QinetiQ Group plc

For release at 0700 hours on 20 November 2014

Interim Results for the half year ended 30 September 2014

	H1 2015	H1 2014 (restated^)
Business Performance – continuing operations[+]		
Revenue	**£365.6m**	£377.4m
Organic change at constant currency	**(2)%**	(16)%
Underlying operating profit*	**£49.3m**	£49.5m
Underlying operating margin*	**13.5%**	13.1%
Underlying profit before tax*	**£46.0m**	£42.9m
Underlying net cash flow from operations (post capex)*	**£57.0m**	£58.0m
Underlying cash conversion ratio*	**116%**	117%
Underlying earnings per share*	**6.3p**	5.9p
Net cash	**£205.7m**	£120.5m
Dividend per share	**1.8p**	1.4p

[+]The Group completed the sale of US Services on 23 May 2014. Total Group performance in H1 2015 included approximately two months contribution from US Services compared to six months in the prior period. Continuing operations (above) comprise EMEA Services and Global Products but exclude US Services.

The statutory reporting summary below includes the effect of the US Services disposal in H1 2015 and other specific adjusting items as outlined in the Group overview on page 3, notably a one-off net benefit of £27.1m in the prior period following closure of the Group's defined benefit pension scheme to future accrual.

Statutory Reporting		
Operating profit from continuing operations	**£48.0m**	£74.8m
Profit attributable to shareholders	**£32.9m**	£62.1m
Earnings per share including US Services	**5.1p**	9.5p

Headlines

- Double digit increase in Group order intake with 13% orders growth in EMEA Services
- Landmark contracts secured by 'Explore' businesses: Training, UAS Services and OptaSense®
- High cash conversion
- £150m share buyback underway; 40% complete at 14 November 2014
- 29% increase in interim dividend reflecting confidence in financial strength and Organic-Plus strategy
- Despite challenging markets, the Board's expectations for Group performance in the current financial year are unchanged

Leo Quinn, Group Chief Executive Officer said:

"With EMEA Services continuing to deliver strong performance and a number of 'Explore' businesses winning landmark contracts, QinetiQ is well positioned to deliver growth in sustainable earnings through the next stage of its Organic-Plus strategy. The Group creates value through its unique expertise and innovation, underpinned by financial discipline. This has enabled it to invest in the differentiated capabilities most needed by customers in today's global defence environment and beyond.

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

^ Restated for the reclassification of US Services (excluding Cyveillance®) as a discontinued operation

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"QinetiQ has a portfolio that combines high-quality earnings and strong cash generation with growth opportunities in new sectors and geographies. Equally importantly, it has the right people to deliver this strategy – a workforce committed to delivering value and proud of the customers they serve. This adds up to a significant change from five years ago and, as I leave the Group, I want to thank all our employees for their contribution to this transformation.

"Despite challenging markets, the Board's expectations for Group performance in the current financial year are unchanged."

Other information

There will be a presentation of the interim results to analysts at 0900 hours UK time on 20 November 2014 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 / International: +44 (0)20 3059 8125*
- *US: +1 855 287 9927*

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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 £365.6m (H1 2014: £377.4m^). EMEA Services delivered a strong performance with a 13% increase in orders. US military drawdown continues to impact conflict-related sales in Global Products.

Underlying operating profit* was flat at £49.3m (H1 2014: £49.5m^) with continued strong profitability in EMEA Services. This was offset by Global Products profitability which was impacted by reduced revenue and the previously announced $5m of one-off costs associated with separating US Global Products from US Services infrastructure.

Underlying profit before tax* increased 7% to £46.0m (H1 2014: £42.9m^) with underlying net finance costs* falling to £3.3m (H1 2014: £6.6m^) as a result of repayment of the private placement debt in June 2014.

Underlying earnings per share* for the continuing Group were 6.3p (H1 2014: 5.9p^) benefitting from the higher underlying profit before tax* and reduced number of shares following £41m of the £150m share buyback programme as at 30 September 2014. Basic earnings per share for the total Group (including US Services) were 5.1p (H1 2014: 9.5p).

Specific adjusting items include a net loss on disposal of £5.5m which comprises a one-off accelerated interest cost of £28.8m associated with the early repayment of private placement debt and a profit of £23.3m recognised on the disposal of US Services. The prior period statutory operating profit included a one-off net benefit of £27.1m following the closure of the Group's defined benefit pension scheme to future accrual.

The Group remains highly disciplined about cash generation and allocation to maintain both a strong balance sheet and appropriate investment. Underlying operating cash conversion* remained strong at 116% (H1 2014: 117%^), delivering an underlying cash flow from continuing operations* of £57.0m (H1 2014: £58.0m^). At 30 September 2014, the Group had £205.7m net cash, compared to £170.5m net cash at 31 March 2014.

A £150m share buyback was initiated on 28 May 2014. By 14 November 2014 the Group had bought back 29m shares at a cost of £60m. The Group has also successfully re-financed its multi-currency revolving credit facility. The new five-year facility totals £228m and is undrawn.

An interim dividend of 1.8p (H1 2014: 1.4p) will be paid on 13 February 2015 to shareholders on the register at 16 January 2015. The 29% increase in interim dividend reflects the Group's progressive dividend policy as well as the Board's confidence in the financial strength of the company and its Organic-Plus strategy. 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

UK

The current Ministry of Defence (MOD) transformation programme, the forthcoming 2015 General Election and subsequent Strategic Defence and Security Review (SDSR), will create some short-term uncertainty in the UK defence market. The UK Government continues to face a significant budget deficit, and a further period of fiscal austerity looks likely after the next Election. MOD expenditure is not protected in the same way as the Government has pledged to protect spending on the NHS and international aid; however the MOD has made significant progress over the latest parliamentary term in balancing its budget.

The commitment to maintain the MOD's science and technology budget at above 1.2% of the defence budget continues, but is likely to be considered as part of the next SDSR that is expected to follow the 2015 Election. QinetiQ has ensured it maintains the capability to carry out work not required to be undertaken within Government and the rationalisation of defence budgets and structures could provide further opportunities in this area.

Under the Government's defence transformation programme, the MOD's procurement agency Defence Equipment and Support (DE&S) has become a bespoke trading entity with new access to private sector expertise to help it deliver a reduction in operating costs. The Front Line Commands (Navy, Army, Air) have also taken on greater responsibility for procurement requirements and QinetiQ's business units are well aligned with this structure. In particular, a new Joint Forces Command has been created, with its own procurement arm and multi-billion pound budget, providing a new channel for QinetiQ's C4ISR, cyber security and training capabilities.

A new set of regulations and pricing terms for single source contracts, with accompanying Single Source Regulations Office (SSRO), will replace existing 'Yellow Book' rules as part of the MOD's transformation programme. The Government's current intention is that the regulations will commence on 1 April 2015 but the details of how the new regime will operate have not yet been finalised. Because QinetiQ's combination of facilities and capabilities are unique in the UK, EMEA Services often contracts under single source rules, so the Group is actively engaged with the Government and industry on the implementation of this new regime.

US

The Group's exposure to the US federal services market has been removed by the sale of its US Services division, completed in May 2014. The Global Products division continues to have a significant US footprint which provides a route to the world's largest defence market.

