Interim Results

10 November 2022

Contributing to global and national security

Results for six months to 30 September 2022 ('H1 FY23')

	Statutory results		Underlying* results	
	H1 FY23	H1 FY22^	**H1 FY23**	H1 FY22
Revenue	**£673.4m**	£600.1m	**£673.4m**	£600.1m
Operating profit	**£100.1m**	£41.0m	**£74.1m**	£53.4m
Profit after tax	**£112.4m**	£22.3m	**£65.4m**	£46.6m
Earnings per share	**19.5p**	3.9p	**11.4p**	8.1p
Interim dividend per share	**2.4p**	2.3p	**2.4p**	2.3p
Orders			**£798.8m**	£677.8m
Order backlog			**£2,968.6m**	£3,007.6m
Net cash flow from operations	**£99.5m**	£64.2m	**£106.8m**	£70.2m
Net cash	**£264.0m**	£139.2m	**£264.0m**	£139.2m

* 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 software implementation costs. See note 1 to the interim financial statements.

Strong and consistent operational performance across the Group

- Orders up 18%, revenue up 12% and underlying operating profit up 39%
- On an organic constant currency basis, and excluding the impact of the write-down in FY22 half year results: Orders up 11%, revenue up 8% and underlying operating profit up 7%
- Consistently strong cash conversion at 106% cash conversion pre-capex
- Statutory operating profit £100.1m, assisted by FX gain on Avantus acquisition
- Underlying EPS up 41%; 2.4p interim dividend declared – one third of FY22 dividend

Disciplined execution of multi-domestic growth strategy

- Strong programme delivery across all major contracts
- Good order intake across the Group at c.£800m
- Increased investment in people and capabilities for the future
- Step-change through strategic acquisitions in the US and Australia

On-track to deliver five year strategic growth ambition; £2.3bn revenue at stable margins

- Increasing revenue guidance and will deliver profit in-line with FY23 expectations
- Respond to increased demand for our distinctive offerings driven by threat environment
- Close Avantus and Air Affairs deals and execute integration plans
- Drive sustainable growth in our >£20bn addressable market

Steve Wadey, Group Chief Executive Officer of QinetiQ said:

"World events continue to reinforce the vital importance of a technologically advanced defence industry to society and the needs of our customers for differentiated solutions, aligned with our strategy. I am immensely proud of how our people have supported our customers at this time of need: we are fulfilling our company purpose and contributing to global and national security.

Our first half results demonstrate the strong demand we continue to see from our customers for our distinctive offerings. We have delivered good programme execution and delivery across all our major contracts. Our home countries of UK, US and Australia have all achieved significant organic growth and the US has performed particularly well, delivering improved and consistent performance.

We have also secured two strategically significant acquisitions in the US and Australia, Avantus and Air Affairs respectively, which demonstrate the disciplined execution of our growth strategy and capital allocation policy. We have increased our investment in our people and capability for the future to enable our long-term growth, as we continue to build an integrated global defence and security company. We are on-track to deliver our 5 year strategic growth ambition and enhanced shareholder returns."

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/interim-results-webcast-2022

About QinetiQ:
QinetiQ (QQ.L) is a leading science and engineering company operating primarily in the defence, security and critical infrastructure markets. We work in partnership with our customers to solve real world problems through innovative solutions delivering operational and competitive advantage. Visit our website www.QinetiQ.com. Follow us on LinkedIn and Twitter @QinetiQ. Visit our blog www.QinetiQ-blogs.com.

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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 (FY23, FY22, 2023, 2022) refer to the year ended 31 March. H1 FY23 and H1 FY22 refer to the six months ended 30 September.

Disclaimer
This document contains certain forward-looking statements relating to the business, strategy, financial performance and results of the Company and/or the industry in which it operates. Actual results, levels of activity, performance, achievements and events are most likely to vary materially from those implied by the forward-looking statements. The forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words 'believes',' expects', 'predicts', 'intends', 'projects', 'plans', 'estimates', 'aims', 'foresees', 'anticipates', 'targets', 'goals', 'due', 'could', 'may', 'should', 'potential', 'likely' and similar expressions, although these words are not the exclusive means of doing so. These forward-looking statements include, without limitation, statements regarding the Company's future financial position, income growth, impairment charges, business strategy, projected levels of growth in the relevant markets, projected costs, estimates of capital expenditures, and plans and objectives for future operations. Forward-looking statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nothing in this document should be regarded as a profit forecast.

The forward-looking statements, including assumptions, opinions and views of the Company or cited from third party sources, contained in this announcement are solely opinions and forecasts which are uncertain and subject to risks. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Actual results may differ materially from those expressed or implied by these forward-looking statements. A number of factors could cause actual events to differ significantly and these are set out in the principal risks and uncertainties section of this document.

Most of these factors are difficult to predict accurately and are generally beyond the control of the Company. Any forward-looking statements made by, or on behalf of, the Company speak only as of the date they are made. Save as required by law, the Company will not publicly release the results of any revisions to any forward-looking statements in this document that may occur due to any change in the Directors' expectations or to reflect events or circumstances after the date of this document.

Chief Executive Officer's Review

We delivered strong and consistent operational performance in the first half of the year. With a clear focus on disciplined execution of our strategy and strong programme execution across all our major contracts, we grew orders by 18%, revenue by 12% and underlying operating profit by 39%. Excluding foreign exchange and the impact of the write-down in the prior year first half results, orders grew by 11%, revenue by 8% and underlying operating profit by 7%. We continue to deliver strong cash performance with 106% underlying cash conversion before capital expenditure.

EMEA Services has continued to deliver good growth in the first half, with margins consistent with the second half of FY22, demonstrating continued investment in our people to support ongoing long-term growth. Global Products has performed well, particularly in the US, with US orders, revenue and profit in the first half of FY23 above the second half of FY22 demonstrating greater stability, resilience and consistent performance, giving us confidence of a strong platform for growth going forward.

I am delighted with the three M&A transactions that we have announced in this first half, most significantly with our acquisition of Avantus Federal in the US. We have successfully completed the disposal of QinetiQ Space NV in Belgium and expect to complete the acquisition of Air Affairs in Australia at the end of November and the acquisition of Avantus Federal in the US before the end of December, as previously guided. These are strategically significant transactions which demonstrate our disciplined execution of our strategy, focusing our capital deployment into strategically-aligned businesses to support and drive long-term growth in our three home countries, the UK, US and Australia, through our six distinctive offerings as we continue to build an integrated global defence and security company, delivering opportunities for our people and enhanced shareholder returns.

Delivering our global ambition

World events continue to reinforce the long-term needs of our customers around differentiated technology, test and training solutions. This defence and security context continues to elevate the market needs for our six distinctive offerings. Our addressable market is worth more than £20bn per year and we see increased customer demand for our high value solutions in their priority growth segments. The major focus for growth is in our three home countries, the UK, US and Australia, where we are pursuing similar opportunities to support their shared defence and security mission and leveraging our skillset across these key geographies. The formation of the AUKUS alliance, between these nations, reinforces our multi-domestic strategy and makes us increasingly relevant. We are well positioned to deliver strong growth in the UK and more than double the size of our US and Australian businesses over the next five years.

In April 2022 we set out an ambitious plan to grow the company to more than £2.3bn revenue in the next five years. With our acquisitions of Avantus Federal in the US and Air Affairs in Australia, we are on-track to deliver at least this level of growth.

Our strategy is increasingly relevant and provides focus for our business decisions, our people and our investment choices. We are a company with a clear purpose, vision and customer value proposition that we call "Mission-led innovation", where we co-create innovative cost-effective solutions to meet our customers' needs at pace. Our strategy is a multi-domestic strategy, with a clear focus on where we operate, what we do and how we deliver value for our customers:

1. Global leverage	2. Distinctive offerings	3. Disruptive innovation
Build an integrated global defence and security company to leverage our capability through single routes to market in UK, US, Australia, Canada and Germany	Co-create high-value differentiated solutions for our customers in experimentation, test, training, information, engineering and autonomous systems	Invest in and apply disruptive business models, digitisation and advanced technologies to enable our customers' operational mission at pace

Our first priority is to maintain focus on driving organic growth in each country. We remain disciplined in delivering our commitments to our customers and shareholders by continuously improving our bidding, programme execution and risk management capability.

Looking forward, we have a clear strategic business plan focused on creating a global leader in mission-led innovation. With a strong balance sheet, we continue to invest in our multi-domestic growth strategy to realise our ambition. We have clarity around our six distinctive offerings and focus on our home countries, to provide a guide for our future investment decisions. Growth will be driven by investing in these distinctive offerings and leveraging opportunities across countries.

The acquisition of Avantus is our most strategically significant and sizeable acquisition to-date and demonstrates our clear strategic focus, to build a material presence and expertise in our three home countries across our six distinctive offerings. Avantus is a leading provider of mission-focused cyber, data analytics and software development solutions to the US Department of Defense Intelligence Community, Department of Homeland Security and other Federal civilian agencies. Avantus is an excellent strategic fit, with a similar skillset, customer intimacy and offerings as our UK Intelligence business. Avantus not only has impressive growth prospects but also provides attractive leverage opportunities and greater scale to our existing US business, whilst being a platform for further growth and acquisitions.

Strategic achievements

We have continued to make good strategic progress implementing our strategy to become an integrated global defence and security company. Alongside the significant M&A transactions announced, our major achievements are:

- **Support to UK MOD for the Future Combat Air System (FCAS) programme** – we have been awarded a £32m three-year contract through the Engineering Delivery Partner (EDP) framework to provide programme and technical support to the new Catalyst Delivery Team, responsible for introducing new capability to the MOD air domain for various front line commands. This demonstrates our Engineering Services and Support offering in practice, in the introduction of new technologies and delivery approaches for the next generation of aircraft Test & Evaluation.
- **Our large contracts continue to support significant growth in the UK** – our large long-term contracts and frameworks in the UK are supporting significant and continued revenue growth for EMEA Services. The EDP framework continues to deliver for our customer, alongside our partners Atkins and BMT, with H1 orders of £193m and £135m revenue. The Serapis framework is driving good growth in our UK Intelligence Sector, for research and development of command and control systems, communications and networks, and training and simulation projects. The Long Term Partnering Agreement (LTPA) remains our largest contract delivering world-leading test, trials, training and evaluation (T3E) for the UK MOD.
- **Continued strong growth in Australia** – strong revenue growth continues in Australia, up 22% versus the prior year, driven from continued demand and delivery through the Major Service Provider (MSP) contract. The MSP contract positions us for future growth as a trusted partner able to provide sovereign Australian industry capability, while leveraging our global capabilities. A major contributor of our growth has been our close support to the Australian Army acquisition programme for their next generation of heavy armoured vehicles, a cornerstone of the broader Army modernisation programme.
- **US performance** – performance has been strong in the US with orders, revenue and profit seeing good improvement on the second half of FY22 with greater stability, resilience and consistent performance. As part of this we have won two significant contracts: a 5-year contract worth up to $45m to provide services for the Development Command C4ISR at the Fort Belvoir Prototyping Integration Facility; and a multi-year research, development and technology integration contract, worth up to $49m, with the US Army for imaging services.
- **QinetiQ Target Systems (QTS) performance** – QTS continues to make positive progress with customers resuming trials and exercises (post COVID-19) and winning some significant orders, including a number of notable wins and deliveries for customer training exercises in Europe.

