Key:
Steve Wadey – CEO
David Smith – CFO
Carol Borg – CFO Designate
David Haworth – Head of Investor Relations

Operator: This meeting is being recorded.

John Haworth: Good morning and welcome to FY22 QinetiQ Interim Results Presentation. It’s great to be here in person with a physical presentation in London. This event is also broadcast online live so welcome to both those in the room and also those online. I’m John Haworth, Head of Investor Relations for QinetiQ, and I’m joined by Steve Wadey, CEO; David Smith, CFO; and Carol Borg, CFO Designate. Steve and David will run through the presentation, after which there’ll be an opportunity for you to ask questions. We will start with questions in the room here first, followed by questions for those on the phone afterwards. And I’ll give instructions as to how to do that at that point. Thank you very much. Steve, over to you.

Steve Wadey: Thank you, John. And good morning everybody. And welcome to the interim results for FY 22. Thank you for joining and it’s good, as John says, to see some of you here in person in London.

Overall, we have delivered good underlying performance impacted by two discrete short-term issues. Whilst I am disappointed, we have continued to make good progress implementing our strategy and have a robust action plan in place to resolve both of these issues within the year. Therefore, I’m confident that we will deliver our full year guidance as described in the 14th October trading update. In parallel and building on our strong track record of growth over the last five years, we continue to focus on our strategy to drive the next five years of global growth. With this in mind, I’d like to take a moment to describe this picture, showing recent trials of our un-crewed target system flying off HMS Prince of Wales. These trials were part of the development of the Royal Navy’s future maritime aviation force and demonstrate our capability to partner and deliver complex experimentation and training at pace. It really is a brilliant example of the value we create for our customers through mission-led innovation.

The agenda this morning is as follows. I’ll start by summarising the headlines. David will provide the commentary on our financial results. I’ll introduce Carol Borg, our CFO Designate, to say a few words and share her initial reflections since joining the group. And then I’ll come back and give you an operational and strategic update. And then David and I will open up for any questions.

Let’s start with the headlines. As I said, we have delivered good underlying performance across the group, impacted by two discrete short-term issues. Orders are significantly up 25% on an organic basis, providing a robust backlog of more than £3 billion. Revenue is up 3% on an organic basis, flat after three disposals in the prior year. Profit is £53.4 million after a £14.5 million write-down on a large complex project. EPS is 8.1 pence and our interim dividend is maintained at a third of the prior year’s total. Overall, we do remain on track to deliver our full year guidance in line with the 14th October trading update.
We also continued to make good progress with our major achievements being £678 million of orders across the group, including $184 million of orders in the US. And we've delivered excellent revenue growth in Australia, up 19%, and in the UK, up 11%, driven by good delivery performance across all our major contracts.

However, we experienced weaker short-term performance in the US due to the customers’ accelerated withdrawal from Afghanistan and COVID-related delivery challenges. And we've also taken a prudent write-down due to the unique combination of risks on the complex projects, with the full impact contained within our H1 results. I'm very aware that the inability to provide specific details on this project has caused some uncertainty in our investor base. I’d like to reassure you all that both of these issues are bounded. I'll share more details later and set out our robust plan to resolve them within the year.

With more than 90% of our revenue contracted, we start the second half in a strong position. And our immediate priority is to deliver our full year guidance. We also continue to execute our multi-domestic growth strategy to deliver sustainable profitable growth into our addressable market worth more than £20 billion per year and enhance returns for shareholders.

I'll now hand over to David for an overview of our financial results.

**David Smith:** Thank you, Steve. And good morning, everybody. As usual, I'll begin with a summary of our financial performance in the first half before going into more detail on the drivers. Order intake was excellent, increasing by 25% organically and by 21% overall, which maintained our strong order backlog at £3 billion. Revenue was broadly flat at £600 million and grew 3% on an organic basis. Underlying operating profits declined to £53 million, driven by the impact of the £14.5 million write-down on a complex project.

On the next slide, I'm going to outline the performance of the group before and after this write-down. Underlying earnings per share fell by 20% to 8.1 pence, driven by the write-down. We delivered a strong cash performance with 131% underlying cash conversion, and our balance sheet remains strong with net cash of £139 million. We're proposing a half-year dividend of 2.3 pence, and that represents one-third of prior-year total dividend in line with our previously announced methodology.

So this next table outlines our underlying results, the impacts of the complex project write-down and the underlying trading performance before the write-down. And the purpose of the table is to demonstrate the year-on-year growth across orders, revenue before the impact of the write-down and the impact on operating profit. As you can see, trading performance of the underlying business remains resilient, with order intake up 25% and a 29% increase on an organic basis. Revenue was up 1%, 4% organically, but operating profit decreased by 2%, 6% decline on an organic basis. Importantly, operating margin at 11.2% was in line with the guidance we gave in our October trading update of the lower end of the 11-12% range before the write-down for the year. And we're still on track with that guidance.

Moving on now to orders, I'm going to give some more detail around orders our growth. We made very strong progress, with 25% organic growth, 21% growth overall. And the key driver of that strong order performance was EMEA Services, which grew orders by £96 million in the first half. That's primarily driven by £68 million of orders under our weapon sector research framework contracts for the development of directed energy weapon systems in the UK. And orders vary from defence digital and defence intelligence.
In addition, we saw organic growth of £39 million in global products, driven by the $62 million order for the full rate production contracts on the CRS-I robots. There was a £14 million adverse FX effects and a £9 million contribution from Naimuri, giving us the reported number of £677 million for the first half. And we have over 90% of fiscal 2022 revenue, either delivered or under contract, for the second half.

So turning now to revenue, we achieved organic revenue growth of 3%, which was broadly flat on an organic basis. In EMEA Services, we grew revenue by 14% organically, primarily due to the new work delivered under EDP and the major service contracts in Australia. However, that was partially offset by a 26% organic decline in global products, driven by the supply chain and technical challenges on the CRS-I robot ramp and the short-term impact of the change in customer funding priorities in the US. Including the write-down effects and the small contribution from Naimuri, that contributed overall to this broadly flat reported revenue growth.

This next slide highlights the lumpy orders and revenue situation we see in half-over-half in the US and our expected revenue growth in the second half of fiscal 2022. So as we’ve already said, we achieved excellent order intake in the first half at $184 million compared to $83 million in the second half of fiscal 2021. However, that contributed to an 18% decline in revenue half-over-half.

So in addition to entering the year with a lower order intake – or lower order backlog, sorry, due to the short-term effects of COVID and the administration change, our first half revenues were also particularly affected by shifts in customers' priorities from counter-insurgency missions in Afghanistan, to emerging near-term threats in the Indo-Pacific and the deferral of some marine contracts. Furthermore, we saw the COVID-related delivery and supply challenges on CRS-I robot launch.

