Interim Results

16 November 2023

Delivering long-term sustainable growth

Results for six months to 30 September 2023 ('H1 FY24')

	Statutory results		Underlying* results	
	H1 FY24	H1 FY23	**H1 FY24**	H1 FY23
Revenue	**£883.1m**	£673.4m	**£883.1m**	£673.4m
Operating profit[2]	**£91.3m**	£127.2m[1]	**£100.1m**	£74.1m
Profit after tax	**£63.7m**	£110.2m[1]	**£77.3m**	£65.4m
Earnings per share	**11.0p**	19.2p[1]	**13.4p**	11.4p
Interim dividend per share	**2.6p**	2.4p	**2.6p**	2.4p
Orders			**£952.7m**	£798.8m
Order backlog			**£3,132.0m**	£2,968.6m
Net cash flow from operations	**£62.2m**	£99.5m[1]	**£71.7m**	£106.8m[1]
Net (debt)/cash			**£(273.8)m**	£264.0m

Strong and consistent operational performance globally

- Orders up 19% at a record-high of £953m, up 2% organically, with a book-to-bill of 1.3x
- Revenue is up 31%, 19% on an organic basis
- Underlying operating profit is up 35%, 25% on an organic basis, with improved margin at 11.3%
- Cash conversion at 50% due to short-term timing and on-track to deliver FY guidance
- Statutory operating profit of £91m, H1 FY23 higher due to temporary FX related to Avantus

A differentiated company responding to national and global security needs

- A unique value proposition, highly relevant to an evolving and increasing threat
- Structurally aligned to high-priority and high-growth segments
- Delivering organic revenue at double growth rate of national defence budgets
- Avantus won $657m[3] contract awards, driving future revenue growth

Full year performance in-line with market expectations, longer-term guidance unchanged

- FY24 performance will deliver high single digit organic revenue growth and high teens total revenue growth at a stable operating profit margin
- On-track for high single digit organic revenue growth to c.£2.4bn at c.12% margin by FY27
- Disciplined capital allocation and bolt-on acquisition optionality to c.£3bn revenue by FY27
- Focused on our AUKUS customers' mission and increasing shareholder returns

Steve Wadey, Group Chief Executive Officer of QinetiQ said:

"I'm delighted with our strong first half results that have been achieved as a result of consistent operational performance from across the Group and the continued dedication of our people to deliver high value services and products critical to national defence and security. We have delivered excellent organic growth and improved our margin performance. We have also won significant new business and major contract renewals, with a major highlight being the outstanding orders performance of Avantus with $657m of contract awards since the start of the financial year.

"We enter the second half of the year with confidence and positive momentum. Our relevance in the market is evidenced by the increasing demand for our distinctive offerings and growing order pipeline. We remain focused on supporting our customers' mission and increasing returns for shareholders."

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary
1 Prior period comparatives have been restated due to a change in accounting policy in respect of Research and Development Expenditure Credits. See note 18 to the interim financial statements.
2 Underlying operating profit refers to operating profit from segments. See note 2 to the interim financial statements.
3 Total contract awards since the start of the financial year, $195m orders recognised in H1 FY24

Interim results presentation:

We will be hosting an in-person results presentation at 09:30 GMT at the London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. Registration to join in-person or via the live webcast is available here:
https://www.qinetiq.com/en/investors/results-reports-and-presentations/fy24-interim-results

About QinetiQ:

QinetiQ is an integrated global defence and security company focused on mission-led innovation. QinetiQ employs circa 8,500 highly-skilled people, committed to creating new ways of protecting what matters most; testing technologies, systems, and processes to make sure they meet operational needs; and enabling customers to deploy new and enhanced capabilities with the assurance they will deliver the performance required.

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Basis of preparation:

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

Year references (FY24, FY23, 2024, 2023) refer to the year ended 31 March. H1 FY24 and H1 FY23 refer to the six months ended 30 September.

Chief Executive Officer's Review

We delivered strong and consistent operational performance globally through the first half of the year. We secured a record first half order intake of £953m, with a book-to-bill ratio of 1.3x, demonstrating the continued high demand for our distinctive offerings. We achieved 31% revenue growth, 19% on an organic constant currency basis, with underlying operating profit margin at 11.3%, an improvement on first half performance last year. Whilst cash conversion in the first half was 50%, lower than the prior year due to short-term timing effects, full year cash conversion will be in-line with our previous guidance.

EMEA Services continues to perform particularly well, maintaining the momentum and strong performance from FY23. EMEA Services delivered 23% organic revenue growth compared to the prior year first half, consistent revenue compared to the prior year second half, and margin improved to 11.8%. Global Solutions has benefitted from the first half performance of Avantus, that we acquired in late-November 2022, and on an organic basis is broadly flat compared to the first half of last year.

Avantus has won $657m of new contract awards since the start of the financial year – this positions us well to drive future revenue growth. First half revenue was slower than expected, due to the US continuing resolution and competitor protests, but with the significant step-up in contract awards we have confidence in delivering good growth in the second half of the year. We remain confident in delivering double digit revenue growth at stable margin in the future.

We are deeply saddened to report that one of the PC-9 aircraft that we operate crashed in September 2023 in the Neuenstein area of Germany whilst on a customer training exercise and the two aircrew on-board did not survive the crash. We are continuing to support the families of our two colleagues that were on-board and the team in Germany. The safety of our employees remains our highest priority and we are working closely with all relevant authorities to support the external investigations into this tragic incident.

Strategic achievements

We have continued to make good progress implementing our strategy. Our major strategic achievements delivered in the first half include:

- **$657m orders won in Avantus** – Avantus has won $657m of new contract awards since the start of the financial year, positioning us well to drive future revenue growth. Orders won include two strategic recompetes with significant on-contract growth: a 5-year $224m Space Development Agency (SDA) contract and a $127m Strategic Capabilities Office (SCO) contract.
- **US business successfully transitioning from prototypes to production** – We have won two significant contracts in the US demonstrating our advanced technology capabilities moving from prototypes into larger production. Firstly, we have been awarded a $84m 5-year contract for the testing and production of the Next Generation Advanced Bomb Suit (NGABS), a Program of Record to deliver over 700 suits to the US Army. And secondly, based on successful operational trials with our Oshkosh partner we were one of four awardees for the Robotic Combat Vehicle Light (RCV-L) full scale prototype. This positions us well to compete for the future $500m production phase.
- **Engineering Delivery Partner (EDP) delivering customer benefits** – We secured a further £190m of orders in H1 through our EDP framework, taking overall orders over the first 5 years of operation to £1.5bn. Notably, we have secured a £3.5m, 6 month initial task as Capability Partner to the MOD in support of the new AUKUS submarine programme.
- **UK Intelligence delivery** – We delivered Full Operating Capability three months early on the 10-year, £80m SOCIETAS contract for the MOD Joint Electronic Warfare Operational Support Centre, enabling them to accelerate the production of mission data for UK military platforms. In addition, we were awarded a multi-million pound, 3-year design and delivery contract for a major UK customer to deliver national cyber exercising for advanced training and mission rehearsal in the cyber domain.
- **Extension to MSP framework and delivery of the JATTS programme in Australia –** Our Australian business continues to successfully deliver through the Managed Service Provider framework with a 3-year extension and a further A$58m of business in H1 through securing

significant land systems and explosive ordinance tasks. Augmenting this, our Air Affairs business has seen 24% increased demand in flying hours through the Joint Adversarial Training and Testing Services (JATTS) and successfully contributed threat representation services to the Talisman Sabre training exercise involving 13 nations and 30,000 military personnel.
- **Principles Agreement signed with the UK MOD for 5-year Long Term Partnering Agreement (LTPA) extension** – We have signed a Principles Agreement with UK MOD to jointly develop how the LTPA test, trials, training and evaluation (T3E) capabilities are sustained and modernised beyond 2028, to enable next generation military capability, such as directed energy weapons. By exercising the LTPA contract option for the 5-year extension, subject to negotiation and approval, we will continue as UK MOD's strategic partner for T3E services until 2033.

The growing market opportunity

The geopolitical climate is increasingly uncertain as the global security situation continues to deteriorate. The Hamas attack on Israel has elevated tensions and increased the threat of a broader regional conflict in the Middle East. In Europe, Russia's invasion of Ukraine is reshaping their relationship with the West, and the threat from China remains uncertain. These dynamics are driving defence and security policies, increasing prioritisation of budgets and modernisation of capabilities. Our major focus is on supporting our three home countries which have a shared defence and security mission under the trilateral partnership known as AUKUS.

The US has requested the largest ever Research & Development and Test & Evaluation budget at $145bn, a 40% increase since 2020. The UK refreshed its Integrated Review earlier in the year and is investing £6.6bn in R&D and experimentation over four years. The Australian government has completed its Defence Strategic Review and is increasing defence spending by 7% to $53bn.

All three countries are committed to working together on a range of advanced capabilities and technologies, critical to future warfare, such as advanced cyber and directed energy, as well as the new nuclear submarine programme. These areas align well with our strengths and provide attractive opportunities over the long-term.

A differentiated company responding to national and global security needs

Within this geopolitical context, we are a differentiated company that helps our customers respond to their national and global security needs. Our unique value proposition is to rapidly develop and experiment with new capabilities, test those capabilities are safe and perform as intended against the threat, and ensure our warfighters are trained and operationally ready. With us, our customers can accelerate through this critical cycle and be prepared and ready to counter the increasing threat.

We are a purpose-driven company and our purpose has never been more relevant: protecting lives and serving the national security interests of our customers. Our purpose drives our strategy, which has three inter-related components:

1. Delivering six distinctive and mutually supportive offerings: We co-create high-value differentiated solutions for our customers in experimentation, test, training, information, engineering and autonomous systems;
2. Applying disruptive and innovative technology and business models: We invest in and apply disruptive business models, digitisation and advanced technologies to enable our customers' operational mission at pace; and
3. Leveraging those capabilities across our global operations: We are building an integrated global defence and security company to leverage our capability through single routes to market in UK, the US, Australia, Canada and Germany

In order to counter the increasing threat, our customers are prioritising their budgets on rapid defence modernisation. Our value proposition is structurally aligned to their high-priority and high-growth segments, such as RDT&E (Research, Development, Test and Evaluation) and C5ISR (Command, Control, Communications, Computers, Cyber, Intelligence, Surveillance and Reconnaissance), Cyber and Electronic Warfare and Autonomy and AI. Our alignment to higher growth segments is why our growth is outpacing headline defence spending: QinetiQ has delivered organic revenue at double the growth rate of national defence budgets over the last five years.

Building our global platform to deliver sustainable growth

At our full year results in May 2023 and re-confirmed at our Investor Seminar in New York a few weeks ago, we have a robust plan to deliver organic growth to c.£2.4bn revenue by FY27. With our highly cash generative business model this plan provides optionality to deploy our capital to further accelerate our growth and shareholder returns. Through strategy-led bolt-on acquisitions, we see an opportunity to build a business of circa £3bn revenue by FY27.

Our organic growth plan is underpinned by a disciplined approach to bid and programme delivery performance, to ensure consistent operational performance through both winning and contract delivery. We continue to invest in our people, technologies and capabilities to ensure we retain and recruit the best talent to deliver for our customers and enhance our offerings and capabilities through organic investments. We are seeing success in leveraging our distinctive offerings across our global business to drive synergies; recent examples include establishing a US final assembly and test capability for Banshee Jet 80 aerial targets to support future US customer demand, SPUR robot sales into Australia from the US, bringing advanced sensing and robotics to our Avantus Intelligence customers, and selling our threat representation and targets capabilities globally.

Our priority is to deliver on our organic growth ambitions. Alongside this we continue to actively manage our portfolio, as evidenced by the nine acquisitions and four disposals that we have completed over the last eight years. We have an active pipeline of acquisition opportunities and remain disciplined in the evaluation of opportunities, considering their strategic fit, financial returns and the right approach to integration. We are prioritising bolt-on acquisitions in the US and Australia, with our plan for leverage to remain under 1.5x (net debt to EBITDA). We have a clear and active capital allocation policy which alongside our strategy, governs our long-term investment choices. We consider capital allocation proactively, evaluating organic and inorganic investments and shareholder returns on their short and long-term benefits, seeking to maximise long-term shareholder return.