The changing market dynamics present opportunities for the Group

As a global defence and security business we operate on a multi-domestic basis, supporting the development and sustainment of indigenous capabilities.

As the threat environment becomes increasingly complex, Western forces must rethink their approach to defence and security. The complexity is driven by rapid technological advances and our adversaries' alternative approaches to warfare. The importance of information advantage, emerging technologies, cyber capabilities and autonomous platforms has significantly increased. In addition, the interoperability between platforms to create integrated systems and seamless coordination between forces and nations, to countering modern threats is of paramount importance, including in the "Grey Zone" conflict area below conventional warfare.

Pressure on Government resources will intensify and global Defence departments will need to balance investment in traditional platforms alongside investment in new technologies, as well as addressing fiscal pressure brought about by Governments supporting economies through the COVID-19 pandemic, supply-chain challenges and cost of living crisis. With our domain knowledge, partnering skills and a track record of delivering mission-led innovation at pace whilst delivering efficiencies and value for money to customers, we are well positioned to continue to grow in these unsettled times. While the world around us continues to change, our offering is more relevant than ever.

Investment to drive our long-term growth

To stay ahead for our customers' advantage, we are investing in our people, technology and digital transformation. We have increased our investment to enable a step-change and to deliver our five year growth ambition.

Ensuring we are internationally competitive to retain, attract and reward the best people across the whole company, is critical to our performance and growth. In response to ongoing cost of living pressures, we have committed a further £5m into our reward offering, focused on supporting those on lower pay. We have also built a highly capable leadership team in the US, consistent with our long-term ambition, and are expanding the skills of our Australian business through our T&E sovereign skills programme, leveraging our UK experience.

To deliver operational advantage for our customers, we must remain at the cutting-edge of technology and create innovative solutions at pace. Project Vampire is an excellent example of partnering with the Royal Navy to develop their Future Maritime Aviation Force through rapid prototyping the novel application of uncrewed systems, and offers the potential to experiment with new technologies from our Internal Research & Development programme, such as swarming and teaming.

As we scale the company globally, our digital transformation programme is building a secure interoperable digital workspace, with modern systems and tools, to adapt our ways of working and harness the diversity and creativity of our global teams and supply chain. We are also establishing new digital design and assurance techniques, to increase our competitive advantage by reducing the time and cost of major projects for our customers, such as OMFV in the US and the LTPA in the UK.

We have previously guided that we are continuing to invest in our people and capabilities, investing 1% of our margin to enable the step-change to deliver our five year growth ambitions. The additional £5m announced today, in response to the cost of living pressures, brings our total committed strategic operating investments for FY23 to approximately £20m. This additional investment has the effect of marginally shifting our investment period to the right, with no change to our short or long-term profit guidance. Whilst investment brings pressure on margins in the short-term, investing in our innovation platform, comprising of our people, technology and digital transformation, will increase competitiveness and drive efficiency, ensuring our growth is sustainable in the long-term at 12-13% margins.

Outlook: FY23

We enter the second half of FY23 with confidence, a healthy order-book and positive momentum with 95% revenue under contract – we are increasing our revenue guidance and are on-track to deliver profit in-line with expectations for FY23. Given our strong growth in the first half, we will deliver high single-digit percentage organic revenue growth with underlying profit margin at the lower end of our 11-12% short-term expected range due to increased investment in our people and capabilities to enable growth. Capital expenditure is expected towards the middle of our £90m to £120m expected range.

Whilst the expectations we set out at the time of the Avantus and Air Affairs announcements remain unchanged, we will update for the combined effect of the acquisitions following completion.

Outlook: Longer term

Our ambition remains to grow revenues to more than £2.3bn by FY27. With our recently announced acquisitions, this means we are targeting mid-to-high single digit percentage compound revenue growth over the next five years, with further strategic acquisitions enhancing this growth. We are targeting an operating profit margin of 12-13% in the mid to long-term. ROCE is forecast to remain strong at the upper end of the 15-20% range.

Trading environment

Geopolitical tensions remain high, even as Russia's advances in Ukraine have faltered, Global defence budgets have increased as NATO countries seek to bolster their own defence capabilities whilst sending increasing levels of military aid to Ukraine. Alongside this, there has been a proliferation of "Grey Zone" warfare, a need for advanced capabilities, informational advantage and better interoperability, as well as a focus on the resilience of domestic supply chains.

As a predominantly service-based business we are uniquely placed to operate across the breadth of platforms, systems and lifecycles unlike a more traditional vertical platform manufacturer. We can experiment, innovate and develop new capabilities, drawing on a broad range of existing, emerging and disruptive technologies across all our geographies.

The UK, US and Australia are our home countries and collectively represent 92% of our revenue. We also have a significant presence in our priority countries of Canada and Germany.

UK

The 2021 Integrated Review outlined the UK's current defence and security policy. This, alongside the Defence Command Paper and the Defence and Security Industrial Strategy, has seen the allocation of an additional £24.1bn in funding over a four-year period from November 2020 to 2024. The Integrated Review placed science and technology at the heart of the UK's defence policy with innovation cited as critical to UK success. The UK is 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. The Russian invasion of Ukraine has further cemented wider support for defence investment, with Government statements being made that the Defence budget could increase further to 3% of GDP, and double current levels by 2030.

As the UK MOD seeks to develop and deploy next generation capabilities faster than their 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 (RDT&E) combined with our recent investment to modernise UK test ranges will 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 US maintains the largest defence budget worldwide, with the 2023 budget currently targeted at $773bn and an expectation it could exceed $800bn. As well as supporting the preparation for future challenges, such as climate change, it preserves investment for readiness and deterrence against current threats including the acute threat of an aggressive Russia and the constantly emerging threats posed by North Korea, Iran, and violent extremist organisations. The Biden administration is seeking to increase the Research, Development, Test and Evaluation (R&DTE) budget by 7% in FY23, increasing spend to $132bn, to continue to address the need to sharpen readiness in advanced technology, cyber, space and artificial intelligence.

In the US, we are a market leader in robotics, autonomy and advanced sensing solutions, delivering value to our customers through the rapid development and deployment of disruptive solutions. Following the completion of the acquisition of Avantus Federal, this will build capabilities of mission-focused cyber, data analytics and software development solutions. All these offerings are in areas of defence budget growth. We have ambitious growth plans in the US. This is underpinned by a relevant offering with a growing need to provide actionable intelligence in to 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 a technological advantage.

Australia

Tensions in the Indo-Pacific region remain heightened with the area becoming the main theatre for greater strategic competition between global powers, being reflected in national defence budgets. Australia's defence expenditure for the 2022–23 financial year will rise by 7.4% to A$48.6bn. The current Labor government has reiterated its commitment to raising defence spending to 2.2% of GDP, reaching A$80bn a year by 2032. That does not count the $300 billion designated for upgraded military weaponry, in addition to the funds required to acquire and base nuclear powered submarines and other weaponry under the AUKUS partnership.

The AUKUS partnership still holds significant opportunity for QinetiQ, with demand expected in specific technology areas where QinetiQ has strengths. The Australian business is closely engaged with the Australian government and internally within QinetiQ to identify specific capability areas and opportunities under AUKUS. We see many opportunities to support the Australian forces in modernising sovereign defence capabilities as they seek to deter adversaries and maintain stability in the region.

Broader international markets

Due to the seismic shift to the global-political landscape caused by Russia's invasion of Ukraine, NATO is ramping up its defence capabilities and readiness. Following the announcement by Germany to increase defence spending by EUR100bn over the next 5 years, many other NATO and European countries are also increasing their defence and security investment.

Whilst priority and investment focus will be attached to the support of 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. In order to continue expanding our international presence we aim to leverage the skills and expertise developed in our home countries to support allies in high growth markets to develop their own indigenous capabilities.

Chief Financial Officer's Review

Operating performance

We delivered strong order performance in the period with orders of £798.8m, compared to £677.8m in the same period a year ago, up 18%. Excluding foreign exchange, orders grew organically by 14%, and excluding the impact of the write-down in the prior year by 11%. This increase was driven by a £32m three-year contract with UK MOD for the Future Combat Air System (FCAS) programme through the Engineering Delivery Partner framework, a £26m uplift to the LTPA contract to reflect inflationary effects in the UK, a 5-year contract extension with Boeing for our 5 metre wind tunnel services and contracts totalling A$77m in Australia through growth of the MSP programme. As part of our previously stated strategy, we are also seeing success in winning and delivering on larger longer-term contracts, with 45% of our H1 FY23 Orders from contracts over £5m in size, up from 41% from H1 FY22.

Revenue visibility remains good and the Group's total funded order backlog at 30 September 2022 stood at £3.0bn, consistent with the comparable period last year. Maintaining our order backlog of £3.0bn is a significant achievement given that this will naturally reduce as we deliver revenue on the Long Term Partnering Agreement contract (multi-year contract booked in prior years); the offsetting growth in order backlog delivered from our order wins as mentioned above, including from EDP and growth in the US and Australia. At the start of H2 FY23, the Group had approximately £700m of H2 FY23 revenue under contract. This compares with approximately £600m of H2 FY22 revenue at the same time last year – a significant improvement as a result of the strong order-intake.

Revenue was £673.4m (H1 FY22: £600.1m), up 12% on a reported basis. Excluding foreign exchange, revenue grew organically by 10%, and excluding the impact of the write-down in the prior year up 8%. Overall growth was due to the increase of revenue in EMEA Services which was up 7% on an organic basis, driven by new work delivered under EDP and the MSP contract in Australia. Global Products revenue was up 14% organically excluding the impact of the write-down in the prior year, due to improvement in US and QTS performance.

Underlying operating profit was £74.1m (H1 FY22: £53.4m), up 39% on the prior first half. Excluding foreign exchange, profit grew organically by 37%, and excluding the impact of the write-down in the prior year up 7%. The significant improvement in profit is as a result of good performance in the US and QTS (within Global Products) This was offset by EMEA Services which saw a 9% organic decrease in profit driven by a particularly strong prior year comparator with strong profit margin in H1 FY22 and additional investment this year into our people and capabilities.

The impact of foreign exchange movements on underlying performance in H1 FY23 has been a £23.2m benefit on orders, £15.7m benefit on revenue and £1.2m benefit to underlying operating profit. Most of this benefit was seen in Global Products from the translation effect of our US business. There have been no effect of acquisitions or disposals in either H1 FY23 or prior year comparator H1 FY22. Should FX rates remain static we forecast the full year benefit for FY23 to be in the region of £2-3m underlying profit.