Coming to orders, in the first half, within that $184 million, we achieved three significant contract wins across our SPECTRE next generation prototype sensor for airborne platforms, our full-rate production contract on the CRS-I robots and a $12 million follow-on order for further prototype vehicles on the RCV-Light programme. So with that stronger result in backlog, we're confident to deliver a stronger second half in the US across revenue and profit, with revenue roughly equal to last year and up 21% versus the first half, building a stronger platform for future growth.

Turning now to operating profit, overall reported operating profit was down 23%, and down 26% organically. However, in EMEA Services, actually, we grew profit by 15% to £8.5 million, driven by both the strong revenue growth and very good delivery on our contract portfolio. And that was offset by a £27 million organic decline in global products due to the challenges in the US I’ve already outlined and separately, the £14.5 million write-down on the complex project.

After disposal, acquisitions and FX, that resulted in an operating profit of £53.4 million. And as I’ve already said, excluding the write-down, our operating margin of 11.2% was within our short-term guidance of lower-end 11 to 12%.

Turning now to EMEA Services specifically, the chart here shows the split by business unit within the EMEA Services division. The 26% increase in orders was primarily due to that £68 million of orders under the Weapons Sector Research Framework, and also the growth in Defence Digital and Defence Intelligence.
Our revenue increased by 15%, 14% organically, driven by new work delivered under EDP and the growth in Australia under the MSP contract. And underlying profit also increased by 15% in line with the revenue growth at stable margins. So that resulted in operating margins of 13.7%, in line with last year, and reflecting ongoing disciplined execution on long-term contracts and cost control measures. With a book to bill of over 1.3, we maintained a substantial order backlog following the strong orders performance, which gives us good forward visibility in the EMEA Services.

Turning to Global Products, order intake was also up 28% organically, with the contribution from the $62 million CSR-I full-rate production order. And total orders were up 8% once the impact of FX disposals were accounted for. However, as we said, our reported revenue was down 37%, 28% organically, largely driven by the US performance I’ve already explained. And in line with the overall revenue decline, we reported a £14 million operating loss in Global Products for the half year, most significantly impacted by the £14.5 million write-down on the complex project, but also obviously burdened by the lower revenue and profit in the US.

As highlighted earlier, following our good first half orders performance in the US business, we are confident to deliver a stronger revenue and profit in the second half in Global Products.

Moving that to cash conversion – sorry, cash flow conversion, overall, our operating cash conversion at 131% is strong, partially reflecting the fact that the profit write-down didn’t affect cash flow. We saw a working capital unwind of £13 million, primarily due to the timing of payables and cash flow associated with CAPEX was £49 million as we continue to invest in our core contracts, such as the LTPA, to support long-term sustainable growth.

After CAPEX, we had underlying net cash inflow of £21 million from operations, and it’s worth reemphasisising that our objective is to be – to fund our CAPEX and organic investment from operating cash flow.

So this next slide shows the movements in net cash from £164 million at the end of March to £139 million at the end of September. As I said, net cash flow from operations of £21 million was partially offset by tax charges of £13 million and a small interest charge resulting in free cash flow of £8 million. After dividend payments of £27 million and some other smaller movements on these leases, we ended the period with £139 million of net cash. And with this net cash balance and committed facilities of £275 million, which are expandable to £400 million, our balance sheet remains robust in our capacity to support our growth plans for the company and proactive strategic acquisitions.

Our financial strategy is to drive revenue growth at stable margins for the appropriate return on capital. And we maintain a rigorous approach to evaluate in the deployment of that capital, scrutinising both organic and inorganic opportunities in the same manner to ensure returns to our shareholders are appropriate for the risks we are taking.

Turning now to technical factors, I’ve updated these to the latest status. With a positive cash balance, our underlying net finance costs are expected to remain minimal. In fiscal 2021, our effective tax rate is 15.9%. In fiscal 2022, we anticipate the full year effective rates to be about 12.5%, due primarily to the positive impact from the UK super deduction. Cash outflow is expected to increase, however, due to the anticipated growth in overseas profit. Working capital outflows were £13 million in the first half. And we anticipate there may be some further potential for unwind depending on trading performance in the second half. Capital expenditure
is expected to increase to £90-120 million for the year as we invest in digital transformation while continuing to invest in our major contracts.

Finally now to our outlook, which is unchanged from our trading statements that we gave in October, for the full year, we expect to deliver mid-single-digit organic revenue growth at around 5% and underlying operating profit margin at the lower end of our 11-12% range, further reduced by the £14.5 million write-down. And that write-down is fully contained in fiscal 2022 and will not impact on fiscal 2023. Operating cash flow remains strong. And as I said, our capital expenditure will be in the £90-120 million range.

With over 90% of revenue already delivered or under contract, we are very confident in delivering that guidance. So, taking the view beyond fiscal 2022, we're maintaining our medium to long-term guidance of mid-single-digit organic revenue growth over the next five years with strategic acquisitions further enhancing that growth. And similarly, our longest term target of 12-13% margin range, although in the short term, we do anticipate that being about 100 points lower, driven by our increased investments in our digital transformation and business mix.

I'm now going to hand back to Steve, who's going to take you through our strategic and operational updates.

**Steve Wadey:** Thank you, David. And before we move on to the strategic and operational update, as you know, David will be retiring at the end of November and Carol takes over on the 1st December. So given the importance of continuity in financial leadership, I'd like to now take this moment to introduce Carol to you and give her the opportunity to say a few words on her initial reflections. So Carol, over to you.

**Carol Borg:** So thank you, Steve. This is on – thank you. I'm very pleased to have this opportunity to introduce myself to all of you, our investor community, and to put a face to a name before my official start date in December, as Steve said. I'm absolutely delighted to be joining QinetiQ and the journey that we are on in delivering our growth ambition. QinetiQ has demonstrated a really good year-on-year performance over the last five years. And I'm delighted to bring my experience to the next phase of QinetiQ's growth strategy.

My background has been working in senior roles in international businesses, most recently in a founder-led renewable business with very ambitious growth plans. I can already see that my experience will help me make a good contribution to QinetiQ's leadership.

Clearly, David has provided excellent financial stewardship and governance across QinetiQ. I'm looking forward to building on this and to leading our finance community in its support of the company's goal of being a truly integrated global defence and security company. I’ve been in QinetiQ for four weeks and I'm working my way through an extensive onboarding process, ensuring smooth transition from David. What has struck me is the high level of competency and experience in our people, the robustness of our processes and the level of innovation across the organisation. Fundamentally, QinetiQ is a people-driven organisation, comprising of individuals that are passionate about contributing to our purpose of protecting lives, sovereign interests, and providing innovative solutions to complex problems.

