QinetiQ Group plc

For release at 0700 hours on 21 May 2015

Full Year Results for the year ended 31 March 2015

	2015	2014 (restated^)	% Change
Business Performance – continuing operations[+]			
Orders	**£613.6m**	£596.9m	3%
Revenue	**£763.8m**	£782.6m	(2)%
Underlying operating profit*	**£111.3m**	£113.7m	(2)%
Underlying operating margin*	**14.6%**	14.5%	
Underlying profit before tax*	**£107.8m**	£101.2m	7%
Underlying net cash flow from operations (post capex)*	**£114.9m**	£106.2m	8%
Underlying cash conversion ratio*	**103%**	93%	
Underlying earnings per share*	**15.2p**	13.8p	10%
Net cash	**£195.5m**	£170.5m	
Full year dividend per share	**5.4p**	4.6p	17%

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

The statutory reporting summary below includes the effect of the US Services disposal in 2015 and other specific adjusting items as outlined in the Group overview on page 3.

Statutory Reporting	**2015**	2014
Operating profit from continuing operations	**£109.5m**	£97.1m
Profit/(loss) attributable to shareholders	**£104.7m**	£(12.7)m
Earnings per share including US Services	**16.6p**	(1.9)p

Headlines

- Strong performance in EMEA Services with increased orders, revenue and operating profit
- Core Air, Weapons and Maritime businesses all performed well
- New President appointed to lead repositioning of US Global Products in response to a challenging market
- Continued high cash conversion
- £150m share buyback well advanced; £128m complete at 15 May 2015
- 17% increase in full year dividend reflecting upgrade at the half year and progressive dividend policy
- 77% revenue under contract at start of FY16 consistent with prior year; balance supported by pipeline of opportunities
- Maintaining expectations for Group performance in the current financial year

Steve Wadey, who joined QinetiQ as Chief Executive Officer on 27 April 2015, said:

"In my first few weeks at QinetiQ I've been impressed with the expertise of our people, as well as our capabilities and technologies, all of which are well matched to the dynamics in our markets. It's a company with great potential and I look forward to working with our customers to develop and grow QinetiQ to meet their changing needs."

*Definitions of underlying measures of performance can be found in the glossary. For details of 'specific adjusting items' refer to note 3.
^ Restated to reflect continuing/discontinued operations (see note 1)

Other information

There will be a presentation of the preliminary results to analysts at 0900 hours UK time on 21 May 2015 in the Milton Suite, The Grange Hotel - St Pauls, 10 Godliman Street, London EC4V 5AJ. Registration for the webcast is available at: www.QinetiQ.com/investors where the presentation will also be available. An audiocast of the event will be available on the following numbers (confirmation: QinetiQ):

- *UK:* *020 3059 8125*
- *US:* *1 866 796 1569*
- *International:* *+44 203 059 8125*

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Disclaimer

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

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Group overview

Orders grew 3% to £613.6m (2014: £596.9m^) and Group Book-to-Bill ratio was 1.1x. At the beginning of the new financial year, 77% of the Group's FY16 revenue was already under contract, a similar level to a year ago.

Revenue was £763.8m (2014: £782.6m^). EMEA Services delivered a strong performance, with a 3% increase in revenue and the core Air, Weapons and Maritime businesses all delivering improved results. The performance of Global Products continued to be impacted by the ongoing reduction of US military forces deployed to Afghanistan, which depressed demand for conflict-related products.

Underlying operating profit* was £111.3m (2014: £113.7m^) with growth in EMEA Services offset by Global Products, which was impacted by the reduction in revenue and by approximately $5m of additional one-off costs associated with separating from US Services infrastructure.

Underlying profit before tax* increased 7% to £107.8m (2014: £101.2m^) with underlying net finance costs* falling to £3.5m (2014: £12.5m^) as a result of the early repayment of the private placement debt in June 2014.

Underlying earnings per share* for the continuing Group were up 10% at 15.2p (2014: 13.8p^), benefiting from the higher underlying profit before tax* and reduced number of shares following the repurchase of £107m of the £150m share buyback programme as at 31 March 2015. Basic earnings per share for the total Group (including US Services) were 16.6p (2014: 1.9p loss per share).

Specific adjusting items, shown in the 'middle column', include a profit of £15.9m recognised on the disposal of US Services, a one-off accelerated interest cost of £28.8m associated with the early repayment of the private placement debt and a credit of £25.2m in respect of the capitalisation of a proportion of the Group's unused tax losses. The prior year statutory operating profit included a one-off net benefit of £27.1m following the closure of the Group's defined benefit pension scheme to future accrual and a goodwill impairment charge of £125.9m.

Underlying operating cash conversion* remained strong at 103% (2014: 93%^), delivering an underlying cash flow from continuing operations* of £114.9m (2014: £106.2m^). At 31 March 2015, the Group had £195.5m net cash, compared to £170.5m net cash at 31 March 2014 and £205.7m at 30 September 2014.

A £150m share buyback was initiated on 28 May 2014. By 15 May 2015 the Group had bought back 63m shares at a cost of £128m.

The Group successfully re-financed its multi-currency revolving credit facility during the year. The five-year facility totals £233m and is undrawn.

The Board proposes a final dividend of 3.6p (2014: 3.2p) making the full year dividend 5.4p (2014: 4.6p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 4 September 2015 to shareholders on the register at 7 August 2015. The full year dividend represents an increase of 17% reflecting the Group's progressive dividend policy and the upgrade at the half year.

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Leadership

Steve Wadey joined QinetiQ as Chief Executive Officer (CEO) on 27 April 2015. He was previously the Managing Director of MBDA UK and Technical Director for the MBDA Group, and brings a deep understanding of the European defence industry and a track record of driving growth. David Mellors, who has served as interim CEO, will return to an expanded Chief Financial Officer role.

Strategy

The objective of the Group's Organic-Plus strategy, launched in May 2012, is to deliver growing sustainable earnings. The Group is focused on building on its track record of delivering 'more for less' to win market share in its core markets and is nurturing 'Explore' opportunities to deliver growth particularly beyond defence, all built on well-established financial and operating disciplines. QinetiQ is cash generative and disciplined about capital allocation. This supports ongoing investment in growth opportunities, a progressive dividend policy and the maintenance of the balance sheet strength necessary in an uncertain trading environment.

Trading environment

Market Drivers

The world is an increasingly uncertain and less secure place. Technology proliferation has lowered the bar for terrorism, organised crime and conflict, meaning that threats to security are increasing in number and diversity.

At the same time, technology proliferation enables governments to 'spin-in' technologies from the commercial sector with the help of organisations like QinetiQ which are independent from the supply chain and experts in the application of technology.

QinetiQ's ability to innovate and apply technology to mitigate security threats enables us to 'work smarter' and to leverage available resources to help customers deliver when budgets are under pressure.

The UK Government continues to face a significant budget deficit, and a further period of fiscal austerity looks likely following the 2015 election result. Defence expenditure is not protected by Government ring-fencing, unlike spending on healthcare, schools and international aid, but the MOD has made significant progress over the last five years in balancing its budget.

In the US, the Federal Government continues to pursue technological superiority in response to the deteriorating security situation and as its principal source of military advantage. President Obama recently requested an 8% increase to the US defence budget for 2016, forcing the Republican majority to weigh up competing concerns about defence and tackling the ongoing fiscal deficit.

Elsewhere, governments and commercial organisations continue to build capability and balance budgetary constraints with security concerns.

These fiscal pressures, both in the UK and worldwide, are no longer new. Despite a reduction in the UK defence budget over the last parliamentary term, QinetiQ was able to improve its financial performance.

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UK Defence Market

To date, the UK Government has aimed to spend 2% of GDP on defence and 1.2% of the budget on science and technology, although these commitments are likely to be considered as part of the Strategic Defence and Security Review (SDSR) expected in 2015. As in 2010, we expect the SDSR to include consultation with industry to help the Government meet the challenges facing UK defence, and look forward to contributing to topics including test and evaluation, and research and technology. QinetiQ has maintained the capability to carry out work not required to be undertaken within Government and the rationalisation of defence budgets and structures could provide further opportunities in this area.

Defence transformation has been a priority since 2010, incorporating a number of significant programmes. For example, the MOD's procurement agency Defence Equipment and Support (DE&S) is transforming its operating model and has been given access to private sector expertise to help improve its performance.

The Front Line Commands (Navy, Army, Air and Joint Forces) are exercising their newly delegated powers to shape future capabilities. Our business units are aligned closely to these Commands and are well placed to help them with their growing procurement responsibilities.

Joint Forces Command has been created to bring 'improved focus to technological enablers' and 'give intellectual energy' to how warfare should be conducted 'in the information age.' With its own procurement arm and multi-billion pound budget, Joint Forces Command provides a more focused channel for our Cyber Security, C4ISR, and Training businesses which were aligned during the year.