Underlying operating profit margin was 11.0% at the lower end of our 11-12% short-term target margin. The modest reduction from H1 FY22 is due to the incremental strategic investments in FY23: we have previously guided to 100bps of our profit being committed to additional investments in the short-term (across our people, technology and digital) and during the period have committed a further £5m investment in our people in FY23, as explained in the CEO Review, against the cost of living crisis. As a result, we expect underlying operating profit margin in the second half and for FY23 to remain at the lower end of our 11-12% short-term expected range.

Statutory operating profit, including the impact of specific adjusting items, was £100.1m (H1 FY22 restated: £41.0m). Current period specific adjusting items increased operating profit by £26.0m (H1 FY22 restated: £12.4m reduction to operating profit) and were driven by acquisition and foreign exchange impacts, as described below. We remain focussed on delivering our stated ambition which includes strategically aligned acquisitions – we retain a rigorous approach to evaluation and execution of our acquisition strategy.

Seasonality / cyclicality has not had a material impact on the interim operations of the Group.

Specific adjusting items

The total impact of specific adjusting items on operating profit (which are excluded from underlying performance) was a £26.0m income (H1 FY22 restated: cost of £12.4m). H1 FY23 includes a £42.9m gain from the foreign exchange derivative contract, due to the recent GBP:USD movement, 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. The size of this gain (or loss), which has partially reversed since 30 September 2022, will ultimately depend on the GBP to USD foreign exchange rate at the date of completion of the acquisition.

Acquisition and disposal costs of £6.4m (H1 FY22: £4.1m) comprise costs associated with the Avantus and Air Affairs acquisitions which are due to complete in H2 FY23, and the disposal of Space NV. The H1 FY22 amount was relating to an unsuccessful acquisition, as disclosed previously. The cash flow for H1 FY23 includes a £1.6m deposit payment on the Air Affairs acquisition.

Restructuring costs of £3.3m have been incurred as part of the re-organisation to create Group-wide global support functions and four market-facing Sectors.

QinetiQ has embarked on a digital investment programme to improve the infrastructure, digital tools and operating systems of the company – the majority of costs will be reported as exceptional specific adjusting items in the P&L, with ongoing recurring operating costs (such as licence costs and overheads) remaining within underlying operating costs. Early stage implementation and planning work has been undertaken through FY22 and FY23, with the full digital investment programme due to be implemented over the next three to four year period. FY22 included a specific adjusting item relating to the change in accounting policy for software implementation costs as a result of the International Financial Reporting Interpretations Committee (IFRIC) decision to expense rather than capitalise configuration and customisation costs in cloud computing arrangements. H1 FY22 has been restated to reflect this. In H1 FY23 the exceptional cost element of the digital investment programme within specific adjusting items totals £2.5m. The majority of this expenditure would previously have been capitalised and follows the IFRIC decision, with a small movement from underlying operating costs to exceptional costs (FY23 benefit to underlying operating profit expected to be <£1m).

Also included within specific adjusting items were a gain on the sale of property of £0.9m (H1 FY22 £0.5m) and amortisation of acquisition intangibles of £5.6m (H1 FY22: £5.4m).

Net finance costs

Net finance income was £4.4m (H1 FY22: £1.4m) reflecting an increase in the pension net finance income to £4.9m (H1 FY22: £2.3m). This income is partially offset by lease interest expense and other financing costs.

The underlying net finance expense, which excludes the pension net finance income, was £0.5m (H1 FY22: £0.9m).

Tax

The total tax credit is £7.9m (H1 FY22 restated charge: £20.1m). The underlying tax charge of £8.2m (H1 FY22: £5.9m) is calculated by applying the expected underlying effective tax rate at a jurisdictional level for the year ending 31 March 2023 to the underlying profit before tax for the six months to 30 September 2022. The Group's full year expected underlying effective tax rate is 11.5% which is higher than the half year underlying effective tax rate of 11.1% (H1 FY22: 11.2%) due to jurisdictional mix of profits in H1 FY23.

The underlying effective tax rate continues to be below the UK statutory rate, primarily as a result of the benefit of research and development expenditure credits (RDEC) in the UK which are accounted for under IAS12 within the tax line. The adjusted underlying effective tax rate before the impact of RDEC would be 19.4% (H1 FY22: 18.0%). The underlying effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any tax legislation changes, the geographic mix of profits, the recognition of unrecognised tax losses and while the benefit of net RDEC retained by the Group remains in the tax line.

Specific adjusting items includes a £18.1m credit in respect of UK MOD appropriation for RDEC which has been classified as a specific adjusting item. Following a determination by the Single Source Regulations Office (SSRO) on the interpretation of the Statutory Guidance for Allowable Costs regulations (SGAC), the accounting judgement is that RDEC on single source contracts from 1 April 2019 onwards will no longer be paid on to UK MOD, which is a change from the accounting judgement at the year end. The existing creditor has been reversed through the tax charge in line with IAS 12. Together with a £4.9m charge arising on the UK statutory rate change to 25% from 1 April 2023, a £1.7m credit for tax on the amortisation of acquisition intangibles and a £1.2m credit in respect of other pre-tax specific adjusting items, the total specific adjusting items tax credit was £16.1m (H1 FY22: restated charge of £14.2m). Specific adjusting items includes the foreign exchange gain of £42.9m on the derivative instrument taken out for the Avantus acquisition which is not expected to be taxable as it relates to a prospective share transaction.

Earnings per share

Underlying basic earnings per share for the Group was 11.4p up 41% on the prior year first half (H1 FY22: 8.1p), with the increase primarily due to the impact of the write-down in the prior year. Statutory basic earnings per share (including specific adjusting items) were 19.5p (H1 FY22 restated: 3.9p) with the current period further enhanced by the £42.9m foreign exchange gain on the derivatives taken out to hedge the exposure on the Avantus acquisition and the £18.1m release of the liability in respect of UK MOD appropriation of RDEC.

Dividend

An interim dividend of 2.4p (H1 FY22: 2.3p) will be paid on 3 February 2023 to shareholders on the register on 6 January 2023. 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 2023.

Cash performance

The Group delivered strong cash performance during H1 FY23, with underlying net cash flows from operations of £106.8m (H1 FY22: £70.2m), resulting in cash conversion before capital expenditure of 106% (H1 FY22: 89%).

Underlying working capital inflow (which excludes the working capital impact of specific adjusting items) was £4.5m in H1 FY23 compared with a £13.0m outflow in H1 FY22. We continue to manage our working capital well, although we do expect a modest working capital outflow by the year end with an evolving mix of payables and receivables on our large long-term contracts.

Capex for the period was £48.5m (H1 FY22 restated: £46.9m). 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 2022 the Group had £264.0m net cash, compared to £225.1m at 31 March 2022. We retain a strong balance sheet to support investment in our long-term growth strategy.

The net cash balance as at 30 September 2022 includes the £42.9m FX hedge relating to the Avantus acquisition, £14.9m of interest rate swaps which have been taken out to hedge future interest rate exposure on the associated debt financing and £7.6m of other foreign exchange related derivatives. The statutory cash flow statement includes a £29.2m cash outflow in relation to the realised foreign exchange movement on derivatives which hedge intercompany loan amounts, which are executed in accordance with our Treasury Policy.

We maintain a rigorous approach to the deployment of our capital, scrutinising organic and inorganic opportunities in the same manner to ensure returns to our shareholders are appropriate for the risks taken.

Our priorities for capital allocation, following this rigorous methodology, are:

1. Organic investment complemented by acquisitions where there is a strong strategic fit;
2. The maintenance of balance sheet strength;
3. A progressive dividend; and
4. The return of excess cash to shareholders.

Normalised trading performance

The year-on-year performance of the Group is skewed by the write-down incurred in the prior year comparator period (H1 FY22). To understand the normalised trading performance of the Group the following table demonstrates the results before the impact of the write-down.

	H1 FY23	**H1 FY22**			**Underlying change**			
	Underlying* results	**Underlying* results**	Write-down	**Excluding write-down**	*Reported including write-down*	*Organic* including write-down*	*Reported excluding write-down*	*Organic* excluding write-down*
Orders	**£798.8m**	**£677.8m**	£22.5m	**£700.3m**	*18%*	*14%*	*14%*	*11%*
Revenue	**£673.4m**	**£600.1m**	£8.0m	**£608.1m**	*12%*	*10%*	*11%*	*8%*
Operating profit	**£74.1m**	**£53.4m**	£14.5m	**£67.9m**	*39%*	*37%*	*9%*	*7%*
Margin	***11.0%***	***8.9%***		***11.2%***				

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

The above table demonstrates that excluding the impact of the write-down, the Group has achieved orders growth of 14% (11% on an organic constant currency basis), revenue up 11% (8% on an organic constant currency basis) and underlying operating profit up 9% (7% on an organic constant currency basis).

Committed facilities

The Group has a £275m bank revolving credit facility with an additional ‘accordion’ facility to increase the limit up to £400m. The facility, of which £65m will mature on 27 September 2024 and £210m will mature on 27 September 2025, was undrawn at the half year. In addition the Group has a £340m term loan facility available to be drawn on completion of the acquisition of Avantus Federal. It is our policy to fix between 30-80% of our interest rate exposure through a combination of derivatives or fixed rate debt – of the new £340m term debt to finance the Avantus acquisition 47% (£160m) will be fixed with this increasing based on materialisation of future projected cash performance. Our cost of debt for both the fixed and the floating element is currently in the 3-4% range, with a full year interest charge of c.£12m per annum. These facilities provide the Group with significant scope to execute its strategic growth plans.

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 FY23	H1 FY22
£/US$ - average	1.21	1.39
£/US$ - closing	1.11	1.35
£/US$ - opening	1.31	1.38
£/A$ - average	1.75	1.84
£/A$ - closing	1.72	1.86
£/A$ - opening	1.75	1.81

Pensions

The net pension asset under IAS 19, before adjusting for deferred tax, was £209.0m (31 March 2022: £362.2m). The key driver for the decrease in the net pension asset since the March 2022 year end was the recent turmoil in financial markets, particularly a sharp increase in gilt yields (and reduced gilt prices) which significantly reduced the value of the Scheme’s Liability Driven Investments (LDIs) and related asset-backed securities. Together with falls in other assets the reduction across the whole investment portfolio was in excess of the reduction in Scheme liabilities (which have also fallen substantially, due to an increase in the discount rate).

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

Operating review

EMEA Services

	H1 FY23 £m	H1 FY22 £m
Orders	**600.8**	506.4
Revenue	**524.3**	488.7
Underlying operating profit*	**61.5**	67.1
Underlying operating margin*	**11.7%**	13.7%
Book to bill ratio(1)	**1.4x**	1.3x
Order backlog	**2,601.2**	2,718.0
Order backlog excl. LTPA	**1,175.3**	1,105.7

* 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 19% to £600.8m (H1 2021: £506.4m), driven by a £32m three-year contract with UK MOD for the Future Combat Air System (FCAS) programme through the Engineering Delivery Partner framework, a £26m uplift to the LTPA contract to reflect inflationary effects in the UK, a five-year contract extension with Boeing for our five metre wind tunnel services and contracts totalling A$77m in Australia through growth of the MSP programme.