I'm delighted to be joining the team. Given my background, it would be remiss of me not to mention my first impressions of ESG at QinetiQ. I must say that I'm extremely impressed with the commitment and the progress that has been made in this area so far. Our attitude to ESG
is embedded in how we operate and a real opportunity exists for QinetiQ to continue to drive change in this area, of course, in collaboration with our customers.

Finally, I’m encouraged by the favourable market dynamics in each of our home and priority geographies, the increasingly significant importance of digital transformation to enhance the customer experience and the capabilities and experience within the organisation, all of which give me great confidence that QinetiQ is well-equipped to continue to deliver on its growth trajectory. I look forward to working with Steve and the rest of the QinetiQ family to translate this vision into tangible results for our employees, customers, shareholders, and the broader community that we serve. Thanks Steve.

Steve Wadey: Thank you, Carol. I look forward to working with you too, to drive our next phase of global growth.

So let's now move on to our operational and strategic update. I promised earlier that I’d provide you with more information on the large complex projects and the progress of our recovery plan. This project is a perfectly normal contract with one of our key customers. The only reason why I’m unable to disclose details of the project is that it would prejudice the ongoing commercial negotiations. Although we’ve been actively managing the operational risks associated with this project, our risk exposure significantly increased during the period due to a number of emergent technical issues that have delayed our ability to deliver the service as contracted by the customer. The write-down we’ve made is due to the unique combined effect of the system maturity, supply capability, and the time needed to meet the contracted delivery conditions.

The £14.5 million represents a prudent judgment of the lost revenue and additional costs to resolve this project, with the full financial effects contained within these H1 results. As the risk exposure increased, we rapidly mobilised a recovery team to work closely with the supplier and the customer. I can assure you that all of the technical issues are understood, and we are making good progress towards their resolution against clear technical and commercial milestones. I'm confident that we will drive the recovery plan to a satisfactory conclusion within the full year. And our overall objective is to reduce the impacts of the write-down.

Moving beyond the specifics of this project, I’d like to emphasise that the combination of risk factors we’ve encountered are unique within our portfolio, and do not exist elsewhere in the group. Neither the system nor the supplier is involved in any other products or service we deliver and the contract is a short-term service. We maintain a balanced accounting approach to all our contracts.

In summary, we have taken an appropriate approach to the emergent risks on this project. We are actively managing the recovery plan to a conclusion during this financial year and our objective is to reduce the financial impact of the write-down. The problem is bounded, and we will not have any impacts from it elsewhere in the group.

I think it would be helpful to put this specific project into context of our overall portfolio. Our current contract portfolio, as shown in the graphic, allows us to balance risks across a large number of relatively small contracts. More than two-thirds of our contract backlog comprises of contracts worth less than £25 million, giving us the ability to understand, manage and limit our risk exposure. And the majority of these contracts offer research or engineering services, which are low financial risk.
As we have grown over the last few years, we have actively managed the evolution of risk across our contract portfolio, which has enabled us to successfully deliver larger, longer term projects, such as MSP, LTPA and the Engineering Delivery Partner programme. However, the specific complex project in question is an exception to our portfolio, where as I’ve explained, we are managing a unique combination of risks.

Our growth strategy remains to win larger, longer term contracts, which do often involve a different risk-reward profile to maintain attractive margins. To ensure that we successfully manage the evolving technical and commercial risk profile, we strategically partner to complement and enhance our capabilities whilst, at the same time, continuously improving bidding, programme, technical and supply chain management capabilities.

In summary, we are taking a balanced and effective risk management approach to our growing contract portfolio.

I’ll now move on to the second issue outlined in our 14th October trading update. The US remains a high priority within our growth strategy. However, we have experienced short-term revenue impact due to the combination of starting the year with low orders as a result of COVID and administration transition delays; contracts being delayed or stopped in the period due to the customer’s accelerated withdrawal from Afghanistan; and responding to the Indo-Pacific threats; and further COVID-related delivery challenges, particularly in our technology solutions business. Overall, this led to an 18% decline in our revenue compared to the second half of last year, as explained by David. We have developed a focused response to drive both short-term operational performance and long-term growth in parallel. We’ve taken action to enhance organisation focus and leadership capacity through recruitment of a new CEO and the appointment of two presidents for our two US businesses; reduce our cost space to match the customer demand; and invest in our sensing and robotics capabilities, which remain highly aligned with the emerging Indo-Pacific threats.

These actions are consistent with our ambition to more than double the size of our US business over the next five years. Having secured $184 million of orders in the first half compared to $83 million in the second half of last year, we’ve already made a good start to our recovery. We’ve won a number of key leading programmes aligned with our future growth strategy, including $62 million for the full rate production of CSR-I robots, $12 million for additional RCV-Light systems and $24 million for the initial production of a strategic ISR capability. Our immediate objective is to recover our revenue performance to the same level of the second half of last year, which will equip us with a strong platform to return to growth in FY 2023.

Whilst both of these issues are a priority to resolve, I am incredibly proud of the excellent order intake we have achieved across the group and our strong revenue performance in Australia and in the UK. With continued disciplined execution of our customer focus growth strategy by securing more than £678 million of orders, up 25% compared to the first half of FY 2021, this demonstrates the increasing relevance about distinctive offerings for our customers, and also provides a very strong foundation for future growth with an order backlog of £3 billion.

In Australia, we achieved record revenue growth, up 19% compared to the prior periods. We secured a $27 million engineering services contract to support the Land customer. This positions us for future growth as a trusted partner to provide sovereign industrial capability in Australia, whilst leveraging our global capabilities.
In the UK, performance also remains strong, with revenue up 11% compared to H1 FY 2021. We've won a number of new, larger, longer term contracts, procuring £68 million to develop next generation directed energy systems and becoming a strategic partner to strategic command with more than £100 million of new data intelligence orders, including a £33 million contract to transform the customer's aeronautical data management capability.

I'm also pleased to report that we are leveraging the capabilities of all our strategy-led acquisitions; Inzpire, NSC and Naimuri. All of them are delivering good growth.

The Formidable Shield series continues to go from strength to strength. We successfully delivered NATO's biggest and most complex live virtual missile defence exercise through our modernised long-term partner agreement capabilities.

Let me just show you a short film to bring this to life.

