QINETIQ GROUP PLC

23 November 2011
For release at 0700 hours

Interim Results for the half year ended 30 September 2011

Restoring Strength, Building Value

	H1 FY2012	H1 FY2011	Change
Business Performance			
Revenue	**£739.6m**	£864.9m	(14)%
Organic change at constant currency	**(9)%**	6%	
Underlying operating profit*	**£82.6m**	£64.9m	27%
Underlying operating margin*	**11.2%**	7.5%	
Underlying profit before tax*	**£74.9m**	£51.6m	45%
Underlying net cash from operations (post capex)*	**£157.1m**	£149.9m	5%
Underlying cash conversion ratio*	**190%**	231%	
Net debt	**£145.3m**	£327.0m	56%
Underlying earnings per share*	**9.2p**	6.5p	42%
Dividend per share	**0.9p**	nil	
Statutory Reporting			
Operating profit/(loss)	**£79.7m**	£(24.3)m	
Profit/(loss) before tax	**£80.5m**	£(37.6)m	
Earnings per share	**10.2p**	(6.4)p	

Headlines

- **Self-help delivering a stronger QinetiQ:**
  - Group margin* uplift driven by UK Services and Global Products
  - US Services successfully integrated under new leadership
  - MOD customer satisfaction ranking improved from 17th to 3rd position over 2 years
  - NASA performance scores running at over 90%

- **Value being created:**
  - Continued strong cash generation reduces gearing ratio† to 0.6x (31 March 2011: 1.4x)
  - Underlying earnings per share* up by 42%
  - Board's expectations for the current year upgraded by approximately 20%
  - Low visibility and uncertainty leaves outlook beyond the current year unchanged
  - Payment of an interim dividend of 0.9p, reflecting confidence in the medium term

Leo Quinn, Chief Executive Officer said: "Rapid execution of our self-help plan is building a stronger QinetiQ. The Group is better focussed on delivering its customers' changing needs, and this is starting to come through in its underlying performance.

"The Board believes that, absent any material change in customer requirements, the Group will exceed its original expectations for the current year by approximately 20%, although market uncertainties mean that visibility beyond the current year remains lower than normal. Our confidence in QinetiQ's ability to build significant value over the medium term is demonstrated by the payment of the interim dividend of 0.9p."

* Definitions of underlying measures of performance can be found in the glossary.
† The gearing ratio is adjusted net debt:EBITDA calculated in accordance with the Group's credit facility ratios.

Other information

There will be a presentation of the interim results to analysts at 0900 hours UK time on 23 November 2011 at UBS Ground Floor Conference Centre, 1 Finsbury Avenue, London, EC2M 2PP. Registration for the webcast is available at: www.QinetiQ.com/investors. An audiocast of the event can be heard using the following numbers:

- UK Freephone: 0800 634 5205
- Local London: 0208 817 9301
- International: +44 208 817 9301

The presentation will also be available at: www.QinetiQ.com/investors on the morning of our results.

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Disclaimer

All statements other than statements of historical fact included in this document, including, without limitation, those regarding the financial condition, results, operations and businesses of QinetiQ and its strategy, plans and objectives and the markets and economies in which it operates, are forward-looking statements. Such forward-looking statements, which reflect management's assumptions made on the basis of information available to it at this time, involve known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of QinetiQ or the markets and economies in which QinetiQ operates to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Nothing in this document should be regarded as a profit forecast.

** Definitions of underlying measures of performance can be found in the glossary. Underlying financial measures, excluding amortisation of intangible assets arising from acquisitions and specific non-recurring items, are presented as the Board believes these provide a better representation of the Group's long-term performance trends. Specific non-recurring items include amounts relating to: restructuring costs; pension curtailment gains; contingent payments on acquisition treated as remuneration; net gains/losses in respect of previously capitalised DTR-programme bid costs; impairment of property, plant and equipment; impairment of intangible assets; gain/(loss) on business combinations and divestments; unrealised impairments of investments; and tax thereon.*

† The gearing ratio (adjusted net debt:EBITDA) is the ratio of net borrowings at the balance sheet date translated at average exchange rates for the period to EBITDA generated in the 12 month period to the balance sheet date and calculated in accordance with the Group's credit facility ratios.

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† The gearing ratio is adjusted net debt:EBITDA calculated in accordance with the Group's credit facility ratios.

Group Overview

Restoring strength, building value

Revenues were £739.6m (H1 FY11: £864.9m), down 9% on an organic basis at constant currency, excluding an £18.9m reduction in revenue for divested businesses. This reflects both the exceptionally strong comparator period due to Q-NETs demand and also the continuing delays of service contracts in US and UK defence markets.

Underlying operating profit* rose 27% to £82.6m (H1 FY11: £64.9m). The underlying operating margin* was 11.2% (H1 FY11: 7.5%) as a result of early cost reduction in the UK businesses and improved efficiencies and mix in Global Products. These improvements were partially offset by somewhat lower margins in US Services where the business has now been reorganised.

Non-recurring items included gains of £8.5m relating to the disposal of businesses and investments, and profits of £8.9m primarily relating to property disposals and the cancellation of the Defence Training Rationalisation (DTR) programme.

Underlying operating cash conversion* remained strong at 190% (H1 FY11: 231%) driven by the Group's rigorous internal processes, and supplemented by the continued deferral of customer contract capital expenditure and a net recovery of £18.5m costs following the cancellation of DTR. Underlying cash flow from operations* was £157.1m (H1 FY11: £149.9m).

Closing net debt at 30 September 2011 was £145.3m, compared with £260.9m at 31 March 2011 and £327.0m at 30 September 2010. This translated into a net debt to EBITDA ratio† of 0.6x at 30 September 2011 (31 March 2011: 1.4x; 30 September 2010: 1.9x). The Group's earliest maturity in its borrowings is 2016.

Net finance costs benefited from lower interest charges due to the reduction in net debt and from a pension finance credit of £3.0m (H1 FY11: £4.3m). Underlying profit before tax* for the Group was £74.9m, up 45% on the previous period (H1 FY11: £51.6m). Half year underlying earnings per share* were 9.2p (H1 FY10: 6.5p), a 42% increase.

Following the reinstatement of a progressive dividend in May 2011, an interim dividend of 0.9p (H1 FY11: nil) will be paid on 17 February 2012 to shareholders on the register at 20 January 2012. In the absence of unforeseen circumstances this equates to approximately one third of the anticipated total dividend for the year.

Board changes

As announced today, Sir David Lees, who has been Deputy Chairman and senior independent director of the QinetiQ Board since 2005, has announced his intention to retire from the Board on 31 January 2012. The Board would like to thank Sir David for his invaluable contribution to the Group. Michael Harper has joined the QinetiQ Board as a non-executive director with effect from 22 November 2011. Following Sir David's retirement, Michael will become the Group's Deputy Chairman and senior independent director. Michael is a non-executive director of the BBA Aviation plc Board, which he joined in February 2005, becoming Chairman in June 2007. He is an engineer by training and gained significant experience as a director of Williams plc where, on the demerger in 2000, he became Chief Executive of Kidde plc. Michael is Chairman of both the Vitec Group plc and Ricardo plc.