Revised single source regulations and pricing terms for single source contracts are now in place under the new 'Orange Book'. They cover new contracts worth £5m or more, requiring additional reporting and tightening definitions of allowable costs. Our combination of capabilities is unique in the UK and, consequently, 33% of EMEA Services revenue is derived from single source contracts excluding the non-tasking element of the Long Term Partnering Agreement (LTPA). Greater transparency and an independent regulator – the Single Source Regulations Office (SSRO) – will help demonstrate the value for money the Government derives from single source contracts. The SSRO has confirmed the Government profit formula for FY16 is broadly consistent with FY15 but has stated it will be reviewing the methodology for this formula for future periods.

Global Markets

In May 2014, we completed the sale of the US Services division and are no longer active in the US federal services market. Our Global Products division has a significant US footprint, providing a route to the world's largest defence market.

The US Government is continuing to drawdown the number of troops deployed on Overseas Contingency Operations (OCO) and reduce the accompanying OCO procurement budget. Although there are 'reset' opportunities, this continues to depress demand for conflict-related products.

US military customers are assessing their post-war requirements and formulating new Programs of Record which will determine the 'peacetime' demand for products, such as unmanned systems. Our US products business is responding to these opportunities with a greater focus on these Programs of Record, contract-funded research and development, and non-defence markets. The disposal of US Services has helped to facilitate this renewed focus by removing any customer concerns about Organisational Conflict of Interest.

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Although our traditional markets are the UK and US, many of our unique capabilities are transferable to other geographies. For example, as the Canadian and Australian Governments pursue similar defence transformation programmes to the UK, they value our independent advice, test and evaluation in support of better procurement.

Governments in Europe, the Middle East and Asia are building their defence capabilities in response to the increasing volume and diversity of the threats to security, increasing the demand for C4ISR, cyber and training expertise.

Amongst the prime contractors, competition is becoming fiercer. They are liaising with the supply chain to find new sources of competitive advantage.

Much of QinetiQ’s innovation is created from solving a specific set of customer problems, and at the same time generating technology and expertise with the potential to be transferred into new sectors offering higher growth potential.

FY16 Outlook

Defence transformation, and the forthcoming Comprehensive Spending Review and SDSR are expected to have an impact on the UK defence market this year. This will provide future opportunities for EMEA Services to build on its strong record of delivering ‘more for less’, whilst recognising that in FY16 there will be uncertainty and the potential for interruptions to order flow. The portion of revenue under contract at the start of FY16 was similar to a year ago and the balance is supported by a pipeline of opportunities but order flow and contract cover will be watched closely over the coming months. Overall, given the opening backlog position, expectations for the performance of EMEA Services in the current financial year are unchanged.

In Global Products, newer products are recording notable milestones and the amount of revenue under contract at the start of FY16 is up slightly on a year ago, but the drawdown of American overseas military forces is continuing to depress demand for conflict-related products. As the division has a lumpy revenue profile which is dependent on the timing and shipment of key orders, there is a range of possible outcomes for the performance of Global Products in the current year.

In balancing the market uncertainties with the strength of the Group’s operations, the Board is maintaining its expectations for Group performance in the current financial year.

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Business overview

EMEA Services

	2015 £m	2014 £m
Orders[(1)]	**461.6**	447.8
Revenue	**625.6**	607.0
Underlying operating profit*	**93.0**	86.7
Underlying operating margin*	**14.9%**	14.3%
Book to bill ratio[(1)]	**1.1x**	1.1x
Funded backlog[(1)]	**678.6**	661.0

(1) Excludes the £998m third-term of the LTPA contract.
B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract.

Financial performance

EMEA Services delivered a strong performance in 2015. Each of the core Air, Weapons and Maritime businesses performed well despite the uncertainty in the UK defence market resulting from the MOD transformation programme and forthcoming Strategic Defence and Security Review.

Orders, excluding the £998m third-term of the LTPA contract, grew 3% to £461.6m (2014: £447.8m) demonstrating the unique strengths of the division and its highly differentiated position in its markets.

Revenue grew 3% on an organic basis at constant currency, building on the 3% increase last year. At the beginning of the new financial year, 80% of the division's FY16 revenue was already under contract, a similar level to a year ago.

Underlying operating profit* increased 7% to £93.0m (2014: £86.7m) assisted by an insurance recovery and the completion of a final milestone on an international project.

Year in review

EMEA Services combines world-leading expertise with unique facilities to provide technical assurance, test and evaluation and training services, underpinned by long-term contracts. The most significant of these is the Long Term Partnering Agreement (LTPA) for test, evaluation and training services which has delivered an improved service and significant savings for the MOD over the last 12 years. Capital expenditure is likely to increase in the future as we continue to invest in the LTPA contract. EMEA Services is also a market leader in research and advice in specialist areas such as C4ISR, procurement advisory services and cyber security.

The Front Line Commands (Navy, Army, Air and Joint Forces) are exercising their newly delegated powers to shape future capabilities. QinetiQ's business units are aligned closely to these Commands and so are well placed to help them with their growing procurement responsibilities. During the year our Cyber, C4ISR and Training businesses were aligned to meet the requirements of the recently created Joint Forces Command, such as the need for information superiority, as well as demand from other government and commercial customers.

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Core

QinetiQ's **Air** business de-risks complex aviation programmes. It works with supply chain partners and signed new long-term agreements with key suppliers to deliver additional flexibility for customers. During the year it secured a £16m extension to its largest MOD test and evaluation contract, and a four-year £5m contract for research into aircrew performance. The business also continued to grow its engineering services offering and now provides maintenance, repair and overhaul services for fixed and rotary wing aircraft across three main contracts, with opportunities to take this capability into new international markets.

QinetiQ's **Weapons** business supplies independent research, evaluation and training services for integrated weapons systems. The business delivers the MOD's conventional weapons research programme through the Weapons Science and Technology Centre, which secured £17m of orders during the year. In response to the growing complexity of weapons systems trials work, major infrastructure improvements took place at a number of the ranges that the business runs under the LTPA contract including new communications infrastructure in the Hebrides and a new range control centre at Aberporth in Wales. QinetiQ's expertise continues to attract international customers with work undertaken for the South Korean government as well as European customers. The Weapons business has a long track record of delivering complex managed services in high risk environments and is pursuing a number of outsourcing opportunities.

The **Maritime** business delivers operational advantage to naval clients worldwide through the provision of independent technical advice and support, particularly in the areas of platform performance, stealth, command information systems and systems integration. The business won a £5m contract from a competitor to deliver the MOD's mobile underwater targets service at the BUTEC range it operates off North West Scotland, which also benefitted from over £20m of investment to modernise its acoustic measurement system, enhancing QinetiQ's ability to deliver stealth-related services. During the year the business supported the integration of a new radar on Type 23 frigates and a new Command System for the helicopter carrier HMS Ocean. This expertise underpins a new mission systems integration service to meet demand from international customers, particularly in the Asia Pacific region. The business was also awarded a contract to deliver technical support for ship procurement for the Canadian government. QinetiQ's Portsdown site was selected to host the Defence Growth Partnership's Centre for Maritime Intelligent Systems which will help UK industry meet customer interest in emerging technologies such as autonomous systems.

QinetiQ Australia provides impartial advice and services predominantly to government customers. The business is underpinned by two long-term contracts with the Commonwealth Government of Australia's Department of Defence – the Defence Science and Technology Organisation (DSTO) contract which is focused on provision of engineering services workshops and the Aircraft Structural Integrity contract which supports the airworthiness of military aircraft. QinetiQ Australia delivered a steady performance against a background of fiscal pressures and defence reform, securing a two-year extension to the services it delivers at DSTO Fishermans Bend in Melbourne. Greg Barsby, a former KBR executive, took up the role of Managing Director in December 2014. His remit is to target long-term contracts through improved commercial and business development capabilities as well as to reinforce partnerships with government and industry.

QinetiQ's **C4ISR** business provides research, advice and bespoke solutions for secure communications, command and control, surveillance sensors and information management. It is the MOD's leading supplier of C4ISR research, which underpins the advice capability of the business as well as future opportunities to support customers' transformation and innovation needs. In the UK, recent funding rounds and announcements have protected or enhanced budgets for C4ISR. The UK's Joint Forces Command provides a focus for multi-billion pound procurements of 'enabling' capabilities that have not existed before and C4ISR is now aligned with the Cyber and Training businesses to meet these requirements. In addition, ongoing instability in the Middle East is increasing opportunities from governments in the region.

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Explore

In the 'Explore' category, QinetiQ's **Training** business uses Commercial-Off-The-Shelf (COTS) technology to connect people and assets for mission rehearsal and tactic development. The business secured its largest ever contract for the continued provision in the UK of Distributed Synthetic Air Land Training valued at £33m over five years. It also beat a number of competitors to win the next stage of a core research programme worth £3m over four years. As a result, the business is well positioned for future opportunities as the MOD moves towards its vision of a network of simulators across the UK to augment live training. Having established an office in Orlando, Florida, the heart of the US training and simulation market, the business has secured a position on three IDIQ contracts working in partnership with established prime contractors such as Alion and developing a promising pipeline of opportunities in the US.