Revenue increased 7% on an organic basis as a result of new work delivered under EDP in the UK and the growth of the MSP contract in Australia.

Underlying operating profit reduced by 8% to £61.5m (H1 FY22: £67.1m) with margin at 11.7% (H1 FY22: 13.7%), consistent with the margin in H2 FY22 at 12.0%. The prior year comparator of H1 FY22 was particularly strong, the modest reduction in margin is as a result of additional investment into our people and capabilities to support long-term growth as set out in the CEO and CFO Review sections.

Including the LTPA, approximately 65% of EMEA Services revenue is derived from single source contracts (H1 FY22: approximately 67%) demonstrating our critical and unique capabilities for our customers.

Business Unit commentary

UK Defence (60% of EMEA Services revenue)

The UK Defence sector delivers mission critical solutions, innovating for our Air, Maritime & Land customers' advantage. This sector represents the previously reported Air and Space, and Maritime and Land business units. Its formation provides a sharper focus on our strategy of maximising growth through our framework contracts, building new core offerings through our global campaigns and exploring new growth opportunities. The new sector improves coherence of our distinctive offerings across QinetiQ's 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. 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; in H1 this represented a £26m order uplift.

- 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 £193m and revenue of £135m.
- We have won a £32m three-year contract with UK MOD for the Future Combat Air System (FCAS) programme through EDP. The contract is to provide programme and technical support to the Catalyst Delivery Team, a new Defence Equipment & Support (DE&S) team responsible for introducing new capability to the MOD air domain for various front line commands. The FCAS Acquisition Programme is one of the first capabilities which the Catalyst Delivery team are initiating under this new construct. Contributing to Attack, Information, Surveillance and Reconnaissance, FCAS will be primarily responsible for delivering systems to undertake control of the air duties.
- Working in close collaboration with our partners from the Air and Space Warfare Centre as the Air Test and Evaluation Centre (ATEC) and wider stakeholders, we were tasked with leading and managing a dedicated series of test and evaluation trials for high altitude parachuting from the Atlas C Mk 1 aircraft.
- We have successfully signed a five-year contract extension with Boeing for our five metre wind tunnel services and have successfully completed third party testing in the facility.

<u>UK Intelligence (28% of EMEA Services revenue)</u>

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 Ltd (QTSL, formerly NSC), Inzpire and Naimuri. This Sector represents the previously reported Cyber and Information business unit.

- 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.
- Engineering, software development and test on the highly complex Robust Global Navigation System (RGNS) programme is progressing well as we progress towards release of initial operating capability. The RGNS programme is a funded development programme with UK MOD to develop the Q40 product, providing our customers the next generation of class-leading, robust and resilient position, navigation and timing (PNT) capability. The contract is a great example of QinetiQ delivering on highly complex programmes at the leading-edge of technology for sovereign capability.
- We continue to deliver well on the Battlefield Tactical Communication and Information Systems (BATCIS) contract, winning the fifth year option contract award worth £35m. 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 this complex set of projects (Trinity, Niobe, Morpheus, DSA etc.) covering a wide array of disciplines; developing concepts, engineering solutions, managing obsolescence issues, supporting critical operational requirements and enabling procurement competitions.
- QTSL (formerly NSC), Inzpire and Naimuri have achieved significant growth, all nearly doubling in size since acquisition. Inzpire's Graphical Electronic Cockpit Organiser (GECO) mission planning product continues to sell well to air forces around the world as an inexpensive way to get up-to-date mission systems into the cockpit of older aircraft.

International (12% of EMEA Services revenue)

Our International sector provides advisory services, engineering services and training and mission rehearsal in the Australian, German and Canadian markets.

- The Australian business has started FY23 strongly due to increased orders on the Major Service Provider (MSP) contract. The Canadian business has made good progress in the US with the integration of the Army Ground Aerial Target Control System and our QTS targets, which represents a major milestone (6+ years in the making) in US market penetration.
- Our MSP contract has delivered orders totalling A$77m and increased revenues by 10% through consistent high operational performance and delighting the customer. This contract positions us for future growth as a trusted partner able to provide sovereign Australian industry capability, while leveraging our global capabilities. A major contributor of our growth has been our close support to the Australian Army acquisition programme for their next generation of heavy armoured vehicles, a cornerstone of the broader Army modernisation programme.
- As one of only four MSP consortia we are also continuing to support our Australian customer with the supply and sustainment of next generation munitions, ensuring Defence has the right capability and enhancing Australia's self-reliance and supply chain resilience. We are also supporting with the ongoing acquisition and sustainment support for RAAFs Surveillance and Reconnaissance capability, enhancing Defence's ability to maintain situational awareness of Australia's maritime approaches.
- In FY22 we had our contract extended to provide valuable mine warfare equipment and support services to the Australian Defence Force at HMAS Waterhen for the next five years. This contract continues to deliver well, enabling the Royal Australian Navy to both sustain and enhance its essential in-country training and threat representation capability.
- In October 2022 we announced the acquisition of Air Affairs (Australia) Pty Ltd for a cash consideration of A$53m - we remain on-track to complete the acquisition in November. Air Affairs is an Australian defence services company – a leader in air threat representation, T&E, unmanned targets and mission rehearsal. Air Affairs provides targets and training services, and electronic warfare capabilities to the Australian Defence Force, as well as aerial surveillance and reconnaissance in support of government firefighting efforts. It owns and operates a fleet of special mission aircraft and maintains an advanced manufacturing and engineering facility providing design, manufacture and certification operations. Air Affairs employs c.180 people, headquartered in Nowra, New South Wales. The acquisition of Air Affairs further establishes QinetiQ as a long-term, strategic partner to the Australian Defence Force and underpins QinetiQ's strategic position as market leader in T&E and air threat representation, now with a significant presence across the UK, Canada and Australia, and training and special operations in Germany. In the 12 months to 30 June 2022, Air Affairs delivered A$43m revenue, EBITDA of A$5m (on an IFRS basis).
- In Germany the Slow Speed Aerial Target Services contract has delivered consistent ongoing flying performance supporting the customer in target operations, providing a strong foundation for the future Next Generation German Aerial Training Services (NGGATS) opportunity.

Global Products

	H1 FY23 £m	H1 FY22 £m
Orders	**198.0**	171.4
Revenue	**149.1**	111.4
Underlying operating profit/(loss)*	**12.6**	(13.7)
Underlying operating margin*	**8.5%**	(12.3%)
Book to bill ratio	**1.3x**	1.5x
Order backlog	**367.4**	289.6

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

Global Products delivers innovative solutions to meet customer requirements. The division is technology-based and has shorter order cycles than EMEA Services.

Financial performance

Orders increased by 16% to £198.0m (H1 FY22: £171.4m). Excluding foreign exchange, orders grew organically by 4%. Order performance in H1 FY23 has remained strong, particularly in the US, with the prior year impacted by the write-down (£22.5m). We have modified our order recognition criteria to align with industry best practice. This results in a one-off order catch-up in the US of £48m in H1 FY23 for orders under-recognised in the past, and is aligned with our strong revenue performance in the US.

Revenue was up 34% to £149.1m (H1 FY22: £111.4m). Excluding foreign exchange, revenue grew organically by 22%, and excluding the impact of the write-down (£8m) in the prior year up 14%, driven by good performance in the US and QTS.

Underlying operating profit increased to £12.6m (H1 FY22: £13.7m loss), with an underlying operating profit margin of 8.5% (H1 FY22: -12.3%). The significant improvement in profit is as a result of good performance in the US and a weaker prior year comparator with H1 FY22 including the write-down (£14.5m).

Business Unit commentary

United States (68% of Global Products revenue)

Our US sector provides technical advice, design and manufacture of innovative defence products specialising in robotics, autonomy and sensing solutions, comprising Technology Solutions (formerly QNA) and C5ISR Solutions (formerly MTEQ). Following completion of the Avantus acquisition, we will also become a leading provider of mission-focused cyber, data analytics and software development solutions – the three business areas will be managed under the US sector.

- The US sector has had a strong first half with orders, revenue and profit seeing good improvement on the second half of FY22 with greater stability and consistent performance. With a new leadership team and steps taken to improve the resilience, project controls and performance, we are pleased to see that the US has performed well in the first half.
- We secured a contract to provide technical services to the US Army. The five year contract, worth up to $45m, will provide services for the Development Command (DEVCOM) Command, Control, Computers, Communications, Cyber, Intelligence, Surveillance and Reconnaissance (C5ISR) at the Fort Belvoir Prototyping Integration Facility (PIF). The contract, a one-year base period followed by four one-year option periods, will provide technical services for system development, fabrication, sensor and system integration, prototyping of multi-function sensor suites, and technology assessment efforts aimed at supporting current and future DEVCOM C5ISR PIF Belvoir customers. This contract is an important competitive win for the business and reinforces our continued value to our customers.
- We also won a multi-year research, development and technology integration contract, worth up to $49m, with the US Army C5ISR Center, Research & Technology Integration

Directorate's Image Processing Division for Image Processing and advanced Optics Technologies.

- The US Navy's newest and most advanced aircraft carrier (USS Gerald R. Ford - CVN 78) has been successfully deployed with QinetiQ's Electromagnetic Aircraft Launch System (EMALS) and Advanced Arresting Gear (AAG) systems aboard, bringing improved functionality and reliability.
- We have successfully completed the Low-Rate Production (LRIP) contract on the Common Robotic System Individual (CRS-I), known as the SPUR robot, for the US Army. We are ramping-up production for the $64m Full-Rate Production (FRP) contract which we won last year; the largest Program of Record for US Robotics for the delivery of a further 1,200 SPUR robots, with the first 170 systems delivered to the customer. Whilst supply-chain remains challenging we are actively managing this to maintain the delivery schedule.
- The RCV-L (Robotic Combat Vehicle Light) has completed successful summer soldier trials at Fort Hood. The trials are both testing the capability of the vehicle whilst also developing tactical scenarios and situational training exercises, the output of which will be used to further develop the robotic vehicle's capabilities with the end-user in mind.
- We have successfully completed high altitude test flights of the SPECTRE system. SPECTRE is a next generation prototype Intelligence, Surveillance & Reconnaissance (ISR) sensor system that enables multi-mission Uncrewed Air Systems (UAS) and crewed aircraft to operate in parallel to other critical sensor payloads and weapons, with improved performance at a fraction of the size and weight of the sensors currently in use by the US Government.
- We have made good progress on the Optionally Manned Fighting Vehicle (OMFV) Phase 2 contract as the program nears completion, with our teams delivering digital engineering designs allowing platform validation in a virtual environment. The vehicle's modular open architecture will make it easy to upgrade and modify according to future needs.