As announced in May 2011, Admiral Ed Giambastiani stepped down as a non-executive director to the QinetiQ Board at the 2011 Annual General Meeting in August 2011.

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† The gearing ratio is adjusted net debt:EBITDA calculated in accordance with the Group's credit facility ratios.

Update on Priorities

In May 2010, QinetiQ began a 24-month self-help programme to lay the foundations for restoring and creating value. These actions, which have been installed in the UK and are now being implemented by US management as well, have centred on driving improvements in three areas:

Focus

The Group's realignment of its portfolio is well advanced. The simplified structure of three divisions – US Services, UK Services and Global Products – is driving greater clarity around competitive strengths and the business models which deploy these to best advantage in evolving markets.

- The decision to integrate US Services under single, strong leadership was implemented in the period, creating a more competitive and focused division. The reorganisation removes overhead costs of more than $20m in FY12.
- Detailed analysis of the portfolio is clarifying those businesses which are core and those which should be explored for growth, as well as assessing the best opportunities presented by the market to win new business and grow. This process ensures that portfolio decisions are driven by the potential for maximum value creation.
- During the period, businesses that deliver technical services were realigned from Global Products to UK & US Services to meet the requirements of common customers. Revenue generated by these businesses in the first half amounted to £28m.
- The Global Products framework is delivering a co-ordinated approach to development of the product portfolio, as illustrated by the rapid development and sale of a new, lightweight Dragon Runner, and the selection of the E-X-Drive®, developed in the UK, as part of a consortium for the technology development phase of the US Army's Ground Combat Vehicle programme.
- Within Global Products, the OptaSense® fibre-optic sensing business has commenced commercial hydraulic fracture monitoring services with Shell. It is now managed as a key growth opportunity, with leadership, culture and organisational alignment that will allow the business to achieve its full potential.
- Disposals in the period included Spectro, a supplier of oil and fuel analysis instrumentation based in Massachusetts, and the UK fuel and lubricants business, generating total net proceeds of £11.2m.

Cultural transformation

Measures to build a more competitive, customer-focused culture have been installed in the UK and are being embedded. They are now being implemented by management in the US.

- The leadership of US Services has been strengthened with the appointment of a new President and upgrading of the majority of his direct reports. Key hires have also included leaders for the business development, pricing and proposal functions in order to reinvigorate sales growth.
- The Fit4Growth programme is delivering ongoing improvements in productivity as illustrated by the uplift in margins. In the UK, QinetiQ's MOD customer satisfaction ranking has improved from 17th to 3rd position over a two year period. In the US, NASA performance scores have run at well over 90% throughout the period on both new and established contracts.
- The My Contribution programme is engaging employees in raising productivity, through either higher revenue or lower costs. To date, over 8,000 projects have been suggested by employees in the UK.
- The overall cost base is reviewed to maintain competitiveness, with Group headcount reduced by 7% in the period to 10,435, reflecting changing customer requirements.
- Performance improvements and cost savings have been achieved through a review of all UK corporate contracts for the procurement of goods and services including the insourcing of the facilities management contract with effect from 30 September 2011, following the successful insourcing of the corporate IT contract last year.

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Balance Sheet

The key priority of strengthening the balance sheet has been achieved.

- Underlying operating cash conversion* remains strong at 190% (H1 FY11: 231%) as a result of rigorous Group-wide processes and “passion for cash”. This has been supplemented by continuing low levels of customer contract capital expenditure which is likely to unwind in the second half and a net recovery of £18.5m costs following the cancellation of DTR.
- Debt has been reduced sustainably. Net debt at 30 September 2011 was £145.3m, compared with £260.9m at 31 March 2011 and £327.0m at 30 September 2010.
- At 30 September 2011, the gearing ratio† was 0.6x, compared with 1.4x at 31 March 2011 and 1.9x at 30 September 2010.
- The Group will pay an interim dividend of 0.9p. In the absence of unforeseen circumstances this equates to approximately one third of the anticipated total dividend for the year.
- Following the early repayment of a private placement note in May 2011 and the re-financing of the Revolving Credit Facility last year, the debt profile has been restructured so that there are no scheduled maturities before 2016.
- Work continues on the management of balance sheet items including constructive discussions with the Trustees of the UK defined benefit pension scheme regarding the triennial valuation as at 30 June 2011.

With the balance sheet restored to strength, the Group is able to consider options to build value including investment in longer term growth opportunities.

Trading Environment

The UK and US defence markets remain challenging as a result of deficit-driven cuts in national defence expenditure. Against this backdrop, customer behaviours are changing as they look "to do more with less", industry margins remain under pressure and competition for available spend is keen, making a low cost base essential.

In the UK, budgets are being reduced to meet the Government's target of an 8% cumulative reduction in defence spending over the next four years. Overall, the imperative for change within the Ministry Of Defence (MOD) is likely to continue to restrict and delay the authorisation of new contracts, particularly while a number of key reviews are still underway. These include the "Equipment, Support and Technology” consultation into the role which industry will play in future defence programmes, the “Yellow Book” review and consultation on pricing terms and conditions for single-source contracts, and the “Materiel strategy” for the MOD’s procurement agency DE&S (Defence Equipment and Support).

In the US, political priorities are changing in the tightening economic environment, as highlighted by this summer’s debt ceiling debate. The impact of the Budget Control Act 2011 on defence expenditure is unlikely to be clarified without further deliberation by Congress, and so visibility of defence spending remains limited. Ultimately, budget reductions will be required in order to generate efficiency savings, but certain categories – such as federal IT spending – may be more resilient, due to their potential to improve productivity and generate efficiency gains. In addition, since the beginning of the fiscal year on 1 October 2011, the Federal Government has been operating under a Continuing Resolution which authorises agencies to continue to operate (generally at the same funding levels as the prior year) but does not authorise new spending initiatives.

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Outlook

The Group retains and continues to build a strong presence in attractive and relatively resilient sectors, including test and evaluation, acquisition support, simulation, cyber security, the provision of IT services in secure environments and C4ISR. These remain key areas of focus for customers and QinetiQ's ability to deliver value by providing trusted and flexible independent expertise remains a distinguishing competitive strength.

With conditions in defence markets likely to remain challenging, QinetiQ's priority is to complete its 24 month self-help programme, embedding the improvements already made and continuing to build a stronger and more competitive Group with more predictable earnings growth.

The Board believes that, absent any material change in customer requirements, the Group will exceed its original expectations for the current year by approximately 20%. As market uncertainties mean visibility remains lower than normal, the outlook beyond the current year is unchanged. The Board's confidence in QinetiQ's ability to build significant value over the medium term is demonstrated by the payment of an interim dividend at 0.9p. In the absence of unforeseen circumstances this equates to approximately one third of the anticipated total dividend for the year.

Operations Overview

UK Services

Provision of technical services in test and evaluation, assurance, training and simulation, information and intelligence, and procurement consultancy underpinned by core long-term contracts for test and evaluation, aerial targets, maritime facilities and naval combat systems integration.