US defence spending is in a multi-year downturn that began with the withdrawal of combat troops from Iraq at the end of 2011. The pressure on defence expenditure is encouraging the use of Lowest-Price-Technically-Acceptable evaluations for the acquisition of both products and services. As the US continues to wind-down operations in Afghanistan, the level of troops deployed on Overseas Contingency Operations (OCO) has declined from its recent peak of around 180,000 to 38,000 in the US FY14 fiscal year. The accompanying reduction in the OCO procurement budget has reduced demand for conflict-related products and continues to have a significant negative impact on the performance of QinetiQ's US products business. In the longer term troop withdrawals may ease the funding for Research and Development and other "investment accounts," in line with Defense Secretary Hagel's statement that he will prioritise capability and technological superiority over force structure. QinetiQ's US products business is responding to this change with a greater focus on contract-funded research and development projects and the Department of Defense's (DoD) 'peacetime' 'programs of record.' The sale of US Services has helped to facilitate this renewed focus by removing any customer concerns about Organisational Conflict of Interest.

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Other markets

QinetiQ's traditional geographic markets are the UK and US, but the Group is now pursuing a pipeline of international opportunities to build on the order momentum achieved in the 2014 financial year. Many of these opportunities leverage the reputation of EMEA Services for a unique range of capabilities and facilities. For example, as the Canadian and Australian Governments pursue similar defence transformation programmes to the UK, they value the independent advice, test and evaluation provided by QinetiQ to support better procurement. QinetiQ is to open an office in Ottawa to meet expected demand for tender assessment, cost and risk advisory services from the Canadian Government. This builds on an initial Canadian order to provide expert advice and recommendations to strategic government programmes, and the award of a position on two framework contracts.

Strategy and Leadership

On 15 October 2014, the Group announced that Chief Executive Leo Quinn had tendered his resignation and will leave QinetiQ on 31 December 2014 to take up a new role as CEO of Balfour Beatty. In addition to his current responsibilities, the Group's Chief Financial Officer David Mellors, who has been with QinetiQ since 2008 and has played a key role in its transformation, will take over as acting CEO on 1 January 2015 until a permanent appointment is made. QinetiQ is now a stronger, more focused Group with high quality earnings, and the Board has already commenced the search for a new CEO to lead the Group for the next stage of its strategic journey.

The Group will continue to deliver its Organic-Plus strategy that was first announced in May 2012. In addition to maintaining the financial and operating disciplines embedded during the self-help programme, the Organic-Plus strategy aims to deliver growth in sustainable earnings by winning market share in core markets, and nurturing 'Explore' opportunities to deliver break-out growth particularly beyond defence.

The Group is investing in its strong core businesses to take market share in both UK and international markets, and in a select number of established 'Explore' businesses to determine their ability to scale into significant future revenues, accelerated as appropriate by strategic acquisitions and alliances. At the same time, intellectual property developed while working with customers is tested-for-value to determine how best to realise its potential, including through licensing and partnerships.

The sale of US Services, completed in May, was a key step in transforming QinetiQ into a Group that is differentiated by the expertise of its people and by its innovation which provides a dynamic source of domain knowledge and potential future revenue streams. The Group is sufficiently cash generative and disciplined about capital allocation to support ongoing investment in growth opportunities, a progressive dividend policy and the balance sheet strength needed in an uncertain trading environment.

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

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Summary of 'Core', 'Explore' and 'Test for Value' capabilities

'Core' **c85% of revenue**	**'Explore'** **c10% of revenue**	**'Test for Value'** **c5% of revenue**
EMEA Services: • Air • Weapons • Maritime • C4ISR • Australia	Standalone businesses: • Training • Cyber Security • Cyveillance® • Procurement Advisory Services Embedded in core businesses: • International targets services (Weapons) • UAS services (Air)	• International procurement advice • Smart metering assurance • Directed Energy Weapons • Secured navigation systems (Galileo)
Global Products: • TALON® • Q-Net® • LAST® Armor • SWATS™	Standalone businesses: • OptaSense® (includes RIO acquisition completed August 2014) • Space Products Embedded in core businesses: • Robotic application kits (Unmannned Systems)	• Integrated Warrior System™ • Linewatch™ • MEWS™ • ASX™ Airborne MEWS™ (new) • High density generator (new) • SPO™ (new)

Outlook

Notwithstanding the continuing strong performance in EMEA Services, the changes to the budgetary environment resulting from the upcoming General Election as well as the MOD transformation programme are likely to create some short-term uncertainty in the UK defence market. Nevertheless the division's performance as a whole is expected to remain steady this year.

At the same time there is a wide range of possible outcomes for the performance of Global Products as the division has a lumpy revenue profile which is dependent on the timing and shipment of key orders. Although newer products are recording notable milestones, the drawdown of American overseas military forces is expected to continue to depress demand for conflict-related products.

Despite challenging markets, the Board's expectations for Group performance in the current financial year are unchanged.

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Business overview

EMEA Services

	H1 2015	H1 2014^^
	£m	£m
Orders(1)	**249.5**	220.0
Revenue	**297.1**	293.5
Underlying operating profit*	**42.6**	40.4
Underlying operating margin*	**14.3%**	13.8%
Book to bill ratio(1)	**1.2x**	1.1x
Funded backlog(1)	**703.0**	655.2

(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 delivered a strong performance during the first half of the year. Orders grew 13% to £249.5m (H1 2014: £220.0m^^) building on 11% orders growth in the previous year. Revenue grew 2% on an organic basis with high utilisation levels in the Weapons and Maritime businesses.

Underlying operating profit* increased 5% to £42.6m (H1 2014: £40.4m^^). The resulting underlying margin* of 14.3% (H1 2014: 13.8%^^) was assisted by the completion of a final milestone on an international project in addition to continuing productivity improvements and better project execution.

Organic-Plus update

EMEA Services combines world-leading expertise with unique facilities to provide technical assurance, test and evaluation and training services, underpinned by long-term contracts. The division is also a market leader in research and advice in specialist areas such as C4ISR, acquisition services and cyber security. Current pressures on defence expenditure provide the opportunity to increase capital expenditure to reduce the cost of operations. These investments will be structured to ensure good returns and deliver increased value, and therefore improved customer satisfaction.

QinetiQ's Air business utilises a unique combination of its assets and the deep expertise of its people, including embedded military personnel, to de-risk complex aviation programmes. During the period the business won a £16m extension to its largest core MOD test and evaluation contract. The business has continued to grow its maintenance, repair and overhaul revenue and now provides engineering services for both fixed and rotary wing aircraft across three main contracts. Opportunities exist to take this capability into international markets. The business' most significant 'Explore' opportunity is the provision of turnkey services for customers using unmanned aerial systems (UAS). During the period it opened the UK's first airfield capable of operating large UAS at Llanbedr in Wales. The business is increasingly working with the major manufacturers of unmanned aircraft to meet the growing demand for UAS services. It was recently awarded a competitively-won contract to provide manpower for a short duration service for an international institution.