<u>Space Products (16% of Global Products revenue)</u>

Space NV is a Belgium-based commercial space business providing design and integration of small commercial satellites, docking and berthing systems, and instruments for end-to-end space missions; its principal customer is the European Space Agency. In October 2022 we announced the disposal of QinetiQ Space NV in Belgium to Redwire Space Europe for a cash consideration of €32m and we are delighted to announce completion of the transaction on 31st October 2022. Space NV is an attractive and well-positioned business in the commercial space sector, which has delivered good operational performance and growth under QinetiQ's ownership. Whilst the space domain remains an integral part of our core defence and security strategy, Space NV products provide limited operational synergies and alignment with our global ambition – QinetiQ is therefore delighted to have announced the sale of Space NV to Redwire Corporation, who can provide greater synergies and relevant market access to enable future growth of the business and new opportunities for its employees. In the year ended 31 March 2022 Space NV generated revenue of €49m and EBITDA of €5m.

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

EMEA Products provides research services and bespoke technological solutions developed from intellectual property spun out from EMEA Services. QinetiQ Target Systems (QTS) is also reported within EMEA Products.

- Through FY22 and FY23 we have seen positive progress across the QTS business with customers resuming trials and exercises and winning some significant orders, including a number of notable wins and deliveries for customer training exercises in Europe.
- QTS secured a £1.5m contract from the Royal Navy to trial the military effect of Banshee Jet80+ air vehicle off HMS Prince of Wales. QinetiQ will provide its experimentation expertise and Banshee Jet80+ air vehicles to support the Royal Navy's future use of high-performance Uncrewed Aerial Systems (UAS) in Carrier Strike Group operations. The experimental trials, which are closely associated with the Navy's Vampire Phase 1 programme, will test QinetiQ Target Systems' Banshees in training and ISR scenarios, focussing on specific flight profiles and the optical recognition of assets to enable 'friend or foe' confirmation.

- QTS also supported a major Dutch target exercise (Mjolnir), with live testing of the SM2 (medium-range surface-to-air missile), as well as Aerial Target deployments in Turkey and Germany.

Principal risks and uncertainties

The Group continues to be exposed to a number of risks and uncertainties which management continue to identify, assess and mitigate to minimise their potential impact on the reported performance of the Group. An explanation of risks and their mitigations, together with details of our risk management framework can be found in the 2022 Annual Report and Accounts which is available for download at: https://www.qinetiq.com/investors.

A summary of the significant risks and uncertainties are set out below:

- Failure to grow and adapt our ways of working in order to ensure that we attract, develop and retain the right capability to deliver excellence for our customers to support QinetiQ's future growth;
- Failure to create a culture of innovation, develop relevant technology and business models or to attract and retain the right talent to enable the realisation of new ideas for our customers and our organisation;
- Failure to anticipate, plan and scenario-test for volatile macroeconomic environments that could impact customer spending, inflationary impacts on our cost-base, interest rates and foreign currency exchange movements;
- Failure to execute our growth strategy within the UK, US and Australian market impacts the overall financial performance of the Group;
- Large long-term contracts that contribute a material element of the Group's revenue do not continue or are not renewed;
- The M&A strategy, which is a key element of our strategic growth, does not realise the maximum potential benefits;
- The Group operates in highly regulated environments and recognises that non-compliance could pose a risk to both our ability to conduct business, and to our stakeholders;
- A breach of physical data security, cyber-attacks or IT systems failure could have an adverse impact on our customers' operations;
- Our Portfolio, Programme and Project Management (P3M) maturity fails to keep pace with our growth plans and the successful delivery of larger, longer-term contracts; and
- Failure to manage our climate change risk would leave operations on our estates and our supply chains exposed and we may not meet legislative or customer requirements, stakeholder expectations and may not be correctly positioned in a decarbonised future.

Condensed consolidated income statement

All figures in £ million unless stated otherwise	Note	H1 FY23 (unaudited)			H1 FY22 restated^ (unaudited)		
		Underlying*	**Specific adjusting items***	**Total**	Underlying*	Specific adjusting items*	Total
Revenue	2	**673.4**	**-**	**673.4**	**600.1**	**-**	**600.1**
Operating costs excluding depreciation, impairment and amortisation		(577.6)	30.7	(546.9)	(525.8)	(6.3)	(532.1)
Other income		5.2	0.9	6.1	4.8	0.5	5.3
EBITDA (earnings before interest, tax, depreciation and amortisation)		**101.0**	**31.6**	**132.6**	**79.1**	**(5.8)**	**73.3**
Depreciation and impairment of property, plant and equipment		(23.5)	-	(23.5)	(22.9)	(1.2)	(24.1)
Amortisation of intangible assets		(3.4)	(5.6)	(9.0)	(2.8)	(5.4)	(8.2)
Operating profit/(loss)		**74.1**	**26.0**	**100.1**	**53.4**	**(12.4)**	**41.0**
Finance income	5	1.4	4.9	6.3	0.1	2.3	2.4
Finance expense	5	(1.9)	-	(1.9)	(1.0)	-	(1.0)
Profit/(loss) before tax		**73.6**	**30.9**	**104.5**	**52.5**	**(10.1)**	**42.4**
Taxation (expense)/income	6	(8.2)	16.1	7.9	(5.9)	(14.2)	(20.1)
Profit/(loss) for the period		**65.4**	**47.0**	**112.4**	**46.6**	**(24.3)**	**22.3**
Attributable to:							
Owners of the Company		65.4	47.0	112.4	46.6	(24.3)	22.3
Non-controlling interests		-	-	-	-	-	-
Profit/(loss) for the period		**65.4**	**47.0**	**112.4**	**46.6**	**(24.3)**	**22.3**
Earnings per share for profit attributable to the owners of the Company							
Basic	7	**11.4**		**19.5**	**8.1**		**3.9**
Diluted	7	**11.3**		**19.3**	**8.1**		**3.9**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.
* 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 FY23 (unaudited)**	H1 FY22^ (unaudited)
Profit for the period	**112.4**	**22.3**
Items that will not be reclassified to the income statement:		
Actuarial (loss)/gain recognised in defined benefit pension schemes	(157.5)	61.5
Tax on items that will not be reclassified to the income statement	39.4	(27.1)
Total items that will not be reclassified to the income statement	**(118.1)**	**34.4**
Items that may be reclassified to the income statement:		
Foreign currency translation gains for foreign operations	19.7	2.4
Movement in deferred tax on foreign currency translation	(1.7)	0.2
Increase in fair value of hedging derivatives	16.5	0.5
Movement on deferred tax on hedging derivatives	(0.3)	(0.1)
Total items that may be reclassified to the income statement	**34.2**	**3.0**
Other comprehensive (expense)/income for the period, net of tax	**(83.9)**	**37.4**
Total comprehensive income for the period, net of tax	**28.5**	**59.7**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.

Condensed consolidated statement of changes in equity

All figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 April 2022	**5.8**	**40.8**	**147.6**	**0.1**	**1.9**	**847.0**	**1,043.2**	**0.2**	**1,043.4**
Profit for the period	-	-	-	-	-	112.4	112.4	-	112.4
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**	**813.2**	**1,043.6**	**0.2**	**1,043.8**

At 1 April 2021 – previously reported	**5.7**	**40.8**	**147.6**	**(0.4)**	**(2.9)**	**698.6**	**889.4**	**0.3**	**889.7**
Change in accounting policy – software implementation costs	-	-	-	-	-	(4.8)	(4.8)	-	(4.8)
At 1 April 2021 – restated^	**5.7**	**40.8**	**147.6**	**(0.4)**	**(2.9)**	**693.8**	**884.6**	**0.3**	**884.9**
Profit for the period	-	-	-	-	-	22.3	22.3	-	22.3
Other comprehensive income, net of tax	-	-	-	0.4	2.6	34.4	37.4	-	37.4
Purchase of own shares	-	-	-	-	-	(0.5)	(0.5)	-	(0.5)
Issue of new shares	0.1	-	-	-	-	-	0.1	-	0.1
Share-based payments charge	-	-	-	-	-	3.6	3.6	-	3.6
Deferred tax on share-based payments	-	-	-	-	-	(0.7)	(0.7)	-	(0.7)
Fair value adjustment in respect of equity-based contingent consideration	-	-	-	-	-	0.7	0.7	-	0.7
Dividends	-	-	-	-	-	(27.0)	(27.0)	(0.1)	(27.1)
At 30 September 2021^ (unaudited)	**5.8**	**40.8**	**147.6**	**-**	**(0.3)**	**726.6**	**920.5**	**0.2**	**920.7**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.

Condensed consolidated balance sheet

All figures in £ million	Note	**30 September 2022 (unaudited)**	30 September 2021^ (unaudited)	31 March 2022 (audited)
Non-current assets				
Goodwill	12	158.3	147.1	149.4
Intangible assets		140.2	135.7	140.3
Property, plant and equipment		431.6	408.6	414.5
Derivatives and other financial assets		12.8	0.7	0.5
Financial assets at fair value through profit and loss		-	0.9	-
Equity accounted investments		1.1	2.2	2.6
Retirement benefit surplus	13	209.0	277.4	362.2
Deferred tax asset		25.5	16.0	21.0
		978.5	**988.6**	**1,090.5**
Current assets				
Inventories		63.9	61.5	54.9
Derivatives and other financial assets		54.3	0.3	0.6
Trade and other receivables		330.8	311.4	361.2
Current tax asset		18.4	6.6	1.4
Assets classified as held for sale		39.5	-	-
Cash and cash equivalents		220.3	165.7	248.1
		727.2	545.5	666.2
Total assets		**1,705.7**	**1,534.1**	**1,756.7**
Current liabilities				
Trade and other payables		(439.3)	(383.9)	(462.7)
Current tax payable		-	(0.6)	(3.9)
Provisions		(21.1)	(4.4)	(21.1)
Liabilities of disposal group classified as held for sale		(29.1)	-	-
Leases and other financial liabilities		(6.0)	(8.2)	(6.9)
		(495.5)	**(397.1)**	**(494.6)**
Non-current liabilities				
Deferred tax liability		(134.1)	(136.6)	(156.7)
Provisions		(4.5)	(7.4)	(6.0)
Leases and other financial liabilities		(17.4)	(19.3)	(17.2)
Other payables		(10.4)	(53.0)	(38.8)
		(166.4)	(216.3)	(218.7)
Total liabilities		**(661.9)**	**(613.4)**	**(713.3)**
Net assets		**1,043.8**	**920.7**	**1,043.4**
Equity				
Ordinary shares		5.8	5.8	5.8
Capital redemption reserve		40.8	40.8	40.8
Share premium account		147.6	147.6	147.6
Hedging reserve		16.3	-	0.1
Translation reserve		19.9	(0.3)	1.9
Retained earnings		813.2	726.6	847.0
Capital and reserves attributable to shareholders of the parent company		**1,043.6**	**920.5**	**1,043.2**
Non-controlling interest		0.2	0.2	0.2
Total equity		**1,043.8**	**920.7**	**1,043.4**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.