Cyber Security is an 'Explore' business with opportunities in critical national infrastructure, as well as defence and security. It won a new £3m contract to deliver secure monitoring and hosting services for a major financial institution. In recognition that compliant systems alone do not necessarily reduce business risk, the business is integrating QinetiQ's human science expertise into its consultancy offering and is investing in its cyber intelligence capabilities. Closer alignment with the Training business will ensure that QinetiQ is better able to meet the demand for cyber training. QinetiQ's cyber intelligence business, Cyveillance®, launched a cloud-based cyber threat centre that monitors the internet, provides alerts and delivers data on domain names, IP addresses, phishing and malware attacks. This provides direct access for customers to its monitoring and investigative tools and complements its existing consultancy-based services. QinetiQ's suite of cyber security offerings is completed by its wholly-owned subsidiary Boldon James, which provides data classification and secure messaging solutions and is reported as part of the Global Products division.

Procurement Advisory Services was established as a stand-alone 'Explore' business in 2014. It provides tender assessment, cost and analytical services principally to support complex procurement programmes in highly regulated markets. During the year, the business provided horizon scanning for the UK Cabinet Office, cost forecasting services to the MOD, and won a £2m MOD contract for business case support to help address frontline challenges such as the supply of water, fuel and power. Procurement Advisory Services is spear-heading QinetiQ's presence in Canada, where an office was opened during the year.

Within the Air business, QinetiQ delivers turnkey services for customers using **Unmanned Aerial Systems (UAS)** to meet growing demand particularly from international organisations such as the United Nations. The business has developed commercial relationships with the three largest manufacturers of unmanned aircraft outside the US and in September opened the UK's first airfield capable of operating large UAS at Llanbedr in Wales. During the year, it was awarded a competitively-won contract to provide manpower for a short duration service for an international institution.

Test for Value

EMEA Services is 'testing for value' a number of early stage offerings. These include the provision of technical services in support of Directed Energy Weapons (DEW) and the delivery of secured navigation systems such as the secure signal processing already being provided for the Galileo constellation of satellites – the European Union version of GPS.

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Global Products

	2015 £m	2014 £m
Orders	**152.0**	149.1
Revenue	**138.2**	175.6
Underlying operating profit*	**18.3**	27.0
Underlying operating margin*	**13.2%**	15.4%
Book to bill ratio	**1.1x**	0.8x
Funded backlog	**116.7**	97.1

Financial performance

The performance of Global Products continued to be impacted by the ongoing reduction of US military forces deployed to Afghanistan and reduced funding for US military operations which depressed demand for conflict-related products.

Revenue was £138.2m (2014: £175.6m) primarily due to reduced sales of conflict-related products.

Orders grew by 2% to £152.0m (2014: £149.1m) as demand for EMEA products offset the slow order intake in the US products business. The Global Products division had more than half of its FY16 revenue already under contract at the beginning of the new financial year, slightly better than at the same time last year.

Underlying operating profit* was £18.3m (2014: £27.0m) impacted by the reduction in revenue and by approximately $5m of additional one-off costs associated with separating from US Services infrastructure.

Despite the continued prevalence of Lowest-Price-Technically-Acceptable acquisitions in the US, careful cost control and a reduction of headcount provided some protection to profitability, with the division delivering an underlying operating profit margin* of 13.2% (2014: 15.4%).

Year in review

Global Products combines cutting-edge technologies with an intimate understanding of customer problems and strong productisation skills to deliver innovative solutions to meet customer requirements. The division also undertakes contract-funded research and development, developing intellectual property in partnership with key customers, with potential for new revenue streams. To reduce the volatility of its revenue profile over time, QinetiQ is seeking to increase its portfolio of products and to find new markets and applications for its existing offerings.

Core

In January 2015, Jeff Yorsz took up his appointment as President of QinetiQ's US products business, joining from Northrop Grumman. Jeff is leading the realignment of the business in response to structural changes in its core markets. This will result in a greater focus on contract-funded research and development and US DoD Programs of Record, as well as on commercial and international markets.

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US Global Products continues to meet the DoD's requirements for maintenance, repair and overhaul for military robots, demonstrating the customer's commitment to keeping **unmanned systems** as a principal part of Explosive Ordnance Disposal missions. The business won $24m of orders to reset TALON® robots, modernising them for future operations. These 'reset' awards position the business well for future US DoD Programs of Record, although to date these have been slow to emerge. The fifth generation of TALON® was launched during the year, incorporating the ability to use third-party commercial components to capitalise on the continued convergence of military and civil robotic technologies. In addition, $14m of orders for unmanned systems were won from international customers. In response to the growing use of robotics in the construction and demolition industries, the US Products business launched DriveRobotics™, an applique kit that transforms existing and new Bobcat vehicles into unmanned vehicles. Demand for survivability products continues to be impacted by the drawdown of US military operations, although new orders were received for armour for the C-130 aircraft.

The sale of QinetiQ's US Services division, completed in May 2014, removed organisational conflict of interest (OCI) barriers that prohibited the US Global Products business from pursuing strategically important DoD **research and development** contracts. The business is now building on its base of contract-funded R&D projects both as an alternative revenue stream and as a source of future intellectual property; it saw a modest increase in these activities during the year. For example, it was one of two suppliers to receive a contract from the Defense Advanced Research Projects Agency (DARPA) for the first phase development of the Hydra programme to develop a distributed undersea network of modular unmanned platforms and payloads. This positions the business well for follow-on phases of the programme and other projects with the US Office of Naval Research.

Explore

OptaSense® is a Distributed Acoustic Sensing (DAS) business which is organised around market-facing business development units and a single technical Centre of Excellence now incorporating the laser manufacturer Redfern Integrated Optics (RIO) acquired this year. The business made progress implementing its strategy of developing partnerships with leading industry players to exploit its key markets. In rail, OptaSense® continues to work with German rail operator Deutsche Bahn and also won a $5m initial award from the Saudi Rail Organisation to provide security monitoring for over 1,000km of rail line. In oil and gas, the product development agreement with Shell continues to deliver significant technical progress. This year, the fall in the oil price, and consequent capex reductions by Oil Majors, slowed the adoption of DAS for well completion but improved the economics of its use for flow monitoring and seismic profiling. Immediately after year end the business entered into a non-exclusive strategic alliance with Weatherford to deliver solutions to optimise well planning, construction and production. In infrastructure security, the delivery of some key projects was interrupted by a worsening security situation particularly in the Middle East, however the increased threat to national infrastructure also increased demand. At the end of the year, OptaSense® signed a framework supply agreement to protect critical national infrastructure including pipelines, airports and other facilities for a customer in the Middle East. When complete, the two-year project could involve 200 units and encompass up to 8,000km of assets.

QinetiQ's **Space Products** business provides satellites, payload instruments, sub-systems and ground station services. At the end of the year, it was awarded a contract worth 16m Euros over three years to develop the computer and avionics for the European Space Agency's (ESA's) Proba 3 satellites that will fly in formation and use an eclipsing mechanism to study the Sun. The business is also playing a vital role in ESA's IXV mission launched in February 2015, as its technology will be responsible for guiding the "space taxi", a smaller version of the US space shuttle, safely back to Earth.

Subsidiaries Boldon James and Commerce Decisions are reported in Global Products. Commerce Decisions delivered record revenue and profit in FY15, securing an enterprise-wide contract for the third year from the MOD for its AWARD® procurement software, as well as delivering growth in the UK health and transport markets. The business also secured its first order in Canada shortly after year end.

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Test for Value

In the 'Test for Value' category, field evaluations are underway for the Linewatch™ power line sensor system, which precisely measures voltage and currents on power grids. The product is designed to meet emerging Smart Grid requirements for the detection of faults and power theft, condition-based maintenance, and distributed power generation. In addition, the US products business is developing a High Power Density Generator which can provide the modular 'roll-on / roll-off' power required for emerging defence and civil applications.

QinetiQ's UK business has world-leading capabilities in electronic signals intelligence and during the year it launched ASX™, a small sensor that delivers airborne surveillance capability. The MOD selected QinetiQ's Modular Electronic Warfare System (MEWS™) ahead of more established products to form the basis of its Medium Weight Electronic Surveillance Capability for expeditionary operations. Further milestone orders won during the year included a $3m contract with the US Transportation Security Administration to develop the next generation of QinetiQ's SPO™ stand-off Millimetre Wave threat detection system.

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Financial items

Net finance costs

Net finance costs were £4.1m (2014: £14.2m^). The underlying net finance costs* were £3.5m (2014: £12.5m^), as a result of the early repayment of the private placement debt in June 2014.

Tax

The effective tax rate for the continuing Group was 10.9% (2014: 11.3%^). The effective tax rate continues to be below the statutory rate in the UK, primarily as a result of the benefit of research and development relief in the UK. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to the impact of any tax legislation changes, the geographic mix of profits and the assumption that the benefit of R&D tax relief continues to be reported in the tax line. The 2013 Finance Act allows the continued super-deduction approach for R&D expenditure until April 2016, when mandatory R&D Expenditure Credit (RDEC) treatment is introduced.