QinetiQ's Weapons business is an international supplier of independent research, evaluation and training services for integrated weapons systems. Utilisation levels were high during the first half of the year, and £9m of research was delivered through the Weapons Science and Technology Centre which the business operates on behalf of the MOD. In addition to research, core capabilities include providing targets services, which are being taken to international markets in partnership with target manufacturers, and test and evaluation, principally delivered under the Long-Term Partnering Agreement (LTPA) with the MOD. During the period major infrastructure improvements took place across a number of the sites that QinetiQ operates under the LTPA including a new communications infrastructure in the Hebrides – the largest air range in Europe. The Weapons

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business is currently pursuing an outsourcing opportunity through a consortium for the storage and distribution of the UK's £6bn munitions inventory, and MOD 'soft market testing' is underway. The business is also 'testing for value' the provision of technical services in support of disruptive Directed Energy Weapons (DEW) technology and recently delivered a complex DEW trials programme.

The Maritime business provides independent research, test and evaluation, design and integration to naval clients worldwide. At the beginning of the year the business won a £5m contract from a competitor to deliver the MOD's underwater targets service at the BUTEC range that it operates off the west coast of Scotland, which is currently benefiting from a major investment programme of over £20m. During the period the Maritime business delivered acceptance trials for new Astute class submarines and signature trials for Royal Navy mine-warfare vessels in the Arabian Gulf using its transportable range capability. Utilisation levels have also been high at its UK Centres of Excellence for mission systems, naval architecture and marine engineering that have seen significant investment in new test facilities. In international markets, the business is delivering projects in Australia and South Korea and is introducing a mission systems integration service to meet growing demand particularly from governments in the Asia Pacific region.

Conditions in the Australian defence market are challenging following the 2013 Federal Elections and the Senate's subsequent failure to agree a budget in May 2014. Against this backdrop, QinetiQ's business in Australia has delivered a steady performance, building on its airworthiness and munitions advice capability and enhancing its offer in the maritime domain. Encouragingly the business was selected to advise the Federal Government's Strategic Force Structure Review, with support from QinetiQ in the UK. Earlier this month Greg Barsby, a former KBR executive, was appointed MD of QinetiQ in Australia with a particular focus on developing longer term contracts and partnerships with customers.

QinetiQ's C4ISR business provides research, advice and bespoke solutions for secure communications, command and control, surveillance sensors and information management. It is the MOD's leading supplier of C4ISR research, providing a dynamic source of knowledge development which underpins the advice capability of the business. In the UK, recent funding rounds and announcements have protected or enhanced budgets for C4ISR. The UK's Joint Forces Command provides a focus for multi-billion pound C4ISR procurements that has not existed before, opening up a new channel to market for the C4ISR business, and ongoing instability in the Middle East is increasing opportunities from governments in the region. The business is also providing the secure receiver processing for the Public Regulated Service (PRS) on the Galileo constellation of satellites – the European Union version of GPS.

In the 'Explore' category of its portfolio, QinetiQ's Training business connects people and assets for mission rehearsal and tactic development across the land, sea and air domains. It delivers more-for-less by using Commercial-Off-The-Shelf (COTS) technology. So far this year the business has secured its largest ever contract for the continued provision in the UK of Distributed Synthetic Air Land Training valued at £33m over five years. It also beat a number of competitors to win the next stage of a core research programme worth £3.4m over four years. As a result, half of the business' UK revenue is now supported by long-term contracts. Having established an office in Orlando, Florida, at the heart of the US training and simulation market, the business has secured a position on three IDIQ contracts working in partnership with established prime contractors such as Alion and is developing a promising pipeline of opportunities in the United States.

QinetiQ is to open an office in Ottawa to meet expected demand for tender assessment, cost and risk advisory services from the Canadian Government, having won a position on two framework contracts and an initial order to provide expert advice and recommendations to strategic government programmes. QinetiQ's presence in Canada will be led by Procurement Advisory Services, established as a stand-alone 'Explore' business earlier this year, which will coordinate reach-back for other EMEA capabilities. During the period, the Procurement Advisory Services business also won a £2m MOD contract for business case support to help address frontline challenges such as the supply of water, fuel and power.

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The UK Cyber Security business continues to grow and represents an important 'Explore' opportunity particularly as the existing supplier base is fragmented. Opportunities exist in the critical national infrastructure market, as well as defence and security. To meet this demand, and in recognition that compliant systems alone don't necessarily reduce business risk, the business is integrating QinetiQ's human science expertise into its consultancy offering and is investing in its cyber intelligence capabilities. During the period QinetiQ's cyber intelligence business, Cyveillance, implemented a new business strategy which augments its existing consultancy-based services with direct access for customers to its monitoring and investigative tools. Direct access is provided by a cloud-based cyber threat centre that monitors the internet, provides alerts and delivers data on domain names, IP addresses, phishing and malware attacks. Cyveillance is also taking its capabilities to a wider range of customers including SMEs and international customers. QinetiQ's suite of cyber security offerings is completed by its wholly-owned subsidiary Boldon James, which provides data classification and secure messaging solutions and is reported as part of the Global Products division.

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Global Products

	H1 2015 £m	H1 2014^^ £m
Orders	**71.0**	69.6
Revenue	**68.5**	83.9
Underlying operating profit*	**6.7**	9.1
Underlying operating margin*	**9.8%**	10.8%
Book to bill ratio	**1.0x**	0.8x
Funded backlog	**99.6**	98.5

Market and operational review

The performance of Global Products continues to be impacted by the drawdown of overseas US military forces.

Revenue was £68.5m (H1 2014: £83.9m^^) due to reduced sales of conflict-related products but orders grew by 2% to £71.0m (H1 2014: £69.6m^^) as demand for EMEA products offset the slow order intake in the US products business. The visibility and predictability of future orders remain limited.

Underlying operating profit* was £6.7m (H1 2014: £9.1m^) with an underlying operating profit margin* of 9.8% (H1 2014: 10.8%^^). This was impacted by approximately $5m of additional costs during H1 associated with separating from US Services infrastructure, partially offset by a reduction in headcount and careful cost control as the new leadership starts to reshape the business.

Organic-Plus update

Global Products combines cutting-edge technologies with an intimate understanding of customer problems and strong productisation skills to deliver innovative solutions to meet customer requirements. The division also undertakes contract-funded research and development, developing intellectual property in partnership with key customers, with potential for new revenue streams. 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.

QinetiQ's product business in the US has well established links with academic institutions including the Massachusetts Institute of Technology in Boston, MA, the University of Texas in Arlington, TX, and Carnegie Mellon University in Pittsburgh, PA. Following its separation from US Services, sold at the beginning of the year, the business is working to reinvigorate its culture of research and innovation to support the diversification of its product portfolio, particularly beyond defence.

The Unmanned Systems business, based in Massachusetts and Pennsylvania, is the world's leading provider of military robots. During the period it won a new $18m contract from the US Robotic Systems Joint Program Office to reset 460 existing TALON® robots, positioning the business well for future US DoD 'programs of record.' The fifth generation of TALON® was recently launched, incorporating the ability to use third party commercial components to capitalise on the continued convergence of military and civil robotic technologies. In addition $7m of orders from international customers were won in the period. Opportunities exist to develop unmanned systems for adjacent non-defence markets, particularly where there is a requirement to undertake "dirty, dark or dangerous" operations. The business has launched a Large Vehicle Application Kit, which converts existing vehicles into unmanned systems, and is targeting 'demolition' as its key early-adopter market.