	H1 FY12 £m	H1 FY11[1] £m
Orders	**203.1**	221.3
Revenue	**290.9**	318.1
Underlying operating profit*	**28.7**	20.7
Underlying operating margin*	**9.9%**	6.5%
Book to bill ratio[2]	**1.0**	1.0

(1) Restated to reflect the transfer of the Force Protection business from Global Products at the beginning of the current financial year.
(2) Book to bill ratio for UK Services is orders won divided by revenue recognised, excluding the LTPA contract

UK Services delivered an encouraging performance despite revenues being down 9% on an organic basis, principally due to pressure on customer budgets. Approximately £11m of the organic reduction was due to revenues from the DTR Early Works contract, which has completed, and the e-Borders programme, that was cancelled in 2010.

Underlying operating profit* grew 39% to £28.7m (H1 FY11: £20.7m) and the underlying margin* increased to 9.9% (H1 FY11: 6.5%), as the division took action to address its cost base last year ahead of the expected revenue reduction. These results show the impact of the 24 month self-help programme, with better processes increasing project margins.

During the period, the Force Protection business, with H1 revenues of £19m, was transferred from Global Products to UK Services to align with customer requirements. In August 2011, the UK fuel and lubricants business was sold as part of ongoing portfolio reviews.

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UK Services continues to deliver value to its customers, de-risking the procurement of technology for core defence programmes and providing long-term managed services through the Long Term Partnering Agreement (LTPA), under which £180m of savings have been delivered to the customer to date.

In June, UK Services won a £22m multi-year contract to provide test and evaluation services for the A400M aircraft as it comes into service in 2014. This contract delivers an end-to-end evaluation capability including flight trials, safety advice, airworthiness and acquisition support. The division began operating ranges in Scandinavia during 2011 and the pipeline includes opportunities to expand the provision of test and evaluation services to other international customers.

Market uncertainties and contract commitment delays continue to impact the provision of technical advice, although research and development activity increased at the end of the period, particularly for C4ISR.

The newly created Training and Simulation business is using Commercial-Off-The-Shelf (COTS) technology to provide customers with value for money training solutions. During the period it won a contract to deliver a virtual environment to the Royal Navy for close-range gunnery training and established a defence simulation centre at the Boscombe Down site that QinetiQ operates on behalf of the MOD.

US Services

Delivery of technical services and solutions in engineering, systems engineering, software integration, cyber, training and logistics, principally to US federal government customers.

	H1 FY12 £m	H1 FY11[1] £m
Orders	**343.0**	323.6
Revenue	**268.4**	327.6
Underlying operating profit*	**16.9**	25.6
Underlying operating margin*	**6.3%**	7.8%
Book to bill ratio	**1.3**	1.0

(1) Restated to reflect the transfer of the Maritime and Transportation Services business from Global Products at the beginning of the current financial year

Revenues were down 8% on an organic basis at constant currency reflecting continued uncertainties in the federal services market. This rate excludes a £16m reduction following the divestment of the S&IS business in the prior year. Of the organic reduction, approximately £15m was due to completed programmes such as the Iraqi Flight Training School. The Government insourcing trend appears to have slowed, but had a revenue impact of £16m versus H1 FY11. Cumulative losses to Government insourcing total approximately $90m in annualised revenues.

Underlying operating profit* was £16.9m (H1 FY11 £25.6m) and the underlying margin* fell to 6.3% (H1 FY11: 7.8%) as a result of a more competitive environment, a higher investment in business development and the change in revenue mix as lower margin NASA work has replaced higher margin sales.

The decision to integrate US Services under single, strong leadership was implemented during the first half, improving the ability of the division to compete effectively. The reorganisation will reduce costs by more than $20m in FY12 by eliminating duplicated overheads and management layers. During the period, the Maritime and Transportation Services business, with H1 revenues of £9m, was transferred from Global Products to US Services to align with customer requirements.

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The leadership of US Services has been strengthened with the appointment of a new President and upgrading of the majority of his direct reports. Key hires have also included leaders for the business development, pricing and proposal functions in order to reinvigorate sales growth.

US Services has a broad customer base and is positioned in segments expected to be less impacted by defence cuts. Following commencement of work in March 2011, revenue streams are now ramping up on the contract at the NASA Kennedy Space Centre in Florida. The business has received a number of multi-year awards and the pipeline is strong. NASA performance scores have run at well over 90% throughout the period on both new and established contracts.

US Services' track record in the delivery of high-value IT services in secure environments was reinforced by the award of a contract by the General Services Administration with a maximum potential value of $41m to provide key components of the IT platform for the Public Buildings Service. US Services also won a $36.5m Indefinite Delivery Indefinite Quantity (IDIQ) contract with the US Air Force's Technical Applications Centre to provide expert scientific and analytical support at the Patrick Air Force Base in Florida. This is a new customer for the division and represents an extension of core competencies currently provided to NASA.

The division continues to invest in its cyber security capability with the launch of the Cyveillance Social Engineering Protection Appliance™ (SEPA), a security solution designed to detect highly targeted social engineering attacks.

Global Products

Focuses on the provision of product-based solutions to meet customer requirements, complemented by contract-funded research and development.

	H1 FY12	H1 FY11[1]
	£m	£m
Orders	**148.1**	379.6
Revenue	**180.3**	219.2
Underlying operating profit *	**37.0**	18.6
Underlying operating margin*	**20.5%**	8.5%
Book to bill ratio	**0.8**	1.7

(1) Restated to reflect the transfer of businesses from Global Products to UK and US Services at the beginning of the current financial year

Revenues were £180.3m (H1 FY11: £219.2m), a 12% organic reduction at constant currency, following the exceptionally strong demand for the Q-NET vehicle survivability product in the comparator period.

Underlying operating profit* increased to £37.0m (H1 FY11: £18.6m) with an underlying profit margin* of 20.5% (H1 FY11: 8.5%). Product and spares sales to the US military made a significant contribution, benefitting from efficiencies associated with the production of Q-NETs following ramp up during the prior period. In the UK, the business was re-aligned with customer demand in H2 last year, resulting in substantially better performance. The technology portfolio is now being tested for the best routes for value creation with loss-makers divested, or closed, where they lack a viable business model or suitable market access.

During the period, businesses that deliver technical services were transferred to UK & US Services, to allow this division to focus on productisation. In July, as part of ongoing portfolio review, the Group agreed the disposal of Spectro, a supplier of oil and fuel analysis instrumentation based in Massachusetts, which generated net proceeds of £9.0m after tax and costs.

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† The gearing ratio is adjusted net debt:EBITDA calculated in accordance with the Group's credit facility ratios.

Despite the announcement of a timetable for the drawdown of US troops from Afghanistan, contract awards continued throughout US fiscal year 2011 in support of current operations. Orders were principally for TALON™ robots and survivability products including LAST® Armor spall liners and the Q-NET product and spares. During the period, Q-NETs was selected to provide protection to vehicles in the US and overseas, although the MRAP Lite remains the principal vehicle on which it is fielded. Additional orders are expected in the second half to meet the target of $100m revenue for Q-NETs in this financial year.