START OF VIDEO

This is the biggest international live-fire event that we've ever undertaken, and that's very significant. The most significant being the fact that so many nations came together in such a complex scenario in order to prove the capability we have, and also train the operators. Formidable Shield is at its heart an integrated air missile defence live-fire exercise, which incorporates both elements of operational, interoperable training as well as capability testing and evaluation.

Formidable Shield is about bringing 10 NATO nations together as a coalition to understand how they will operate in a war-fighting environment and deliver protection against ballistic missiles and also attack from the air. And it was designed to look at how they linked together in also a joint environment using land and air assets as well to make them a very credible and capable fighting force.

In delivering this, this is an enterprise approach we have of QinetiQ, our long-term partnering agreement, and it's something that QinetiQ has absolutely been great in enabling, in particular facilities on the west coast of Scotland. They're data linking any information they can provide to all of the users on this and the analysis that will come from this about how we improve this overall capability through this exercise. And what that has done in working with the missile defence agency in Sixth Fleet has brought investment into the UK that are our other NATO allies can use beyond Formidable Shield as well. It's the first time we brought this many nations together in this sort of context, and also had the targets provided that gives them a challenge to do it. And the end result was very, very successful. And building on that as well, is Formidable Shield 23 and 25, where we look to expand on the success of this exercise.

MOD regards Formidable Shield as a huge success, not least in showing our interoperability with the missile defence agency and also the Sixth Fleet, but more importantly, our commitment to Europe and our NATO allies. We've worked hand in glove with them. And each time we have one of these events, we learn more from it and we believe we become a more capable force.

END OF VIDEO

As you can see, we continue to deliver increased value to our customers and are making significant progress in implementing our multi-domestic strategy, providing a strong foundation for global growth.
So let’s step back from our short-term operational performance and our market dynamics are becoming more favourable to our multi-domestic strategy and support our ambition to grow into an addressable market with more than £20 billion. In the UK, the outcome of the Integrated Defence and Security Review is driving a major shift to operational independence and technology-led modernisation of UK defence capability. It’s really encouraging to see the customer increasing the pace of implementation, including a £6.6 billion budget for research and development over the next four years.

In the US, the new administration remains committed to capability modernisation to respond to and overmatch the near-peer Indo-Pacific threats. The overall budget remained stable at $715 billion. And our strategy is focused on the high value growth segments in the largest ever RDT&E budget at $112 billion.

In Australia, the government continues to focus on the regional threat and the development of sovereign capability with an expectation that their budget will increase by more than 75% by the end of the decade.

In this context, we are pursuing similar opportunities across these nations to support their shared defence and security mission as reinforced by the recent formation of the AUKUS alliance. Our customers are seeking increased agility and pace to respond to evolving threats and their budget priorities. Given we're not a platform prime, our capabilities make us increasingly relevant and extremely well positioned to benefit from the dynamics of this new world.

Our strategy continues to drive focus to our business choices and our investment decisions to accelerate the next phase of global growth. Our customer value proposition is mission-led innovation, co-creating cost-effective solutions to meet our customer’s needs across the capability lifecycle. Our strategy is a multi-domestic strategy with a clear focus on the 'where', the 'what' and the 'how' we deliver value for our customers.

Where: Building an integrated defence and security company through global leverage of our unique capabilities into our six home and priority countries.

What: Sharpening our focus on co-creating and delivering distinctive offerings that add value to our customers and are clearly differentiated from our competitors.

How: Applying disruptive innovation to accelerate solutions for our customers with greater agility and pace.

Our strategy is underpinned by our safe, high-performance inclusive culture, where we live by straightforward values and behaviours and adhere to the highest environmental, social and governance standards. Whilst ESG is increasingly important to our shareholders, it is equally important to both our customers and our employees. As Carol mentioned, ESG is embedded within our strategy, both in terms of how we operate as a business and the services and products we develop for our customers.

Having delivered 70% growth over the last five years, our strategy is increasingly relevant to the market, and we remain committed to its implementation to deliver our next five years of growth.

Looking forward, our ambition is to achieve a further 70% of growth by building an integrated global defence and security company over the next five years. With our strong balance sheet,
we continue to execute strategy-led choices in our five-year strategic business plan, innovating to enable our customers to achieve their mission. Building on the success of our global campaigns, for example, the growth of our data intelligence business in the UK, we are extending this approach more deeply into high-value growth segments in the US and Australia. Our campaigns are a primary driver of organic growth and will be complemented by strategic acquisitions.

To ensure that we can respond to the changing needs of our customers, we're continuing to invest in our ongoing transformation to stay ahead for our customers' advantage. For example, we've recently developed new digital stockpile models to provide our customer with the ability to increase weapons availability, achieve significant savings and at the same time reduce waste. Not only is this a brilliant example of our digital transformation delivering capability and economic benefits for our customer, we're also helping our customer with their net zero commitments. Supporting our customers and improving our business operations is at the heart of our net zero strategy, which we'll be launching at the end of the financial year. With a clear strategic business plan, underpinned by our continued investment in the right capabilities, technologies and skills, we will deliver the further 70% growth over the next five years.

Our strategy to become a global leader continues to come to life. We focus on partnering with our customers to deliver mission-led innovation through the six distinctive offerings shown on this slide. We optimise our capabilities internally through leveraging our skills, technologies, and engineering solutions globally so that we can maximise our growth opportunities externally through our single routes to market in our six home and priority countries. Applying this model is how we create value for our customers and drive growth for our shareholders.

Let me give you an example. In the UK, we committed £400 million of capital investment to modernise the long-term partnering agreement. By upgrading our test air-crew training capabilities, we've created an airborne technology demonstrator shown in the middle left picture to support the Typhoon upgrade programme. We are leveraging the world-class test and evaluation skills that achieved this milestone into our Australian and Canadian businesses through our global sovereign skills programme, building local capability to drive organic growth through our global campaigns. Based on our sustainable growth in Australia, we are investing $8 million to create a sovereign engineering and integration centre, leveraging our target and robotic capabilities from Canada, the UK and the US. All of this will drive even greater growth in the company.

As we continue to create a world leader in high-value solutions to national defence and security challenges, I'm confident that we'll realise our global ambition.

So in summary, we have delivered good underlying performance, which has been impacted by two discrete short-term issues. We secured £678 million in orders across the group and delivered excellent revenue growth in Australia, up 19%, and in the UK, up 11%. Overall, we do remain on track to deliver our full year guidance in line with the 14th October trading update. I'm personally focused on executing a robust action plan to resolve both of these issues within the year; driving the complex project recovery plan to conclusion with an objective to reduce the impacts of the write-down and recovering US revenue performance in line with the second half of last year. With more than 90% of our revenue contracted, we start the second half in a strong position and our immediate priority is to deliver our full year performance.
In parallel, we continue to execute on multi-domestic great strategy, supported by continued investment in new customer solutions and strategic acquisitions to deliver sustainable profitable growth in our addressable market worth more than £20 billion. I remain excited about our future and confident in our strategy to grow an integrated global defence and security company and delivering enhanced returns for our shareholders.