Demand for survivability products continues to be impacted by the drawdown of US military operations. In response, the US products business is building on its base of contract-funded research and development projects both as an alternative revenue stream and as a source of future intellectual property.

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The Linewatch™ power line sensor system, which precisely measures voltage and currents on power grids, has been developed with the support of $4m funding from a major North American hydro-electric company. The product, which is classified in the 'Test for Value' category of QinetiQ's portfolio, is now available commercially complete with associated customer-side software to support Smart Grid programmes for the detection of faults and power theft, condition based maintenance, and distributed power generation. The US products business is also developing a High Power Density Generator which can provide the modular "roll-on /roll-off" power required for emerging defence and civil applications.

OptaSense® is an 'Explore' business which delivers Distributed Acoustic Sensing (DAS) across a number of vertical markets. It is organised around a single technical Centre of Excellence – which now incorporates the laser manufacturer Redfern Integrated Optics (RIO) acquired this summer – supporting market-facing business development units. The period witnessed continued delivery of technical achievements from its long-standing relationship with Shell including the launch of a new DAS-Flow monitoring tool and analysis software. In the downhole oil and gas market, OptaSense® delivered the industry's first multi-year 4D DAS vertical seismic profile of 10 oil wells simultaneously in Oman with repeat surveys under contract through 2017. Customer interest in seismic monitoring and interpretation services is increasing on the back of this achievement, and OptaSense® has a significant technical advantage in this area, with new, more sensitive systems also under development and evaluation with Shell. During the period the timing of key infrastructure security projects was interrupted by political and security uncertainty particularly in the Middle East. However, the increasing security threat has heightened the need for pipeline security, most notably in Turkey where significant public procurement programmes are underway. Customers, such as Total, are citing OptaSense® DAS as a key component in ensuring pipeline availability and thus revenue generation. Significant progress has also been made in the transport sector with a $5m initial award shortly after period end from the Saudi Rail Organisation to monitor over 1000km of rail line. This award complements the technical development and verification programme underway with Deutsche Bahn.

QinetiQ's Space Products business provides satellites, payload instruments, sub-systems and ground station services. Proba V, the latest of its family of small satellites, is being used by the European Space Agency (ESA) to study vegetation and preliminary work is already underway for other ESA small satellite missions such as Proba 3, a precision formation flying mission. The business also signed a Memorandum of Understanding with ESA during the period that ensures the long-term development of the ground station at Redu, Belgium as a strategic focus for European space activities. In addition to taking market share in Europe, the Space business is looking to expand its international satellite business and is entering into final discussions to build an agriculture monitoring satellite for the Vietnam Academy of Science and Technology as a member of a Belgian consortium. Demand is also strong for critical components for spacecraft. During the first half of the year the business was awarded contracts to deliver a baffle for EUCLID space telescope in support scientists' search for 'dark matter' and to develop the International Berthing Docking Mechanism (IBDM) for use on the International Space Station.

In the 'Test for Value' category, the UK products business won its first significant UK order for the Modular Electronic Warfare System (MEWS™), with the MOD announcing that MEWS™ will form the basis of its Medium Weight Electronic Surveillance Capability for expeditionary operations. An airborne variant of the product (ASX™) is also available which builds on QinetiQ's world-leading expertise in electronic signals intelligence. Other significant orders won during the first half of the year included a contract with the US Transportation Security Administration to develop the next generation of QinetiQ's SPO™ stand-off Millimetre Wave threat detection system.

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Financial items

Net finance costs

Net finance costs were £3.6m (H1 2014: £7.8m^). The underlying net finance costs* were £3.3m (H1 2014: £6.6m^), benefitting from the reduction in private placement debt.

Tax

The effective tax rate for the continuing group was 12.0% (H1 2014: 11.2%^) which reflects the expected tax rate for the full year. The rate is primarily dependent on the geographic split of profits between the UK and the US.

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, subject to the level of RDEC retained.

At 31 March 2014 the Group had unused tax losses of £191.4m (30 March 2013: £202.7m) available to offset against future profits.

Earnings per share

Underlying earnings per share* for the continuing Group were 6.3p (H1 2014: 5.9p^) benefitting from the higher profit before tax and reduced number of shares following four months of the buyback programme. Basic earnings per share for the total Group (including US Services) were 5.1p (H1 2014: 9.5p).

Dividend

An interim dividend of 1.8p (H1 2014: 1.4p) will be paid on 13 February 2015 to shareholders on the register at 16 January 2015. The 29% increase in interim dividend reflects the Group's progressive dividend policy as well as the Board's confidence in the financial strength of the company and its Organic-Plus strategy. 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

The Group remains highly disciplined about cash generation and maintains a strong balance sheet. Underlying operating cash conversion* remained strong at 116% (H1 2014: 117%^), delivering an underlying cash flow from continuing operations* of £57.0m (H1 2014: £58.0m^). Capital expenditure is likely to increase in the second half of the year, particularly on the LTPA contract.

At 30 September 2014 the Group had £205.7m net cash, compared to £170.5m net cash at 31 March 2014. A £150m share buyback was initiated on 28 May 2014 and at 14 November 2014 the Group had bought back 29m shares at a cost of £60m. The Group successfully completed the refinancing of its revolving credit facility in August 2014 with a new five-year multi-currency facility of £166m and $100m. Total committed facilities amounted to £227.7m at 30 September 2014, with no maturity before 2019.

* Definitions of underlying measures of performance can be found in the glossary
^ Restated for the reclassification of US Services (excluding Cyveillance®) as a discontinued operation
^^ 2014 segmental data has been restated to reflect the reclassification of product sales from EMEA Services to Global Products, and the Cyveillance® business from US Services to EMEA Services, as announced at the year ended 31 March 2014.

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

	6 months to 30 September 2014	**6 months to 30 September 2013**
£/US$ - average	1.68	1.54
£/US$ - closing	1.62	1.62
£/US$ - opening	1.67	1.52

Pensions

The net pension liability under IAS 19, after adjusting for deferred tax, was £22.7m (31 March 2014: £20.9m; 30 September 2013: £20.3m). The key assumptions used in the IAS 19 valuation of the scheme were:

Assumption	**30 September 2014**	**30 September 2013**
Discount rate	3.8%	4.4%
CPI Inflation	2.4%	2.6%
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 £27m
Inflation	Increase / decrease by 0.1%	Increase / decrease by £26m
Life expectancy	Increase by 1 year	Increase by £32m

The market value of the assets at 30 September 2014 was £1,373.4m (31 March 2014: £1,304.6m; 30 September 2013: £1,261.7m) and the present value of scheme liabilities was £1,396.2m (31 March 2014: £1,326.8m; 30 September 2013: £1,286.5m). 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.

* Definitions of underlying measures of performance can be found in the glossary
^ Restated for the reclassification of US Services (excluding Cyveillance®) as a discontinued operation
^^ 2014 segmental data has been restated to reflect the reclassification of product sales from EMEA Services to Global Products, and the Cyveillance® business from US Services to EMEA Services, as announced at the year ended 31 March 2014.