Condensed consolidated cash flow statement

All figures in £ million	Note	**H1 FY23 (unaudited)**	H1 FY22^* (unaudited)	FY22* (audited)
Underlying net cash inflow from operations		**106.8**	**70.2**	**215.3**
Less specific adjusting items	9	(7.3)	(6.0)	(5.6)
Net cash inflow from operations	9	**99.5**	**64.2**	**209.7**
Tax paid		(18.2)	(12.8)	(20.0)
Interest received		1.4	0.1	0.5
Interest paid		(1.0)	(0.8)	(1.5)
Net cash inflow from operating activities		**81.7**	**50.7**	**188.7**
Purchases of intangible assets		(3.5)	(9.6)	(21.4)
Purchases of property, plant and equipment		(45.0)	(37.3)	(62.9)
Proceeds from sale of property		1.1	-	1.5
Dividends from joint ventures and associates		-	2.0	2.0
Acquisition of businesses		(1.6)	-	(0.8)
Net cash outflow from investing activities		**(49.0)**	**(44.9)**	**(81.6)**
Purchase of own shares		(0.4)	(0.4)	(0.8)
Dividends paid to shareholders		(28.8)	(27.0)	(40.2)
Payment of term loan arrangement fee		(0.6)	-	-
Capital element of finance lease payments		(3.1)	(3.5)	(6.2)
Cash flow relating to intercompany loan hedges		(29.2)	0.4	(3.1)
Dividends paid to non-controlling interests in subsidiaries		-	(0.1)	(0.1)
Net cash outflow from financing activities		**(62.1)**	**(30.6)**	**(50.4)**
(Decrease)/Increase in cash and cash equivalents		**(29.4)**	**(24.8)**	**56.7**
Effect of foreign exchange changes on cash and cash equivalents		1.6	0.4	1.3
Cash and cash equivalents at beginning of period		248.1	190.1	190.1
Cash and cash equivalents at end of period		**220.3**	**165.7**	**248.1**

Reconciliation of movement in net cash

All figures in £ million	Note	**H1 FY23 (unaudited)**	H1 FY22^* (unaudited)	FY22* (audited)
(Decrease)/Increase in cash and cash equivalents		**(29.4)**	**(24.8)**	**56.7**
Add back net cash flows not impacting net cash		3.7	3.5	6.2
Change in net cash resulting from cash flows		**(25.7)**	**(21.3)**	**62.9**
Net increase in lease obligation		(1.4)	(1.1)	(1.3)
Net movement in derivative financial instruments		67.2	(2.6)	(1.3)
Other movements including foreign exchange		(1.2)	0.1	0.7
Increase/(Decrease) in net cash as defined by the Group		**38.9**	**(24.9)**	**61.0**
Net cash as defined by the Group at beginning of the period		225.1	164.1	164.1
Net cash as defined by the Group at end of the period	8	**264.0**	**139.2**	**225.1**
Less: non-cash net financial (assets)/liabilities	8	(43.7)	26.5	23.0
Total cash and cash equivalents	8	**220.3**	**165.7**	**248.1**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.
* To be consistent with H1 FY23, prior periods have been re-presented in respect of the cash flow impact of intercompany loan hedging

Notes to the condensed interim financial statements

1. 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 2022 comprise statements for the Company and its subsidiaries (together referred to as the 'Group') and were approved by the Board of Directors on 10 November 2022.

The financial statements have been reviewed, not audited.

This condensed consolidated interim financial report for the half-year reporting period ended 30 September 2022 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 costs in respect of business acquisitions and disposals	✓	✓	✓
Digital investment	✓	✓	✓
One-off FX gain on acquisition funding arrangements	✓	✓	✓
Impairment of goodwill and property	✓	✓	✓
The tax impact of the above	✓	✓	✓
Other significant non-recurring tax 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 2022.

Recent accounting developments adopted by the Group

IFRIC Agenda Decision 'Configuration and customisation costs in a cloud computing arrangements'

In the 31 March 2022 Annual Report, the Group changed its accounting policy related to the capitalisation of configuration and customisation costs in a cloud computing (Software as a Service, 'SaaS') arrangement. This change is as a result of the IFRS Interpretations Committee's agenda decision published in April 2021.

The Group's accounting policy had historically been to capitalise costs directly attributable to the configuration and customisation of cloud computing arrangements as intangible assets in the balance sheet, whether or not the services were performed by the SaaS provider, SaaS subcontractors or a third party. Following the publication of the above IFRIC agenda decision, cloud computing arrangements were identified and assessed to determine if the Group has control of the software. For those arrangements where it was determined that we do not have control of the developed software, to the extent that the services were performed by third parties, the Group derecognised the intangible asset previously capitalised. Amounts paid to the SaaS provider in advance of the commencement of the service period, including for configuration or customisation, if identified as not distinct, were treated as a prepayment.

The change in accounting policy led to adjustments amounting to an £8.0m reduction in the intangible assets recognised as at 31 March 2022, and to a £2.4m increase in operating costs (excluding amortisation) for the year.

Accordingly, the 30 September 2021 balance sheet has been restated in accordance with IAS 8, together with related notes. The following table shows the adjustments recognised for each individual line item as at 30 September 2021.

Impact on the condensed consolidated balance sheet at 30 September 2021

All figures in £ million	As originally presented	Impact of restatement	Restated
Assets/liabilities			
Intangible assets	143.7	(8.0)	135.7
Current tax asset	4.9	1.7	6.6
Other net assets	778.4	-	778.4
Net assets	**927.0**	**(6.3)**	**920.7**
Equity			
Retained earnings	732.9	(6.3)	726.6
Share capital and other reserves	193.9	-	193.9
Non-controlling interest	0.2	-	0.2
Total equity	**927.0**	**(6.3)**	**920.7**
Impact on net cash			
Net cash (as defined by the Group – see glossary)	**139.2**	-	**139.2**

Impact on the condensed consolidated income statement for H1 FY22

All figures in £ million	As originally presented	Impact of restatement	Restated
EBITDA (earnings before interest, tax, depreciation and amortisation)	**75.2**	**(1.9)**	**73.3**
Depreciation and impairment of property, plant and equipment	(24.1)	-	(24.1)
Amortisation of intangible assets	(8.2)	-	(8.2)
Operating profit/(loss)	**42.9**	**(1.9)**	**41.0**
Finance income	2.4	-	2.4
Finance expense	(1.0)	-	(1.0)
Profit/(loss) before tax	**44.3**	**(1.9)**	**42.4**
Taxation expense	(20.5)	0.4	(20.1)
Profit/(loss) for the year attributable to equity shareholders	**23.8**	**(1.5)**	**22.3**

The impact is classified as a specific adjusting item and there is no impact on underlying measures of performance.

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

The comparative figures for the year ended 31 March 2022 (and half year ended 30 September 2021) 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 2022 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 2022 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).

2. Disaggregation of revenue and segmental analysis

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

All figures in £ million	**H1 FY23 (unaudited)**	H1 FY22 (unaudited)
Service contracts with customers	640.1	574.5
Sale of goods contracts with customers	31.8	24.1
Royalties and licences	1.5	1.5
Revenue (statutory)	**673.4**	**600.1**
Restated for:		
Adjust to constant prior year exchange rates	(15.7)	-
Total revenue on an organic, constant currency basis	**657.7**	**600.1**
Organic revenue growth at constant currency	*10%*	*3%*

Other income

All figures in £ million	**H1 FY23 (unaudited)**	H1 FY22 (unaudited)
Share of joint ventures' and associates' profit after tax	0.3	-
Other income (property related)	4.9	4.8
Other income – underlying	**5.2**	**4.8**
Specific adjusting item: gain on sale of property	0.9	0.5
Total other income	**6.1**	**5.3**

Revenue by customer geographical location

All figures in £ million	**H1 FY23 (unaudited)**	H1 FY22 (unaudited)
United Kingdom	459.4	434.3
US	102.0	75.1
Australia	57.4	47.1
Home countries (92% and 93% of total revenue for H1 FY23 and H1 FY22 respectively)	**618.8**	**556.5**
Europe	42.8	40.6
Rest of World	11.8	3.0
Total revenue	**673.4**	**600.1**

Revenue by major customer type

For the six months ended 30 September

All figures in £ million	**H1 FY23 (unaudited)**	H1 FY22 (unaudited)
UK Government	423.8	398.2
US Government	97.7	68.1
Other	151.9	133.8
Total revenue	**673.4**	**600.1**

Operating segments

All figures in £ million	**H1 FY23 (unaudited)**		H1 FY22 (unaudited)	
	Revenue from external customers	**Underlying* operating profit***	Revenue from external customers	Underlying* operating profit/(loss)*
EMEA Services	524.3	61.5	488.7	67.1
Global Products	149.1	12.6	111.4	(13.7)
Total operating segments	**673.4**	**74.1**	**600.1**	**53.4**
*Underlying operating margin**		*11.0%*		*8.9%*

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

The prior period included a write-down on a large complex project. This reduced revenue and underlying operating profit (within the Global Products operating segment) by £8.0m and £14.5m respectively.

Reconciliation of segmental results to total profit

All figures in £ million	Note	H1 FY23 (unaudited)	H1 FY22^ (unaudited)
Underlying operating profit		74.1	53.4
Specific adjusting items operating profit/(loss)	3	26.0	(12.4)
Operating profit		**100.1**	**41.0**
Net finance income		4.4	1.4
Profit before tax		**104.5**	**42.4**
Taxation income/(expense)		7.9	(20.1)
Profit for the period attributable to equity shareholders		**112.4**	**22.3**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.

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 FY23 (unaudited)	H1 FY22^ (unaudited)
FX gain on acquisition funding derivatives		42.9	-
Acquisition and disposal costs	4	(6.4)	(4.1)
Restructuring costs		(3.3)	-
Digital investment		(2.5)	(1.9)
Gain on sale of property		0.9	0.5
Acquisition related remuneration		-	(0.9)
Fair value adjustment in respect of contingent consideration	4	-	0.6
Specific adjusting items before amortisation, depreciation and impairment		**31.6**	**(5.8)**
Impairment of property		-	(1.2)
Amortisation of intangible assets arising from acquisition		(5.6)	(5.4)
Specific adjusting items operating profit/(loss)		**26.0**	**(12.4)**
Defined benefit pension scheme net finance income	13	4.9	2.3
Specific adjusting items profit/(loss) before tax		**30.9**	**(10.1)**
Specific adjusting items – tax income/(expense)	6	16.1	(14.2)
Total specific adjusting items profit/(loss) after tax		**47.0**	**(24.3)**

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

All figures in £ million	H1 FY23 (unaudited)	H1 FY22^ (unaudited)
Underlying profit after tax	65.4	46.6
Total specific adjusting items profit/(loss) after tax (see above)	47.0	(24.3)
Total profit for the period attributable to equity shareholders	**112.4**	**22.3**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.