Now, just before David and I take any questions. As you'll know, this is David's last results. And I'd like to just take a moment to thank him for his immense contribution of five years' support to our global growth. I personally value your wisdom, David, and it's been a real privilege to work with you. Thank you.

With that we'll open the floor to any questions. John.

**John Haworth:** Brilliant. Thank you. As I mentioned earlier, we'll take questions in the room first, followed by those online. For those watching via the webcast, to ask a question, please dial into the phone line provided. After we've finished questions in the room, we'll then move to the phone line for questions. For us in the room, if you'd like to ask a question, please raise your hand and press the button in front of you. When it goes red, you'll be able to ask the question and can you please introduce yourself by name and company. And remember to mute yourself once we have moved on to the next question. Thank you.

**Steve Wadey:** Great. Thank you, John.

**Sash Tusa:** Sash Tusa from Agency Partners. I realise that you can't say – not prepared to say that much more about the complex project, but I'd just like to ask some questions about the processes that got you into it in the first place. And you mentioned that actually it has a fairly unique set of both risks and also components. Were those areas – or why were those areas that you thought were attractive when you took the contracts and what went wrong, or what would have been the warning signs at board level to enable you to probably eliminate the risk of that sort of contract in the future?

**Steve Wadey:** Yeah. Can you hear? Yeah. Okay. Can you hear now? Yeah. Thank you. Maybe I'll make a few comments and then I'll ask David to say a few words too. We have robust processes in the bidding stage and obviously in the programme management stage. And as I've mentioned, as our strategy focused on pursuing larger, longer term contracts, we progressively upgraded and upskilled and strengthened our processes and our capabilities to be able to win and execute such contracts.

The original logic for securing this programme remains, it's a programme that is very consistent with our strategy. It's a customer that is very consistent with our strategy and it's the nature of work that we should be delivering as a company. So I don't think the processes per se have led us to the wrong project, if that's what you meant.

However, what transpired during the course of the period that we're just reporting on, is that it wasn't about any one of the individual risks that occurred, but it was the combined effect of all risks occurring during the period. And they emerged you, the risks were identified, we were actively managing those risks but technical issues transpired. That caused delay in the system development. And we've had to rapidly put in place a team to work through those issues with the supplier. And we're engaged in a very open and constructive dialogue with the customer.
And I’m confident, as I said during the presentation, that we will bring the recovery plan to a satisfactory conclusion within the period of the year. What’s happening here is the clearly we have an obligation to disclose risk levels. And here we reached a heightened risk level of exposure where we’ve had to take the write-down. And of course the focus as a team is on the recovery plan. And we’ll also look back in terms of our bidding and our delivery capability, whether we could – and, of course, it’s easier in hindsight – say that we can strengthen our processes even further.

But I think that those are the main thoughts that I’d talk through in terms of what’s happened or whether we should have gone after this project and how we dealing with this project. But David, would you like to…?

**David Smith:** I’d just add that there’s been an intense amount of activity that Steve and I are involved in pretty frequently now on this project to make sure the team has got everything they need to try and resolve the issues. And I think we’ve had actually really good cooperation from our supplier and the customer engagement is very fulsome. But at the end of the day, we have to solve the problem and that is also subject to some negotiations with the customer about the ongoing service levels of the project.

So we’ve taken the right decision in my view to take accounting action on this now. And although that’s quite a complex set of scenarios, we’ve got some models to be able to get to that conclusion, I think we’ve absolutely taken the right decision. But the main focus primarily is on making sure we can get to a solution which will deliver what the customer still really wants, which is the service that we’re aiming to provide with this technical solution. And if we can get that right, I think that will be very favourable both in terms of the relationship with that particular customer but also all we can do along the term with the technology as well.

**Sash Tusa:** Thank you. Just one follow-up and slightly different question. You’ve talked several times about being platform independent and platform agnostic. You’re clearly becoming potentially a significant producer of robots and robotics. At what stage does that make you a platform producer? And does that give you any concerns, or is that going to be part of the natural evolution of QinetiQ?

**Steve Wadey:** Yeah, I think it’s a great question and I think it takes us to the heart of the strategy. If you reflect on my last slide, I talk about a company that is building solutions to national defence and technology challenges. And I think in the area of robotics it’s very easy to think straight away about the physical platform, but if I take a really strong example that we’re working on and we’re very well positioned to take to a much larger programme in the US, it’s the robotic combat vehicle, RCV-Light. It’s a programme that’s extremely well matched with the US customer's mission focused on the Indo-Pacific.

And of course, the real value-add for us and we’re actually partnered with a major company, Pratt and Miller, who now part of the Oshkosh family who will actually do the manufacturing of the platform. Our role is around the sensors package, the autonomy system and the overall integration of the overall solution for the customer. So whilst it might seem on the surface that it’s a platform, I think you’ve got to dig below that surface and understand the value-add of kinetic skills and capabilities in delivering the overall solution for the customer.

So I think that our robotics business and the autonomy capability is directly aligned with the strategy – sorry, I don’t think – it is directly aligned with our strategy to be a global leader in
solutions to these types of emerging threats and problems. Hopefully that answers your question.

**Joseph Ayoola:** Joseph Ayoola from Morgan Stanley. I had a couple of questions. The first, just on M&A. Can you talk through the pipeline as you see it over the next 12 months? I noticed there was a small charge related to an unsuccessful M&A. Could you maybe talk to that? Whether anything has changed in the external environment or whether you’ve changed your processes or approach to that? That’s my first question.

And then maybe I can do the second after the answer.

**Steve Wadey:** Okay. Thank you, Joe. You want to pick up on M&A first David?

**David Smith:** Yeah, I mean, I think we’ve been clear that strategic M&A is clearly a significant part of our growth strategy. And we are continuing to look at that pipeline and evaluate potential targets in a number of geographies, but we’ve been quite explicit about the US being a prime focus of that. And we think that’s really important because our US business today has good capability, but it doesn’t have the full scope capability that we have pretty well in the UK. And therefore, to develop that business, we do need to add to capabilities areas for that business and the natural way to do that is through M&A.