Outlook: FY24 in-line with market expectations

We enter the second half of FY24 with confidence, a healthy order-book and positive momentum with 92% revenue under contract. We confirm that our full year performance will be in-line with market expectations[1]. We expect to deliver high single-digit organic revenue growth and high teens total revenue growth at a stable operating profit margin. Capital expenditure is expected to remain within the £90m to £120m range.

Outlook: Longer-term guidance unchanged

We are targeting high single-digit organic revenue growth, to deliver c.£2.4bn organic revenue at c.12% margin by FY27. With our highly cash generative business model, this provides optionality to deploy our capital to compound our growth and shareholder returns – through bolt-on acquisitions we see an opportunity to build a company of circa £3bn revenue at 11-12% margin by FY27. This delivers attractive return on capital employed at the upper end of the 15-20% range.

[1] Analyst expectations (average) for FY24 as at 14/11/23: Revenue £1,868m, Op profit £209m

Trading environment

Global context

We are operating in an environment where there is an increasing threat of wider global conflict. This follows Russia's full-scale invasion of Ukraine; the threat posed by China's growing military power coupled with its push to change global norms and potentially threaten its neighbours; the rise of extremism in Africa; and ongoing tensions and conflict in the Middle East.

In parallel, rapidly emerging and evolving technologies, such as Generative AI, continue to disrupt traditional business and society with both positive and negative outcomes as well as creating unprecedented vulnerabilities.

Strategic response

To meet these increasing challenges, the UK, US and Australia have reviewed their strategic defence and security capabilities and investment priorities as well as their allied activities.

UK

The 2023 Integrated Review Refresh (IRR). As announced in 2021, the UK MOD is also investing over £6.6bn in research and development to develop next-generation and emerging technologies in areas such as cyber, space, directed-energy weapons, and advanced high-speed missiles.

As the UK seeks to develop and deploy next-generation capabilities faster than adversaries, we are well positioned to support them in applying mission-led innovation to achieve this. Our unrivalled expertise in Research & Development and Test & Evaluation combined with our investment to modernise UK test ranges help our customers generate and assure new and emerging technologies at pace. Delivering value for money remains critical to our customers and we will continue to utilise innovative delivery models to support our customers in achieving this.

US

The 2022 National Defense Strategy and National Security Strategy recognised an intensifying competitive landscape and the urgent need to sustain and strengthen deterrence. The 2024 Department of Defense Budget Request builds on the principles of National Security Strategy and has grown by nearly $100bn (13%) to $842bn since 2022. As part of this, the FY24 Research Development Test and Evaluation budget request is the largest ever at $145bn. This represents an increase of $26bn (22%) since FY22.

Investment in critical technology areas aimed at strengthening technological advantage include: directed energy, hypersonics and integrated sensing and cyber.

In the US, we are a market leader in robotics, autonomy and advanced sensing solutions, an area of budget growth, delivering value to our customers through the rapid development and deployment of disruptive solutions. With the acquisition of Avantus we are also a leading cyber, data analytics and software development provider. There is a growing need to provide actionable intelligence into war-fighters' hands quicker, and a push to develop and integrate multiple autonomous and semi-autonomous systems as the US seeks to invest in next-generation technologies to maintain technological advantage.

Australia

The 2023 Defence Strategic Review addresses the prospect of major conflict in the Indo-Pacific that directly threatens Australia's national interest. It frames the priority of investment in Defence capability and posture to meet Australia's security challenges through to 2032-33. In the 2023 Budget, Defence spending will increase by 7% to AUD$52.6bn in 2023-24.

The Australian government reinforced its commitment to delivering on the recommendations of the Defence Strategic Review, with plans to commence the work to deliver Australia's nuclear-powered submarine program. Defence spending as a proportion of GDP will lift above its current trajectory to be 0.2% higher by 2032-33.

We continue to support the Australian forces in modernising sovereign defence capabilities, leveraging expertise across the global business.

The significance of the AUKUS Alliance

In September 2021, leaders of Australia, the United Kingdom, and the United States announced the creation of AUKUS, the enhanced trilateral security partnership. AUKUS is intended to strengthen the ability of each government to support security and defence interests, building on longstanding and ongoing bilateral ties. It will promote deeper information sharing and technology sharing; and foster deeper integration of security and defence-related science, technology, industrial bases and supply chains.

The first initiative under AUKUS is a commitment to support Australia in acquiring nuclear-powered submarines for the Royal Australian Navy. The second initiative centres on enhancing joint capabilities and interoperability, focusing on cyber and electronic warfare capabilities, artificial intelligence, quantum technologies, additional undersea capabilities, as well as hypersonic and counter-hypersonic capabilities.

With these collaboration activities involving technology development, trials and experimentation, we anticipate increasing demand for support across each of our three 'home' nations.

Broader international markets

The strategic landscape has undergone a seismic shift following Russia's invasion of Ukraine in February 2022. This has provoked NATO to increase its defence capabilities and readiness to respond, adding to the pressure for the NATO member countries to increase their defence spending of at least 2% of GDP. Following the announcement of Germany to increase defence spending by €100bn over the next five years, many other NATO and European countries are also increasing their defence and security investment.

While our priority and investment focus is aligned to our three home country strategies (UK, US and Australia), we will continue to conduct business in the support of allies in 5-Eyes, NATO and Continental Europe.

Chief Financial Officer's Review

Operating performance

We delivered excellent order performance in the period with orders of £952.7m (H1 FY23: £798.8m), up 19% on a reported basis. Organically and on a consistent currency basis, orders grew 2% year on year against a strong prior year comparator. Orders won include £190m Engineering Delivery Partner (EDP) orders, a $84m full production contract for NGABS ($34m recognised in H1 FY24), a continuation of the threat representation training contract that underpins our German business and a £39m renewal of the battlefield communication programme (BATCIS) in the UK. Avantus has had impressive contract awards of $657m since the start of the financial year. Due to the multi-year phasing and funding approach to contract awards in the US, we have only recognised $195m in first half orders, in-line with our prudent order recognition policy.

Revenue visibility remains good and the Group's total funded order backlog at 30 September 2023 stood at £3.1bn, a modest increase on the same period last year. As we deliver revenue on our large long-term contracts (with orders booked in prior years, most significantly with the Long Term Partnering Agreement) backlog will naturally reduce, it is therefore pleasing to see backlog continuing to grow year-on-year due to the strong orders growth across the Group. At the start of H2 FY24, the Group had approximately £840m of H2 FY24 revenue under contract. This compares with approximately £700m of H2 FY23 revenue at the same time last year.

Revenue was £883.1m (H1 FY23: 673.4m), up 31% on a reported basis. Organically and on a consistent currency basis, revenue grew 19% compared to the same period last year. Organic growth was driven by strong performance in EMEA Services delivering revenue from the excellent order in-take in the prior year, particularly in the UK, which saw continued growth in EDP, short-term operational priorities and inflation. Global Solutions revenue was flat organically with total growth driven by the addition of Avantus.

Operating profit from segments was £100.1m (H1 FY23: £74.1m), up 35% on a reported basis. Organically and on a consistent currency basis, underlying operating profit grew by 25% compared to the same period last year. The significant improvement in profit is largely driven from EMEA Services revenue growth and improving margin in both segments. Our acquisitions achieved margins in-line with expectations with Avantus maintaining double digit operating profit margin.

Operating profit margin from segments was 11.3%, an improvement from H1 FY23 (11.0%) and consistent with our FY23 performance. The modest increase from H1 FY23 is due to margin improvement across both segments; most significantly Global Solutions profit margin increased up to 10% due to good margin stability in the US and higher margin product deliveries (global threat representation and niche intelligence products).

Operating profit from segments excludes income from Research and Development Expenditure Credits (RDEC). RDEC income increased from £7.5m in H1 FY23 to £11.9m in H1 FY24 due to the UK RDEC rate increase from 13% to 20%. Seasonality / cyclicality has not had a material impact on the interim income statement performance of the Group.

Specific adjusting items

The total impact of specific adjusting items on operating profit (which are excluded from underlying performance) before tax was an expense of £20.7m (H1 FY23 restated: income of £45.6m). H1 FY23 included a £42.9m gain from the foreign exchange derivative contract which was taken out to hedge the foreign exchange exposure on the $590m Avantus acquisition and was executed in accordance with the Group's Treasury Policy – this was a one-off timing gain at H1 FY23 which unwound in H2 FY23 by the time of the transaction completion. H1 FY23 restated also includes a £19.6m gain from the release of the liability for MOD appropriation of RDEC.

Acquisition and disposal costs of £0.6m (H1 FY23: £6.4m) comprise costs associated with various ongoing projects and acquisitions that we have decided not to pursue, demonstrating our disciplined capital allocation policy. The H1 FY23 amount related to Avantus and Air Affairs. Acquisition related remuneration of £1.1m relates to specific post-acquisition retention arrangements for Avantus employees which were anticipated at the time of the transaction. Acquisition integration costs of £2.6m relate to the one-off costs of integrating both Avantus and Air Affairs with the existing Group operations.

Our digital investment programme continues to deliver improvements to the infrastructure, digital tools and operating systems of the company – roughly two thirds of the costs in the first half are reported as specific adjusting items in the P&L given their one-off nature, with ongoing recurring operating costs (such as licence costs and overheads) remaining within underlying operating costs. In H1 FY24 the exceptional cost element of the digital investment programme within specific adjusting items totals £5.1m (H1 FY23: £2.5m).

Also included within specific adjusting items were a gain on the sale of property in the UK of £2.1m (H1 FY23 £0.9m) and impairment of right of use lease assets in the US following space relocation of £0.7m. Amortisation of acquisition intangibles of £12.7m (H1 FY23: £5.6m) has increased due to the inclusion of amortisation of the intangible assets relating to the Avantus acquisition.

Net finance costs

Underlying finance income on the group’s cash reserves increased from £1.4m to £8.9m due to the increase in interest rates. Underlying finance expense increased from £1.9m to £16.6m due to the interest payable on the debt financing which was taken out at the time of the Avantus acquisition. The underlying net finance expense, which excludes the pension net finance income, was £7.7m (H1 FY23: £0.5m).

The pension net finance income, which is a specific adjusting item of £2.2m (H1 FY23: £4.9m) reduced due to a lower opening net pension surplus. Net finance expense was £5.5m (H1 FY23: net finance income of £4.4m).

Tax

The total tax charge is £22.1m (H1 FY23 restated charge: £21.4m). The underlying tax charge of £27.0m (H1 FY23 restated: £15.7m) is calculated by applying the expected underlying effective tax rate at a geographic level for the year ending 31 March 2024 to the underlying profit before tax for the six months to 30 September 2023.

The Group's full year expected underlying effective tax rate is 26.1% which is higher than the half year underlying effective tax rate of 25.9% (H1 FY23 restated: 19.4%) due to the geographic mix of profits in H1 FY24.

The underlying effective tax rate has risen due to the increase in the UK statutory rate effective from 19% to 25% from 1st April 2023. In future we expect the effective rate to be above the UK statutory rate subject to the geographic mix of profits and the recognition of deferred tax in respect of overseas tax losses and excess interest deductions.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The Group has applied the exception under the amendment to IAS 12 to recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes.

Research and Development Expenditure Credits (RDEC) are now recognised within other operating income following the change in accounting policy in FY23. Amounts receivable in respect of RDEC are recognised as ‘other receivables’ within ‘trade and other receivables’. Amounts receivable are offset against outstanding UK corporation tax liabilities at the year-end only to the extent that the balances can be and are intended to be settled on a net basis.