Condensed consolidated income statement

		6 months ended 30 September 2014 (unaudited)			6 months ended 30 September 2013 (unaudited, restated**)		
all figures in £ million	note	**Underlying**	**Specific adjusting items***	**Total**	Underlying	Specific adjusting items*	Total
Revenue		**365.6**	**-**	**365.6**	377.4	-	377.4
Other operating costs excluding depreciation and amortisation		**(308.0)**	**-**	**(308.0)**	(319.3)	27.1	(292.2)
Rental income		**3.7**	**-**	**3.7**	3.4	-	3.4
EBITDA (earnings before interest, tax, depreciation and amortisation)		**61.3**	**-**	**61.3**	61.5	27.1	88.6
Depreciation and impairment of property, plant and equipment		**(11.5)**	**-**	**(11.5)**	(11.5)	-	(11.5)
Amortisation of intangible assets		**(0.5)**	**(1.3)**	**(1.8)**	(0.5)	(1.8)	(2.3)
Operating profit/(loss)		**49.3**	**(1.3)**	**48.0**	49.5	25.3	74.8
Finance income	4	**0.7**	**-**	**0.7**	0.9	-	0.9
Finance expense	4	**(4.0)**	**(0.3)**	**(4.3)**	(7.5)	(1.2)	(8.7)
Profit/(loss) before tax		**46.0**	**(1.6)**	**44.4**	42.9	24.1	67.0
Taxation expense	5	**(5.5)**	**(0.7)**	**(6.2)**	(4.8)	(5.3)	(10.1)
Profit/(loss) from continuing operations		**40.5**	**(2.3)**	**38.2**	38.1	18.8	56.9
Discontinued operations							
Profit/(loss) before tax - discontinued operations	3	**1.2**	**(6.3)**	**(5.1)**	9.4	(3.8)	5.6
Tax in respect of discontinued operations	3	**(0.5)**	**0.3**	**(0.2)**	(1.9)	1.5	(0.4)
Profit/(loss) from discontinued operations		**0.7**	**(6.0)**	**(5.3)**	7.5	(2.3)	5.2
Profit for the year attributable to equity shareholders		**41.2**	**(8.3)**	**32.9**	45.6	16.5	62.1
Earnings per share							
Basic – continuing operations	8	**6.3p**		**5.9p**	5.9p		8.7p
Basic – total Group	8	**6.4p**		**5.1p**	7.0p		9.5p
Diluted – continuing operations	8			**5.9p**			8.7p
Diluted – total Group	8			**5.1p**			9.5p

* For details of specific adjusting items see notes 1 and 2.

** Restated to reflect continuing/discontinued operations (see note 1)

Condensed consolidated statement of comprehensive income

all figures in £ million	**6 months ended 30 September 2014 (unaudited)**	6 months ended 30 September 2013 (unaudited)
Profit for the period	**32.9**	62.1
Items that will not be reclassified to the income statement:		
Actuarial (loss)/gain recognised in defined benefit pension schemes	**(8.3)**	1.3
Tax on items that will not be reclassified to the income statement	**1.7**	(0.3)
Total items that will not be reclassified to the income statement	**(6.6)**	1.0
Items that may be reclassified subsequently to the income statements:		
Foreign currency translation differences for foreign operations	**2.5**	(14.6)
Increase in fair value of hedging derivatives	**0.1**	0.5
Reclassification of hedging derivatives to the income statement	**0.1**	(0.2)
Fair value gains on available for sale investments	**0.2**	0.9
Recycling of currency translation differences to the income statement on disposal of foreign subsidiary	**(40.9)**	-
Total items that may be reclassified subsequently to the income statement	**(38.0)**	(13.4)
Other comprehensive income/(expense) for period, net of tax	**(44.6)**	(12.4)
Total comprehensive income/(expense) for period, net of tax	**(11.7)**	49.7

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 2014	**6.6**	**39.9**	**147.6**	**0.1**	**23.1**	**160.7**	**378.0**	**0.1**	**378.1**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**32.9**	**32.9**	**-**	**32.9**
Other comprehensive income/(expense) for the period, net of tax	**-**	**-**	**-**	**0.2**	**(38.4)**	**(6.4)**	**(44.6)**	**-**	**(44.6)**
Purchase of own shares	**-**	**-**	**-**	**-**	**-**	**(0.3)**	**(0.3)**	**-**	**(0.3)**
Purchase and cancellation of shares	**(0.2)**	**0.2**	**-**	**-**	**-**	**(40.7)**	**(40.7)**	**-**	**(40.7)**
Share-based payments – settlement	**-**	**-**	**-**	**-**	**-**	**0.6**	**0.6**	**-**	**0.6**
Share-based payments charge	**-**	**-**	**-**	**-**	**-**	**2.5**	**2.5**	**-**	**2.5**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(20.6)**	**(20.6)**	**-**	**(20.6)**
At 30 September 2014	**6.4**	**40.1**	**147.6**	**0.3**	**(15.3)**	**128.7**	**307.8**	**0.1**	**307.9**
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

Condensed consolidated balance sheet

all figures in £ million	note	30 September 2014 (unaudited)	30 September 2013 (unaudited)	31 March 2014 (audited)
Non-current assets				
Goodwill		**101.4**	274.1	141.3
Intangible assets		**14.7**	50.0	44.2
Property, plant and equipment		**224.0**	233.6	233.8
Other financial assets		**1.9**	3.1	1.5
Investments		**0.5**	0.4	0.5
Deferred tax asset		**6.7**	15.4	18.1
		349.2	576.6	439.4
Current assets				
Inventories		**15.8**	20.5	19.8
Other financial assets		**2.5**	2.8	3.1
Trade and other receivables		**134.5**	222.5	250.5
Investments		**2.3**	2.2	2.1
Cash and cash equivalents		**204.4**	276.5	322.2
		359.5	524.5	597.7
Total assets		**708.7**	1,101.1	1,037.1
Current liabilities				
Trade and other payables		**(317.6)**	(394.5)	(425.6)
Current tax		**(3.0)**	(7.6)	(4.6)
Provisions		**(3.8)**	(7.5)	(4.8)
Other financial liabilities		**(2.4)**	(1.8)	(2.2)
		(326.8)	(411.4)	(437.2)
Non-current liabilities				
Retirement benefit obligation	13	**(22.8)**	(24.8)	(22.2)
Deferred tax liability		**(17.8)**	(3.3)	(15.0)
Provisions		**(22.3)**	(19.1)	(19.3)
Other financial liabilities		**(0.7)**	(160.1)	(154.1)
Other payables		**(10.4)**	(8.7)	(11.2)
		(74.0)	(216.0)	(221.8)
Total liabilities		**(400.8)**	(627.4)	(659.0)
Net assets		**307.9**	473.7	378.1
Capital and reserves				
Ordinary shares		**6.4**	6.6	6.6
Capital redemption reserve		**40.1**	39.9	39.9
Share premium account		**147.6**	147.6	147.6
Hedging and translation reserve		**(15.0)**	30.0	23.2
Retained earnings		**128.7**	249.5	160.7
Capital and reserves attributable to shareholders of the parent company		**307.8**	473.6	378.0
Non-controlling interest		**0.1**	0.1	0.1
Total shareholders' funds		**307.9**	473.7	378.1