You’re absolutely right, you spotted that we had an unsuccessful acquisition, which it was a very big focus earlier in the year for us. We learnt a lot, I think, through that process. But we’re not defensive about that. That’s exactly what we’re saying we’re doing, which is we are going to continue to look at potential targets and if we can secure those. This particular one didn’t work out, but certainly it’s evidence I think that that M&A portfolio appraisal looking at targets is very active.

**Steve Wadey:** Maybe if I just make a couple of complimentary comments Joseph. As David said, acquisitions are an integral part of our strategy. They always were, when we originally launched it five years ago, and they continue to be an integral part in the next five years of global growth.

It’s probably worth just reminding our criteria and how we think about acquisitions. Acquisitions are always strategy led and we look for three critical criteria. First of all, they must be absolutely a great strategic fit in terms of the capability in geography, as defined by the strategy that I presented. Secondly, they need to make economic sense in their own right. And thirdly, we need to be able to integrate and deliver the outturn case. And I always like to add on top of that, additional leverage and benefit to accelerate the strategy.

So that is the strategy, they remain integral. And I think building upon what David said, let’s remind ourselves that we have a strong balance sheet and our objective is to put that on sheet to work to accelerate, as we set out six months ago and reinforce today, that next phase of global growth. So yeah, M&A remains integral, and an exciting part of our future to come.

**Joseph Ayoola:** Great. My second question, I guess, coming back to the programme challenge and obviously the scenario where you’re limited in what you can say. But you mentioned in your prepared remarks, trying to reduce the size of the charge potentially over time. I think in some of the notes in the statement, I think it highlights potentially some risks about that being increased if you don’t meet certain technical capabilities. So I just wondered about how you
feel on visibility at the stage and how you think about the timeline in terms of potential new improved visibility around the size of the charge.

**Steve Wadey:** Yeah, I think, as David was describing earlier, my mind was going to, there are two dimensions to this. There's the accounting treatment of the project, and there's the day-to-day programme management of the project. And as I said, in my presentation, I understand the lack of detail around the project has caused some uncertainty in the investor base. And I understand that and I want to try to give as much information as I can. But equally, as I explained on the call on the 14th October, I don't think any of our investors would want us to prejudice the commercial negotiations that would limit our ability to reduce the impact of that write-down. And hence, trying to get more information today, recognising that uncertainty, it's just not appropriate at this stage to release further details.

But if I talk about the programmatics of the programme, the risks emerged, the combination of that let us to the accounting treatment that we've described. But we are completely over the issues in terms of understanding them. We have a very integrated and collaborative working relationship with the supplier. We're very open and in constructive dialogue with the customer. We provided a huge body of information on what we have done and what we're going to do on the project. And therefore, we have very clear milestones that we're focused on.

So we have absolute clarity on this project and what we're doing about this project. And we will reach a satisfactory conclusion within the envelope of the accounting that David's describing. Our clear objective is to reduce that further.

So I think that's as much as I can say, but I'm personally leading it. As David said, I'm regularly on talking about this every single day with major reviews on a weekly basis both internally and with our suppliers. So I can give you the maximum assurance we're doing everything within our power, making great progress and our objective is to reduce it. And we will conclude it within the year.

David, anything?

**David Smith:** No, I think you said it, the accounting is particularly complex in this area and we've had to take our best judgment of where we think the likely scenarios are in coming to that. But clearly the real key is we're making good technical progress. And that needs to be now fulfilled in terms of the discussions with the customer about the ongoing utilisation of the service. So that's the bit that we're already working very hard on.

**Richard Paige:** Morning, Richard Paige from Numis. Can we look at the EMEA Services performance because clearly that's being very strong again on what was a pretty tough comp and margins pushed up to 13.7%. Saying that EDF, which I guess we've always understood has been a slightly lighter margin activity of yours, and I guess ultimately then just trying to understand this. I know the LTSA incentive payments were in the comp as well, or the majority of those, in the first half. So just trying to understand the underlying dynamics from that, because it does look very strong indeed.

**David Smith:** Yeah. I mean, I tried to give an overview but if you think about the elements, so on EDP, I talked, actually, at year end, the fact that we're still trying to move the margin up
on EDP as we take on higher mode projects within EDP and that's still happening. So we're still making progress on that.

On LTPA we don't have the benefits of those incentives because those were really for the first phase of the project last year, but actually that programme and the associated programmes, the test air crew training programme and air range modernisation programme, which were also part of the broader LTPA, have all been doing very well. And on the tasking environment, such as the Formidable Shield, that's also been positive.

The new element that's coming into place is Weapons Sector Research Framework, which is in a way a similar concept to EDP, where we're leading that on behalf of the MOD. And although the revenue on that wasn't particularly strong, that's a really positive thing, I think, for the future as well.

And I have to say, I think probably one of the most impressive areas of growth is in the area of defence intelligence and the information side of defence where we're winning some very good contracts with decent margins as well in that area and delivering well on them as well. And I think in terms of our relationship, and I'm going to get the name wrong, it is strategic command, isn't it?

**Steve Wadey:** It is.

**David Smith:** Thank you. Which is the main body within the MOD, we're now, I would guess, one of their top three suppliers within that. And a year ago, we probably were in the top 10. And so we're really making very, very good progress, I think in that area as well. So Richard, it is across the board and I haven't mentioned Australia yet, but certainly in the UK, really strong performance across the board – all of the major contracts are doing very well. And we're continuing to see both orders growth and revenue growth. Australia's had an outstanding first half. I'm really pleased, they're a great team. And my Australian colleague is smiling in the front row. But they really are a great team and they have a lots of potential, I think, in that business. And we're really looking with them about how we invest further in the opportunities in that business at the moment. I'm personally really encouraged by the progress they're making.

So EMEA Services has done extremely well and we would hope that that continues as well. So, and clearly the benefits that is, it has provided an offset to the weaker performance in the US in the first half. So despite the US underperformance, if you strip out the write-down, we were able to basically deliver in line with what we wanted to deliver in the first time.

So that's been a very, very positive contribution to the business.

**Steve Wadey:** And if I could build upon that, David, and I'm pleased, Richard, you bring up EMEA because clearly, and I'm not dismissing the issues, it's really easy just to focus on the issues. And we should focus the issues and we can talk about the two issues, but also look up the EMEA performance in the half, it's a brilliant example of our long-term strategy, delivering results. And if you just step back and think about EMEA performance, why is EMEA performing so well? And just to reinforce the point that David made, that is about true underlying performance. There's no movement between the divisions. This is true performance. And the true performance of EMEA is down to a really clear strategy that we've had for multiple years, that we have been investing in where, we've actively gone to win larger, longer term contracts.
And apologies for the acronyms, but we can look them up, BATCIS, the Home Office programme, Long-Term Partnering Agreement modernisation, LTPA, MST in Australia, and the list goes on. Our strategy, and that’s why our backlog has gone up to over £3 billion, has been about winning those contracts. And the strategy was also about up-skillin our business development capability and our programme management capability to be able to execute them. And what we’re now seeing particularly come through in this half in EMEA is that backlog that we built successfully over many years, we are successfully executing.