At the FY23 balance sheet date the FY23 RDEC of £15.4m was outstanding and was expected to be received as a step 1 offset against the UK corporation tax liability. Part of the FY23 corporation tax liability was already paid as Quarterly Instalment Payments during FY23 with a residual corporation tax liability of £3.8m outstanding at the year end. This residual liability was paid to HMRC in April 2023.

Tax on specific adjusting items includes a £3.4m credit for tax on the amortisation of acquisition intangibles and a £1.5m credit in respect of other pre-tax specific adjusting items, the total specific adjusting items tax credit was £4.9m (H1 FY23 restated: charge of £5.7m).

Return on Capital Employed (ROCE)

Due to our focus on returns, we have included Return on Capital Employed in our interim results for the first time, using the calculation of: Underlying operating profit less amortisation for the previous 12 months / (average capital employed less net pension asset), where average capital employed is defined as shareholders' equity plus net debt (or minus net cash).

For H1 FY24 Group ROCE was 25.5% (H1 FY23: 28.8%), modestly lower due to the increased capital employed with the acquisitions completed in H2 FY23. As we continue to invest in our business to support sustainable long-term growth, our ROCE is forecast to remain attractive at the upper end of the 15-20% range.

Earnings per share

Underlying basic earnings per share for the Group was 13.4p up 18% on the prior year first half (H1 FY23: 11.4p), with the increase primarily due to the increase in profits. Statutory basic earnings per share (including specific adjusting items) were 11.0p (H1 FY23 restated: 19.2p) with the prior half year comparative period enhanced by the £42.9m foreign exchange gain on the derivatives taken out to hedge the exposure on the Avantus acquisition and the £19.6m release of the liability in respect of UK MOD appropriation of RDEC.

Dividend

An interim dividend of 2.6p (H1 FY23: 2.4p) will be paid on 2 February 2024 to shareholders on the register on 4 January 2024. The interim dividend represents one third of the prior year total dividend reflecting our previously communicated methodology. The full year dividend will be announced with our full year preliminary results in May 2024.

Cash performance

Underlying net cash flows from operations was £71.7m (H1 FY23: £106.8m), resulting in cash conversion before capital expenditure of 50% (H1 FY23 restated: 98%). H1 FY24 operating cash flow was impacted by the timing of customer billing milestones (which impacts deferred income) and receipts. There are also some normal cash flow differences between the first and the second half which impacted our H1 FY24 cash conversion, such as the timing of receiving RDEC income (the prior year income is received in cash in H2).

Changes in net working capital of £74.2m in H1 FY24 included a £71.5m reduction in trade and other payables. This comprises timing related movements within deferred income, trade payables and accrued expenses. These timing impacts are already reversing and we are on-track to deliver full year underlying operating cash conversion of at least 90%, in-line with our previous guidance.

Capex for the period was £46.9m (H1 FY23: £48.5m). We continue to invest in core contracts including the LTPA following the contract amendment announced in April 2019. Full year total capex is expected to be in-line with previous guidance of £90-120m.

At 30 September 2023 the Group had £273.8m net debt, compared to £206.9m at 31 March 2023. The increase is due to neutral free cash flow, the dividend payment and £26.4m of new lease obligations. The reported H2 FY23 and H1 FY24 EBITDA and 30 September 2023 net debt position result in a leverage ratio of 0.9x (31 March 2023: 0.8x), below our maximum leverage guidance of 1.5x introduced at our recent Investor Seminar.

The net debt balance as at 30 September 2023 includes £12.3m of net financial derivative assets, predominantly the interest rate swaps which have been taken out to hedge future interest rate exposure on the term loan, £2.7m of capitalised bank fees and £54.3m of lease liabilities. Lease liabilities increased from £31.3m as at 31 March 2023 due to new property arrangements entered into on a long term basis in both the UK and US.

We maintain a rigorous approach to the deployment of our capital, scrutinising organic and inorganic opportunities to ensure returns to our shareholders are appropriate. At our recent Investor Seminar we provided modest refinements to our capital allocation policy as follows:

1. Invest in our organic capabilities;
2. Complement with bolt-on acquisitions;
3. A progressive dividend; and
4. Return excess cash to shareholders.

Committed facilities

The acquisition of Avantus last year was financed using a combination of cash and debt from a multicurrency floating rate Term Loan placed with our relationship banks, acquisition financing totalled £340m. The Loan is split into two Tranches: GBP Term Loan £273m (Tranche A); and, USD Term Loan £67m (Tranche B), and has a 3-year term with two 1-year extension options. Participating banks have lent on a 2-tier basis, 3-banks at £67m and 4-banks at £35m. In-line with Group policy, £270m (c.80%) of the floating rate debt has been fixed using SONIA interest rate swaps split over a 3-year and 5-year tenure at a weighted average rate of 3.29%. Including all fees and charges, the weighted average cost of debt is 5.21%.

The Group has a £275m bank revolving credit facility with an additional ‘accordion’ facility to increase the limit up to £400m. The facility which will mature on 27 September 2025 was undrawn at 30 September 2023 and provides the Group with significant scope to execute its strategic growth plans.

We adopt a strict policy on managing counterparty risk through a combination of diversification of investments and regular reviews of counterparty limits using credit rating assessments. We are proud that our debt sits with our key relationship banks who have strong credit ratings and diverse portfolios demonstrating their resilience to the bank turmoil. The banks have been selected for their capabilities in our home countries to support our business.

Foreign exchange

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

	H1 FY24	H1 FY23
£/US$ - average	**1.25**	1.21
£/US$ - closing	**1.22**	1.11
£/US$ - opening	**1.24**	1.31
£/A$ - average	**1.91**	1.75
£/A$ - closing	**1.89**	1.72
£/A$ - opening	**1.85**	1.75

Foreign exchange translation has provided a modest headwind to revenue and operating profit in the first half. Most significantly, the US Dollar has weakened against the Sterling with the average exchange rate increasing from 1.21 to 1.25. Our guidance assumes FX rates as at the closing rate above (£/US$ 1.22, £/A$ 1.89).

In H1 FY24, 22% of our total Group revenue was generated in the US. As a result of the weakening of the US Dollar and other FX movements in the half, revenue decreased by £6.5m and operating profit decreased by £1.2m. Looking ahead we expect US revenues to represent 25-30% of Group revenues, so for every 1% move in the FX rate this would impact Group revenue by c.£5m and Group profit by c.£0.5m.

Pensions

The net pension asset under IAS 19, before adjusting for deferred tax, was £95.0m (31 March 2023: £119.8m). The key driver for the decrease in the net pension asset since the March 2023 year end was a reduction in asset values, driven by the Liability Driven investments (LDI), in excess of the reduction in Scheme liabilities (which have also fallen substantially, due to an increase in the discount rates). The triennial valuation as at 30 June 2023 is ongoing and is not expected to result in a requirement for the Group to make a contribution into the scheme.

The key assumptions used in the IAS 19 valuation of the scheme are set out in note 13.

Operating review

EMEA Services

	H1 FY24 £m	H1 FY23 £m
Orders	**631.1**	600.8
Revenue	**654.8**	524.3
Underlying operating profit*	**77.4**	61.5
Underlying operating margin*	**11.8%**	11.7%
Book to bill ratio(1)	**1.2x**	1.4x
Order backlog	**2,732.8**	2,601.2

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary
(1) B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract

Overview

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

Financial performance

Orders were up 5% to £631.1 (H1 FY23: £600.8m), driven by £190m orders in EDP, a £39m renewal to the battlefield communication contract (BATCIS) in the UK Intelligence sector, a continuation of the threat representation training contract that underpins our German business and a £54m uplift to the LTPA contract to reflect inflationary effects in the UK.

Revenue increased 23% on an organic basis driven by revenue delivery on the excellent orders won in the prior year, particularly with good continued growth in EDP and strong execution across our contracts, as well as growth in the LTPA due to contractually covered cost inflation, and short-term operational priorities.

Underlying operating profit increased by 26% to £77.4m (H1 FY23: £61.5m). This has been achieved through the strong revenue growth mentioned above and modest margin improvement to 11.8% (H1 FY23: 11.7%), demonstrating consistent operational performance.

Including the LTPA, approximately 67% of EMEA Services revenue is derived from single source contracts (H1 FY23: approximately 65%) demonstrating our critical and unique capabilities for our customers.

Sector commentary

UK Defence (61% of EMEA Services revenue)

The UK Defence sector delivers mission critical solutions, innovating for our Air, Maritime and Land customers' advantage. The sector provides a focus on our strategy of maximising growth through our framework contracts, building new core offerings through our global campaigns and exploring new growth opportunities; it improves coherence of our distinctive offerings across our customer base, with the embedding of enabling functions bringing greater cohesion to operational strategy execution for business performance excellence.

- The Long Term Partnering Agreement (LTPA) remains our largest contract delivering world-leading test, trials, training and evaluation (T3E) for the UK MOD. We have signed a Principles Agreement with UK MOD to jointly develop how the LTPA test, trials, training and evaluation (T3E) capabilities are sustained and modernised beyond 2028, to enable next generation military capability, such as directed energy weapons. By exercising the LTPA contract option for the 5-year extension, subject to negotiation and approval, we will continue as UK MOD's strategic partner for T3E services until 2033.

- As with a number of our large long-term contracts, the commercial arrangement within the LTPA enables us to be reimbursed for future allowable cost increases in-line with the Single Source Regulation Office (SSRO) aligned to an agreed index; this represented a £54m order uplift on the LTPA in H1 FY24 (£26m in H1 FY23).
- Operationally, the ongoing modernisation of LTPA ranges continue, with joint operation successfully tested between Aberporth, Hebrides and RAF Waddington to connect high classification computer networks enabling more rapid distribution of data and greater use of analytics for new and in-service capabilities.
- During May 2023, we successfully demonstrated our central role in global defence and security, through one of the world's largest tests of naval and missile defences, Formidable Shield 2023. The exercise harnessed the power of some of the most advanced technologies in the world to enable a joint NATO force to operate seamlessly together and to better understand and defeat complex evolving threats. Hosted at MOD Hebrides, operated by QinetiQ on behalf of the UK MOD, the exercise saw more than 20 ships, 35 aircraft, and nearly 4,000 Allied military personnel from 13 NATO nations come together to test missiles, systems, sensors and software against ballistic, subsonic and supersonic targets in a realistic, live-fire mission rehearsal event.
- The Engineering Delivery Partner (EDP) programme continues to deliver for our customer with a collaborative mind-set and commitment to transparency helping to maximise and accelerate outputs for vitally important UK MOD programmes. Alongside our partners Atkins and BMT, in H1 we have won orders totalling £190m and revenue of £185m (roughly two thirds in UK Defence and one third through UK Intelligence), and we have secured a £3.5m initial task as Capability Partner to the MOD in support of the new AUKUS submarine programme. Since inception over the last five years we have won overall orders totalling £1.5bn.
- In the half we have delivered a number of critical experimentation and training exercises. Two such examples are as follows: 1) The Platform Enabled Training Capability demonstration of synthetic training technology involving HMS Queen Elizabeth aircraft carrier, HMS Kent frigate and HMS Diamond destroyer – utilising internally developed software tools and in partnership with BAE Systems we delivered this event positioning us well for future Maritime training opportunities. 2) Support to the Royal Navy at the NATO REPMUS23 Operational Experimentation exercise in the Portuguese North Atlantic Exercise Area, set in the context of a coalition operation. We led a UK team delivering the experimental Command & Control architecture, and planning and executing the exercises: evaluating concepts for the mission management of multiple uncrewed systems across a task group, sharing the tactical picture generated and the integration into the warship. These exercises are designed to allow large scale experimentation where Operational Communities work together with academia and industry to develop and test operational concepts and requirements.

UK Intelligence (29% of EMEA Services revenue)

The UK Intelligence sector helps government and commercial customers respond to fast-evolving threats based on its expertise in training, secure communication networks and devices, intelligence gathering and surveillance sensors, and cyber security. Contained within UK Intelligence are three acquired businesses: QinetiQ Training and Simulation Limited (QTSL, formerly NSC), Inzpire and Naimuri.