At 31 March 2015 the Group had unused tax losses of £291.6m (31 March 2014: £213.9m) available to offset against future profits. These comprise UK and overseas trade and non-trade losses. A deferred tax asset of £25.2m in respect of an element of these losses was capitalised on the balance sheet in the year due to the probability of them being used in the foreseeable future. The income statement credit associated with this capitalisation went through the 'middle column' rather than underlying earnings. No deferred tax asset has been recognised in respect of other tax losses due to uncertainty over timing and extent of their utilisation.

Earnings per share

Underlying basic earnings per share* for the continuing Group were 15.2p (2014: 13.8p^) benefiting from the higher underlying profit before tax* and the reduced number of shares in issue following the repurchase of £107m of the £150m share buyback programme as at 31 March 2015. Basic earnings per share for the total Group (including US Services) were 16.6p (2014: 1.9p loss per share). The average number of shares in issue during the year, as used in the basic earnings per share calculations, was 630.9m (2014: 651.7m), and there were 608.6m shares in issue at the year end.

Dividend

The Board proposes a final dividend of 3.6p (2014: 3.2p) making the full year dividend 5.4p (2014: 4.6p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 4 September 2015 to shareholders on the register at 7 August 2015. The full year dividend represents an increase of 17% reflecting the Group's progressive dividend policy and the upgrade at the half year.

Cash flow, net cash and liquidity

Underlying operating cash conversion* remained strong at 103% (2014: 93%^), delivering an underlying cash flow from continuing operations* of £114.9m (2014: £106.2m^).

At 31 March 2015 the Group had £195.5m net cash, compared to £170.5m net cash at 31 March 2014 and £205.7m at 30 September 2014. A £150m share buyback was initiated on 28 May 2014 and at 15 May 2015 the Group had bought back 63m shares at a cost of £128m. The Group successfully completed the refinancing of its revolving credit facility in August 2014 with a new five-year multi-currency facility of £166m and $100m. Total committed facilities amounted to £233.3m at 31 March 2015, with no maturity before 2019.

*Definitions of underlying measures of performance can be found in the glossary. For details of 'specific adjusting items' refer to note 3.
^ Restated to reflect continuing/discontinued operations (see note 1)

Foreign exchange

The Group's income and expenditure is largely settled in the functional currency of the relevant Group entity, mainly Sterling or US dollar. The Group has a policy in place to hedge all material transaction exposure at the point of commitment to the underlying transaction. Uncommitted future transactions are not routinely hedged. The Group continues its practice of not hedging income statement translation exposure.

The principal exchange rates affecting the Group were the Sterling to US Dollar exchange rate and the Sterling to Australian Dollar rate.

	12 months to 31 March 2015	**12 months to 31 March 2014**
£/US$ - opening	1.67	1.52
£/US$ - average	1.63	1.59
£/US$ - closing	1.49	1.67
£/A$ - opening	1.80	1.46
£/A$ - average	1.85	1.69
£/A$ - closing	1.95	1.80

Pensions

The net pension liability under IAS 19, before adjusting for deferred tax, was £39.4m (31 March 2014: £22.2m; 30 September 2014: £22.8m). The key assumptions used in the IAS 19 valuation of the scheme were:

Assumption	**31 March 2015**	**31 March 2014**
Discount rate	3.2%	4.2%
CPI Inflation	2.1%	2.6%
Life expectancy - male (currently aged 40)	91	90
Life expectancy - female (currently aged 40)	93	92

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

Assumption	Change in assumption	Indicative effect on scheme liabilities (before deferred tax)
Discount rate	Increase / decrease by 0.1%	Decrease / increase by £28.0m
Inflation	Increase / decrease by 0.1%	Increase / decrease by £28.0m
Life expectancy	Increase by 1 year	Increase by £37.0m

The market value of the assets at 31 March 2015 was £1,454.6m (31 March 2014: £1,304.6m) and the present value of scheme liabilities was £1,494.0m (31 March 2014: £1,326.8m). The funding basis of calculating scheme funding requirements differs from IAS 19 in that it does not use corporate bonds as a basis for the discount rate but instead uses the risk free rate from UK gilts, prudently adjusted for long-term expected returns for the pre-retired.

The latest triennial valuation of the scheme is being completed as at 30 June 2014. It is expected that the recovery plan will require £13m contributions per year until 31 March 2018, the same annual funding level as previously.

*Definitions of underlying measures of performance can be found in the glossary. For details of 'specific adjusting items' refer to note 3.
^ Restated to reflect continuing/discontinued operations (see note 1)

Consolidated income statement

all figures in £ million	Note	2015 Underlying	2015 Specific adjusting items*	2015 Total	2014^ Underlying	2014^ Specific adjusting items*	2014^ Total
Revenue	2	**763.8**	**–**	**763.8**	782.6	–	782.6
Operating costs excluding depreciation, amortisation and impairment		**(636.9)**	**1.0**	**(635.9)**	(653.4)	27.3	(626.1)
Other income		**7.6**	**–**	**7.6**	7.0	–	7.0
EBITDA (earnings before interest, tax, depreciation and amortisation)		**134.5**	**1.0**	**135.5**	136.2	27.3	163.5
Depreciation and impairment of property, plant and equipment	3	**(21.7)**	**–**	**(21.7)**	(21.8)	1.4	(20.4)
Impairment of goodwill		**–**	**–**	**–**	–	(41.9)	(41.9)
Amortisation of intangible assets		**(1.5)**	**(2.8)**	**(4.3)**	(0.7)	(3.4)	(4.1)
Operating profit/(loss)		**111.3**	**(1.8)**	**109.5**	113.7	(16.6)	97.1
Gain on business divestments	6	**–**	**–**	**–**	–	1.1	1.1
Finance income	7	**1.3**	**–**	**1.3**	1.9	–	1.9
Finance expense	7	**(4.8)**	**(0.6)**	**(5.4)**	(14.4)	(1.7)	(16.1)
Profit/(loss) before tax	3	**107.8**	**(2.4)**	**105.4**	101.2	(17.2)	84.0
Taxation (expense)/income	8	**(11.8)**	**23.8**	**12.0**	(11.4)	(4.6)	(16.0)
Profit/(loss) for the year from continuing operations		**96.0**	**21.4**	**117.4**	89.8	(21.8)	68.0
Discontinued operations							
Profit/(loss) before tax – discontinued operations		**1.2**	**(13.7)**	**(12.5)**	18.2	(98.1)	(79.9)
Tax in respect of discontinued operations		**(0.5)**	**0.3**	**(0.2)**	(4.0)	3.2	(0.8)
Profit/(loss) for the year from discontinued operations		**0.7**	**(13.4)**	**(12.7)**	14.2	(94.9)	(80.7)
Profit/(loss) for the year attributable to equity shareholders		**96.7**	**8.0**	**104.7**	104.0	(116.7)	(12.7)
Earnings per share							
Basic – continuing operations	10	**15.2p**		**18.6p**	13.8p		10.4p
Basic – total Group	10	**15.3p**		**16.6p**	16.0p		(1.9)p
Diluted – continuing operations				**18.5p**			10.4p
Diluted – total Group				**16.5p**			(1.9)p

* For details of 'specific adjusting' items refer to note 3.

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

Consolidated statement of comprehensive income
for the year ended 31 March

all figures in £ million	2015	2014
Profit/(loss) for the year	**104.7**	(12.7)
Items that will not be reclassified to profit or loss:		
Actuarial loss recognised in defined benefit pension schemes	**(24.5)**	(5.6)
Tax on items that will not be reclassified to profit and loss	**5.1**	1.3
Total items that will not be reclassified to profit or loss	**(19.4)**	(4.3)
Items that may be reclassified to profit or loss:		
Foreign currency translation differences for foreign operations	**11.0**	(21.2)
Recycling of currency translation differences to the income statement on disposal of foreign subsidiary	**(40.9)**	–
(Decrease)/increase in fair value of hedging derivatives	**(0.1)**	0.4
Reclassification of hedging derivatives to the income statement	**0.1**	(0.2)
Fair value gains on available-for-sale investments	**0.2**	0.9
Tax on items that may be reclassified to profit or loss	**–**	(0.1)
Total items that may be reclassified to profit or loss	**(29.7)**	(20.2)
Other comprehensive expense for the year, net of tax	**(49.1)**	(24.5)
Total comprehensive income/(expense) for the year	**55.6**	(37.2)