Condensed consolidated cash flow statement

all figures in £ million	note	**6 months ended 30 September 2014 (unaudited)**	6 months ended 30 September 2013 (unaudited)	Year ended 31 March 2014 (audited)
Underlying net cash inflow from continuing operations before cash flows in respect of specific adjusting items	9	**67.7**	66.1	127.0
Net cash outflow relating to restructuring		-	(7.7)	(10.3)
Disposal-related pension contribution		**(6.0)**	-	-
Cash generated from discontinued operations		**1.8**	11.6	30.3
Net cash outflow relating to pension scheme closure costs		-	-	(4.0)
Net cash inflow from operations		**63.5**	70.0	143.0
Tax (paid)/received		**(0.8)**	1.2	2.1
Interest received		**0.2**	0.4	1.0
Interest paid		**(35.8)**	(6.6)	(12.3)
Net cash inflow from operating activities		**27.1**	65.0	133.8
Purchases of intangible assets		**(2.9)**	(1.4)	(2.6)
Purchases of property, plant and equipment		**(8.3)**	(10.3)	(24.2)
Proceeds from sale of property, plant and equipment		**0.5**	3.6	6.0
Acquisition of business		**(3.3)**	-	-
Sale of investment in subsidiary		**79.6**	-	-
Net cash inflow/(outflow) from investing activities		**65.6**	(8.1)	(20.8)
Repayment of bank borrowings		**(147.1)**	-	-
Payment of bank loan arrangement fee		**(1.3)**	-	-
Purchase of own shares		**(40.4)**	(0.2)	(0.5)
Dividends paid to shareholders		**(20.6)**	(17.6)	(26.8)
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		**(209.3)**	(17.7)	(27.1)
(Decrease)/increase in cash and cash equivalents		**(116.6)**	39.2	85.9
Effect of foreign exchange changes on cash and cash equivalents		**(0.2)**	(3.1)	(4.1)
Cash and cash equivalents at beginning of period		**322.2**	240.4	240.4
Cash and cash equivalents disposed		**(1.0)**	-	-
Cash and cash equivalents at end of period		**204.4**	276.5	322.2

Reconciliation of movement in net cash/debt

all figures in £ million	note	**6 months ended 30 September 2014 (unaudited)**	6 months ended 30 September 2013 (unaudited)	Year ended 31 March 2014 (audited)
(Decrease)/increase in cash and cash equivalents		**(116.6)**	39.2	85.9
Add back net cash flows not impacting net debt		**148.3**	(0.1)	(0.2)
Change in net cash resulting from cash flows		**31.7**	39.1	85.7
Cash and cash equivalents disposed		**(1.0)**	-	-
Other movements including foreign exchange		**4.5**	7.4	10.8
Increase in net cash		**35.2**	46.5	96.5
Net cash at beginning of period		**170.5**	74.0	74.0
Net cash at end of period	10	**205.7**	120.5	170.5

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 2014 comprise statements for the Company and its subsidiaries (together referred to as the 'Group') and were approved by the Board of Directors on 19 November 2014.

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 2014.

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, 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.

The comparative income statement for the six months ended 30 September 2013 has been re-presented for the sale of the US Services business, excluding Cyveillance, which completed in May 2014. This disposal qualifies as discontinued operation during the current year. Revenue from continuing operations has been reduced by £222.2m and profit before tax has reduced by £5.6m compared to the figures reported in the 2013 interim financial statements. Further details of discontinued operations are presented within note 3.

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 2014 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 2014 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 2014 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 2014.

The following EU-endorsed amendments, improvements and interpretations of published standards are effective for accounting periods beginning on or after 1 April 2014 and have been adopted with no material impact on the Group's financial statements:

- IFRS 10 "Consolidated financial statements";
- IFRS 11 "Joint arrangements";
- IFRS 12 "Disclosures of interests in other entities";
- IAS 27 (revised) "Separate financial statements";
- IAS 28 (revised) "Associates and joint ventures";
- Amendments to IFRS 10, 11 and 12 on transition guidance and on consolidation for investment entities;
- Amendments to IAS 32 on Financial instruments asset and liability offsetting;
- Amendment to IAS 36 "Impairment of assets" on recoverable amount disclosures;
- Amendment to IAS 39 "Financial Instruments: Recognition and measurement" on novation of derivatives and hedge accounting; and
- IFRIC 21 "Levies".

Notes to the condensed interim financial statements (continued)

2. Segmental analysis

Operating segments

all figures in £ million	**6 months ended 30 September 2014 (unaudited)**		6 months ended 30 September 2013 (restated, unaudited)	
	Revenue	**Operating Profit[1]**	Revenue	Operating Profit[1]
EMEA Services	**297.1**	**42.6**	293.5	40.4
Global Products	**68.5**	**6.7**	83.9	9.1
Total operating segments – continuing operations	**365.6**	**49.3**	377.4	49.5
Operating profit before specific adjusting items[1]		**49.3**		49.5
Reduction in pension liabilities realised on closure to future accrual		*-*		*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		**(1.3)**		(1.8)
Operating profit		**48.0**		74.8
*Underlying net finance expense**		***(3.3)***		*(6.6)*
DB pension scheme net finance expense		***(0.3)***		*(1.2)*
Net finance expense		**(3.6)**		(7.8)
Profit before tax		**44.4**		67.0
Taxation		**(6.2)**		(10.1)
Profit for the period from continuing operations		**38.2**		56.9
Discontinued operation				
(Loss)/profit from discontinued operation, net of tax		**(5.3)**		5.2
Profit for the period attributable to equity shareholders		**32.9**		62.1

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

Notes to the condensed interim financial statements (continued)

3. Discontinued operation

On 23 May 2014 the Group completed its sale of the US Services division, comprising QinetiQ North America Inc. and its subsidiaries. The initial cash consideration was $165m prior to the standard working capital adjustments at completion. The mid-month completion of the deal resulted in the May month end payroll and creditor payments falling outside QinetiQ's period of ownership. This caused the closing balance sheet to have higher cash (to be retained by QinetiQ) and lower working capital than would have been the case at the month end. The working capital mechanism was designed to make such timing issues neutral. Hence working capital adjustments (and closing net-debt adjustments) of $10.6m were required. Additional deferred consideration of up to $50m remains receivable. The earn-out is scheduled to be payable in the first half of the Group's next financial year on a sliding scale between zero and $50m based on gross profit generated by the disposed business in the financial year to 31 March 2015. The full impact of the disposal is given below:

a) Results of discontinued operation

All figures in £ million	**6 months ended 30 September 2014 (unaudited)**	6 months ended 30 September 2013 (unaudited)
Revenue	**55.7**	222.2
Operating costs excluding depreciation, amortisation and impairment	**(54.2)**	(211.9)
EBITDA (earnings before interest, tax, depreciation and amortisation)	**1.5**	10.3
Depreciation and impairment of property, plant and equipment	**(0.3)**	(0.6)
Underlying operating profit	**1.2**	9.7
Other specific adjusting items	**(0.8)**	(3.8)
Operating profit	**0.4**	5.9
Finance expense	**-**	(0.3)
Profit before tax	**0.4**	5.6
Income tax	**(0.2)**	(0.4)
Results from operating activities, net of tax	**0.2**	5.2
Profit on sale of discontinued operation – before accelerated interest costs	**23.3**	-
Loss on sale of discontinued operation – accelerated interest costs	**(28.8)**	-
Income tax on loss on sale of discontinued operation	**-**	-
(Loss)/profit for the period	**(5.3)**	5.2
Basic (loss)/earnings per share	**(0.8)p**	0.8p
Diluted (loss)/earnings per share	**(0.8)p**	0.8p
Underlying basic earnings per share	**0.1p**	1.2p