- In May 2023, we announced the SOCIETAS £80m win with the UK MOD to provide specialist mission data and electronic warfare skills. In the first half we have achieved Full Operating Capability (FOC) on this project, ahead of schedule, supporting our customers' mission. The Programme requires us to sustain and enhance delivery of Electronic Warfare Mission Data and related intelligence outputs to the UK joint force on an assured and enduring basis. This reinforces our close coupling with the customer's mission and our successful delivery.

- The Serapis framework enables the UK Defence Science and Technology Laboratory (Dstl), UK MOD and the frontline commands to quickly and efficiently place contracts for scientific and technical research and development (R&D). Of the six ‘Lots’, QinetiQ is leading three for R&D of command and control systems, communications and networks, and training and simulation projects. By working collaboratively with Dstl, we have efficiently delivered over £30m of technical R&D in the first half, both our own expert scientists and engineers, and through a supply chain of 200 companies. This is supporting exploitation of technology with the front line commands, and de-risking generation-after-next capabilities.
- We continue to deliver well on the Battlefield Tactical Communication and Information Systems (BATCIS) contract, having secured the year six extension worth £39m. This is the public sector support programme for Defence Digital, delivering procurement and engineering expertise for this transformational digital backbone programme. With our partners ATOS, BMT and Roke we deliver specialist expertise across a complex set of projects covering a wide array of disciplines; developing concepts, engineering solutions, managing obsolescence issues, supporting critical operational requirements and enabling procurement competitions.
- We won the Vivace contract with the Home Office in 2017 to deliver our Accelerated Capability Environment (ACE). ACE leverages a wide and diverse ecosystem of suppliers to drive innovation into the delivery of mission critical capability, and it operates at high tempo greatly accelerating delivery of deployable capability. Following the successful recompete of the next phase the Vivace contract last year, delivery into the Home Office and other government departments continues positively. Over the last six years over 200+ commissions have been delivered across 40 government departments including the Home Office, National Crime Agency, Intelligence Agencies, Department for Transport, Ministry of Justice, Cabinet Office and OFCOM, with revenue totalling over £150m. Mission challenges included counter-terror operations, serious organised crime, online harms, aviation security and COVID vaccine security, centred on dealing with the fast-paced developments in Digital and Data technologies that are prevalent in today’s society – central to many government departments’ most challenging programmes. Vivace has developed a dynamic community of over 320 organisations ranging from tech giants through to Small Medium Enterprises and academia. Vivace provides an agnostic team that blends suppliers together using bespoke commercial arrangements that drive co-investment opportunities. Given current Government finance pressures and national security challenges this unique model is set for further growth as it provides both rapid insertion of capabilities (in weeks or months rather than years) and offers excellent value for money over traditional procurement approaches.
- The three historic acquisitions in UK Intelligence continue to perform well, all delivering greater than 10% growth, and in some instances materially higher growth rates. Inzpire and QTSL are both generating good growth through our large framework contracts of EDP and Serapis, and Naimuri is growing well with our Data Intelligence offering into the UK Intel customers.

<u>Australia (10% of EMEA Services revenue)</u>

Our Australia sector is a specialist advisory, engineering and threat representation products and services business in the Australian, German and Canadian markets. It has both an Australian country-focus in advisory and engineering services, as well as a focus on exploitation of our threat representation capabilities globally.

- The Australian Defence Force’s *Defence Strategic Review*, released in April 2023, set an ambitious agenda of reform and savings; this has delayed some contract renewals and withdrawn funding to some new projects. As part of this the Australian Department of Defence has been instructed to maximise the use of the Major Service Provider (MSP) contracts for professional support. Therefore, the impact of these two dynamics is that some of our advisory work has been slower in the first half whilst other areas of the business (including our MSP contract) are performing and growing well, yielding overall good organic growth in Australia. We have achieved a 3-year extension to the MSP and a further A$58m of business in H1 through securing significant land vehicles and explosive ordinance tasks.

- Over the last year we have invested A$4m to develop an Engineering facility in South Melbourne (named QTech) and we are starting to see initial demand for the facility including a recent contract win to deliver specialist command and control vehicles. The facility is open and will be a cornerstone facility for further growth through the Robotics and Autonomous Systems and the Test and Evaluation Campaigns.
- Since completion of the acquisition of Air Affairs in December 2023, performance has continued in-line with our expectations with good demand for our services. In particular the Joint Adversarial Training and Testing Services (JATTS) contract has seen 24% increased demand in flying hours and successful contributed threat representation services to the multi-national Talisman Sabre ’23 exercise.
- In Germany, we have secured the renewal of our main threat representation training contract demonstrating the positive service we provide to our customer. We are also seeing good increased demand for our threat representation capabilities, delivered through the aircraft fleet acquired last year.

Global Solutions

	H1 FY24 £m	H1 FY23 £m
Orders	**321.6**	198.0
Revenue	**228.3**	149.1
Underlying operating profit*	**22.7**	12.6
Underlying operating margin*	**9.9%**	8.5%
Book to bill ratio	**1.4x**	1.3x
Order backlog	**399.2**	367.4

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

Global Solutions combines our world-leading technology-based products and services. Our strategy is to expand the portfolio of solutions to win larger, longer-term programmes providing good visibility of revenue and cash flows.

Financial performance

Orders increased by 62% to £321.6m (H1 FY23: £198.0m). Organically and on a consistent currency basis, orders were broadly flat, following a strong prior year performance in the US. Avantus has had impressive contract awards of $657m since the start of the financial year. Due to the multi-year phasing and funding approach to contract awards in the US, we have only recognised $195m in first half orders, in-line with our prudent order recognition policy.

Revenue was up 53% to £228.3m (H1 FY23: £149.1m). Organically and on a consistent currency basis, revenue was broadly flat with the same period last year, with the Avantus contribution driving the total reported growth.

Underlying operating profit increased to £22.7m (H1 FY23: £12.6m), with an underlying operating profit margin of 9.9% (H1 FY23: 8.5%). The significant improvement in profit is as a result of good margin stability in the US and higher margin products with QTS and niche intelligence products.

Sector commentary

United States (84% of Global Solutions revenue)

Our US sector provides technical advice, design and manufacture of innovative defence products specialising in robotics, autonomy and sensing solutions, and with the acquisition of Avantus is an expert in cyber, data analytics and software development. We have invested to support the long-term growth of our US sector, in leadership, integration, systems and tools; the business is now a fully integrated single US sector.

- Avantus has won $657m of new contract awards since the start of the financial year – this positions us well to drive future revenue growth. First half revenue was slower than expected, due to the US continuing resolution and competitor protests, but with the significant step-up in contract awards we have confidence in delivering good growth in the second half of the year and we remain confident in delivering double digit revenue growth at stable margins in the future.
- In the former Avantus business we have been awarded a $224m 5-year contract to provide mission support to the US SDA. This contract builds on an existing strong customer relationship with the SDA, generating incremental growth on previous work. Under the 5-year contract, QinetiQ will deliver management and professional services, acquisition support, engineering and technical assistance needed to deliver the Proliferated Warfighter Space Architecture programme. The QinetiQ team, along with its strategic partners, provide engineering services in support of SDA's most critical space missions.
- In the former Avantus business we have been awarded a $127m 5-year contract in the US from the Office of the Secretary of Defense Strategic Capabilities Office (SCO). QinetiQ will provide secure, technologically advanced services and products that will enable SCO to deploy new and enhanced capabilities in support of strategic operations

- We have been awarded a $84m 5-year contract in the US for the testing and production of the NGABS. The NGABS contract is a Program of Record where we will deliver over 700 NGAB suits to the US Army. The new suit will replace the current 20-year-old bomb suit, and will provide enhanced protection to its users in their daily operations to identify, render safe, and dispose of improvised explosive devices and other explosive threats. The new suit will increase soldier survivability and readiness to respond to evolving threats by providing them with 360-degree ballistic protection and significantly increasing situational awareness with built-in technology enhancements. This contract win is a great example of our advanced sensor and data processing capability delivering success and growth in our US business (formerly MTEQ), taking products from prototype into full-scale production.
- We are seeing continued demand for our Electromagnetic Aircraft Launch System (EMALS) and Advanced Arresting Gear (AAG) systems from the US Navy. Last year we supplied the EMALS/AAG system onto CVN-78, which has just surpassed 20,000 launch and recoveries and has achieved Blue Water Certification allowing the carrier to deploy anywhere globally. And we have recently received a $51m commitment to supply our EMALS/AAG system for the CVN-81, the fourth carrier in the Gerald R. Ford class.
- Our work on the RCV-L (Robotic Combat Vehicle Light) is progressing well. We have successfully delivered the 11th and 12th Surrogate Prototype units to the customer for continued testing and evaluation. The Soldier operational trials have been successful resulting in the RCV-L moving forward to the next phase of evaluation (Human Machine Integrated Force trials). We're also pleased to confirm that our Oshkosh-led team was one of four awardees for the RCV-L full scale prototype full and open competition. Based on the successful field trials and downselect for the next phase, we are well positioned to compete for the future $500m full production phase.
- We continue to make good progress on the Full Rate Production contract on Common Robotic System-Individual (CRS-I). We have delivered over 1,000 CRS-I robots to the US Army and have achieved a significant operational, safety and suitability milestone.
- We are seeing continued strong demand Advanced sensing systems. For example technology enabling the US Army's first AI enabled target solution by identifying potential threat vehicles at a distance of seven kilometres, and an advanced uncrewed optic sensor used to identify samples on a test range under a variety of operating and lighting conditions.

<u>Other Products and Solutions (16% of Global Solutions revenue)</u>

The portfolio of our other products and solutions provide research services and bespoke technological solutions developed from intellectual property spun out from EMEA Services, and includes our threat representation product sales in QinetiQ Target Systems (QTS).

- QTS has continued to perform well, building on the strong orders and revenue in FY23. We have responded to a number of operational requirements with UK MOD and are successfully leveraging our target capabilities globally.
- In the US, we are completing final assembly and test of the Banshee Jet 80 aerial targets to support future US customer demands and needs.
- We continue to see good demand for our sensors and communication product portfolio. In the half we have achieved strong sales and deliveries of our Q20 secure PNT (Position Navigation and Timing) product, and our advanced sensing products for the intelligence communities.

Principal risks and uncertainties

There are a number of risks and uncertainties which management continue to identify, assess and mitigate to minimise their potential impact on performance. An explanation of risks and their mitigations, together with details of our risk management framework can be found in the 2023 Annual Report and Accounts (on pages 75 to 83) which is available for download at: https://www.qinetiq.com/investors.

Having considered recent geopolitical and macroeconomic events, the Group believes the principal risks and uncertainties for the remainder of FY24 are included in, and are therefore unchanged from, those reported in the 2023 Annual Report and Accounts. The Group's principal risks and uncertainties at 31 March 2023 related to the following areas: UK large contract renewals, acquisition integration, the digital and data programme, significant breaches of laws and regulations, security, P3M (project, programme and portfolio management), climate change resilience and net-zero, cyber, health and safety, strategic workforce planning, culture and macroeconomic volatility.