The division is continuing to grow its portfolio of products and the Global Products framework is delivering a transatlantic approach to product development. This is exemplified by the development of a new, lightweight Dragon Runner, and by the selection of the E-X-Drive®, developed in the UK, as part of a consortium for the technology development phase of the US Army's Ground Combat Vehicle programme.

During the period the OptaSense® fibre-optic sensing business opened new offices in North America and the Middle East to support progress in international markets especially in the energy sector. The business was awarded a contract by Cairn to monitor the 670km Mangala Development Pipeline in India and commenced commercial hydraulic fracture monitoring services with Shell.

Financial items

Tax

The Group's underlying effective tax rate* was 19.7% (H1 FY11: 17.1%). The Group continues to benefit from the availability of UK research and development relief. At 30 September 2011, the Group had unused tax losses of £192.3m (31 March 2011: £188.7m) that are available to offset against future profits.

Earnings per share

Underlying earnings per share* were 9.2p compared with 6.5p for the first half period to 30 September 2010. Basic earnings per share increased to 10.2p compared to a loss of 6.4p in H1 FY11.

Dividend

Following the reinstatement of a progressive dividend in May 2011, the Group will pay an interim dividend of 0.9p (H1 FY11: nil). In the absence of unforeseen circumstances this equates to approximately one third of the anticipated total dividend for the year. The record date for the interim dividend will be 20 January 2012 and payment of the dividend will be on 17 February 2012.

Cash flow, net debt and liquidity

The Group's underlying net cash from operations (post capex)* was £157.1m (H1 FY11: £149.9m). Underlying operating cash conversion* remains strong at 190% (H1 FY11: 231%) driven by the Group's rigorous internal processes, and supplemented by the continued deferral of customer contract capital expenditure and a net recovery of £18.5m costs following the cancellation of DTR.

Closing net debt at 30 September 2011 was £145.3m, compared with £260.9m at 31 March 2011 and £327.0m at 30 September 2010. The Group's borrowings remained comfortably within its financial covenants with a gearing ratio† of 0.6x compared to the covenant maximum level of 3.5x. Following early repayment of the $135m private placement debt in May 2011, total committed facilities amounted to £547m at 30 September 2011, with no maturity before 2016.

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† The gearing ratio is adjusted net debt:EBITDA calculated in accordance with the Group's credit facility ratios.

Foreign exchange

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

	6 months to 30 September 2011	6 months to 30 September 2010
£/US$ - average	1.62	1.52
£/US$ - closing	1.56	1.58
£/US$ - opening	1.60	1.52

Pensions

The net pension liability under IAS 19, after deducting deferred tax, was £171.1m (31 March 2011: £92.2m; 30 September 2010: £134.8m). The change in net pension liability is primarily driven by falls in equity prices and a reduction in the discount rate used to value the scheme liabilities.

The key assumptions used in the IAS 19 valuation of the scheme are:

Assumption	30 September 2011	31 March 2011
Discount rate	5.1%	5.6%
Inflation	3.3%	3.6%
Salary increase	4.3%	4.6%
Life expectancy – male (currently aged 40)	90	90
Life expectancy - female (currently aged 40)	91	91

Each assumption is selected by the Group in consultation with the Company actuary and takes account of industry practice amongst comparator listed companies. The sensitivity of each of the key assumptions is shown in the table below.

Assumption	Change in assumption	Indicative effect on scheme liabilities (before deferred tax)
Discount rate	Increase / decrease by 0.1%	Decrease / increase by £27m
Inflation	Increase / decrease by 0.1%	Increase / decrease by £27m
Salary increase	Increase / decrease by 0.1%	Increase / decrease by £5m
Life expectancy	Increase by 1 year	Increase by £23m

Following a fall in equity markets and bond yields, the market value of the assets at 30 September 2011 was £949.4m (30 September 2010: £923.7m; 31 March 2011: £981.1m) and the present value of scheme liabilities was £1,177.5m (30 September 2010: £1,108.4m; 31 March 2011: £1,105.7m).

The Group is working with pension scheme trustees on the actuarial assumptions for the triennial valuation of the QinetiQ defined benefit pension scheme as at 30 June 2011.

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Condensed consolidated income statement

all figures in £ million	note	6 months ended 30 September 2011 (unaudited) Before acquisition amortisation and specific non-recurring items	Acquisition amortisation and specific non-recurring items*	Total	6 months ended 30 September 2010 (unaudited) Before acquisition amortisation and specific non-recurring items	Acquisition amortisation and specific non-recurring items*	Total
Revenue		**739.6**	**-**	**739.6**	**864.9**	**-**	**864.9**
Other operating costs excluding depreciation and amortisation		**(638.2)**	**8.9**	**(629.3)**	(782.5)	(70.5)	(853.0)
Share of post-tax profit of equity accounted joint ventures and associates		**0.1**	**-**	**0.1**	0.1	-	0.1
Other income		**2.5**	**-**	**2.5**	1.7	-	1.7
EBITDA (earnings before interest, tax, depreciation and amortisation)		**104.0**	**8.9**	**112.9**	**84.2**	**(70.5)**	**13.7**
Depreciation and impairment of property, plant and equipment		**(16.1)**	**-**	**(16.1)**	(15.8)	(4.8)	(20.6)
Amortisation of intangible assets		**(5.3)**	**(11.8)**	**(17.1)**	(3.5)	(13.9)	(17.4)
Operating profit/(loss)		**82.6**	**(2.9)**	**79.7**	**64.9**	**(89.2)**	**(24.3)**
Gain on business divestments and disposal of investments	3	**-**	**8.5**	**8.5**	-	-	-
Finance income	4	**34.2**	**-**	**34.2**	34.5	-	34.5
Finance expense	4	**(41.9)**	**-**	**(41.9)**	(47.8)	-	(47.8)
Profit/(loss) before tax		**74.9**	**5.6**	**80.5**	**51.6**	**(89.2)**	**(37.6)**
Taxation	5	**(14.8)**	**0.9**	**(13.9)**	(8.8)	4.3	(4.5)
Profit/(loss) for the period attributable to equity shareholders		**60.1**	**6.5**	**66.6**	**42.8**	**(84.9)**	**(42.1)**
Earnings per share							
Basic	7			**10.2p**			(6.4)p
Diluted	7			**10.0p**			(6.4)p

* Specific non-recurring items include gains on business divestments and disposal of investments, impairment of property, plant and equipment, profit on disposal of property, restructuring costs, net gains/losses in respect of previously capitalised DTR-programme bid costs and tax thereon.