The total impact of specific adjusting items on operating profit (which are excluded from underlying performance) before tax was a £26.0m income (H1 FY22 restated: expense of £12.4m). H1 FY23 includes a £42.9m gain from the foreign exchange derivative contract, due to the recent GBP:USD movement, 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. The size of this gain (or loss), which has partially reversed since 30 September 2022, will ultimately depend on the GBP to USD foreign exchange rate at the date of completion of the acquisition.

Acquisition and disposal costs of £6.4m (H1 FY22: £4.1m) comprise costs associated with the Avantus and Air Affairs acquisitions (which are due to complete in H2), and costs relating to the disposal of Space NV. The H1 FY22 amount was relating to an unsuccessful acquisition, as disclosed previously. The cash flow for H1 FY23 includes a £1.6m deposit payment on the Air Affairs acquisition.

Restructuring costs of £3.3m have been incurred as part of the re-organisation to create Group-wide global support functions and four market-facing Sectors. The costs of reorganisation in previous years, which have been smaller in scale, have been included within underlying operating costs.

QinetiQ has embarked on a digital investment programme to improve the infrastructure, digital tools and operating systems of the company – the majority of costs will be reported as exceptional specific adjusting items in the P&L, with ongoing recurring operating costs (such as licence costs and overheads) remaining within underlying operating costs. Early stage implementations and planning work has been undertaken through FY22 and FY23, with the full digital investment programme due to be implemented over the next three to four year period. FY22 included specific adjusting item relating to the change in accounting policy for software implementation costs as a result of the International Financial Reporting Interpretations Committee (IFRIC) decision to expense rather than capitalise configuration and customisation costs in cloud computing arrangements. H1 FY22 has been restated to reflect this. In H1 FY23 the exceptional cost element of the digital investment programme within specific adjusting items totals £2.5m. The majority of this expenditure would previously have been capitalised and follows the IFRIC decision, with a small movement from underlying operating costs to exceptional costs as referenced above (FY23 benefit to underlying operating profit expected to be <£1m).

Also included within specific adjusting items were a gain on the sale of property of £0.9m (H1 FY22 £0.5m) and amortisation of acquisition intangibles of £5.6m (H1 FY22: £5.4m).

4. Business combinations

There were no acquisitions in the period to 30 September 2022 or 30 September 2021. In the current period, the Group incurred £6.4m costs in respect of the recently announced acquisitions of Avantus Federal and Air Affairs, and the disposal of Space NV. These costs are classified as a specific adjusting item (note 3). A £1.6m deposit payment has been made on the Air Affairs acquisition.

In H1 HY22 the fair value of the MTEQ earn-out agreement was reassessed as nil. An amount of £0.6m was credited to the income statement as a specific adjusting item in respect of the cash-settled element.

5. Finance income and expense

All figures in £ million	**H1 FY23 (unaudited)**	H1 FY22 (unaudited)
Receivable on bank deposits	1.4	0.1
Underlying finance income	**1.4**	**0.1**
Amortisation of recapitalisation fee	(0.2)	(0.2)
Interest on bank loans and overdrafts	(0.4)	(0.3)
Lease expense	(0.5)	(0.5)
Other interest expense	(0.8)	-
Underlying finance expense	**(1.9)**	(1.0)
Underlying net finance expense	**(0.5)**	(0.9)
Specific adjusting items:		
Defined benefit pension scheme net finance income	4.9	2.3
Net finance income	**4.4**	1.4

6. Taxation

	H1 FY23 (unaudited)			H1 FY22^ (unaudited)		
All figures in £ million unless stated otherwise	**Underlying**	**Specific adjusting items**	**Total**	Underlying	Specific adjusting items	Total
Profit/(loss) before tax	**73.6**	**30.9**	**104.5**	**52.5**	**(10.1)**	**42.4**
Taxation (expense)/income	(8.2)	16.1	7.9	(5.9)	(14.2)	(20.1)
Profit/(loss) for the period attributable to equity shareholders	**65.4**	**47.0**	**112.4**	**46.6**	**(24.3)**	**22.3**
Effective tax rate	**11.1%**			**11.2%**		

^ Prior period comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.

The total tax credit is £7.9m (H1 FY22 restated charge: £20.1m). The underlying tax charge of £8.2m (H1 2021: £5.9m) is calculated by applying the expected underlying effective tax rate at a jurisdictional level for the year ending 31 March 2023 to the underlying profit before tax for the six months to 30 September 2022. The Group's full year expected underlying effective tax rate is 11.5% which is higher than the half year underlying effective tax rate of 11.1% (H1 FY22: 11.2%) due to the jurisdictional mix of profits in H1 FY23.

The underlying effective tax rate continues to be below the UK statutory rate, primarily as a result of the benefit of research and development expenditure credits ('RDEC') in the UK which are accounted for under IAS12 within the tax line. The adjusted underlying effective tax rate before the impact of RDEC would be 19.4% (H1 FY22: 18.0%). The underlying effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any tax legislation changes, the geographic mix of profits, the recognition of unrecognised tax losses and while the benefit of net RDEC retained by the Group remains in the tax line.

Tax losses and specific adjusting items
At 30 September 2022 the Group had unused tax losses and surplus interest expenses of £156.9m (31 March 2022: £128.1m) which are available for offset against future profits. Within deferred tax assets recognised on the balance sheet is £15.8m in respect of £75.3m of US net operating losses, £5.0m in respect of £21.6m of Canadian net operating losses and £1.7m in respect of £5.1m of German trade losses.

No deferred tax asset is recognised in respect of the £54.9m 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 £14.8m. The Group has £36.1m of time-limited US net operating losses of which £25.5m will expire in 2035 and £10.6m in 2036. Deferred tax has been calculated using the enacted future statutory tax rates.

Specific adjusting items includes a £18.1m credit in respect of UK MOD appropriation for RDEC has been classified as a specific adjusting item. Following a determination by the SSRO on the interpretation of the Statutory Guidance for Allowable Costs regulations ('SGAC'), the accounting judgement is that RDEC on single source contracts from 1 April 2019 onwards will no longer be paid on to MOD, which is a change from the accounting judgement at the year end. The existing creditor has been reversed through the tax charge in line with IAS 12. Together with a £4.9m charge arising on the UK statutory rate change to 25% from 1 April 2023, a £1.7m credit for tax on the amortisation of acquisition intangibles and a £1.2m credit in respect of other pre-tax specific adjusting items, the total specific adjusting items tax credit was £16.1m (H1 2022 restated: charge of £14.2m). Specific adjusting items includes the foreign exchange gain £42.9m on the derivative instrument taken out for the Avantus acquisition which is not expected to be taxable as it relates to a prospective share transaction.

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 all potentially dilutive ordinary shares arising from unvested share-based awards including share options.

		H1 FY23 (unaudited)	H1 FY22 (unaudited)
Weighted average number of shares	**Million**	**575.4**	**572.6**
Effect of dilutive securities	Million	5.5	5.7
Diluted number of shares	**Million**	**580.9**	**578.3**

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 FY23 (unaudited)**	**H1 FY22^ (unaudited)**
Profit attributable to the owners of the Company	£ million	112.4	22.3
Remove (profit)/loss after tax in respect of specific adjusting items	£ million	(47.0)	24.3
Underlying profit after taxation	**£ million**	**65.4**	**46.6**
Weighted average number of shares	Million	575.4	572.6
Underlying basic EPS	**Pence**	**11.4**	**8.1**
Diluted number of shares	Million	580.9	578.3
Underlying diluted EPS	**Pence**	**11.3**	**8.1**

Basic and diluted EPS		**H1 FY23 (unaudited)**	**H1 FY22^ (unaudited)**
Profit attributable to the owners of the Company	£ million	112.4	22.3
Weighted average number of shares	Million	575.4	572.6
Basic EPS – total Group	**Pence**	**19.5**	**3.9**
Diluted number of shares	Million	580.9	578.3
Diluted EPS – total Group	**Pence**	**19.3**	**3.9**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.

8. Net cash

All figures in £ million	30 September 2022 (unaudited)	30 September 2021 (unaudited)	31 March 2022 (audited)
Current financial assets/(liabilities)			
Deferred financing costs	0.6	0.3	0.4
Derivative financial assets	53.7	-	0.2
Lease liabilities	(5.8)	(5.7)	(5.5)
Derivative financial liabilities	(0.2)	(2.5)	(1.4)
Total current net financial assets/(liabilities)	48.3	(7.9)	(6.3)
Non-current financial assets/(liabilities)			
Deferred financing costs	0.7	0.7	0.5
Derivative financial assets	12.1	-	-
Lease liabilities	(17.2)	(18.7)	(16.6)
Derivative financial liabilities	(0.2)	(0.6)	(0.6)
Total non-current net financial liabilities	(4.6)	(18.6)	(16.7)
Total net financial assets/(liabilities)	**43.7**	**(26.5)**	**(23.0)**
Cash and cash equivalents	220.3	165.7	248.1
Total net cash as defined by the Group	**264.0**	**139.2**	**225.1**

9. Cash flows from operations

All figures in £ million	H1 FY23 (unaudited)	H1 FY22^ (unaudited)	FY22 (audited)
Profit after tax for the period	112.4	22.3	90.0
Adjustments for:			
Taxation (income)/expense	(7.9)	20.1	29.7
Net finance income	(4.4)	(1.4)	(3.1)
Gain on acquisition funding foreign exchange derivatives	(42.9)	-	-
Acquisition related remuneration costs not paid as at year end	-	-	0.9
Gain on sale of property	(0.9)	(0.5)	(0.7)
Impairment in respect of property, plant and equipment	-	1.2	1.7
Fair value gain in respect of contingent consideration	-	(0.6)	(0.6)
Acquisition related remuneration costs not paid as at year end	-	0.9	-
Amortisation of purchased or internally developed intangible assets	3.4	2.8	5.4
Amortisation of intangible assets arising from acquisitions	5.6	5.4	10.7
Depreciation of property, plant and equipment	23.5	22.9	46.2
Share of post-tax gain of equity accounted entities	(0.3)	-	(0.3)
Share-based payments charge	1.0	3.6	7.4
Retirement benefit contributions in excess of income statement expense	0.6	0.7	(1.8)
Pension past service cost	-	-	2.4
Net movement in provisions	-	(0.2)	(1.0)
(Increase)/Decrease in inventories	(3.9)	(6.2)	1.4
Decrease/(Increase) in receivables	16.0	18.5	(12.8)
(Decrease)/Increase in payables	(2.7)	(25.3)	34.2
Changes in working capital	9.4	(13.0)	22.8
Net cash flow from operations	**99.5**	**64.2**	**209.7**

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

All figures in £ million	H1 FY23 (unaudited)	H1 FY22^ (unaudited)	FY22 (audited)
Net cash flow from operations	99.5	64.2	209.7
Add back cash impact of specific adjusting item: acquisition and disposal costs	2.4	4.1	3.7
Add back cash impact of specific adjusting item: restructuring costs	2.4	-	-
Add back cash impact of specific adjusting item: digital investment	2.5	1.9	1.9
Underlying net cash flow from operations	**106.8**	**70.2**	**215.3**
Less: tax and net interest payments	(17.8)	(13.5)	(21.0)
Less: purchases of intangible assets and property, plant & equipment	(48.5)	(46.9)	(84.3)
Free cash flow	**40.5**	**9.8**	**110.0**

^ Prior period comparatives have been restated due to a change in accounting policy in respect of software implementation costs. See note 1.