Condensed consolidated income statement

All figures in £ million unless stated otherwise	Note	**H1 FY24 (unaudited)**			H1 FY23 restated^ (unaudited)		
		Underlying*	**Specific adjusting items***	**Total**	Underlying*	Specific adjusting items*	Total
Revenue	1,2	**883.1**	**-**	**883.1**	**673.4**	**-**	**673.4**
Operating costs excluding depreciation, impairment and amortisation		(757.8)	(9.4)	(767.2)	(577.6)	30.7	(546.9)
Other income	1	18.2	2.1	20.3	12.7	20.5	33.2
EBITDA* (earnings before interest, tax, depreciation and amortisation)		**143.5**	**(7.3)**	**136.2**	**108.5**	**51.2**	**159.7**
Depreciation and impairment of property, plant and equipment		(28.1)	(0.7)	(28.8)	(23.5)	-	(23.5)
Amortisation of intangible assets		(3.4)	(12.7)	(16.1)	(3.4)	(5.6)	(9.0)
Operating profit/(loss)	2	**112.0**	**(20.7)**	**91.3**	**81.6**	**45.6**	**127.2**
Finance income	5	8.9	2.2	11.1	1.4	4.9	6.3
Finance expense	5	(16.6)	-	(16.6)	(1.9)	-	(1.9)
Profit/(loss) before tax		**104.3**	**(18.5)**	**85.8**	**81.1**	**50.5**	**131.6**
Taxation (expense)/income	6	(27.0)	4.9	(22.1)	(15.7)	(5.7)	(21.4)
Profit/(loss) for the period		**77.3**	**(13.6)**	**63.7**	**65.4**	**44.8**	**110.2**
Attributable to:							
Owners of the Company		77.3	(13.6)	63.7	65.4	44.8	110.2
Non-controlling interests		-	-	-	-	-	-
Profit/(loss) for the period		**77.3**	**(13.6)**	**63.7**	**65.4**	**44.8**	**110.2**
Earnings per share for profit attributable to the owners of the Company							
Basic (pence)	7	13.4		11.0	11.4		19.2
Diluted (pence)	7	13.2		10.9	11.3		19.0

^ Prior period comparatives have been restated due to a change in accounting policy in respect of Research and Development Expenditure Credits (RDEC). See note 18.

* Alternative performance measures are used to supplement the statutory figures. These are additional financial indicators used by management internally to assess the underlying performance of the Group. Definitions can be found in the glossary.

Condensed consolidated statement of comprehensive income

All figures in £ million	**H1 FY24 (unaudited)**	H1 FY23 restated^ (unaudited)
Profit for the period	**63.7**	**110.2**
Items that will not be reclassified to the income statement:		
Actuarial loss recognised in defined benefit pension schemes	(26.5)	(157.5)
Tax on items that will not be reclassified to the income statement	6.6	39.4
Total items that will not be reclassified to the income statement	**(19.9)**	**(118.1)**
Items that may be reclassified to the income statement:		
Foreign currency translation gains for foreign operations	6.7	19.7
Movement in deferred tax on foreign currency translation	(0.1)	(1.7)
Increase in fair value of hedging derivatives	5.3	16.5
Movement on deferred tax on hedging derivatives	(1.3)	(0.3)
Total items that may be reclassified to the income statement	**10.6**	**34.2**
Other comprehensive expense for the period, net of tax	**(9.3)**	**(83.9)**
Total comprehensive income for the period, net of tax	**54.4**	**26.3**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of Research and Development Expenditure Credits (RDEC). See note 18.

Condensed consolidated statement of changes in equity

All figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Hedging reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 April 2023	**5.8**	**40.8**	**147.6**	**6.3**	**(4.2)**	**772.0**	**968.3**	**-**	**968.3**
Profit for the period	-	-	-	-	-	63.7	63.7	-	63.7
Other comprehensive income/(expense), net of tax	-	-	-	4.0	6.6	(19.9)	(9.3)	-	(9.3)
Purchase of own shares	-	-	-	-	-	(0.4)	(0.4)	-	(0.4)
Share-based payments charge	-	-	-	-	-	4.2	4.2	-	4.2
Deferred tax on share-based payments	-	-	-	-	-	(0.2)	(0.2)	-	(0.2)
Dividends	-	-	-	-	-	(30.6)	(30.6)	-	(30.6)
At 30 September 2023 (unaudited)	**5.8**	**40.8**	**147.6**	**10.3**	**2.4**	**788.8**	**995.7**	**-**	**995.7**

All figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Hedging reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 April 2022 – previously reported	**5.8**	**40.8**	**147.6**	**0.1**	**1.9**	**847.0**	**1,043.2**	**0.2**	**1,043.4**
Change in accounting policy^	-	-	-	-	-	(2.0)	(2.0)	-	(2.0)
At 1 April 2022 – restated^	**5.8**	**40.8**	**147.6**	**0.1**	**1.9**	**845.0**	**1,041.2**	**0.2**	**1,041.4**
Profit for the period	-	-	-	-	-	110.2	110.2	-	110.2
Other comprehensive income/(expense), net of tax	-	-	-	16.2	18.0	(118.1)	(83.9)	-	(83.9)
Purchase of own shares	-	-	-	-	-	(0.4)	(0.4)	-	(0.4)
Share-based payments charge	-	-	-	-	-	0.8	0.8	-	0.8
Deferred tax on share-based payments	-	-	-	-	-	0.3	0.3	-	0.3
Dividends	-	-	-	-	-	(28.8)	(28.8)	-	(28.8)
At 30 September 2022^ (unaudited)	**5.8**	**40.8**	**147.6**	**16.3**	**19.9**	**809.0**	**1,039.4**	**0.2**	**1,039.6**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of Research and Development Expenditure Credits (RDEC). See note 18.

Condensed consolidated balance sheet

All figures in £ million	Note	**30 September 2023 (unaudited)**	30 September 2022 restated^ (unaudited)	31 March 2023 (audited)
Non-current assets				
Goodwill	12	413.2	158.3	409.0
Intangible assets		333.4	140.2	343.0
Property, plant and equipment		518.0	431.6	477.8
Other financial assets		8.9	12.8	6.2
Equity accounted investments		1.6	1.1	1.4
Net pension asset	13	95.0	209.0	119.8
Deferred tax asset		33.4	25.5	32.6
		1,403.5	**978.5**	**1,389.8**
Current assets				
Inventories		75.9	63.9	68.8
Other financial assets		7.3	54.3	5.7
Trade and other receivables		448.7	353.8	452.6
Current tax asset		5.7	5.5	4.0
Assets classified as held for sale		-	39.5	-
Cash and cash equivalents		104.0	220.3	151.2
		641.6	737.3	**682.3**
Total assets		**2,045.1**	**1,715.8**	**2,072.1**
Current liabilities				
Trade and other payables		(485.5)	(454.2)	(575.2)
Current tax payable		(4.7)	-	(4.6)
Provisions		(20.1)	(21.1)	(19.7)
Liabilities of disposal group classified as held for sale		-	(29.1)	-
Other financial liabilities		(7.9)	(6.0)	(8.2)
		(518.2)	**(510.4)**	**(607.7)**
Non-current liabilities				
Deferred tax liability		(112.3)	(133.5)	(112.0)
Provisions		(3.6)	(4.5)	(7.1)
Borrowings and other financial liabilities		(386.1)	(17.4)	(361.8)
Other payables		(29.2)	(10.4)	(15.2)
		(531.2)	(165.8)	**(496.1)**
Total liabilities		**(1,049.4)**	**(676.2)**	**(1,103.8)**
Net assets		**995.7**	**1,039.6**	**968.3**
Equity				
Issued share capital		5.8	5.8	5.8
Capital redemption reserve		40.8	40.8	40.8
Share premium		147.6	147.6	147.6
Hedging reserve		10.3	16.3	6.3
Translation reserve		2.4	19.9	(4.2)
Retained earnings		788.8	809.0	772.0
Capital and reserves attributable to shareholders of the parent company		**995.7**	**1,039.4**	**968.3**
Non-controlling interest		-	0.2	-
Total equity		**995.7**	**1,039.6**	**968.3**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of Research and Development Expenditure Credits (RDEC). See note 18.

Condensed consolidated cash flow statement

All figures in £ million	Note	**H1 FY24 (unaudited)**	H1 FY23 restated^ (unaudited)	FY23 (audited)
Underlying net cash inflow from operations	**9**	**71.7**	**106.8**	**270.1**
Less specific adjusting items	9	(9.5)	(7.3)	(29.5)
Net cash inflow from operations	9	**62.2**	**99.5**	**240.6**
Tax paid		(18.9)	(18.2)	(30.2)
Interest received		8.9	1.4	5.5
Interest paid		(15.7)	(1.0)	(9.9)
Net cash inflow from operating activities		**36.5**	**81.7**	**206.0**
Purchases of intangible assets		(4.0)	(3.5)	(13.8)
Purchases of property, plant and equipment		(42.9)	(45.0)	(95.2)
Proceeds from sale of property		2.1	1.1	2.4
Proceeds from disposal of business		-	-	28.1
Acquisition of businesses		(4.9)	(1.6)	(385.9)
Net cash outflow from investing activities		**(49.7)**	**(49.0)**	**(464.4)**
Purchase of own shares		(0.4)	(0.4)	(0.8)
Dividends paid to shareholders		(30.6)	(28.8)	(42.6)
Payment of debt financing arrangement fees		(0.5)	(0.6)	(2.7)
Capital element of finance lease payments		(3.2)	(3.1)	(7.4)
Cash flow relating to intercompany loan hedges		1.3	(29.2)	(10.0)
Drawdown of new borrowings		-	-	481.1
Repayments of borrowings		-	-	(140.0)
Repayment of acquired borrowings		-	-	(117.9)
Net cash (outflow)/inflow from financing activities		**(33.4)**	**(62.1)**	**159.7**
Decrease in cash and cash equivalents		**(46.6)**	**(29.4)**	**(98.7)**
Effect of foreign exchange changes on cash and cash equivalents		(0.6)	1.6	1.8
Cash and cash equivalents at beginning of period		151.2	248.1	248.1
Cash and cash equivalents at end of period		**104.0**	**220.3**	**151.2**

Reconciliation of movement in net (debt)/cash

All figures in £ million	Note	**H1 FY24 (unaudited)**	H1 FY23 (unaudited)	FY23 (audited)
Decrease in cash and cash equivalents		**(46.6)**	**(29.4)**	**(98.7)**
Add back net cash flows not impacting net (debt)/cash		3.7	3.7	(331.0)
Change in net (debt)/cash resulting from cash flows		**(42.9)**	(25.7)	(429.7)
Net increase in lease obligation		(26.4)	(1.4)	(15.3)
Net movement in derivative financial instruments		4.3	67.2	9.8
Other movements including foreign exchange		(1.9)	(1.2)	3.2
Movement in net (debt)/cash as defined by the Group		**(66.9)**	38.9	(432.0)
Opening net (debt)/cash as defined by the Group		(206.9)	225.1	225.1
Closing net (debt)/cash as defined by the Group	8	**(273.8)**	**264.0**	**(206.9)**
Less: non-cash net financial liabilities/(assets)	8	377.8	(43.7)	358.1
Total cash and cash equivalents	8	**104.0**	**220.3**	**151.2**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of Research and Development Expenditure Credits (RDEC). See note 18.

Notes to the condensed interim financial statements

1. Revenue from contracts with customers and other income

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

All figures in £ million	**H1 FY24 (unaudited)**	H1 FY23 (unaudited)
Service contracts with customers	843.6	640.1
Sale of goods contracts with customers	37.9	31.8
Royalties and licences	1.6	1.5
Total revenue	**883.1**	**673.4**
Adjust current period for acquired businesses	(118.7)	-
Adjust prior period for disposed business	-	(23.8)
Adjust to constant prior year exchange rates	6.5	-
Total revenue on an organic, constant currency basis	**770.9**	**649.6**
Organic revenue growth at constant currency	*19%*	*10%*

Other income

All figures in £ million	**H1 FY24 (unaudited)**	H1 FY23^ (unaudited)
Share of joint ventures' and associates' profit after tax	0.2	0.3
Research and development expenditure credits (RDEC)	11.9	7.5
Other income (property related)	6.1	4.9
Other income - underlying	**18.2**	**12.7**
Specific adjusting item: gain on sale of property	2.1	0.9
Specific adjusting item: release of RDEC MOD appropriation liability	-	19.6
Other income - total	**20.3**	**33.2**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of Research and Development Expenditure Credits (RDEC). See note 18.