Condensed consolidated statement of comprehensive income

all figures in £ million	6 months ended 30 September 2011 (unaudited)	6 months ended 30 September 2010 (unaudited)
Profit/(loss) for the period	**66.6**	(42.1)
Other comprehensive income:		
Foreign currency translation differences for foreign operations	**8.1**	(14.7)
(Decrease)/increase in fair value of hedging derivatives	**(0.2)**	4.8
Reclassification of hedging derivatives to the income statement	**0.2**	-
Movement in deferred tax on hedging derivatives	**-**	(1.3)
Fair value gains on available for sale investments	**0.1**	0.4
Actuarial loss recognised in defined benefit pension schemes	**(114.8)**	(48.0)
Increase in deferred tax asset due to actuarial movement in pension deficit	**29.8**	13.4
Other comprehensive income for the period, net of tax	**(76.8)**	(45.4)
Total comprehensive income for the period attributable to equity holders	**(10.2)**	**(87.5)**

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 2011	**6.6**	**39.9**	**147.6**	**0.2**	**21.6**	**241.5**	**457.4**	**0.1**	**457.5**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**8.1**	**(18.3)**	**(10.2)**	**-**	**(10.2)**
Purchase of own shares	**-**	**-**	**-**	**-**	**-**	**(11.0)**	**(11.0)**	**-**	**(11.0)**
Share-based payments	**-**	**-**	**-**	**-**	**-**	**2.4**	**2.4**	**-**	**2.4**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**(10.5)**	**(10.5)**	**-**	**(10.5)**
At 30 September 2011	**6.6**	**39.9**	**147.6**	**0.2**	**29.7**	**204.1**	**428.1**	**0.1**	**428.2**
At 1 April 2010	6.6	39.9	147.6	(12.1)	54.4	237.2	473.6	0.1	473.7
Total comprehensive income for the period	-	-	-	3.5	(14.7)	(76.3)	(87.5)	-	(87.5)
Purchase of own shares	-	-	-	-	-	(0.3)	(0.3)	-	(0.3)
Share-based payments	-	-	-	-	-	3.8	3.8	-	3.8
At 30 September 2010	**6.6**	**39.9**	**147.6**	**(8.6)**	**39.7**	**164.4**	**389.6**	**0.1**	**389.7**

Condensed consolidated balance sheet

all figures in £ million	note	**30 September 2011 (unaudited)**	30 September 2010 (unaudited)	31 March 2011 (audited)
Non-current assets				
Goodwill		**530.8**	531.2	521.1
Intangible assets		**86.9**	118.5	103.2
Property, plant and equipment		**249.9**	271.7	260.9
Other financial assets		**7.4**	9.2	8.2
Equity accounted investments		**1.1**	1.0	1.1
Other investments		**4.8**	4.8	4.8
Deferred tax asset		**65.3**	52.7	33.8
		946.2	**989.1**	**933.1**
Current assets				
Inventories		**30.3**	53.1	45.4
Other financial assets		**3.1**	4.2	3.0
Trade and other receivables		**341.7**	348.4	389.5
Investments		**2.4**	2.7	2.3
Assets classified as held for sale	8	**5.1**	38.0	7.5
Cash and cash equivalents		**132.9**	38.1	102.5
		515.5	**484.5**	**550.2**
Total assets		**1,461.7**	**1,473.6**	**1,483.3**
Current liabilities				
Trade and other payables		**(451.8)**	(424.0)	(465.6)
Current tax		**(17.8)**	(6.2)	(4.2)
Provisions		**(11.2)**	(44.2)	(20.4)
Other financial liabilities		**(4.2)**	(2.6)	(97.2)
		(485.0)	**(477.0)**	**(587.4)**
Non-current liabilities				
Retirement benefit obligation	12	**(228.1)**	(184.7)	(124.6)
Deferred tax liability		**-**	(12.5)	-
Provisions		**(13.2)**	(7.2)	(12.6)
Other financial liabilities		**(284.5)**	(375.9)	(277.4)
Other payables		**(22.7)**	(26.6)	(23.8)
		(548.5)	**(606.9)**	**(438.4)**
Total liabilities		**(1,033.5)**	**(1,083.9)**	**(1,025.8)**
Net assets		**428.2**	**389.7**	**457.5**
Capital and reserves				
Ordinary shares		**6.6**	6.6	6.6
Capital redemption reserve		**39.9**	39.9	39.9
Share premium account		**147.6**	147.6	147.6
Hedging and translation reserve		**29.9**	31.1	21.8
Retained earnings		**204.1**	164.4	241.5
Capital and reserves attributable to shareholders of the parent company		**428.1**	**389.6**	**457.4**
Non-controlling interest		**0.1**	0.1	0.1
Total shareholders' funds		**428.2**	**389.7**	**457.5**

Condensed consolidated cash flow statement

all figures in £ million	note	6 months ended 30 September 2011 (unaudited)	6 months ended 30 September 2010 (unaudited)	Year ended 31 March 2011 (audited)
Net cash inflow from operations before restructuring costs	9	**161.8**	**158.0**	**287.6**
Net cash outflow relating to UK restructuring		**(7.3)**	(5.8)	(31.8)
Net cash inflow from operations		**154.5**	**152.2**	**255.8**
Tax paid		**(7.9)**	(13.4)	(42.9)
Interest received		**0.2**	0.2	0.3
Interest paid		**(20.2)**	(17.4)	(28.9)
Net cash inflow from operating activities		**126.6**	**121.6**	**184.3**
Purchases of intangible assets		**(0.3)**	(0.5)	(2.4)
Purchases of property, plant and equipment		**(8.3)**	(7.6)	(19.7)
Proceeds from sale of property, plant and equipment		**3.9**	-	0.3
Equity accounted investments and other investment funding		**0.9**	(0.2)	-
Purchase of subsidiary undertakings		**-**	-	(16.3)
Net cash acquired with subsidiary undertakings		**-**	-	0.5
Proceeds from sale of interests in subsidiary undertakings		**11.2**	-	38.2
Net cash inflow/(outflow) from investing activities		**7.4**	**(8.3)**	**0.6**
Repayment of bank borrowings		**(84.2)**	(139.0)	(144.1)
Proceeds from bank borrowings		**-**	4.9	4.9
Payment of bank loan arrangement fees		**-**	-	(2.4)
Purchase of own shares		**(11.0)**	(0.3)	(0.6)
Dividends paid to shareholders		**(10.5)**	-	-
Purchase of assets under finance leases		**0.6**	-	-
Capital element of finance lease rental payments		**(1.4)**	(1.4)	(2.8)
Capital element of finance lease rental receipts		**1.5**	1.5	3.0
Net cash outflow from financing activities		**(105.0)**	**(134.3)**	**(142.0)**
Increase/(decrease) in cash and cash equivalents		**29.0**	(21.0)	42.9
Effect of foreign exchange changes on cash and cash equivalents		**(0.1)**	(1.6)	(1.4)
Cash and cash equivalents at beginning of period		**102.2**	60.7	60.7
Cash and cash equivalents at end of period		**131.1**	**38.1**	**102.2**

Reconciliation of movement in net debt

all figures in £ million	note	6 months ended 30 September 2011 (unaudited)	6 months ended 30 September 2010 (unaudited)	Year ended 31 March 2011 (audited)
Increase/(decrease) in cash and cash equivalents		**29.0**	(21.0)	42.9
Cash flows from repayment of loans, private placement and other financial instruments		**83.5**	134.0	141.4
Change in net debt resulting from cash flows		**112.5**	**113.0**	**184.3**
Other movements including foreign exchange		**3.1**	17.4	12.2
Decrease in net debt		**115.6**	**130.4**	**196.5**
Net debt at beginning of period		**(260.9)**	(457.4)	(457.4)
Net debt at end of period	10	**(145.3)**	**(327.0)**	**(260.9)**

Notes to the consolidated interim financial statements

1. Significant accounting policies

Basis of preparation

QinetiQ Group plc "the Company" is a company domiciled in the United Kingdom. The condensed consolidated interim financial statements of the Group for the six months ended 30 September 2011 comprise statements for the Company and its subsidiaries (together referred to as the "Group") and were approved by the Board of Directors on 22 November 2011.