The profits from the discontinued operation are attributable entirely to the owners of the Company as are profits from continuing operations.

b) Cash flows from discontinued operation

All figures in £ million	**6 months ended 30 September 2014 (unaudited)**	6 months ended 30 September 2013 (unaudited)
Net cash from operating activities	**1.8**	11.6
Net cash from investing activities	**-**	-
Net cash inflow for the period	**1.8**	11.6

Notes to the condensed interim financial statements (continued)

Effect of disposal on the financial position of the Group

All figures in £ million	6 months ended 30 September 2014 (unaudited)
Goodwill	**41.2**
Intangible assets	**32.6**
Property, plant and equipment	**5.9**
Inventories	**0.8**
Trade and other receivables	**71.7**
Cash and cash equivalents	**1.0**
Deferred tax asset	**9.3**
Trade and other payables	**(54.4)**
Net assets and liabilities	**108.1**
Consideration received (net of transaction costs), satisfied in cash	**79.6**
Cash and cash equivalents disposed of	**(1.0)**
Net cash inflow	**78.6**

4. Finance income and expense – continuing operations

All figures in £ million	6 months ended 30 September 2014 (unaudited)	6 months ended 30 September 2013 (restated, unaudited)
Receivable on bank deposits	**0.6**	0.7
Finance lease income	**0.1**	0.2
Finance income	**0.7**	0.9
Amortisation of recapitalisation fee	**(0.5)**	(0.3)
Interest on bank loans and overdrafts	**(0.6)**	(0.7)
Interest on US-dollar private placement debt	**(2.6)**	(5.8)
Finance lease expense	**(0.1)**	(0.2)
Unwinding of discount on financial liabilities	**(0.2)**	(0.5)
Finance expense before specific adjusting items	**(4.0)**	(7.5)
Defined benefit pension scheme net finance expense	**(0.3)**	(1.2)
Finance expense	**(4.3)**	(8.7)
Net finance expense – continuing operations	**(3.6)**	(7.8)

Notes to the condensed interim financial statements (continued)

5. Taxation

The continuing operations underlying tax charge has been based on the expected tax rate of 12.0% for the year ending 31 March 2015 on the Group's profit before tax and specific adjusting items*. The tax impact of the continuing operations specific adjusting items* is £0.7m expense for the six months ended 30 September 2014 (30 September 2013: £5.3m expense). 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, subject to the level of RDEC retained.

6. Dividends

An analysis of the dividends paid and proposed in respect of the period ended 30 September 2014 and comparative periods is provided below:

	Pence per ordinary share	£m	Date paid/payable
Interim 2015	**1.8**	**11.1**	**Feb 2015**
Interim 2014	1.4	9.2	Feb 2014
Final 2014	3.2	20.8	Sep 2014
Total for the year ended 31 March 2014	4.6	30.0	

The interim dividend is 1.8p (interim 2014: 1.4p). The dividend will be paid on 13 February 2015. The ex-dividend date is 15 January 2015 and the record date is 16 January 2015.

7. Business combinations

On the 7 August 2014 the Group acquired the trade and assets of Redfern Integrated Optics Inc. ("RIO") from its founder management team.

RIO is a US-based business that designs and manufactures highly coherent semiconductor lasers. QinetiQ's OptaSense business uses the lasers within its core product range in the Distributed Acoustic Sensing ("DAS") market. RIO is the sole source supplier for this type of product and the acquisition was made to protect the supply to OptaSense of the RIO laser product.

If the acquisition had been completed on the first day of the financial year, Group revenue for the period ended 30 September 2014 would have been £366.0m and the Group profit before tax would have been £44.0m.

Acquisition in the period to 30 September 2014

			Contribution post-acquisition	
Acquisition	Acquisition date	Expected cash consideration £million	Revenue £million	Operating profit £million
Redfern Integrated Optics Inc.	7 August 2014	3.8	0.2	(0.2)

Set out below are the allocations of purchase consideration, assets and liabilities of the acquisition made in the year and the adjustments required to the book values of the assets and liabilities in order to present the net assets of these businesses at fair value and in accordance with the Group accounting policies.

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

Notes to the condensed interim financial statements (continued)

Redfern Integrated Optics Inc

Acquisition in the year to 31 March 2014

all figures in £ million	Book Value	Fair value adjustment	Fair value at acquisition
Net assets acquired	1.8	(0.9)	0.9
Goodwill and Intangibles	-	2.9	2.9
	1.8	2.0	3.8
Consideration satisfied by:			
Cash			3.3
Deferred consideration receivable			0.5
Total consideration			**3.8**

8. 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.

All figures in £ million		**6 months ended 30 September 2014 (unaudited)**	6 months ended 30 September 2013 (unaudited)
Basic EPS – continuing operations			
Profit attributable to equity shareholders	£m	**38.2**	56.9
Weighted average number of shares	Million	**645.6**	650.8
Basic EPS – continuing operations	**Pence**	**5.9**	8.7
Diluted EPS – continuing operations			
Profit attributable to equity shareholders	£m	**38.2**	56.9
Weighted average number of shares	Million	**645.6**	650.8
Effect of dilutive securities	Million	**4.6**	5.4
Dilutive number of shares	Million	**650.2**	656.2
Diluted EPS – continuing operations	**Pence**	**5.9**	8.7

All figures in £ million		**6 months ended 30 September 2014 (unaudited)**	6 months ended 30 September 2013 (unaudited)
Basic EPS – total Group			
Profit attributable to equity shareholders	£m	**32.9**	62.1
Weighted average number of shares	Million	**645.6**	650.8
Basic EPS – total Group	**Pence**	**5.1**	9.5
Diluted EPS – total Group			
Profit attributable to equity shareholders	£m	**32.9**	62.1
Weighted average number of shares	Million	**645.6**	650.8
Effect of dilutive securities	Million	**4.6**	5.4
Dilutive number of shares	Million	**650.2**	656.2
Diluted EPS – total Group	**Pence**	**5.1**	9.5

Notes to the condensed interim financial statements (continued)

All figures in £ million		6 months ended 30 September 2014 (unaudited)	6 months ended 30 September 2013 (unaudited)
Underlying* basic EPS – continuing operations			
Profit attributable to equity shareholders	£m	**38.2**	56.9
Loss/(profit) after tax in respect of specific adjusting items*	£m	**2.3**	(18.8)
Underlying profit after taxation	£m	**40.5**	38.1
Weighted average number of shares	Million	**645.6**	650.8
Underlying basic EPS – continuing operations	**Pence**	**6.3**	5.9