Revenue by customer geographical location

All figures in £ million	**H1 FY24 (unaudited)**	H1 FY23 (unaudited)
United Kingdom (UK)	581.4	459.4
United States of America (US)	196.3	102.0
Australia	63.8	57.4
Home countries (95% and 92% of total revenue for H1 FY24 and H1 FY23 respectively)	**841.5**	**618.8**
Europe	22.5	42.8
Rest of World	19.1	11.8
Total revenue	**883.1**	**673.4**

Revenue by major customer type

For the six months ended 30 September

All figures in £ million	**H1 FY24 (unaudited)**	H1 FY23 (unaudited)
UK Government	543.8	423.8
US Government	186.0	97.7
Other	153.3	151.9
Total revenue	**883.1**	**673.4**

2. Segmental analysis

Operating segments

All figures in £ million	H1 FY24 (unaudited)		H1 FY23^ (unaudited)	
	Revenue from external customers	**Underlying* operating profit***	Revenue from external customers	Underlying* operating profit
EMEA Services	654.8	77.4	524.3	61.5
Global Solutions	228.3	22.7	149.1	12.6
Total operating segments	**883.1**	**100.1**	**673.4**	**74.1**
*Operating profit margin from segments**		*11.3%*		*11.0%*
Total operating segments	883.1	100.1	673.4	74.1
Research and development expenditure credits (RDEC)		11.9		7.5
Underlying operating profit		112.0		81.6

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary
^ Prior period comparatives have been restated due to a change in accounting policy in respect of Research and Development Expenditure Credits (RDEC). See note 18.

Reconciliation of segmental results to total profit

All figures in £ million	Note	H1 FY24 (unaudited)	H1 FY23^ (unaudited)
Operating profit from segments*		100.1	74.1
Research and development expenditure credits (RDEC)		11.9	7.5
Underlying operating profit*		**112.0**	**81.6**
Specific adjusting items operating (loss)/profit	3	(20.7)	45.6
Operating profit		**91.3**	**127.2**
Net finance (expense)/income		(5.5)	4.4
Profit before tax		**85.8**	**131.6**
Taxation expense		(22.1)	(21.4)
Profit for the period attributable to equity shareholders		**63.7**	**110.2**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of Research and Development Expenditure Credits (RDEC). See note 18.

3. Specific adjusting items

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

All figures in £ million	Note	H1 FY24 (unaudited)	H1 FY23^ (unaudited)
FX gain on acquisition funding derivatives		-	42.9
Acquisition and disposal costs	4	(0.6)	(6.4)
Acquisition integration costs		(2.6)	-
Acquisition related remuneration		(1.1)	-
Restructuring costs		-	(3.3)
Digital investment		(5.1)	(2.5)
Release of RDEC appropriation liability		-	19.6
Gain on sale of property		2.1	0.9
Specific adjusting items before depreciation, amortisation and impairment		**(7.3)**	**51.2**
Impairment of property		(0.7)	-
Amortisation of intangible assets arising from acquisition		(12.7)	(5.6)
Specific adjusting items operating (loss)/profit		**(20.7)**	**45.6**
Defined benefit pension scheme net finance income	13	2.2	4.9
Specific adjusting items (loss)/profit before tax		**(18.5)**	**50.5**
Specific adjusting items – tax income/(expense)	6	4.9	(5.7)
Total specific adjusting items (loss)/profit after tax		**(13.6)**	**44.8**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of Research and Development Expenditure Credits (RDEC). See note 18.

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

All figures in £ million	**H1 FY24 (unaudited)**	H1 FY23^ (unaudited)
Underlying profit after tax	77.3	65.4
Total specific adjusting items (loss)/profit after tax (see above)	(13.6)	44.8
Total profit for the period attributable to equity shareholders	**63.7**	**110.2**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of Research and Development Expenditure Credits (RDEC). See note 18.

The total impact of specific adjusting items on operating profit (which are excluded from underlying performance) before tax was an expense of £20.7m (H1 FY23 restated: income of £45.6m). H1 FY23 included a £42.9m gain from the foreign exchange derivative contract which was taken out to hedge the foreign exchange exposure on the $590m Avantus acquisition and was executed in accordance with the Group's Treasury Policy – this was a one-off timing gain at H1 FY23 which unwound in H2 FY23 by the time of the transaction completion. H1 FY23 restated also includes a £19.6m gain from the release of the liability for MOD appropriation of RDEC.

Acquisition and disposal costs of £0.6m (H1 FY23: £6.4m) comprise costs associated with various ongoing projects and acquisitions that we have decided not to pursue, demonstrating our disciplined capital allocation policy. The H1 FY23 amount related to Avantus and Air Affairs. Acquisition related remuneration of £1.1m relates to specific post-acquisition retention arrangements for Avantus employees which were anticipated at the time of the transaction. Acquisition integration costs of £2.6m relate to the one-off costs of integrating both Avantus and Air Affairs with the existing Group operations.

Our digital investment programme continues to deliver improvements to the infrastructure, digital tools and operating systems of the company – roughly two thirds of the costs in the first half are reported as specific adjusting items in the P&L given their one-off nature, with ongoing recurring operating costs (such as licence costs and overheads) remaining within underlying operating costs. In H1 FY24 the exceptional cost element of the digital investment programme within specific adjusting items totals £5.1m (H1 FY23: £2.5m).

Also included within specific adjusting items were a gain on the sale of property in the UK of £2.1m (H1 FY23 £0.9m) and impairment of right of use lease assets in the US following space relocation of £0.7m. Amortisation of acquisition intangibles of £12.7m (H1 FY23: £5.6m) has increased due to the inclusion of amortisation of the intangible assets relating to the Avantus acquisition.

4. Business combinations

There were no acquisitions in H1 FY24 or H1 FY23. The cash flow statement includes £3.8m of deferred consideration which was settled in respect of the Air Affairs acquisition. A further £1.1m of deferred consideration was settled in respect of legacy acquisitions made by the Avantus business before its acquisition by QinetiQ.

In H1 FY23, the Group incurred £6.4m costs in respect of the acquisitions of Avantus Federal and Air Affairs, and the disposal of Space NV. A £1.6m deposit payment had been made on the Air Affairs acquisition which was included within trade and other receivables as at 30 September 2022 and the cash flows from investing activities for H1 FY23.

5. Finance income and expense

All figures in £ million	**H1 FY24 (unaudited)**	H1 FY23 (unaudited)
Receivable on bank deposits	8.9	1.4
Underlying finance income	**8.9**	**1.4**
Amortisation of recapitalisation fee	(0.6)	(0.2)
Interest on bank loans and overdrafts	(14.6)	(0.4)
Lease expense	(1.3)	(0.5)
Other interest expense	(0.1)	(0.8)
Underlying finance expense	**(16.6)**	**(1.9)**
Underlying net finance expense	**(7.7)**	**(0.5)**
Specific adjusting items:		
Defined benefit pension scheme net finance income	2.2	4.9
Net finance (expense)/income	**(5.5)**	**4.4**

6. Taxation

All figures in £ million unless stated otherwise	H1 FY24 (unaudited)			H1 FY23^ (unaudited)		
	Underlying	**Specific adjusting items**	**Total**	Underlying	Specific adjusting items	Total
Profit/(loss) before tax	**104.3**	**(18.5)**	**85.8**	**81.1**	**50.5**	**131.6**
Taxation (expense)/income	(27.0)	4.9	(22.1)	(15.7)	(5.7)	(21.4)
Profit/(loss) for the period attributable to equity shareholders	**77.3**	**(13.6)**	**63.7**	**65.4**	**44.8**	**110.2**
Effective tax rate	**25.9%**			**19.4%**		

^ Prior period comparatives have been restated due to a change in accounting policy in respect of Research and Development Expenditure Credits (RDEC). See note 18.

The total tax charge is £22.1m (H1 FY23 restated charge: £21.4m). The underlying tax charge of £27.0m (H1 FY23 restated: £15.7m) is calculated by applying the expected underlying effective tax rate at a jurisdictional level for the year ending 31 March 2024 to the underlying profit before tax for the six months to 30 September 2023.

The Group's full year expected underlying effective tax rate is 26.1% which is higher than the half year underlying effective tax rate of 25.9% (H1 FY23 restated: 19.4%) due to the jurisdictional mix of profits in H1 FY24.

The underlying effective tax rate has risen due to the increase in the UK statutory rate effective from 19% to 25% from 1st April 2023. In future we expect the effective rate to be above the UK statutory rate subject to the jurisdictional mix of profits and the recognition of deferred tax in respect of overseas tax losses and excess interest deductions.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The Group has applied the exception under the amendment to IAS 12 to recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes.

Tax losses and specific adjusting items

At 30 September 2023 the Group had unused tax losses and surplus interest costs of £182.3m (31 March 2023: £175.6m) which are available for offset against future profits.

Within deferred tax assets recognised on the balance sheet is £18.4m in respect of £87.8m of US net operating losses, £4.9m in respect of £21.3m of Canadian net operating losses and £2.5m in respect of £7.7m of German trade losses.

No deferred tax asset is recognised in respect of the £65.5m of US interest deductions due to uncertainty over the timing and extent of their utilisation. Full recognition of the US interest deductions would increase the deferred tax asset by £17.7m. The Group has recognised £32.8m of time-limited US net operating losses of which £23.2m will expire in 2035 and £9.6m in 2036. Deferred tax has been calculated using the enacted future statutory tax rates.

Tax on specific adjusting items includes a £3.4m credit for tax on the amortisation of acquisition intangibles and a £1.5m credit in respect of other pre-tax specific adjusting items, the total specific adjusting items tax credit was £4.9m (H1 FY23 restated: charge of £5.7m).

7. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company 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 potentially dilutive ordinary shares arising from unvested share-based awards including share options.

		H1 FY24 (unaudited)	**H1 FY23 (unaudited)**
Weighted average number of shares	**Million**	**577.3**	**575.4**
Effect of dilutive securities	Million	7.1	5.5
Diluted number of shares	**Million**	**584.4**	**580.9**

Underlying basic earnings per share figures are presented below, in addition to the basic and diluted earnings per share, because the Directors consider this gives a more relevant indication of underlying business performance and reflects the adjustments to basic earnings per share for the impact of specific adjusting items (see note 3) and tax thereon.

Underlying basic and diluted EPS		H1 FY24 (unaudited)	H1 FY23^ (unaudited)
Profit attributable to the owners of the Company	£ million	63.7	110.2
Remove loss/(profit) after tax in respect of specific adjusting items	£ million	13.6	(44.8)
Underlying profit after taxation	**£ million**	**77.3**	**65.4**
Weighted average number of shares	Million	577.3	575.4
Underlying basic EPS	**Pence**	**13.4**	**11.4**
Diluted number of shares	Million	584.4	580.9
Underlying diluted EPS	**Pence**	**13.2**	**11.3**

Basic and diluted EPS		H1 FY24 (unaudited)	H1 FY23^ (unaudited)
Profit attributable to the owners of the Company	£ million	63.7	110.2
Weighted average number of shares	Million	577.3	575.4
Basic EPS – total Group	**Pence**	**11.0**	**19.2**
Diluted number of shares	Million	584.4	580.9
Diluted EPS – total Group	**Pence**	**10.9**	**19.0**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of Research and Development Expenditure Credits (RDEC). See note 18.