These condensed Group interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the requirements of the Disclosure and Transparency Rules of the Financial Services Authority. They do not comprise statutory accounts within the meaning of Section 498 (2) or (3) of the Companies Act 2006. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Group's financial statements for the year ended 31 March 2011.

The Group separately presents acquisition amortisation and specific non-recurring items in the income statement which, in the judgement of the Directors, need to be disclosed separately by virtue of their size and incidence in order for the reader to obtain a proper understanding of the financial information. Specific non-recurring items include net gains on business divestments and disposal of investments, impairment of property, plant and equipment, restructuring costs, net gains/losses in respect of previously capitalised DTR-programme bid costs and tax thereon.

Comparative data and restatement

The comparative figures for the year ended 31 March 2011 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 2011 have been reported on by the Group's auditors and delivered to the registrar of companies. The report of the auditors was (i) 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 2011 are available upon request from the Company's registered office at Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

Recent accounting developments

Except as described below, the accounting policies adopted in the preparation of these condensed consolidated financial statements are consistent with the policies applied by the Group in its consolidated financial statements for the year ended 31 March 2011.

The following EU-endorsed amendments, improvements and interpretations of published standards are effective for accounting periods beginning after 1 April 2011 and have been adopted with no material impact on the Group's financial statements:

- IAS 24 (revised), *Related Party Disclosures;*
- Amendments to IFRS 1, *First-time Adoption of IFRS;*
- Amendments to IFRS 3, *Business combinations;*
- Amendments to IFRS 7, *Financial instruments: Disclosures;*
- Amendment to IAS 1, *Presentation of Financial Statements;*
- Amendment to IAS 34, *Interim Financial Reporting.*

Notes to the condensed interim financial statements (continued)

2. Segmental analysis

Operating segments

all figures in £ million	**6 months ended 30 September 2011 (unaudited)**		6 months ended 30 September 2010 (unaudited)[2]	
	Revenue	**Operating Profit[1]**	Revenue	Operating Profit[1]
UK Services	**290.9**	**28.7**	318.1	20.7
US Services	**268.4**	**16.9**	327.6	25.6
Global Products	**180.3**	**37.0**	219.2	18.6
Total operating segments	**739.6**	**82.6**	**864.9**	**64.9**
Operating profit before acquisition amortisation and specific non-recurring items[1]		**82.6**		**64.9**
Restructuring income / (expense)		***0.6***		*(33.4)*
Gain on disposal of property, plant & equipment		***4.2***		-
Net gain/(loss) in respect of previously capitalised DTR-programme bid costs		***4.1***		*(37.1)*
Non-recurring operating costs before amortisation, depreciation and impairment		**8.9**		(70.5)
Impairment of property, plant and equipment		**-**		(4.8)
Amortisation of intangible assets arising from acquisitions		**(11.8)**		(13.9)
Operating profit/(loss)		**79.7**		**(24.3)**
Gain on business divestments and disposal of investments		**8.5**		-
Net finance expense		**(7.7)**		(13.3)
Profit/(loss) before tax		**80.5**		**(37.6)**
Taxation		**(13.9)**		(4.5)
Profit/(loss) for the period		**66.6**		**(42.1)**

[1] Operating profit before acquisition amortisation is stated before specific non-recurring items. Specific non-recurring items include gains on business divestments and disposal of investments, impairment of property, plant and equipment, restructuring costs, net gain/loss in respect of previously capitalised DTR-programme bid costs and tax thereon. This is the measure of profit presented to the chief operating decision maker.

[2] The comparative figures, for the period ended 30 September 2010, have been restated to reflect the transfer of the Force Protection business from Global Products to UK Services and the transfer of the Maritime and Transportation Services business from Global Products to US Services at the beginning of the current financial year.

Notes to the condensed interim financial statements (continued)

3. Gain on business divestments and disposal of investments

all figures in £ million	6 months ended 30 September 2011 (unaudited)	6 months ended 30 September 2010 (unaudited)
Gain on business divestments	4.9	-
Gain on disposal of investments	3.6	-
Gain on business divestments and disposal of investments	**8.5**	**-**

Of the £4.9m gain on business divestments, £4.7m relates to the disposal of Spectro Inc. to SFW Partners for consideration before costs of $20.5m which resulted in a gain on disposal of £4.7m. Of the £3.6m gain on disposal of investments, £2.8m relates to the sale of QinetiQ's investment in Nomad Holdings Limited.

4. Finance income and expense

all figures in £ million	6 months ended 30 September 2011 (unaudited)	6 months ended 30 September 2010 (unaudited)
Receivable on bank deposits	**0.4**	0.2
Finance lease income	**0.6**	0.6
Expected return on pension scheme assets	**33.2**	33.7
Finance income	**34.2**	**34.5**
Amortisation of recapitalisation fee	**(0.3)**	(0.2)
Interest on bank loans and overdrafts	**(0.8)**	(5.2)
Interest on US-dollar private placement debt	**(9.6)**	(12.2)
Finance lease expense	**(0.5)**	(0.5)
Unwinding of discount on financial liabilities	**(0.5)**	(0.3)
Interest on pension scheme liabilities	**(30.2)**	(29.4)
Finance expense	**(41.9)**	**(47.8)**
Net finance expense	**(7.7)**	**(13.3)**

5. Taxation

The tax charge has been based on the expected tax rate of 19.7% for the year ending 31 March 2012 (30 September 2010: 17.1% based on expected rate for year ending 31 March 2011) on the Group's profit before tax, amortisation of intangible assets arising from acquisition and specific non-recurring items. The tax impact of the amortisation of intangible assets arising from acquisition and specific non-recurring items is income of £0.9m for the six months ended 30 September 2011 (30 September 2010: £4.3m).

Notes to the condensed interim financial statements (continued)

6. Dividends

An analysis of the dividends paid and proposed in respect of the period ended 30 September 2011 and comparative periods is provided below:

	Pence per ordinary share	£m	Date paid/payable
Interim 2012	**0.9**	**5.8**	**Feb 2012**
Interim 2011	-	-	-
Final 2011	1.6	10.5	Sept 2011
Total for the year ended 31 March 2011	**1.6**	**10.5**	

The Directors propose an interim dividend of 0.9p (2011: nil). The dividend will be paid on 17 February 2012. The ex-dividend date is 18 January 2012 and the record date is 20 January 2012.

7. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares used excludes those shares bought by the Group and held as own shares. For diluted earnings per share the weighted average number of shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares arising from unvested share-based awards including share options. Underlying basic earnings per share figures are presented below in addition to the basic and diluted earnings per share as the Directors consider this gives a more relevant indication of underlying business performance and reflects the adjustments to basic earnings per share for the impact of specific non-recurring items, amortisation of intangible assets arising from acquisition and tax thereon.

		6 months ended 30 September 2011 (unaudited)	6 months ended 30 September 2010 (unaudited)
Basic EPS			
Profit/(loss) attributable to equity shareholders	£m	**66.6**	(42.1)
Weighted average number of shares	million	**653.6**	654.4
Basic EPS	pence	**10.2**	**(6.4)**
Diluted EPS			
Profit/(loss) attributable to equity shareholders	£m	**66.6**	(42.1)
Weighted average number of shares	million	**653.6**	654.4
Effect of dilutive securities[1]	million	**9.8**	-
Dilutive number of shares	million	**663.4**	**654.4**
Diluted EPS	pence	**10.0**	**(6.4)**

(1) The loss attributable to equity shareholders in the period ended 30 September 2010 resulted in no effect of dilutive securities to the weighted average number of shares. If there had been a profit in the period ended 30 September 2010, the effect of dilutive securities would have been to increase the diluted number of shares by 3.4m.

Notes to the condensed interim financial statements (continued)

		6 months ended 30 September 2011 (unaudited)	6 months ended 30 September 2010 (unaudited)
Underlying basic EPS			
Profit/(loss) attributable to equity shareholders	£m	**66.6**	(42.1)
UK restructuring costs	£m	**(0.6)**	33.4
Gain on business divestments and disposal of investments	£m	**(8.5)**	-
Gain on disposal of property, plant and equipment	£m	**(4.2)**	-
Net (gain)/loss in respect of previously capitalised DTR-programme bid costs	£m	**(4.1)**	37.1
Impairment of property, plant and equipment	£m	**-**	4.8
Amortisation of intangible assets arising from acquisitions	£m	**11.8**	13.9
Tax impact of items above	£m	**(0.9)**	(4.3)
Underlying profit after taxation	£m	**60.1**	42.8
Weighted average number of shares	million	**653.6**	654.4
Underlying basic EPS	pence	**9.2**	**6.5**

8. Assets held for sale

Assets held for sale include various properties in the UK that are surplus to the Group's requirements and are being marketed for sale.

Notes to the condensed interim financial statements (continued)

9. Cash flows from operations

All figures in £ million	**6 months ended 30 September 2011 (unaudited)**	6 months ended 30 September 2010 (unaudited)	Year ended 31 March 2011 (audited)
Profit/(loss) after tax for the period	**66.6**	(42.1)	5.0
Adjustments for:			
Taxation	**13.9**	4.5	21.6
Net finance costs	**7.7**	13.3	30.8
Gain on business divestments and disposal of investments	**(8.5)**	-	(2.7)
Net (gain)/loss in respect of previously capitalised DTR-programme bid costs	**(4.1)**	37.1	23.8
Amortisation of purchased or internally developed intangible assets	**5.3**	3.5	11.5
Amortisation of intangible assets arising from acquisitions and impairments	**11.8**	13.9	26.3
Depreciation and impairment of property, plant and equipment	**16.1**	20.6	39.5
(Profit)/loss on disposal of property, plant and equipment	**(1.9)**	-	1.0
Share of post-tax profit of equity accounted entities	**(0.1)**	(0.1)	(0.2)
Share-based payments charge	**3.0**	3.8	3.3
Changes in retirement benefit obligations	**(8.3)**	(6.3)	(13.4)
Pension curtailment gain	**-**	-	(4.9)
Net movement in provisions	**(8.7)**	27.4	9.0
	92.8	**75.6**	**150.6**
Decrease/(increase) in inventories	**11.8**	(11.7)	(5.1)
Decrease in trade and other receivables	**65.9**	63.1	45.6
(Decrease)/increase in payables	**(16.0)**	25.2	64.7
Changes in working capital	**61.7**	76.6	105.2
Cash generated from operations	**154.5**	**152.2**	**255.8**
Add back: cash outflow relating to UK restructuring	**7.3**	5.8	31.8
Net cash flow from operations before UK restructuring costs	**161.8**	**158.0**	**287.6**

Notes to the condensed interim financial statements (continued)

10. Analysis of net debt

All figures in £ million	**6 months ended 30 September 2011 (unaudited)**	6 months ended 30 September 2010 (unaudited)	Year ended 31 March 2011 (audited)
Due within one year:			
Bank and cash	**132.9**	38.1	102.5
Bank overdraft	**(1.8)**	-	(0.3)
Recapitalisation fee	**0.6**	0.7	0.6
Finance lease receivables	**3.0**	3.0	3.0
US-dollar private placement*	**-**	-	(94.3)
Finance lease payables	**(3.0)**	(2.8)	(2.8)
Derivative financial assets	**0.1**	1.2	-
Derivative financial liabilities	**-**	(0.5)	(0.4)
	131.8	**39.7**	**8.3**
Due after one year:			
Bank loan	**-**	(5.0)	-
Recapitalisation fee	**1.4**	0.6	1.7
US-dollar private placement	**(278.4)**	(362.8)	(271.2)
Finance lease receivables	**7.3**	9.1	8.2
Finance lease payables	**(7.5)**	(8.8)	(7.9)
Derivative financial assets	**0.1**	0.2	-
	(277.1)	**(366.7)**	**(269.2)**
Total net debt as defined by the Group	**(145.3)**	**(327.0)**	**(260.9)**

*The US$135m private placement was repaid in May 2011.

11. Own shares and share-based awards

Own shares represent shares in the Company that are held by independent trusts and include treasury shares and shares held by the employee share ownership plan. A deduction has been made from retained earnings at 30 September 2011 in respect of 12,385,871 own shares (30 September 2010: 5,612,704).

In the six months to 30 September 2011 the Group granted 8.7 million (30 September 2010: 10.0 million) new share-based awards to employees.

