106.1	194.4

†Net cash inflow in the six months ended 30 September 2012 and the year ended 31 March 2013 included a payment of £65.0m from the UK MOD.

Notes to the condensed interim financial statements (continued)

9. Analysis of net cash

All figures in £ million	**6 months ended 30 September 2013 (unaudited)**	6 months ended 30 September 2012 (unaudited)	Year ended 31 March 2013 (audited)
Due within one year:			
Bank and cash	**276.5**	176.6	240.4
Recapitalisation fee	**0.6**	0.6	0.6
Finance lease receivables	**2.5**	2.3	2.5
Finance lease payables	**(2.4)**	(2.2)	(2.4)
Derivative financial assets	**0.3**	0.4	0.1
Derivative financial liabilities	**(0.1)**	(0.5)	(0.2)
	277.4	177.2	241.0
Due after one year:			
Recapitalisation fee	**0.2**	0.8	0.5
US-dollar private placement	**(157.3)**	(157.0)	(167.7)
Finance lease receivables	**3.0**	5.7	4.3
Finance lease payables	**(2.8)**	(5.3)	(4.0)
Derivative financial assets	**0.1**	0.1	-
Derivative financial liabilities	**(0.1)**	-	(0.1)
	(156.9)	(155.7)	(167.0)
Total net cash as defined by the Group	**120.5**	21.5	74.0

10. 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 2013 in respect of 8,083,240 own shares (30 September 2012: 11,463,475).

In the six months to 30 September 2013 the Group granted/awarded 6.9 million (30 September 2012: 7.8 million) new share-based awards to employees.

Notes to the condensed interim financial statements (continued)

11. Financial risk management

The Group's international operations and debt financing expose it to financial risks that include the effects of changes in foreign exchange rates, interest rates, credit risks and liquidity risks. The interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 March 2013. 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 following table presents the Group's assets and liabilities that are measured at fair value at 30 September 2013:

all figures in £ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Current other investments	**2.2**	**-**	**-**	**2.2**
Current derivative financial instruments	**-**	**0.3**	**-**	**0.3**
Non-current other investments	**-**	**-**	**0.1**	**0.1**
Non-current derivative financial instruments	**-**	**0.1**	**-**	**0.1**
Liabilities:				
Current derivative financial instruments	**-**	**(0.1)**	**-**	**(0.1)**
Non-current derivative financial instruments	**-**	**(0.1)**	**-**	**(0.1)**
Total	**2.2**	**0.2**	**0.1**	**2.5**

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2013:

all figures in £ million	Level 1	Level 2	Level 3	Total
Assets:				
Current other investments	1.4	-	-	1.4
Current derivative financial instruments	-	0.1	-	0.1
Non-current other investments	-	-	0.1	0.1
Liabilities:				
Current derivative financial instruments	-	(0.2)	-	(0.2)
Non-current derivative financial instruments	-	(0.1)	-	(0.1)
Total	1.4	(0.2)	0.1	1.3

For cash and cash equivalents, trade and other receivables and bank and current borrowings, the fair value of the financial instruments approximate to their carrying value as a result of the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within the carrying value for credit risk. For other financial instruments, the fair value is based on market value, where available. Where market values are not available, the fair values have been calculated by discounting cash flows to net present value using prevailing market-based interest rates translated at the year-end rates, except for unlisted fixed asset investments where fair value equals carrying value. There have been no transfers between levels.