Consolidated statement of changes in equity
for the year ended 31 March

all figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 April 2014	**6.6**	**39.9**	**147.6**	**0.1**	**23.1**	**160.7**	**378.0**	**0.1**	**378.1**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**104.7**	**104.7**	**–**	**104.7**
Other comprehensive expense for the year, net of tax	**–**	**–**	**–**	**–**	**(29.9)**	**(19.2)**	**(49.1)**	**–**	**(49.1)**
Purchase of own shares	**–**	**–**	**–**	**–**	**–**	**(0.6)**	**(0.6)**	**–**	**(0.6)**
Share-based payments settlement	**–**	**–**	**–**	**–**	**–**	**0.6**	**0.6**	**–**	**0.6**
Purchase and cancellation of shares	**(0.5)**	**0.5**	**–**	**–**	**–**	**(107.1)**	**(107.1)**	**–**	**(107.1)**
Share-based payments	**–**	**–**	**–**	**–**	**–**	**3.2**	**3.2**	**–**	**3.2**
Dividends	**–**	**–**	**–**	**–**	**–**	**(31.7)**	**(31.7)**	**–**	**(31.7)**
At 31 March 2015	**6.1**	**40.4**	**147.6**	**0.1**	**(6.8)**	**110.6**	**298.0**	**0.1**	**298.1**
At 1 April 2013	6.6	39.9	147.6	–	44.3	200.0	438.4	0.1	438.5
Loss for the year	–	–	–	–	–	(12.7)	(12.7)	–	(12.7)
Other comprehensive income/(expense) for the year, net of tax	–	–	–	0.1	(21.2)	(3.4)	(24.5)	–	(24.5)
Purchase of own shares	–	–	–	–	–	(0.5)	(0.5)	–	(0.5)
Share-based payments settlement	–	–	–	–	–	0.9	0.9	–	0.9
Share-based payments	–	–	–	–	–	3.2	3.2	–	3.2
Dividends	–	–	–	–	–	(26.8)	(26.8)	–	(26.8)
At 31 March 2014	6.6	39.9	147.6	0.1	23.1	160.7	378.0	0.1	378.1

Consolidated balance sheet

as at 31 March

all figures in £ million	Note	**2015**	2014
Non-current assets			
Goodwill	11	**107.2**	141.3
Intangible assets		**15.3**	44.2
Property, plant and equipment		**229.6**	233.8
Other financial assets		**0.9**	1.5
Investments		**0.4**	0.5
Deferred tax		**12.9**	18.1
		366.3	439.4
Current assets			
Inventories		**18.5**	19.8
Other financial assets		**12.3**	3.1
Trade and other receivables		**159.2**	250.5
Investments		**2.3**	2.1
Cash and cash equivalents		**184.3**	322.2
		376.6	597.7
Total assets		**742.9**	1,037.1
Current liabilities			
Trade and other payables		**(352.3)**	(425.6)
Current tax		**(15.3)**	(4.6)
Provisions		**(3.0)**	(4.8)
Other financial liabilities		**(1.9)**	(2.2)
		(372.5)	(437.2)
Non-current liabilities			
Retirement benefit obligation	13	**(39.4)**	(22.2)
Deferred tax		**–**	(15.0)
Provisions		**(22.4)**	(19.3)
Other financial liabilities		**(0.1)**	(154.1)
Other payables		**(10.4)**	(11.2)
		(72.3)	(221.8)
Total liabilities		**(444.8)**	(659.0)
Net assets		**298.1**	378.1
Capital and reserves			
Ordinary shares		**6.1**	6.6
Capital redemption reserve		**40.4**	39.9
Share premium account		**147.6**	147.6
Hedging and translation reserve		**(6.7)**	23.2
Retained earnings		**110.6**	160.7
Capital and reserves attributable to shareholders of the parent company		**298.0**	378.0
Non-controlling interest		**0.1**	0.1
Total shareholders' funds		**298.1**	378.1

Consolidated cash flow statement

for the year ended 31 March

all figures in £ million	Note	2015	2014
Net cash inflow from continuing operations before cash flows in respect of specific adjusting items		**143.9**	127.0
Net cash outflow relating to restructuring		**(0.6)**	(10.3)
Disposal-related pension contribution		**(6.0)**	–
Cash generated from discontinued operations		**1.8**	30.3
Net cash outflow relating to pension scheme closure costs		**–**	(4.0)
Cash inflow from operations		**139.1**	143.0
Tax received		**8.8**	2.1
Interest received		**1.0**	1.0
Interest paid		**(36.4)**	(12.3)
Net cash inflow from operating activities		**112.5**	133.8
Purchases of intangible assets		**(4.2)**	(2.6)
Purchases of property, plant and equipment		**(24.8)**	(24.2)
Proceeds from sale of property, plant and equipment		**–**	6.0
Acquisition of business		**(3.7)**	–
Sale of investment in subsidiary		**79.6**	–
Net cash inflow/(outflow) from investing activities		**46.9**	(20.8)
Repayment of bank borrowings		**(147.1)**	–
Investment in available for sale investments		**(10.0)**	–
Payment of bank loan arrangement fee		**(1.3)**	–
Purchase of own shares		**(106.8)**	(0.5)
Dividends paid to shareholders		**(31.7)**	(26.8)
Capital element of finance lease rental payments		**(2.8)**	(2.8)
Capital element of finance lease rental receipts		**3.0**	3.0
Net cash outflow from financing activities		**(296.7)**	(27.1)
(Decrease)/increase in cash and cash equivalents		**(137.3)**	85.9
Effect of foreign exchange changes on cash and cash equivalents		**0.4**	(4.1)
Cash and cash equivalents at beginning of year		**322.2**	240.4
Cash and cash equivalents disposed		**(1.0)**	–
Cash and cash equivalents at end of year	12	**184.3**	322.2

Reconciliation of movement in net cash

for the year ended 31 March

all figures in £ million	Note	2015	2014
(Decrease)/increase in cash and cash equivalents in the year		**(137.3)**	85.9
Add back net cash flows not impacting net cash		**158.2**	(0.2)
Change in net cash resulting from cash flows		**20.9**	85.7
Cash and cash equivalents disposed		**(1.0)**	–
Other movements including foreign exchange		**5.1**	10.8
Movement in net cash in the year		**25.0**	96.5
Net cash at beginning of year		**170.5**	74.0
Net cash at end of year	12	**195.5**	170.5

1. Significant accounting policies

Accounting policies

The following accounting policies have been applied consistently to all periods presented in dealing with items that are considered material in relation to the Group's financial statements. 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:

- amortisation of intangibles arising from acquisitions;
- pension gain on closure to future accrual and associated Scheme-closure mitigation costs;
- pension net finance expense;
- gains/losses on business divestments and disposal of investments;
- restructuring costs;
- gains/losses on disposal of property;
- impairment of property;
- impairment of goodwill and other intangible assets;
- tax on the above items; and
- tax credits on one-off recognition of deferred tax asset in respect of UK trade losses.

Basis of preparation

The financial information in this preliminary announcement has been extracted from the Group's consolidated financial statements for the year ended 31 March 2015. The Group's financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS') and the Companies Act 2006 applicable to companies reporting under IFRS. The comparative income statement for the year ended 31 March 2014 has been re-presented for the sale of the US Services business, excluding Cyveillance, which completed in May 2014. This disposal qualifies as a discontinued operation during the current year. Revenue as previously reported has been reduced by £408.8m and now reflects continuing operations only. Profit before tax, previously reported as a single figure of £4.1m has been split into its component parts for continuing operations and discontinued operations. Further details of discontinued operations are presented within note 4.

The financial information included within the preliminary announcement has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRSs) as endorsed by the European Union. The accounting policies followed are the same as those published by the Group within its Annual Report for the year ended 31 March 2015 which is available on the Group's website, www.QinetiQ.com subject to the changes noted below. The preliminary announcement was approved by the Board of Directors on 21 May 2015. The financial information in this preliminary announcement does not constitute the statutory accounts of QinetiQ Group plc ('the Company') within the meaning of section 435 of the Act.

The statutory accounts for 2015 were approved by the Board of Directors on 21 May 2015 and will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 22 July 2015. The financial information for 2014 is derived from the statutory accounts for 2014 which have been delivered to the Registrar of Companies. The auditors have reported on the 2015 and 2014 accounts. The reports were (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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings to 31 March 2015. The purchase method of accounting has been adopted. Those subsidiary undertakings acquired or disposed of in the period are included in the consolidated income statement from the date control is obtained to the date that control is lost (usually on acquisition and disposal respectively). An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This is the IFRS 10 definition of "control".

The Group comprises certain entities that are operated under the management of a Proxy Board. Details of the Proxy Board arrangements and the powers of the proxy holders and QinetiQ management are set out in the Corporate Governance section of the Annual Report. IFRS 10 is the accounting standard now applicable in respect of consolidation of entities. This does not specifically deal with proxy situations. However, having considered the terms of the proxy agreement, the Directors consider that the Group meets the requirements of IFRS 10 in respect of control over such affected entities and, therefore, consolidates these entities in the consolidated accounts.

An associate is an undertaking over which the Group exercises significant influence, usually from 20%-50% of the equity voting rights, in respect of financial and operating policy. A joint venture is an undertaking over which the Group exercises joint control. Associates and joint ventures are accounted for using the equity method from the date of acquisition to the date of disposal. The Group's investments in associates and joint ventures are held at cost including goodwill on acquisition and any post-acquisition changes in the Group's share of the net assets of the associate less any impairment to the recoverable amount. Where an associate or joint venture has net liabilities, full provision is made for the Group's share of liabilities where there is a constructive or legal obligation to provide additional funding to the associate or joint venture.

The financial statements of subsidiaries, joint ventures and associates are adjusted where necessary to ensure compliance with Group accounting policies.