And I think that it really is a great example that the fundamentals of this strategy and the foundation of the company remain strong. And talking to somebody just coming in this morning, talked about momentum. With an overall book to bill of 1.35, we’re in a very strong position. We need to learn from the issues, we need to overcome the issues, which we will. But we will continue on that long-term growth strategy because we’ve got the right strategy and we continue to learn and adapt, based on the environment that we’re operating in.

But thank you for bringing out EMEA. It’s a really pleasing example of the strategy working well in the last six months.

Richard Paige: Just a small follow-up, just looking at the US $125 million revenue of the second half, what cover do you have on that? Are you able to provide that?

David Smith: Yeah, so that business always is lower cover because we have a combination of some longer-term contracts, for instance, the CRS-I robot contract. And then what’s, I guess, commonly described as customer research work that tends to get awarded in period and get delivered in period. So it is a combination. But yeah, we’ve got good visibility – I think it’s about 50% roughly at the beginning of the half, but that’s actually better than it was at the beginning of the year. And, I think it gives us comfort that we’ll be able to get to that $125 million target for the half.

Clearly, the US team is very focused on that because they, like us, were disappointed with the first performance. But they really focused. And collectively, I mean, we’ve got the focus in the two sides of the business, but actually they’re working collectively on this as a team as well, particularly in areas like business development, operational improvement and things like that. So just like we do on the complex project, we have very regular reviews with them and working very hard on making sure they’ve got everything they need to be able to drive the business forward as well. And they certainly not shy in telling us when they need help as well.

So it will continue to be a focus I think during the next six months, but I think Steve and I are pleased they’re making good progress and they have a plan and therefore we are confident we can deliver.

Steve Wadey: Yeah. And just a couple of builds. David’s right, we have much, much better coverage for the second half than clearly we had coming into the second half. And that gives us confidence in delivering the figures that David just described.

I’d also reinforce what I described in my presentation about the changes about enhanced leadership focus on the two business units and building our overall approach. We have a really good team in place that’s totally focused on delivering the year end.

And then finally, and I think this is a really, really important point, just again, let’s step back and look at the long term, the inherent capabilities of sensors and robotics are totally aligned
to the US customers' mission. And whilst I don't think any of us could have really foreseen the accelerated withdrawal from Afghanistan, we all do know that the US customer is totally focused on matching or overmatching the Indo-Pacific threat. And RCV-Light, the SPECTRE strategic ISR sensor, these are fantastic examples where we have the inherent capability inside our US business to match what our customer needs. And whilst the acceleration has caused a transient period that we're going to have to navigate through, the fundamentals again in the US are right and will give us a good platform once we get through this year into 2023, to return to growth. And also look for those strategic acquisitions that David and I described out here.

So our ambition to more than double the size of the US business, absolutely remains in parallel with us navigating this – recovering from the short-term performance impact.

**John Haworth:** Great. Can we just take one more question in the room and then I know I've got a number of people waiting on the line to ask some questions as well. So one last one in the room.

**Annabel Hewson:** Socially distancing way over here. It's Annabel Hewson at Stifel. I've got one question really around your own investment in the business and given where we are in the year already, could you maybe outline the factors for us that would see us land closer to the £120 million in investment rather than at the £90 million end of the CAPEX range. And within that, if there's any sort of equipment hardware that you're actually investing in, have you seen any delays to that arriving, given that the supply chain issues we're seeing in the market at the moment?

**David Smith:** I mean, I didn't think we're really being impacted too much by supply chain issues. I mean, quite a lot of our investments, particularly in the LTPA, are a combination of COVID and weather dependent somewhat because a lot of them involve construction. So that's probably the main two factors, which will determine where we are in that range. I would guess we'll be about in the middle of that range, but that's the main factor.

The other area which we said we're investing very significantly in at the moment is the digital side, which we're making good progress, but it's a particularly complicated sets of things that we're trying to do there. So both in terms of our internal networks, specific business applications, but also developing the customer solutions, there's a lot of complex interface within that. And we should invest more in the second half than the first half from that level.

So yeah, I mean, I would say I would expect us to be in the middle of that range, but it could be plus or minus, depending on other things that may not be completely in control.

**Annabel Hewson:** Thank you. Just very quick follow on, sorry to bring the large complex projects up again.

**Steve Wadey:** Please don't apologise, it's just fine.

**Annabel Hewson:** Just in terms of, I mean, you talk about the rapid recovery team involved there and given how tight the labour market is at the moment, is there any distraction of having those people working there, that they should be maybe somewhere else? Or is anything else being delayed as a part of that?

**Steve Wadey:** I mean, I think it's a great question, but I think we're fortunate enough in our size that we've been able to reprioritise and move resource around the company, and the same with the supplier. So access to resource hasn't been a challenge for us in the recovery team.
We've got the right people, we've got the right competence and now we're working. Again, the issue is in any project, you understand that you're going to have issues and whether – or risks, sorry, and whether those risks emerge or not is down to the nature of the project, as your undertaking development. In this instance, those issues emerged and we've had to respond to them because of the combined effects that I mentioned.

So no, we've got a team in place, with the right volume of the people, the right competence of people, working in the right way with the supplier and a clear recovery plan that we're driving progress against.

**Annabel Hewson:** Thank you very much.

**John Haworth:** I'll now hand over to Courtney, our phone line operator for questions on the phone line. Courtney, over to you please.

**Operator:** As a reminder, if you would like to ask a question via the telephone line, please press star one on your telephone keypad, and you will be advised when to ask your question. That was star one on your telephone keypad. Thank you. And our first question comes in from the line of Charlotte Keyworth calling from Barclays. Please go ahead.

**Charlotte Keyworth:** Morning, David and Steve. I just got two questions for you. First is I just wondered if you could just some colour on how your planning assumptions for Global Products may have shifted in light of this US pivot to the Indo-Pacific. I'm mindful you're 90% geared to the Land domain. I'm just trying to understand how to think about potentially lost revenue, deferred revenue, and then potential opportunities to end markets such as sensors. That's the first question.

And then the second question is really just around the supply chain issues that you've mentioned in the press release. Can you help quantify the impact to your business in the first half and how you're thinking about the unwind over the next year or so? Thank you.