8. Net (debt)/cash

All figures in £ million	30 September 2023 (unaudited)	30 September 2022 (unaudited)	31 March 2023 (audited)
Current financial (liabilities)/assets			
Deferred financing costs	1.2	0.6	1.3
Derivative financial assets	6.1	53.7	4.4
Lease liabilities	(7.0)	(5.8)	(7.6)
Derivative financial liabilities	(0.9)	(0.2)	(0.6)
Total current net financial (liabilities)/assets	(0.6)	48.3	(2.5)
Non-current financial (liabilities)/assets			
Deferred financing costs	1.5	0.7	1.5
Derivative financial assets	7.4	12.1	4.7
Lease liabilities	(47.3)	(17.2)	(23.7)
Borrowings – Term loan	(338.5)	-	(337.6)
Derivative financial liabilities	(0.3)	(0.2)	(0.5)
Total non-current net financial liabilities	(377.2)	(4.6)	(355.6)
Total net financial (liabilities)/assets	**(377.8)**	**43.7**	**(358.1)**
Cash and cash equivalents	104.0	220.3	151.2
Total net (debt)/cash as defined by the Group	**(273.8)**	**264.0**	**(206.9)**

9. Cash flows from operations

All figures in £ million	H1 FY24 (unaudited)	H1 FY23^ (unaudited)	FY23 (audited)
Profit after tax for the period	63.7	110.2	154.4
Adjustments for:			
Taxation expense	22.1	21.4	37.6
Net finance expense/(income)	5.5	(4.4)	(3.3)
Gain on acquisition funding foreign exchange derivatives	-	(42.9)	-
Gain on disposal of business	-	-	(15.9)
Loss on disposal of plant and equipment	-	-	0.2
Gain on sale of property	(2.1)	(0.9)	(2.0)
Impairment of property, plant and equipment	0.7	-	-
Amortisation of purchased or internally developed intangible assets	3.4	3.4	7.5
Amortisation of intangible assets arising from acquisitions	12.7	5.6	15.6
Depreciation of property, plant and equipment	28.1	23.5	51.5
Share of post-tax gain of equity accounted entities	(0.2)	(0.3)	(0.8)
Share-based payments charge	4.6	1.0	6.1
Retirement benefit contributions lower/(higher) than income statement expense	0.5	0.6	(1.6)
Net movement in provisions	(2.6)	-	(1.0)
Increase in inventories	(6.8)	(3.9)	(9.6)
Decrease/(Increase) in receivables	4.1	8.3	(56.7)
(Decrease)/Increase in payables	(71.5)	(22.1)	58.6
Changes in working capital	(74.2)	(17.7)	(7.7)
Net cash flow from operations	**62.2**	**99.5**	**240.6**

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

All figures in £ million	H1 FY24 (unaudited)	H1 FY23^ (unaudited)	FY23 (audited)
Net cash flow from operations	62.2	99.5	240.6
Add back cash impact of specific adjusting item: acquisition and disposal costs (including integration and acquisition related remuneration costs)	4.4	2.4	18.7
Add back cash impact of specific adjusting item: restructuring costs	-	2.4	5.0
Add back cash impact of specific adjusting item: digital investment	5.1	2.5	5.8
Underlying net cash flow from operations	**71.7**	**106.8**	**270.1**
Less: tax and net interest payments	(25.7)	(17.8)	(34.6)
Less: purchases of intangible assets and property, plant & equipment	(46.9)	(48.5)	(109.0)
Free cash flow	**(0.9)**	**40.5**	**126.5**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of Research and Development Expenditure Credits (RDEC). See note 18.

Underlying cash conversion ratio

	H1 FY24 (unaudited)	H1 FY23 (unaudited)	FY23 (audited)
Underlying EBITDA - £ million	143.5	108.5	255.3
Underlying net cash flow from operations - £ million	71.7	106.8	270.1
Underlying cash conversion ratio - %	**50%**	**98%**	**106%**

10. Financial risk management

The interim financial statements do not include all financial risk management information and disclosures required in annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 March 2023. There have been no changes in any risk management policies since the year end. The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – measured using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 2 derivatives comprise forward foreign exchange contracts which have been fair valued using forward exchange rates that are quoted in an active market; and

Level 3 – measured using inputs for the assets or liability that are not based on observable market data (i.e. unobservable inputs).

The Group's assets and liabilities that are measured at fair value, as at 30 September 2023, are as follows:

All figures in £ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Current derivative financial instruments	-	6.1	-	6.1
Non-current derivative financial instruments	-	7.4	-	7.4
Liabilities:				
Current derivative financial instruments	-	(0.9)	-	(0.9)
Non-current derivative financial instruments	-	(0.3)	-	(0.3)
Total	**-**	**12.3**	**-**	**12.3**

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2023:

All figures in £ million	Level 1	Level 2	Level 3	Total
Assets:				
Current derivative financial instruments	-	4.4	-	4.4
Non-current derivative financial instruments	-	4.7	-	4.7
Liabilities:				
Current derivative financial instruments	-	(0.6)	-	(0.6)
Non-current derivative financial instruments	-	(0.5)	-	(0.5)
Total	-	**8.0**	**-**	**8.0**

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

11. Dividends

An analysis of the dividends paid and proposed in respect of the period ended 30 September 2023 and comparative periods is provided below:

	Pence per ordinary share	**£m**	**Date paid/payable**
Interim FY24	**2.6**	**15.0**	**Feb 2024**
Interim FY23	2.4	13.8	Feb 2023
Final FY23	5.3	30.6	Aug 2023
Total for the year ended 31 March 2023	7.7	44.4	

The interim dividend is 2.6p (Interim FY23: 2.4p). The dividend will be paid on 2 February 2024. The ex-dividend date is 4 January 2024 and the record date is 5 January 2024.

12. Goodwill

Goodwill is allocated across six Cash Generating Units (CGUs) within the EMEA Services segment and four CGUs within the Global Solutions segment. The full list of CGUs that have goodwill allocated to them is as follows:

All figures in £ million	Primary reporting segment	30 September 2023 (unaudited)	30 September 2022 (unaudited)	31 March 2023 (audited)
US Technology Solutions	Global Solutions	44.6	49.0	44.1
US C5ISR	Global Solutions	37.3	40.9	36.8
Avantus	Global Solutions	261.2	-	257.8
Target Systems	Global Solutions	24.5	25.1	24.5
QinetiQ Germany	EMEA Services	2.7	2.7	2.7
Inzpire	EMEA Services	11.7	11.7	11.7
QinetiQ Training and Simulation	EMEA Services	7.8	7.8	7.8
Naimuri	EMEA Services	14.8	14.8	14.8
Australia	EMEA Services	5.7	6.3	5.8
Air Affairs	EMEA Services	2.9	-	3.0
Net book value		**413.2**	**158.3**	**409.0**

Goodwill is attributable to the excess of consideration over the fair value of net assets acquired and includes expected synergies, future growth prospects and employee knowledge, expertise and security clearances. The Group tests each CGU for impairment annually, or more frequently if there are indications that goodwill might be impaired. Impairment testing is dependent on management's estimates and judgments, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates. As at 31 March 2023, significant headroom existed in all CGUs with the exception of QinetiQ Germany (see below) and management considers that there are no likely variations in the key assumptions which would lead to an impairment being recognised in those other CGUs.

The carrying value of the goodwill for the Germany CGU as at 30 September 2023 was £2.7m (31 March 2023: £2.7m). As at 31 March 2023, the recoverable amount based on the value in use calculations was £6.4m higher than the carrying value of assets. Confidence remains in the business prospects over the next five years, with a new leadership team on board and a healthy pipeline of opportunities.

13. Post-retirement benefits

In the UK the Group operates the QinetiQ Pension Scheme (the Scheme) for approximately one quarter of its UK employees. The Scheme closed to future accrual on 31 October 2013 and there is no on-going service cost. The Scheme is in a net asset position with the market value of assets in excess of the present value of Scheme liabilities. These have the values set out below as at each period end.

All figures in £ million	30 September 2023 (unaudited)	30 September 2022 (unaudited)	31 March 2023 (audited)
Fair value of plan assets	**1,236.2**	**1,429.6**	**1,355.2**
Present value of Scheme liabilities	(1,141.2)	(1,220.6)	(1,235.4)
Net pension asset before deferred tax	**95.0**	**209.0**	**119.8**
Deferred tax liability	(29.4)	(58.3)	(35.4)
Net pension asset after deferred tax	**65.6**	**150.7**	**84.4**

The balance sheet net pension asset is a snapshot view which can be significantly influenced by short-term market factors. The calculation of the net asset depends on factors which are beyond the control of the Group – principally the value at the balance sheet date of the various categories of assets in which the Scheme has invested and long-term interest rates and inflation rates used to value the Scheme's liabilities. This is particularly pertinent in the current economic climate whilst markets are extremely volatile. Sensitivities and risks are described below.

Per the Scheme rules the Company has an unconditional right to a refund of any surplus, assuming gradual settlement of all liabilities over time. Such surplus may arise on cessation of the Scheme in the context of IFRIC 14 paragraphs 11(b) and 12 and therefore the full net pension asset can be recognised on the Group's balance sheet and the Group's minimum funding commitments to the Scheme do not give rise to an additional balance sheet liability.

The fair value of the QinetiQ Pension Scheme assets, which are not intended to be realised in the short term and may be subject to significant changes before they are realised, were:

All figures in £ million	30 September 2023 (unaudited)	30 September 2022 (unaudited)	31 March 2023 (audited)
Equities – quoted	181.8	176.9	177.4
Equities – unquoted	24.6	41.2	32.9
Liability driven investment	130.9	252.4	227.2
Asset backed security investments	4.5	116.2	4.3
Alternative bonds	263.1	242.7	256.4
Corporate bonds	113.5	94.4	117.6
Property funds	-	13.9	-
Cash and other equivalents	31.4	16.9	17.2
Derivatives	(6.3)	(21.8)	6.7
Insurance buy-in policy	492.7	496.8	515.5
Total market value of Scheme assets	**1,236.2**	**1,429.6**	**1,355.2**

The Scheme's assets do not include any of the Group's own transferable financial instruments, property occupied by, or other assets used by the Group.

The movement in the net pension asset (before deferred tax) is set out below:

All figures in £ million	30 September 2023 (unaudited)	30 September 2022 (unaudited)	31 March 2023 (audited)
Opening net pension asset before deferred tax	119.8	362.2	362.2
Net finance income	2.2	4.9	9.9
Net actuarial loss	(26.5)	(157.5)	(253.9)
Contributions by the employer	-	-	3.0
Administration expenses	(0.5)	(0.6)	(1.4)
Closing net pension asset before deferred tax	**95.0**	**209.0**	**119.8**

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

	30 September 2023 (unaudited)		30 September 2022 (unaudited)		31 March 2023 (audited)	
	Un-insured members	Insured members	Un-insured members	Insured members	Un-insured members	Insured members
Discount rate applied to Scheme liabilities	5.40%	5.50%	4.95%	5.35%	4.65%	4.80%
CPI inflation assumption	2.70%	2.65%	3.00%	2.95%	2.70%	2.55%
Net rate (discount rate less inflation)	2.70%	2.85%	1.95%	2.40%	1.95%	2.25%
Assumed life expectancies(at age 60) in years:						
For males currently aged 40	27.9	n/a	28.4	n/a	27.9	n/a
For females currently aged 40	30.3	n/a	30.7	n/a	30.3	n/a
For males currently aged 60^	26.2	21.5	26.7	22.0	26.2	21.6
For females currently aged 60^	28.2	23.3	28.6	23.7	28.2	23.3

^For pensioners (insured members) at age 65 currently aged 65

Risks
The Group is exposed to a number of risks in respect to the valuation of the Scheme, the most significant of which are detailed below:

Volatility in market conditions
Results under IAS 19 can change dramatically depending on market conditions. The present value of Scheme liabilities is linked to yields on AA-rated corporate bonds, while many of the assets of the Scheme are invested in various forms of assets subject to fluctuating valuations. Changing markets in conjunction with discount rate volatility will lead to volatility in the net pension asset on the Group's balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the IAS 19 pension net finance income in the Group's income statement.

Choice of accounting assumptions
The calculation of the present value of Scheme liabilities involves projecting future cash flows from the Scheme many years into the future. This means that the assumptions used can have a material impact on the balance sheet position and profit and loss charge. In practice future experience within the Scheme may not be in-line with the assumptions adopted. For example, members could live longer than foreseen or inflation could be higher or lower than allowed for in the calculation of the liabilities. Sensitivities to the main assumptions are set out below.