Underlying cash conversion ratio

	H1 FY23 (unaudited)	H1 FY22 (unaudited)	FY22 (audited)
Underlying EBITDA - £ million	101.0	79.1	189.5
Underlying net cash flow from operations - £ million	106.8	70.2	215.3
Underlying cash conversion ratio - %	**106%**	**89%**	**114%**

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 2022. 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 2022, are as follows:

All figures in £ million	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:				
Current derivative financial instruments	-	53.7	-	53.7
Non-current derivative financial instruments	-	12.1	-	12.1
Liabilities:				
Current derivative financial instruments	-	(0.2)	-	(0.2)
Non-current derivative financial instruments	-	(0.2)	-	(0.2)
Total	**-**	**65.4**	**-**	**65.4**

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2022:

All figures in £ million	Level 1	Level 2	Level 3	Total
Assets:				
Current derivative financial instruments	-	0.2	-	0.2
Non-current derivative financial instruments	-	-	-	-
Liabilities:				
Current derivative financial instruments	-	(1.4)	-	(1.4)
Non-current derivative financial instruments	-	(0.6)	-	(0.6)
Total	**-**	**(1.8)**	**-**	**(1.8)**

The fair value of current and non-current derivative financial instruments assets at half year increased significantly from year end due to forward foreign exchange and interest rate contracts put in place to cover the acquisition of Avantus Federal and fix interest costs in line with Group risk management policies.

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 2022 and comparative periods is provided below:

	Pence per ordinary share	£m	Date paid/payable
Interim FY23	**2.4**	**13.8**	**Feb 2023**
Interim FY22	2.3	13.2	Feb 2022
Final FY22	5.0	28.8	Aug 2022
Total for the year ended 31 March 2022	7.3	42.0	

The interim dividend is 2.4p (Interim FY22: 2.3p). The dividend will be paid on 3 February 2023. The ex-dividend date is 5 January 2023 and the record date is 6 January 2023.

12. Goodwill

Goodwill is allocated across five cash generating units ('CGUs') within the EMEA Services segment and four CGUs within the Global Products segment. The full list of CGUs that have goodwill allocated to them is as follows:

All figures in £ million	Primary reporting segment	30 September 2022 (unaudited)	30 September 2021 (unaudited)	31 March 2022 (audited)
US Technology Solutions	Global Products	49.0	40.5	41.5
US C5ISR	Global Products	40.9	33.8	34.6
Target Systems	Global Products	25.1	24.3	24.7
Space Products	Global Products	-	5.7	5.6
QinetiQ Germany	EMEA Services	2.7	2.7	2.6
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	6.3	5.8	6.1
Net book value		**158.3**	**147.1**	**149.4**

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 2022, 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 2022 was £2.7m (31 March 2022: £2.6m). As at 31 March 2022, headroom (the excess of calculated value in use compared to carrying value) was small following re-baselining of the business plan. We are seeing positive progress in FY23, securing an important renewal of the core contract until June 2023, however the market remains challenging.

The key sensitivity impacting on the value in use calculations for the Germany CGU is the terminal year cash flows, with the core contract contributing approximately one third of the business's revenue in the terminal year (2027). Should this key contract not be successfully won (on a long-term basis) in June 2023 then there would be a significant decrease in future cash flows and this would lead to full impairment of the residual £2.7m carrying value of goodwill together with an impairment charge of approximately £1.3m against the carrying value of intangible assets. An increase in the discount rate of 1% or a decrease in the terminal growth rate of 1% would decrease the value in use by £7.0m and £5.3m respectively.

The Goodwill associated with Space Products is related to Space NV and has been reclassified as Assets held for sale, per note 18.

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 2022 (unaudited)	30 September 2021 (unaudited)	31 March 2022 (audited)
Total market value of Scheme assets	**1,429.6**	**2,139.8**	**2,065.7**
Present value of Scheme liabilities	(1,220.6)	(1,862.4)	(1,703.5)
Net pension asset before deferred tax	**209.0**	**277.4**	**362.2**
Deferred tax liability	(58.3)	(75.7)	(96.4)
Net pension asset after deferred tax	**150.7**	**201.7**	**265.8**

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 2022 (unaudited)	30 September 2021 (unaudited)	31 March 2022 (audited)
Equities – quoted	176.9	173.4	176.1
Equities – unquoted	41.2	48.1	44.7
Liability driven investment	252.4	327.0	291.8
Asset backed security investments	116.2	499.5	501.7
Alternative bonds	242.7	250.7	208.6
Corporate bonds	94.4	92.9	97.4
Property funds	13.9	48.3	29.5
Cash and other equivalents	16.9	17.3	78.5
Derivatives	(21.8)	(5.3)	(8.5)
Insurance buy-in policy	496.8	687.9	645.9
Total market value of Scheme assets	**1,429.6**	**2,139.8**	**2,065.7**

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 2022 (unaudited)	30 September 2021 (unaudited)	31 March 2022 (audited)
Opening net pension asset before deferred tax	362.2	214.3	214.3
Net finance income	4.9	2.3	4.5
Net actuarial (loss)/gain	(157.5)	61.5	144.0
Contributions by the employer	-	-	2.9
Past service cost	-	-	(2.4)
Administration expenses	(0.6)	(0.7)	(1.1)
Closing net pension asset before deferred tax	**209.0**	**277.4**	**362.2**

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

	30 September 2022 (unaudited)		30 September 2021 (unaudited)		31 March 2022 (audited)	
	Un-insured members	Insured members	Un-insured members	Insured members	Un-insured members	Insured members
Discount rate applied to Scheme liabilities	4.95%	5.35%	2.10%	2.05%	2.70%	2.80%
CPI inflation assumption	3.00%	2.95%	2.75%	2.70%	2.90%	3.00%
Net rate (discount rate less inflation)	1.95%	2.40%	(0.65%)	(0.65%)	(0.20%)	(0.20%)
Assumed life expectancies(at age 60) in years:						
For males currently aged 40	28.4	n/a	28.4	n/a	28.4	n/a
For females currently aged 40	30.7	n/a	30.7	n/a	30.7	n/a
For males currently aged 60	26.7	22.0^	26.7	23.2^	26.7	22.0^
For females currently aged 60	28.6	23.7^	28.6	25.4^	28.6	23.7^

^For pensioners 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
Increase discount rate by 0.1%	Decrease by £36.2m	Decrease by £19.6m	Decrease by £16.6m
Increase rate of inflation by 0.1%	Increase by £26.2m	Increase by £12.2m	Increase by £14.0m
Increase life expectancy by one year	Increase by £20.1m	Increase by £45.5m	Decrease by £25.4m

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 2022 this hedges against approximately 95% of the interest rate risk and also 95% of the inflation rate risk, as measured on the Trustees' gilt-funded basis. Post period end, due to the increased volatility in gilt yields and reflecting increased liquidity requirements for Schemes running LDI portfolios, the hedges have been amended to cover approximately 65% of the interest rate risk and 80% of the inflation rate risk, as measured on the Trustees' gilt-funded basis.

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, unquoted equities and the property assets of £242.7m, £94.4m, £41.2m and £13.9m respectively are the assets with most uncertainty as to valuation as at 30 September 2022.

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 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 2022 are 4,228,478 shares (31 March 2022: 6,816,291 shares).

In H1 FY23 the Group granted 0.2 million new share-based awards to employees (H1 FY22: 0.4 million).

15. Related party transactions with equity accounted investments

During H1 FY23 there were sales to associates and joint ventures of £0.3m (H1 FY22: £2.4m). At the period end there were outstanding receivables from associates and joint ventures of £0.5m (30 September 2021: £1.1m).

16. Capital commitments

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

all figures in £ million	**30 September 2022 (unaudited)**	31 March 2022 (audited)
Contracted	53.3	34.7

Capital commitments at 30 September 2022 include £26.3m (31 March 2022: £24.5m) 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 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. Post balance sheet events (disposal group held for sale)

Subsequent to the period end the Group completed a transaction for the disposal of the non-core Space NV business for a cash consideration of €32m (on a cash-free debt-free basis). The assets and liabilities of Space NV have been reclassified as Assets held for sale and Liabilities of disposal group held for sale as at 30 September 2022.

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 2022. 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 10 November 2022	Carol Borg Chief Financial Officer 10 November 2022

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 2022 (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 2022;
- 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. 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 this ISRE. 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
10 November 2022

Glossary

CPI	Consumer Price Index
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
EDP	Engineering Delivery Partner
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LTPA	Long Term Partnering Agreement: A 25-year contract (re-priced every five years) established in 2003 to manage the MOD's ranges.
MOD	UK Ministry of Defence
SGAC	Statutory Guidance for Allowable Costs regulations
SSRO	Single Source Regulations Office
T&E	Test and Evaluation

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 period-on-period 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 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.	Note 2
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 3
Underlying effective tax rate	The tax charge for the period excluding the tax impact of 'specific adjusting items' expressed as a percentage of underlying profit before tax.	Note 6
Underlying basic and diluted EPS	Basic and diluted earnings per share as adjusted to exclude 'specific adjusting items'.	Note 7
Specific adjusting items	Amortisation of intangible assets arising from acquisitions; acquisition-related costs; impairment of property; gains/losses on disposal of property, investments and intellectual property; net pension finance income; pension past service costs, acquisition and disposal costs; costs of significant group-wide restructuring programmes; Digital investment, tax impact of the preceding items; and significant non-recurring tax movements.	Note 3
Orders	The level of new orders (and amendments to existing orders) booked in the period.	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 period to revenue for the period, adjusted to exclude revenue from the 25-year LTPA contract due to the significant size and timing differences of LTPA order and revenue recognition which may distort the ratio calculation.	N/A
Net cash	Net cash as defined by the Group combines cash and cash equivalents with other financial assets and liabilities, primarily available for sale investments, derivative financial instruments and lease assets/ liabilities.	Note 8
Underlying net cash flow from operations	Net cash flow from operations before cash flows of specific adjusting items.	Note 9
Underlying operating cash conversion	The ratio of underlying net cash flow from operations to underlying EBITDA.	Note 9
Underlying EBITDA	EBITDA (as defined above), adjusted to exclude 'specific adjusting items'.	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 disposal of plant and equipment.	Note 9