All figures in £ million		6 months ended 30 September 2014 (unaudited)	6 months ended 30 September 2013 (unaudited)
Underlying* basic EPS – total Group			
Profit attributable to equity shareholders	£m	**32.9**	62.1
Loss/(profit) after tax in respect of specific adjusting items*	£m	**8.3**	(16.5)
Underlying profit after taxation	£m	**41.2**	45.6
Weighted average number of shares	Million	**645.6**	650.8
Underlying basic EPS – total Group	**Pence**	**6.4**	7.0

* 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 2014 (unaudited)**	6 months ended 30 September 2013 (unaudited)	Year ended 31 March 2014 (audited)
Profit/(loss) after tax for the period	**32.9**	62.1	(12.7)
Adjustments for:			
Taxation expense	**6.4**	10.5	16.8
Net finance costs	**3.6**	8.1	15.0
Loss on business divestments and disposal of investments	**5.5**	-	4.9
Pension closure mitigation costs	**-**	4.0	-
Amortisation of purchased or internally developed intangible assets	**0.5**	0.5	1.0
Amortisation of intangible assets arising from acquisitions	**2.1**	5.6	11.0
Impairment of goodwill	**-**	-	125.9
Depreciation and impairment of property, plant and equipment	**11.8**	12.1	22.6
Loss on disposal of plant and equipment	**0.4**	0.4	1.4
Share of post-tax profit of equity accounted entities	**-**	-	(0.1)
Share-based payments charge	**2.9**	2.9	4.5
Changes in retirement benefit obligations	**(8.0)**	1.9	(8.1)
Reduction in scheme liabilities arising on closure	**-**	(31.1)	(31.1)
Net movement in provisions	**(1.1)**	(8.1)	(10.5)
	57.0	68.9	140.6
Decrease in inventories	**4.2**	4.1	4.4
Decrease in receivables	**57.2**	55.6	21.7
Decrease in payables	**(54.9)**	(58.6)	(23.7)
Changes in working capital	**6.5**	1.1	2.4
Cash generated from operations	**63.5**	70.0	143.0
Add back: net cash outflow relating to restructuring	**-**	7.7	10.3
Add back: disposal-related pension contribution	**6.0**	-	-
Less: cash generated from discontinued operations	**(1.8)**	(11.6)	(30.3)
Add back: cash outflow relating to pension scheme closure costs	**-**	-	4.0
Net cash flow from continuing operations before cash flows in respect of specific adjusting items	**67.7**	66.1	127.0

Notes to the condensed interim financial statements (continued)

10. Analysis of net cash

All figures in £ million	**6 months ended 30 September 2014 (unaudited)**	6 months ended 30 September 2013 (unaudited)	Year ended 31 March 2014 (audited)
Due within one year:			
Bank and cash	**204.4**	276.5	322.2
Recapitalisation fee	**0.3**	0.6	0.5
Finance lease receivables	**2.1**	2.5	2.8
Finance lease payables	**(2.0)**	(2.4)	(2.6)
Derivative financial assets	**0.1**	0.3	0.3
Derivative financial liabilities	**(0.3)**	(0.1)	(0.1)
	204.6	277.4	323.1
Due after one year:			
Recapitalisation fee	**1.0**	0.2	-
US-dollar private placement	**-**	(157.3)	(152.7)
Finance lease receivables	**0.6**	3.0	1.4
Finance lease payables	**(0.7)**	(2.8)	(1.4)
Derivative financial assets	**0.2**	0.1	0.1
Derivative financial liabilities	**-**	(0.1)	-
	1.1	(156.9)	(152.6)
Total net cash as defined by the Group	**205.7**	120.5	170.5

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 2014 in respect of 5,365,054 own shares (30 September 2013: 8,083,240).

In the six months to 30 September 2014 the Group granted/awarded 4.3 million (30 September 2013: 6.9 million) new share-based awards to employees.

Notes to the condensed interim financial statements (continued)

12. 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 2014. 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 2014:

all figures in £ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Current other investments	2.3	-	-	2.3
Current derivative financial instruments	-	0.1		0.1
Non-current other investments	-	-	0.1	0.1
Non-current derivative financial instruments	-	0.2	-	0.2
Liabilities:				
Current derivative financial instruments	-	(0.3)	-	(0.3)
Total	**2.3**	-	**0.1**	**2.4**

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2014:

all figures in £ million	Level 1	Level 2	Level 3	Total
Assets:				
Current other investments	2.1	-	-	2.1
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)
Total	2.1	0.3	0.1	2.5

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

Notes to the condensed interim financial statements (continued)

13. 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. 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 2014 (unaudited)**	30 September 2013 (unaudited)	31 March 2014 (audited)
Total market value of scheme assets	**1,373.4**	1,261.7	1,304.6
Present value of scheme liabilities	**(1,396.2)**	(1,286.5)	(1,326.8)
Net pension liability before deferred tax	**(22.8)**	(24.8)	(22.2)
Deferred tax asset	**0.1**	4.5	1.3
Net pension liability	**(22.7)**	(20.3)	(20.9)

Changes to the net pension liability before deferred tax

all figures in £ million	**30 September 2014 (unaudited)**	30 September 2013 (unaudited)	31 March 2014 (audited)
Opening net pension liability before tax	**(22.2)**	(54.1)	(54.1)
Actuarial (loss)/gain on scheme assets	**(8.3)**	1.3	(5.6)
Contributions by the employer	**8.6**	8.7	20.6
Current service cost and administration costs	**(0.6)**	(10.6)	(12.5)
Net finance expense	**(0.3)**	(1.2)	(1.7)
Curtailment gain	**-**	31.1	31.1
Closing net pension liability before deferred tax	**(22.8)**	(24.8)	(22.2)

Assumptions

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

	30 September 2014 (unaudited)	30 September 2013 (unaudited)	31 March 2014 (audited)
Discount rate applied to scheme liabilities	**3.8%**	4.4%	4.2%
Discount rate applied to income statement net finance expense	**3.8%**	4.4%	4.2%
CPI inflation assumption	**2.4%**	2.6%	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**	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. A triennial valuation as at 30 June 2014 is currently being performed. 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. Due to the different assumptions used and due to the different measurement date, the in-progress funding valuation of the scheme could be significantly different to the accounting value reported above.

14. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £38.8m at 30 September 2014 (30 September 2013: £45.2m) 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 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.

15. Related party transactions with equity accounted investments

During the period there were sales to associates of £1.6m. At the period end there were no outstanding receivables from associates.

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 22-27 of the 2014 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 2014.

By order of the Board

Mark Elliott	Leo Quinn	David Mellors
Chairman	Chief Executive Officer	Chief Financial Officer
19 November 2014	19 November 2014	19 November 2014

Independent review report to QinetiQ Group plc

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 September 2014 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 interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim 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 2014 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
19 November 2014

Glossary

Term	Definition
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 £3.2bn value of the remaining 14 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
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/loss on disposal of investments/businesses; 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 specific adjusting items less net cash outflow on purchase/sale of intangible assets and property, plant and equipment
Underlying net finance expense	Net finance expense as adjusted to exclude 'specific adjusting items'
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'