Notes to the condensed interim financial statements (continued)

12. Post-retirement benefits

Set out below is a summary of the financial position of the Group's defined benefit pension scheme. It was announced in August 2013 that the defined benefit scheme would close to future accrual on 31 October 2013. After this date, defined benefit members transferred to a defined contribution scheme. In the six months to 30 September 2013, QinetiQ realised a reduction in scheme liabilities of £31.1m and a one-off cost of £4.0m arising from mitigation payments made to members following the closure of scheme. This latter cost has been accrued for at the period end and does not form part of the net pension liability below. 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 2013 (unaudited)**	30 September 2012 (unaudited)	31 March 2013 (audited)
Total market value of scheme assets	**1,261.7**	1,126.4	1,256.5
Present value of scheme liabilities	**(1,286.5)**	(1,215.2)	(1,310.6)
Net pension liability before deferred tax	**(24.8)**	(88.8)	(54.1)
Deferred tax asset	**4.5**	24.8	13.7
Net pension liability	**(20.3)**	(64.0)	(40.4)

Changes to the net pension liability before deferred tax

all figures in £ million	**30 September 2013 (unaudited)**	30 September 2012 (unaudited)	31 March 2013 (audited)
Opening net pension liability before tax	**(54.1)**	(31.5)	(31.5)
Actuarial gain/(loss) on scheme assets	**1.3**	(64.6)	(42.1)
Contributions by the employer	**8.7**	18.7	40.8
Current service cost and administration costs	**(10.6)**	(10.6)	(20.7)
Net finance expense	**(1.2)**	(0.8)	(1.3)
Curtailment gain	-	-	0.7
Reduction in scheme liabilities arising on closure	**31.1**	-	-
Closing net pension liability before deferred tax	**(24.8)**	(88.8)	(54.1)

Assumptions

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

	30 September 2013 (unaudited)	30 September 2012 (unaudited)	31 March 2013 (audited)
Rate of increase in salaries	**3.6%**	3.4%	3.7%
Discount rate applied to scheme liabilities	**4.4%**	4.4%	4.4%
Discount rate applied to income statement net finance expense	**4.4%**	4.8%	4.8%
CPI inflation assumption	**2.6%**	2.4%	2.7%
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**	92	92

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 triennial valuations are calculated on a funding basis and use a different set of assumptions, as agreed with the pension Trustees. The funding basis of calculating scheme funding requirements differs from IAS 19 in that it does not use corporate bonds as a basis for the discount rate but instead uses the risk free rate from UK gilts, prudently adjusted for long-term expected returns for pre-retireds. Given the current extremely low gilt yields, perhaps exacerbated by quantitative easing, a funding valuation of the scheme would probably have resulted in a bigger deficit than the IAS 19 methodology if performed at the period end.

13. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £45.2m at 30 September 2013 (30 September 2012: £53.1m) in the ordinary course of business.

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

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 30 of the 2013 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 through the revenue rates. 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 30-33 of the 2013 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:

- Reduction in government defence and security spending;
- A change in demand from reduced military operations overseas;
- Operating in a highly competitive marketplace;
- Policies or attitudes may change towards Organisational Conflicts of Interest (OCI);
- A material element of the Group's revenue and operating profit is derived from one contract;
- Change in the timing of contracts;
- Fixed price contracts being impacted by increases in costs;
- Financial position of the defined benefit pension scheme;
- Compliance requirements of US foreign ownership regulations;
- Failure to comply with laws and regulations, particularly trading restrictions and export controls;
- Tax liabilities may change as a result of changes in tax legislation;
- Failure of information technology systems and breaches of data security;
- Inherent risks from trading in a global marketplace;
- Exchange rate movement;
- Raising external funding and volatility in interest rates;
- Losing key capability and competencies through failure to recruit and retain employees;

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 2013.

By order of the Board

Mark Elliott	Leo Quinn	David Mellors
Chairman	Chief Executive Officer	Chief Financial Officer
21 November 2013	21 November 2013	21 November 2013

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 2013 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 Conduct Authority ('the UK FCA'). 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 FCA.

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 2013 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 FCA.

Anthony Sykes
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, London E14 5GL
21 November 2013

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

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 £3.3bn value of the remaining 15 years of the LTPA contract)

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

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; reduction in pension scheme liabilities arising on closure; pension scheme closure costs; pension scheme net finance expense; gain on disposal of investments; 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 period 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.'