On consolidation, all intra-Group income, expenses and balances are eliminated.

Recent accounting developments

Developments adopted by the Group in 2015

The following EU-endorsed accounting standard was adopted for the first time in 2015.

IFRS 10 'Consolidated Financial Statements' – part of a new suite of standards on consolidation and related areas, replacing the existing accounting standards for subsidiaries and joint ventures (now joint arrangements) and making limited amendments in relation to associates. The Group and the US Department of Defense (DoD) have entered into a Proxy agreement that regulates the ownership, management and operation of certain Group subsidiaries. Having considered the terms of the Proxy agreement, the Directors consider that the Group meets the requirements of IFRS 10 in respect of control over such affected entities and, therefore, consolidates the subsidiaries in the consolidated accounts.

Developments adopted by the Group in 2015 with no material impact on the financial statements

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

IFRS 11 'Joint Arrangements' – part of the same suite as IFRS 10;

IFRS 12 'Disclosure of Interests in Other Entities' – as above, contains the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities;

IAS 27 'Separate Financial Statements' – amended as part of the new suite of IFRSs as above;

IAS 28 'Investments in Associates' – resissued as IAS 28 'Investments in Associates and Joint Ventures'; it also forms part of the new suite of IFRSs 10-12;

IFRS 10, 11, and 12 – amendments on transition guidance and on consolidated for investment entities;

IAS 32 'Financial Instruments' – amendment relating to asset and liability offsetting;

IAS 39 'Financial Instruments: Recognition and Measurement' – amendment relating to the novation of derivatives and hedge accounting; and

IFRIC 21 'Levies'.

Developments expected in future periods of which the impact is being assessed

Revenue from Contracts with Customers: The final standard, IFRS 15, was published in May 2014. The IASB has tentatively decided to defer the effective date by one year and it is now expected that the standard will become effective, subject to EU endorsement, for annual reporting periods beginning on or after 1 January 2018, with earlier application permitted. The new Standard introduces a five step model to the principle of revenue recognition. Briefly, the framework includes identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract and recognising revenue when (or as) the entity satisfies a performance obligation. QinetiQ is currently undertaking an assessment of the impact the new standard. Typical issues to be analysed on a contract-by-contract basis include whether the current methodology for recognising revenue over time remains appropriate, the treatment of contract modifications, variable consideration, determination and distinction of performance obligations, collectability and licences (list not exhaustive). QinetiQ is also undertaking an analysis of the transitional guidance which allows for two different approaches, the retrospective method (with optional practical expedients) or the cumulative effect method.

FRS 100, 101 and 102: FRS 100, 101 and 102 all fall under the new UK GAAP regime. FRS 100 sets out the application of financial reporting requirements in the UK and Republic of Ireland and FRS 101, known as 'IFRS with reduced disclosures', outlines the reduced disclosure framework available for use by qualifying entities choosing to follow the principles of IFRS but under the umbrella of UK GAAP. FRS 102 is applicable in the UK and Republic of Ireland and is known as the 'new UK GAAP'. FRS 102 follows more closely the principles of existing UK GAAP with some exceptions. The mandatory effective date for the new framework of reporting is for accounting periods beginning on or after 1 January 2015. The Group can choose to apply either full IFRS, or a choice of either FRS 101 or FRS 102 to the Company and to its subsidiary entities. The two latter options both fall under UK GAAP and either may therefore be applied to Group companies on an entity by entity basis. If full IFRS is selected, this must be applied to all Group companies consistently. The Group will adopt the UK GAAP option from 1 April 2015.

Leases: A revised exposure draft was issued in May 2013 and following subsequent deliberations the IASB has decided upon the tentative adoption of a single right-of-use ("ROU") model. This approach eliminates off balance sheet accounting for lessees who will instead account for most leases on balance sheet as financing the purchase of an ROU asset. The ROU asset is a non-financial asset which would be accounted for consistently with other non-financial assets i.e. amortised. A corresponding liability would be recognised separately and accounted for at amortised cost, yielding an overall front-loaded expense profile, similar to existing finance leases. The IASB has tentatively agreed that no significant changes are needed to the current lessor model. The standard is expected to be published in 2015; the effective date is not yet known.

2. Segmental analysis

Operating segments

For the year ended 31 March

all figures in £ million	Note	**2015** Revenue	**2015** Operating profit	2014 ^ Revenue	2014 ^ Operating profit
EMEA Services		**625.6**	**93.0**	607.0	86.7
Global Products		**138.2**	**18.3**	175.6	27.0
Total operating segments		**763.8**	**111.3**	782.6	113.7
Operating profit before specific adjusting items[1] – underlying operating profit			**111.3**		113.7
Specific adjusting items:					
Restructuring			**1.0**		0.2
Pension scheme closure costs			**–**		27.1
Property impairment reversal			**–**		1.4
Impairment of goodwill			**–**		(41.9)
Amortisation of intangible assets arising from acquisitions			**(2.8)**		(3.4)
Operating profit			**109.5**		97.1
Gain on business divestments	6		**–**		1.1
Net finance expense	7		**(4.1)**		(14.2)
Profit before tax			**105.4**		84.0
Taxation income/(expense)	8		**12.0**		(16.0)
Profit for the year from continuing operations			**117.4**		68.0
Discontinued operations					
Loss from discontinued operations, net of tax	4		**(12.7)**		(80.7)
Profit/(loss) for the period attributable to equity shareholders			**104.7**		(12.7)

[1] The measure of profit presented to the chief operating decision maker is underlying operating profit (as defined in glossary).

^Restated for the reclassification of the US Services segment as a discontinued operation.

3. Profit/loss before tax

The following items have been charged in arriving at profit/loss before tax for continuing operations:

all figures in £ million	**2015**	2014^
Depreciation of property, plant and equipment:		
Owned assets: depreciation	**(20.7)**	(21.8)
Owned assets: impairment (charge)/reversal	**(1.0)**	1.4
Foreign exchange loss	**(0.3)**	(1.1)
Research and development expenditure – customer funded contracts	**(285.8)**	(288.7)
Research and development expenditure – Group funded	**(20.8)**	(25.9)

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. The following specific adjusting items have been (charged)/credited in arriving at profit/loss before tax:

all figures in £ million		**2015**	2014^
Reversal of unutilised restructuring provisions		**1.0**	0.2
Reduction in pension liabilities on closure to future accrual		**–**	31.1
Pension scheme closure mitigation costs		**–**	(4.0)
Specific adjusting items before amortisation, depreciation and impairment		**1.0**	27.3
Impairment of goodwill		**–**	(41.9)
Property impairment reversal		**–**	1.4
Amortisation of intangible assets arising from acquisition		**(2.8)**	(3.4)
Specific adjusting items operating loss		**(1.8)**	(16.6)
Gain on business divestments		**–**	1.1
Defined benefit pension scheme net finance expense		**(0.6)**	(1.7)
Specific adjusting items loss before tax – continuing operations		**(2.4)**	(17.2)
Profit on disposal of subsidiary – before accelerated interest expense	5	**15.9**	–
Loss on disposal of subsidiary – accelerated interest expense		**(28.8)**	–
Loss on disposal of subsidiary		**(12.9)**	–
US Services pre-sale transaction costs		**–**	(6.0)
Impairment of goodwill		**–**	(84.0)
Amortisation of intangible assets arising from acquisition		**(0.8)**	(7.6)
Restructuring costs		**–**	(0.5)
Specific adjusting items loss before tax – discontinued operations		**(13.7)**	(98.1)
Total specific adjusting items loss before tax		**(16.1)**	(115.3)

^Restated for the reclassification of the US Services segment as a discontinued operation.

4. Discontinued operations

On 23 May 2014 the Group completed its sale of the US Services division, comprising QinetiQ North America Inc. and its subsidiaries. The Circular seeking shareholder approval for the sale specified that the proceeds would be applied in settling the remaining private placement ('PP') debt of $248m which was put in place to finance the acquisitions of the US Services business. Accordingly, the penalty of £28.8m incurred on the early redemption of the PP is considered to be inextricably linked to the sale of that business and has therefore been disclosed as an adjustment to the loss on its sale rather than as a finance expense.