Notes to the condensed interim financial statements (continued)

12. Post-retirement benefits

Set out below is a summary of the financial position of the Group's defined benefit pension schemes. The fair value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods, and thus inherently uncertain, are as follows:

all figures in £ million	**30 September 2011 (unaudited)**	30 September 2010 (unaudited)	31 March 2011 (audited)
Total market value of scheme assets	**949.4**	923.7	981.1
Present value of scheme liabilities	**(1,177.5)**	(1,108.4)	(1,105.7)
Net pension liability before deferred tax	**(228.1)**	**(184.7)**	**(124.6)**
Deferred tax asset	**57.0**	49.9	32.4
Net pension liability	**(171.1)**	**(134.8)**	**(92.2)**

Changes to the net pension liability before deferred tax

all figures in £ million	**30 September 2011 (unaudited)**	30 September 2010 (unaudited)	31 March 2011 (audited)
Opening net pension liability before tax	**(124.6)**	(147.3)	(147.3)
Expected return on scheme assets	**33.2**	33.7	68.6
Actuarial loss on scheme assets	**(114.8)**	(48.0)	(4.7)
Contributions by the employer	**18.0**	18.6	36.6
Current service cost	**(9.6)**	(12.3)	(22.9)
Interest cost	**(30.2)**	(29.4)	(59.5)
Curtailment gain	**-**	-	4.9
Past service cost	**(0.1)**	-	(0.3)
Closing net pension liability before deferred tax	**(228.1)**	**(184.7)**	**(124.6)**

Assumptions

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

	30 September 2011 (unaudited)	30 September 2010 (unaudited)	31 March 2011 (audited)
Rate of increase in salaries	**4.3%**	4.2%	4.6%
Rate of increase in pensions in payment	**3.3%**	3.2%	3.6%
Discount rate applied to scheme liabilities	**5.1%**	5.0%	5.6%
RPI inflation assumption	**3.3%**	3.2%	3.6%
CPI inflation assumption	**2.4%**	N/A	2.7%
Assumed life expectancies in years:			
Future male pensioners (currently aged 60)	**88**	87	88
Future female pensioners (currently aged 60)	**90**	89	90
Future male pensioners (currently aged 40)	**90**	89	90
Future female pensioners (currently aged 40)	**91**	90	91

Notes to the condensed interim financial statements (continued)

13. Contingent liabilities and assets

The Group, including subsidiary undertakings, has given unsecured guarantees primarily on leased properties and bank lines of £56.8m at 30 September 2011 (30 September 2010: £56.6m) in the ordinary course of business.

The Group is aware of claims and potential claims by or on behalf of current and former employees, including former employees of the MOD and DERA and contractors, in respect of intellectual property, employment rights and industrial illness and injury which involve or may involve legal proceedings against the Group. The Directors are of the opinion, having regard to legal advice received and the Group's insurance arrangements, that it is unlikely that these matters will, in aggregate, have a material effect on the Group's financial position, results of operations and liquidity.

The Group has not recognised contingent amounts receivable relating to the Chertsey property which was disposed of during 2004 or the Fort Halstead property disposed of in September 2005. Additional consideration, subject to clawback to the MOD pursuant to the arrangements referred to in note 36 of the 2011 annual report, is potentially due upon the purchasers obtaining additional planning consents, with the quantum dependent on the scope of the consent achieved.

14. Related party transactions with equity accounted investments

There were no related party transactions between the Group and its joint ventures and associates in the period.

Principal risks and uncertainties

The Group continues to be exposed to a number of risks and uncertainties which management continue to assess, manage and mitigate to minimise their potential impact on the reported performance of the Group. Pages 20-23 of the 2011 Annual Report and Accounts detail the principal risks and uncertainties which have not materially changed and these are expected to continue to be relevant for the remaining six months of the year.

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

- A change in demand from reduced military operations in Iraq and Afghanistan;
- A change in either US or UK Government spending on defence and security;
- Changing in the timing of contracts;
- Financial position of the defined benefit pension scheme;
- Policies or attitudes may change towards Organisational Conflicts of Interest (OCI);
- Tax liabilities may change as a result of changes in tax legislation;
- A material element of the Group's revenue and operating profit is derived from one contract;
- Failure to comply with laws and regulations, particularly trading restrictions and export controls;
- Exchange rate movement;
- Raising external funding and volatility in interest rates;
- Fixed price contracts;
- Acquisition of businesses;
- Inherent risks from trading in a global marketplace;
- Highly competitive marketplace;
- Failure of information technology systems and breaches of data security;
- Realisation of value from intellectual property may be delayed.

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

The Directors confirm to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU;
- the interim management report includes a fair review of the information required by:
  - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

The Directors of QinetiQ Group plc are listed in the QinetiQ Group plc Annual Report for 31 March 2011. Admiral Ed Giambastiani stepped down as a non-executive director to the QinetiQ Board at the 2011 Annual General Meeting on 2 August 2011. Michael Harper joined the QinetiQ Board as a non-executive director with effect from 22 November 2011.

By order of the Board

Mark Elliott	Leo Quinn	David Mellors
Chairman	Chief Executive Officer	Chief Financial Officer
22 November 2011	22 November 2011	22 November 2011

Independent review report to QinetiQ Group plc

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the six months ended 30 September 2011 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Cash Flow Statement and the related explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Disclosure and Transparency Rules of the UK's Financial Services Authority ("the UK FSA"). Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the UK FSA.

The annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union (EU). The condensed set of financial statements included in this interim financial report has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 30 September 2011 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the Disclosure and Transparency Rules of the UK FSA.

Mike Maloney
For and on behalf of KPMG Audit Plc
Chartered Accountants
15 Canada Square, London E14 5GL
22 November 2011

Glossary

Book to bill ratio	Ratio of funded orders received in the year to revenue for the year, adjusted to exclude revenue from the 25-year LTPA contract
C4ISR	Command, control, communications, computers, intelligence, surveillance and reconnaissance
Cyveillance, Inc.	Cyveillance, Inc. is a QinetiQ company and leader in cyber intelligence, currently serving financial institutions worldwide and more than 100 million global customers
DTR	MOD's Defence Training Rationalisation programme
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
IAS	International Accounting Standards
IDIQ	Indefinite delivery indefinite quantity
IFRS	International Financial Reporting Standards
LTPA	Long-Term Partnering Agreement – 25 year contract established in 2003 to manage the MOD's test and evaluation ranges
MOD	UK Ministry of Defence
NASA	National Aeronautics and Space Administration (USA)
Organic Growth	The level of year-on-year growth, expressed as a percentage, calculated at constant foreign exchange rates, adjusting comparatives to incorporate the results of acquired entities and excluding the results for any disposals or discontinued operations for the same duration of ownership as the current period
QNA	QinetiQ North America
Specific non-recurring items and acquisition amortisation	Restructuring charges; pension curtailment gains; contingent payments on acquisition treated as remuneration; net gain/loss in respect of previously capitalised DTR-programme bid costs; impairment of property, plant and equipment; impairment of intangible assets; gain/(loss) on business combinations and divestments; unrealised impairments of investments; and tax thereon
Underlying basic earnings per share	Basic earnings per share as adjusted to exclude 'specific non-recurring items and acquisition amortisation'
Underlying effective tax rate	The tax charge for the year excluding the tax impact of 'specific non-recurring items and acquisition amortisation' expressed as a percentage of underlying profit before tax
Underlying net cash from operations (post capex)	Net cash inflow from operations before restructuring costs less net cash outflow on purchase/sale of intangible assets and property, plant and equipment
Underlying operating cash conversion	The ratio of underlying net cash from operations (post capex) to underlying operating profit excluding share of post tax result of equity accounted joint ventures and associates
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue
Underlying operating profit	Operating profit as adjusted to exclude 'specific non-recurring items and acquisition amortisation'
Underlying profit before tax	Profit before tax as adjusted to exclude 'specific non-recurring items and acquisition amortisation'
Yellow Book	The MOD Yellow Book is a single service procurement framework where only one Defence supplier is invited to tender for contracts