**David Smith:** Thanks, Charlotte. As we said, Charlotte, we are aiming to get revenue basically in the second half back to the level it was last year. And I think we will be out of the impact of the Afghanistan withdrawal. We are now beginning to deliver on some of those newer contracts, slightly, the CRS-I robots full rate production which will be a significant ramp-up in the second half and continuing to develop the C5-ISR business as well. I think it will be next year, probably, before we see the full opportunity side of the Indo-Pacific pivot. I actually believe – and I'm the finance director, so how do I know? But I really believe actually this is going to be an incredibly good opportunity for us because it plays right into the sensor and ISR capability, the autonomy, the robotics.

And those are the sorts of areas that are going to be very, very critical technology. So although we've had a short-term impact which is negative from the pivot, actually I think the longer term opportunity from the – basically the customer mission requirements is going to really play into our sweet spot here. And I think also as we think about M&A, it is an important consideration there in terms of making sure that we're further enhancing that capability.

Steve, I don't know if you wanted to answer any more on that before I get to the supply chain question.

**Steve Wadey:** No, I think I covered it in [inaudible].
David Smith: Okay, on supply chain. I mean, really, I’d say the issues that we’ve had, apart from the issue, obviously with a specific supplier on the complex project, has really been around electronics. We don’t really suffer so much from all more general logistics and other issues. And that was a disruptive effect, unfortunately, in the CRS-I robot launch and impacted a little bit QTS business. But I think through that, I don’t expect that to be a significant impact in the second half of the year. I think we’re probably through that in terms of a major source of issue at the moment. Charlotte. I mean, who knows given all the things that are happening in the world at the moment, whether we’ll see something else emerge.

Charlotte Keyworth: That’s very helpful actually. Thank you. And just a small follow-up then. So just on the electronics point and materials, might it be sensible to assume, therefore, in order to mitigate any potential supplier disruption, you might build some inventory into the back of that, or is that unnecessary in your business?

Steve Wadey: That’s a fact, not an assumption. So yes.

John Haworth: Thank you, Charlotte. So I think we have time for just one final question. Courtney, if you could introduce please.
Operator: Of course. The final question comes in from the line of Celine Fornaro, calling from UBS. Please go ahead.

Celine Fornaro: Yes. Hi. Good morning. Thank you for taking my question, David and Steve. I've got a couple, if I may. The first one is regarding potentially providing some colour on the ordering take of the second half of 2022 for your financial year. So how are orders looking now? Because I think that's also important to understand the trend beyond FY 2022. So any more colour you could provide on that.

And the second one would be regarding the EMEA strength where David, you touched a little bit on that. But then should we think that the performance that we've seen here in H1, especially also from a profitability point of view, is something that is sustainable going forward?

And my final question is regarding the ESG, some of the aspects that you raised, but I'm actually wondering if you're helping your six main, I would say, domestic customers on their ESG credential and where we are on this journey, or if it's still very, very early days, or there is one leading ahead compared to the other ones? Thank you.

Steve Wadey: Okay. Sorry, you start on orders, I've got a couple of points on [inaudible].

David Smith: Okay. So Celine, on order insight, I mean, I think our pipeline's probably the strongest it's ever been at the moment, and we are pursuing lots of opportunities, not necessarily particularly large. Last year, if you remember, we had a £150 million opportunity in the second half that we delivered — there's nothing at that size. However, there's a lots of things that we're pursuing and I would expect our orders for the year to be at, or above last year's level I think once we get to the — I think that's fairly straightforward. So, yeah, I mean, we're continuing to do well there.

On EMEA strength, I mean, I've been a bit conservative in my guidance for the second half, long may it continue, to be honest. But I prefer to be a little bit conservative on the second half, given how strong a first half performance that we saw. But there's nothing particularly that's telling me that it will be lower. But I prefer to be a bit conservative in that.

On ESG?

Steve Wadey: I'll pick up the first and the third one as well. I think the order intake question is a great question and I'd just like us to step back, Celine, and look at the big picture. If we look at our overall pipeline, our overall pipeline is much more than £6 billion of opportunities. And as part of the strategy in the last five years, we've more than tripled the order pipeline that we've been working on. And you're seeing that momentum in our backlog, and you're seeing that momentum in an outstanding first half of order intake.

I'll also add — sorry, David, you didn't, but you've made a commitment to year end — we're only one month into the second half and we're still well ahead of our plan. So if that's a helpful signal, I'm happy to share that as well. So a really strong pipeline, David's given some guidance for year end, and I've given you an in-month update. So going really well on order intake.

ESG, I think it's a great question as well. And I hope I've brought that out, but ESG is really important obviously to you as shareholders, is important to our employees and it's really important to our customers. And I gave you a small example in the presentation where our focus on our customer, our digital transformation is bringing real practical benefits from an ESG perspective to our customer.
And I would say that as I reflect on the last maybe two years, I think it's an increasingly important subject to a customer. I think our customers would probably always say that it was important to them. But it's really quite different now. And they're actually looking at – and I don't know if you are aware, but they're looking at changing their procurement processes to actually incentivise industry to put more emphasis, particularly around carbon reduction, not only in the way that companies operate, but in the products and the services that they deliver to their customer.

And if I take an example in the UK where I co-chair the MOD industry group that looks at sustainability and climate change, there is new policy coming in from the UK government where 10% of all future competition, in fact it is effective now, will be linked to what's called social value, overall economic benefits, environmental benefits to the UK. And therefore it's a very practical example where our customers are really important – are really increasing that their focus on it.

So the fact that – and I mentioned that we're launching our net zero strategy at the end of the financial year. It's already mature and it's very much to your point about focusing on customer solutions as well as the way that we operate. And I think it's going to be a very important discriminating advantage for companies in the way that they align and work with their customers going forward.

And I would say in all of the customer countries that we're focused on in our strategy, all of them are developing similar principles and policies to that that I've mentioned. And I'm aware of multiple sets of those customers collaborating and sharing their own best practice to influence their local policy. So I think watch this space on this question, Celine, I think we're going to see quite a lot of radical change over the years to come. And I think that we're very well positioned on it already, and we've got a great new leader that's joined the team that knows everything about ESG too. So we're set up for the future.

**Celine Fornaro:** Thank you very much. Appreciate it.

**Steve Wadey:** Thank you very much. Okay, great. Well, thank you everybody. Thank you for taking the time to join. If you have any further questions or clarifications, we will be delighted to follow them up. Please just drop John Haworth a line and we'll follow up in due course. So thank you for your time. Thank you.

[END OF TRANSCRIPT]