Key assumptions	Indicative impact on Scheme assets	Indicative impact on Scheme liabilities	Indicative impact on net pension asset
Decrease discount rate by 0.25%	Increase by £12.3m	Increase by £39.3m	Decrease by £27.0m
Increase rate of inflation by 0.1%	Increase by £4.8m	Increase by £15.8m	Decrease by £11.0m
Increase life expectancy by one year	Increase by £12.7m	Increase by £28.6m	Decrease by £15.8m

The impact of movements in Scheme liabilities will, to an extent, be offset by movements in the value of Scheme assets as the Scheme has assets invested in a Liability Driven Investment Portfolio. As at 30 September 2023 this hedges against approximately 70% of the interest rate risk and also 85% of the inflation rate risk, as measured on the Trustees' gilt-funded basis. Subsequent to 30 September 2023, the hedging of the interest rate risk has increased to approximately 80%.

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

In addition to the sensitivity of the liability side of the net pension asset (which will impact the value of the net pension asset) the net pension asset is also exposed to significant variation due to changes in the fair value of Scheme assets. A specific sensitivity on assets has not been included in the above table but any change in valuation of assets flows straight through to the value of the net pension asset e.g. if equities fall by £10m then the net pension asset falls by £10m. The values of unquoted assets assume that an available buyer is willing to purchase those assets at that value. For the Group's portfolio of assets, the unquoted alternative bonds, unquoted corporate bonds and unquoted equities of £263.1m, £113.5m and £24.6m respectively are the assets with most uncertainty as to valuation as at 30 September 2023.

The accounting assumptions noted above are used to calculate the period end present value of Scheme liabilities in accordance with the relevant accounting standard, IAS 19 (revised) 'Employee benefits'. Changes in these assumptions have no impact on the Group's cash payments into the Scheme. The payments into the Scheme are reassessed after every triennial valuation. The latest completed triennial valuation of the Scheme was a net surplus of £176.5m as at 30 June 2020. The triennial valuation as at 30 June 2023 is ongoing and is not expected to result in a requirement for the Group to make a contribution into the scheme.

The triennial valuations are calculated on a 'funding basis' and use a different set of assumptions, as agreed with the pension Trustees. The key assumption that varies between the two methods of valuation is the discount rate. The funding basis valuation uses the risk-free rate from UK gilts as the base for calculating the discount rate, whilst the IAS 19 accounting basis valuation uses corporate bond yields as the base.

14. Own shares and share-based awards

Own shares represent shares in the Company that are held by independent trusts and include treasury shares and shares held by the employee share ownership plan. Included in retained earnings at 30 September 2023 are 2,857,591 shares (31 March 2023: 4,208,899 shares).

In H1 FY24 the Group granted 7.4 million new share-based awards to employees (H1 FY23: 0.2 million). The increase is due to the Group's new LTIP scheme granting conditional shares at the beginning of the performance period. Further details can be found in the Remuneration Report within the 31 March 2023 Annual Report and Accounts.

15. Related party transactions with equity accounted investments

During H1 FY24 there were sales to associates and joint ventures of £1.4m (H1 FY23: £0.3m). At the period end there were outstanding receivables from associates and joint ventures of £1.4m (31 March 2023: £0.5m).

16. Capital commitments

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

All figures in £ million	**30 September 2023 (unaudited)**	31 March 2023 (audited)
Contracted	32.9	43.4

Capital commitments at 30 September 2023 include £19.3m (31 March 2023: £21.2m) in relation to property, plant and equipment that will be wholly funded by a third party customer under a long-term contract arrangement. These primarily relate to investments under the LTPA contract.

17. Contingent liabilities

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, including in respect of environmental, health & safety and regulatory issues. 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, ongoing investigations 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 remote.

18. Significant accounting policies

Basis of preparation

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

The condensed consolidated interim financial statements of the Group for the six months ended 30 September 2023 comprise statements for the Company and its subsidiaries (together referred to as the 'Group') and were approved by the Board of Directors on 16 November 2023.

The financial statements have been reviewed, not audited.

This condensed consolidated interim financial report for the half-year reporting period ended 30 September 2023 has been prepared in accordance with the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

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

Item	Distorting due to irregular nature year on year	Distorting due to fluctuating nature (size and/or sign)	Does not reflect in-year operational performance of continuing business
Amortisation of intangible assets arising from acquisitions			✓
Pension net finance income		✓	✓
Gains/losses on business divestments and disposal of property and investments	✓	✓	✓
Transaction, integration and acquisition related remuneration costs in respect of business acquisitions and disposals	✓	✓	✓
Digital investment	✓	✓	✓
One-off FX gain on acquisition funding arrangements	✓	✓	✓
Costs of group-wide restructuring programmes	✓	✓	
Impairment of goodwill and property	✓	✓	✓
The tax impact of the above	✓	✓	✓
Other significant non-recurring tax and RDEC movements	✓	✓	✓

All items treated as a specific adjusting item in the current and prior period are detailed in note 3 and are excluded from the 'underlying' measures of performance. These Alternative Performance Measures (APMs), definitions of which can be found in the glossary at the end of this document, are used to monitor performance and also used for management remuneration purposes.

In periods where there are significant one-off trading items impacting on performance (such as a contract write-down which is not of the nature/type detailed above and hence not reported as a specific adjusting item) then these are still reported within underlying measures of performance but narrative explanation is provided to quantify the impact on such measures (where appropriate).

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 2023.

Changes in accounting policies

Following a routine Financial Reporting Council (FRC) review of the consolidated financial statements for the year ended 31 March 2022, the Group changed its accounting policy relating to RDEC for the year ended 31 March 2023. The Group's accounting policy had historically been to account for RDEC under IAS12 Income Tax, as a credit within the tax charge. Following engagement with the FRC, and a review of common market practice, the Group decided to account for RDEC as other operating income under IAS20 Government grants.

The impact of this change is to move £27.1m of RDEC income for the period ending 30 September 2022 from the tax charge into other operating income. This consists of £7.5m of underlying income and a £19.6m specific adjusting item in relation to the release of MoD appropriation liability.

The impact on the balance sheet is to reclassify a £23.0m receivable from current tax payable to other receivables as at 30 September 2022 as well as £14.9m from current tax to accrued expenses and other payables. There is an impact on net assets of £4.2m at 30 September 2022 due to the deferred income impact of the updated income recognition under IAS12.

The following tables show the adjustments recognised for each individual line item as at 30 September 2022.

Impact on the condensed consolidated income statement for H1 FY23

All figures in £ million	As originally presented	Impact of restatement	Restated
Revenue	673.4	-	673.4
Operating costs	(546.9)	-	(546.9)
Other income	6.1	27.1	33.2
EBITDA (earnings before interest, tax, depreciation and amortisation)	**132.6**	**27.1**	**159.7**
Depreciation and amortisation	(32.5)	-	(32.5)
Operating profit	**100.1**	**27.1**	**127.2**
Finance income	6.3	-	6.3
Finance expense	(1.9)	-	(1.9)
Profit before tax	**104.5**	**27.1**	**131.6**
Taxation expense	7.9	(29.3)	(21.4)
Profit/(loss) for the year attributable to equity shareholders	**112.4**	**(2.2)**	**110.2**

Impact on the condensed consolidated balance sheet at 30 September 2022

All figures in £ million	As originally presented	Impact of restatement	Restated
Assets/liabilities			
Trade and other receivables	330.8	23.0	353.8
Trade and other payables	(439.3)	(14.9)	(454.2)
Current tax asset	18.4	(12.9)	5.5
Deferred tax liability	(134.1)	0.6	(133.5)
Other net assets	1,268.0	-	1,268.0
Net assets	**1,043.8**	**(4.2)**	**1,039.6**
Equity			
Retained earnings	813.2	(4.2)	809.0
Share capital and other reserves	230.4	-	230.4
Non-controlling interest	0.2	-	0.2
Total equity	**1,043.8**	**(4.2)**	**1,039.6**
Impact on net cash			
Net cash (as defined by the Group – see glossary)	**264.0**	-	**264.0**

Going-concern basis

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

These condensed interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The comparative figures for the year ended 31 March 2023 (and half year ended 30 September 2022) 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 2023 have been delivered to the registrar of companies. The report of the auditors (i) was unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The Group’s financial statements for the year ended 31 March 2023 are available upon request from the Company’s registered office at Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX, or at the Company’s website (www.QinetiQ.com).

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

The Directors confirm that these condensed interim financial statements have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months 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 financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The Directors of QinetiQ Group plc are listed in the QinetiQ Group plc Annual Report for 31 March 2023. A list of current directors is maintained on the QinetiQ Group plc website: www.qinetiq.com.

By order of the Board

Steve Wadey
Chief Executive Officer
16 November 2023

Carol Borg
Chief Financial Officer
16 November 2023

Independent review report to QinetiQ Group plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed QinetiQ Group plc's condensed consolidated interim financial statements (the 'interim financial statements') in the Interim Results of QinetiQ Group plc for the 6 month period ended 30 September 2023 (the "period").

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

The interim financial statements comprise:

- the Condensed consolidated balance sheet as at 30 September 2023;
- the Condensed consolidated income statement and Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated cash flow statement for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Results of QinetiQ Group plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

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

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

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

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The Interim Results, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the Interim Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the Interim Results, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

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

PricewaterhouseCoopers LLP
Chartered Accountants
Southampton
16 November 2023

Glossary

CPI	Consumer Price Index
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
MOD	UK Ministry of Defence
RDEC	Research and Development Expenditure Credits
SSRO	Single Source Regulations Office

Alternative performance measures ('APMs')

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

Measure	**Explanation**	**Note reference to calculation or reconciliation to statutory measure**
Organic growth	The level of year-on-year growth, expressed as a percentage, calculated at constant prior year foreign exchange rates, adjusting for business acquisitions and disposals to reflect equivalent composition of the Group	Note 1
Operating profit from segments	Total operating profit from segments which excludes 'specific adjusting items' and research and development expenditure credits ('RDEC')	Note 2
Operating profit margin from segments	Operating profit from segments expressed as a percentage of revenue	Note 2
Underlying operating profit	Operating profit as adjusted to exclude 'specific adjusting items'	Note 2
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue	Operating Review
Underlying net finance income/expense	Net finance income/expense as adjusted to exclude 'specific adjusting items'	Note 5
Underlying profit before/after tax	Profit before/after tax as adjusted to exclude 'specific adjusting items'	Note 6
Underlying effective tax rate	The tax charge for the year excluding the tax impact of 'specific adjusting items' expressed as a percentage of underlying profit before tax	Note 6
Underlying basic and diluted EPS	Basic and diluted earnings per share as adjusted to exclude 'specific adjusting items'	Note 7
Orders	The level of new orders (and amendments to existing orders) booked in the year	N/A
Backlog, funded backlog or order book	The expected future value of revenue from contractually committed and funded customer orders	N/A
Book to bill ratio	Ratio of funded orders received in the year to revenue for the year, adjusted to exclude revenue from the 25-year LTPA contract due to significant size and timing differences of LTPA order and revenue recognition which distort the ratio calculation	N/A
Underlying net cash flow from operations	Net cash flow from operations before cash flows of specific adjusting items	Note 9
Underlying operating cash conversion or cash conversion ratio	The ratio of underlying net cash from operations to underlying EBITDA.	Note 9
Free cash flow	Underlying net cash flow from operations less net tax and interest payments less purchases of intangible assets and property, plant and equipment plus proceeds from disposals of plant and equipment	Note 9
Net (debt)/cash	Net (debt)/cash as defined by the Group combines cash and cash equivalents with borrowings and other financial assets and liabilities, primarily available for sale investments, derivative financial instruments and lease liabilities	Note 8
Return on capital employed	Calculated as: Underlying EBITA / (average capital employed less net pension asset), where average capital employed is defined as shareholders equity plus net debt (or minus net cash)	CFO Review
Specific adjusting items	Amortisation of intangible assets arising from acquisitions; impairment of property and goodwill; gains/losses on disposal of property, investments and businesses; net pension finance income; transaction, integration and acquisition-related remuneration costs in respect of business acquisitions and disposals; digital investment; tax impact of the preceding items and significant non-recurring tax and RDEC movements	Note 3
FY	The financial year ended 31 March	n/a