The initial cash consideration was $165m prior to the standard working capital adjustments at completion. The mid-month completion of the deal resulted in the May month end payroll and creditor payments falling outside QinetiQ's period of ownership. This caused the closing balance sheet to have higher cash (to be retained by QinetiQ) and lower working capital than would have been the case at the month end. The working capital mechanism was designed to make such timing issues neutral. Hence working capital adjustments (and closing net-debt adjustments) of $10.6m were required. Additional deferred consideration remains receivable. The earn-out is scheduled to be payable in the first half of the Group's next financial year on a sliding scale between zero and $50m based on gross profit generated by the disposed business in the financial year to 31 March 2015. Actual gross profit delivered by the disposed business (still subject to audit) indicates that the deferred consideration receivable will be approximately $9m in cash. The full impact of the disposal is given below:

a) Results of discontinued operations

all figures in £ million	**2015**	2014
Revenue	**55.7**	408.8
Operating costs excluding depreciation, amortisation and impairment	**(54.2)**	(387.3)
EBITDA (earnings before interest, tax, depreciation and amortisation)	**1.5**	21.5
Depreciation, amortisation and impairment of assets	**(0.3)**	(2.5)
Underlying operating profit	**1.2**	19.0
Impairment of goodwill	**–**	(84.0)
Amortisation of intangible assets arising from acquisitions	**(0.8)**	(7.6)
Other specific adjusting items	**–**	(6.5)
Operating profit/(loss)	**0.4**	(79.1)
Finance expense	**–**	(0.8)
Profit/(loss) before tax	**0.4**	(79.9)
Income tax	**(0.2)**	(0.8)
Results from operating activities, net of tax	**0.2**	(80.7)
Profit on sale of discontinued operations – before accelerated interest costs	**15.9**	–
Loss on sale of discontinued operations – accelerated interest costs	**(28.8)**	–
Loss for the period	**(12.7)**	(80.7)
Basic loss per share	**(2.0)p**	(12.4)p
Diluted loss per share	**(2.0)p**	(12.4)p
Underlying basic earnings per share	**0.1 p**	2.2 p

b) Cash flows from discontinued operations

all figures in £ million	**2015**	2014
Net cash from operating activities	**1.8**	30.3
Net cash from investing activities	**–**	–
Net cash inflow for the year	**1.8**	30.3

c) Effect of disposal on the financial position of the Group

all figures in £ million	**2015**
Goodwill	**41.2**
Intangible assets	**32.6**
Property, plant and equipment	**5.9**
Inventories	**0.8**
Trade and other receivables	**71.7**
Cash and cash equivalents	**1.0**
Deferred tax asset	**9.6**
Trade and other payables	**(54.7)**
Net assets and liabilities	**108.1**
Consideration received (net of transaction costs), satisfied in cash	**79.6**
Cash and cash equivalents disposed	**(1.0)**
Net cash inflow in the year to 31 March 2015	**78.6**

5. Business combinations

The Group made two acquisitions in the year to 31 March 2015. On the 7 August 2014 the Group acquired the trade and assets of Redfern Integrated Optics Inc. from its founder management team and on the 19 November 2014 the Group acquired the trade and assets of SR2020. Further information on each acquisition is given below.

Redfern Integrated Optics Inc. ("RIO")

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

If the acquisition had been completed on the first day of the financial year, Group revenue for the period ended 31 March 2015 would have been £764.7m and the Group profit before tax would have been £105.4m.

			Contribution post-acquisition	
Acquisition	Acquisition date	Expected cash consideration £million	Revenue £million	Operating profit £million
Trade and assets of Redfern Integrated Optics Inc.	7 August 2014	3.8	1.8	–

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

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

SR2020 Inc.

SR2020 Inc. is a US-based leading provider of borehole seismic services who develop and use purpose written, proprietary software for borehole seismic imaging, micro-seismic monitoring and passive seismic monitoring. The business has extensive oil and gas industry experience and its expertise in processing and interpretation services will further enhance the Group's Optasense product and services portfolio.

If the acquisition had been completed on the first day of the financial year, Group revenue for the period ended 31 March 2015 would have been £763.9m and the Group profit before tax would have been £104.6m.

			Contribution post-acquisition	
Acquisition	Acquisition date	Expected cash consideration £million	Revenue £million	Operating profit £million
Trade and assets of SR2020 Inc.	19 November 2014	0.4	0.1	(0.4)

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

all figures in £ million	Book value	Fair value adjustment	Fair value at acquisition
Net assets acquired	0.3	(0.3)	–
Goodwill and intangibles	–	0.4	0.4
	0.3	0.1	0.4
Consideration satisfied by:			
Cash			0.4
Deferred consideration payable			–
Total consideration			**0.4**

6. Gain on business divestments – continuing operations

For the year ended 31 March

all figures in £ million	**2015**	2014
Gain on business divestments	**–**	1.1

The gain on business divestments relates to deferred consideration received in respect of the disposal of the Calibration business in 2009.

7. Finance income and expense – continuing operations

For the year ended 31 March

all figures in £ million	**2015**	2014^
Receivable on bank deposits	**1.1**	1.4
Finance lease income	**0.2**	0.5
Finance income	**1.3**	1.9
Amortisation of recapitalisation fee	**(0.7)**	(0.6)
Payable on bank loans and overdrafts	**(0.9)**	(1.4)
Payable on US dollar private placement debt	**(2.6)**	(11.3)
Finance lease expense	**(0.2)**	(0.4)
Unwinding of discount on financial liabilities	**(0.4)**	(0.7)
Finance expense before specific adjusting items	**(4.8)**	(14.4)
Specific adjusting items:		
Defined benefit pension scheme net finance expense	**(0.6)**	(1.7)
Total finance expense	**(5.4)**	(16.1)
Net finance expense	**(4.1)**	(14.2)

^Restated for the reclassification of the US Services segment as a discontinued operation.

The Circular seeking shareholder approval for the sale of the US Services division specified that the proceeds would be applied in settling the remaining private placement ('PP') debt of $248m which was put in place to finance the acquisitions of the US Services business. Accordingly, the penalty of £28.8m incurred on the early redemption of the PP is considered to be inextricably linked to the sale of that business and has therefore been disclosed as an adjustment to the loss on its sale rather than as a finance expense. See note 4.

8. Taxation – continuing operations

all figures in £ million	2015 Underlying*	2015 Specific adjusting items*	2015 Total	2014^ Underlying*	2014^ Specific adjusting items*	2014^ Total
Analysis of charge						
Current UK tax expense/(income)	**0.5**	**–**	**0.5**	(4.2)	(0.9)	(5.1)
Overseas corporation tax						
Current year	**1.4**	**(0.5)**	**0.9**	(10.3)	(1.1)	(11.4)
Adjustment for prior year	**(1.0)**	**0.6**	**(0.4)**	–	–	–
Current tax expense/(income)	**0.9**	**0.1**	**1.0**	(14.5)	(2.0)	(16.5)
Deferred tax expense/(income)	**11.3**	**(22.9)**	**(11.6)**	25.0	7.8	32.8
Deferred tax impact of change in rates	**(0.4)**	**–**	**(0.4)**	0.9	–	0.9
Deferred tax in respect of prior years	**–**	**(1.0)**	**(1.0)**	–	(1.2)	(1.2)
Deferred tax expense/(income)	**10.9**	**(23.9)**	**(13.0)**	25.9	6.6	32.5
Taxation expense/(income) – continuing operations	**11.8**	**(23.8)**	**(12.0)**	11.4	4.6	16.0
Factors affecting tax charge/(credit) in year						
Principal factors reducing the Group's current year tax charge below the UK statutory rate are explained below:						
Profit/(loss) before tax	**107.8**	**(2.4)**	**105.4**	101.2	(23.2)	78.0
Tax on profit/(loss) before tax at 21% (2014: 23%)	**22.6**	**(0.5)**	**22.1**	23.3	(5.3)	18.0
Effect of:						
Expenses not deductible for tax purposes, research and development relief and non-taxable items	**(18.6)**	**1.7**	**(16.9)**	(9.9)	10.4	0.5
Recognition of deferred tax asset in respect of UK trading losses[1]	**–**	**(25.2)**	**(25.2)**	–	–	–
Current tax losses for which no deferred tax asset was recognised	**6.9**	**–**	**6.9**	(1.0)	–	(1.0)
Deferred tax impact of change in rates	**(0.4)**	**–**	**(0.4)**	0.9	–	0.9
Deferred tax in respect of prior years	**0.9**	**–**	**0.9**	0.2	–	0.2
Effect of different rates in overseas jurisdictions	**0.4**	**0.2**	**0.6**	(2.1)	(0.5)	(2.6)
Taxation expense/(income) - continuing operations	**11.8**	**(23.8)**	**(12.0)**	11.4	4.6	16.0
Effective tax rate	**10.9%**		**(11.4%)**	11.3%		20.5%

^ Restated for the reclassification of the US Services segment as a discontinued operation.
* Definitions of underlying measures of performance and specific adjusting items can be found in the glossary.

Tax expense on continuing operations excludes the tax expense of the discontinued operation of £0.2m. This is included in 'profit/(loss) from discontinued operation, net of tax' (see note 4).

Factors affecting future tax charges

The effective tax rate continues to be below the statutory rate in the UK, primarily as a result of the benefit of research and development tax relief in the UK. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to the impact of any tax legislation changes and the geographic mix of profits and the assumption that the benefit of R&D tax relief remains in the tax line. The Finance Act 2013 allows the continued treatment of R&D tax relief as a super deduction until 1 April 2016, when R&D Expenditure Credit treatment becomes mandatory.

Deferred tax has been calculated at 20% being the enacted future statutory tax rate.

At 31 March 2015 the Group had unused tax losses of £291.6m (2014: £213.9m) which are available for offset against future profits. An asset of £25.2m has been recognised in respect of an element of these unused tax losses, relating to certain UK trading losses which are expected to be utilised in the foreseeable future. No deferred tax asset is recognised in respect of the other losses due to uncertainty over the timing and extent of their utilisation.

9. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2015 and 2014 is provided below:

	Pence per share	£m	Date paid/ payable
Interim 2015	**1.8**	**11.1**	**Feb 2015**
Final 2015 (proposed)	**3.6**	**21.2**	**Sept 2015**
Total for the year ended 31 March 2015	**5.4**	**32.3**	
Interim 2014	1.4	9.2	Feb 2014
Final 2014	3.2	20.6	Sept 2014
Total for the year ended 31 March 2014	4.6	29.8	

The Directors propose a final dividend of 3.6p (2014: 3.2p) per share. The dividend, which is subject to shareholder approval, will be paid on 4 September 2015. The ex-dividend date is 6 August 2015 and the record date is 7 August 2015.

10. 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 year. 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, 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.

For the year ended 31 March		2015	2014
Underlying basic EPS – continuing operations			
Profit attributable to equity shareholders	£ million	**117.4**	68.0
Remove (profit)/loss after tax in respect of specific adjusting items*	Million	**(21.4)**	21.8
Underlying profit after taxation	Million	**96.0**	89.8
Weighted average number of shares	Million	**630.9**	651.7
Underlying basic EPS – continuing operations	Pence	**15.2**	**13.8**
Underlying basic EPS – total Group			
Profit/(loss) attributable to equity shareholders	£ million	**104.7**	(12.7)
Remove (profit)/loss after tax in respect of specific adjusting items*	Million	**(8.0)**	116.7
Underlying profit after taxation	Million	**96.7**	104.0
Weighted average number of shares	Million	**630.9**	651.7
Underlying basic EPS – total Group	Pence	**15.3**	16.0

For the year ended 31 March		2015	2014
Basic EPS – continuing operations			
Profit attributable to equity shareholders	£ million	**117.4**	68.0
Weighted average number of shares	Million	**630.9**	651.7
Basic EPS – continuing operations	Pence	**18.6**	10.4
Diluted EPS – continuing operations			
Profit attributable to equity shareholders	£ million	**117.4**	68.0
Weighted average number of shares	Million	**630.9**	651.7
Effect of dilutive securities	Million	**3.7**	5.1
Diluted number of shares	Million	**634.6**	656.8
Diluted EPS – continuing operations	Pence	**18.5**	10.4

For the year ended 31 March		2015	2014
Basic EPS – total Group			
Profit/(loss) attributable to equity shareholders	£ million	**104.7**	(12.7)
Weighted average number of shares	Million	**630.9**	651.7
Basic EPS – total Group	Pence	**16.6**	**(1.9)**
Diluted EPS – total Group			
Profit/(loss) attributable to equity shareholders	£ million	**104.7**	(12.7)
Weighted average number of shares	Million	**630.9**	651.7
Effect of dilutive securities[1]	Million	**3.7**	–
Diluted number of shares	Million	**634.6**	651.7
Diluted EPS – total Group	Pence	**16.5**	(1.9)

* For details of 'specific adjusting' items refer to note 3.

[1]The loss attributable to equity shareholders results in the effect of dilutive securities on the weighted average number of shares being nil in the prior year.

11. Goodwill

all figures in £ million	2015	2014
Cost		
At 1 April	**541.4**	593.0
Acquisitions	**0.1**	–
Disposals	**(370.1)**	–
Foreign exchange	**11.9**	(51.6)
At 31 March	**183.3**	541.4
Impairment		
At 1 April	**(400.1)**	(302.6)
Disposals	**328.9**	–
Impairment	**–**	(125.9)
Foreign exchange	**(4.9)**	28.4
At 31 March	**(76.1)**	(400.1)
Net book value at 31 March	**107.2**	141.3

Goodwill as at 31 March 2015 was allocated across various cash generating units (CGUs) in the following segments: EMEA Services (three) and Global Products (two). Goodwill previously allocated to the US Services CGU was written off in the year on disposal of that CGU.

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. Significant headroom exists in all CGUs with the exception of US Global Products, discussed below, and management considers that there are no likely variations in the key assumptions which would lead to an impairment being recognised in any of the other CGUs.

Key assumptions

Cash flows

The value-in-use calculations generally use discounted future cash flows based on financial plans approved by the Board covering a two-year period. Discounted cash flows for the US Global Products CGU were based on a Board-approved three-year plan, reflecting increases in revenue from new product lines. Cash flows for periods beyond these periods are extrapolated based on the last year of the plans, with a terminal growth-rate assumption applied.

Terminal growth rates

The specific plans for each of the CGUs have been extrapolated using a terminal growth rate of 2.0% – 3.0% (2014: 2.0% – 3.0%). Growth rates are based on management's estimates which take into consideration the long-term nature of the industry in which the CGUs operate and external forecasts as to the likely growth of the industry in the longer term.

Discount rates

The Group's weighted average cost of capital was used as a basis in determining the discount rate to be applied adjusted for risks specific to the market characteristics of CGUs as appropriate on a pre-tax basis. This is considered to appropriately estimate a market participant discount rate. The pre-tax discount rates applied for the three EMEA Services CGUs were 10.6%, 13.2% and 17.0% and for the Global Products CGUs 10.0% and 10.5%.

Sensitivity analysis shows that the value of the terminal year cash flow, the discount rate and the terminal growth rates have a significant impact on the value of the discounted cash flow.

Significant CGUs

The carrying value of the net operating assets of the US Global Products CGU was written down in the prior year. This brought the carrying value in line with the calculated value in use as at 31 March 2014. The carrying value of the goodwill for this CGU as at 31 March 2015 was £67.2m (2014: £60.0m). The value in use of this CGU as at 31 March 2015, calculated using the assumptions noted above, is marginally higher than the carrying value of net operating assets (of £78.0m) and no further impairment is required in the year to 31 March 2015. The key sensitivity impacting on the value in use calculations is the terminal year cash flows. These cash flows include certain assumptions about revenue and profit in respect of new product lines still to be launched. Applying a sensitivity to remove the new product contribution from the terminal year results in an impairment of £9.9m. An additional sensitivity to remove all expected growth in the terminal year (i.e. growth in existing products as well as new products) results in an impairment of £34.8m. Sensitivity analysis also shows that an increase of 1% in the discount rate assumption would result in an impairment of £9.5m. Sensitivity analysis also shows that a decrease of 1% in the terminal growth rate would result in an impairment of £8.2m.

The UK Global Products CGU and the three individual CGUs within EMEA Services all have significant headroom. An increase in the discount rate or a decrease in the terminal growth rate by 1% would not cause the net operating assets to exceed their recoverable amount. The carrying value of goodwill for the UK Global Products CGU as at 31 March 2015 was £5.2m (2014: £5.5m). The carrying values of goodwill for the three EMEA Services CGUs as at 31 March 2015 were £27.5m, £5.2m and £2.1m (2014: £27.5m, £4.6m and £2.3m). The Directors have not identified any other likely changes in other significant assumptions between 31 March 2015 and the signing of the financial statements that would cause the carrying value of the recognised goodwill to exceed its recoverable amount.

12. Net cash

As at 31 March

	2015			2014		
all figures in £ million	**Assets**	**Liabilities**	**Net**	Assets	Liabilities	Net
Current financial assets/(liabilities)						
Deferred financing costs	**0.3**	**–**	**0.3**	–	0.5	0.5
Borrowings	**0.3**	**–**	**0.3**	–	0.5	0.5
Available for sale investment	**10.0**	**–**	**10.0**	–	–	–
Derivative financial instruments	**0.5**	**(0.5)**	**–**	0.3	(0.1)	0.2
Finance lease debtor/(creditor)	**1.5**	**(1.4)**	**0.1**	2.8	(2.6)	0.2
Total current financial assets/(liabilities)	**12.3**	**(1.9)**	**10.4**	3.1	(2.2)	0.9
Non-current assets/(liabilities)						
US$ private placement notes – 7.13%	**–**	**–**	**–**	–	(26.6)	(26.6)
US$ private placement notes – 5.50%	**–**	**–**	**–**	–	(29.2)	(29.2)
US$ private placement notes – 7.62%	**–**	**–**	**–**	–	(96.9)	(96.9)
Deferred financing costs	**0.8**	**–**	**0.8**	–	–	–
Borrowings	**0.8**	**–**	**0.8**	–	(152.7)	(152.7)
Derivative financial instruments	**0.1**	**(0.1)**	**–**	0.1	–	0.1
Finance lease debtor/(creditor)	**–**	**–**	**–**	1.4	(1.4)	–
Total non-current financial assets/(liabilities)	**0.9**	**(0.1)**	**0.8**	1.5	(154.1)	(152.6)
Cash	**41.6**	**–**	**41.6**	53.7	–	53.7
Cash equivalents	**142.7**	**–**	**142.7**	268.5	–	268.5
Total cash and cash equivalents	**184.3**	–	**184.3**	322.2	–	322.2
Total net cash as defined by the Group			**195.5**			170.5

At 31 March 2015 £1.3m (2014: £2.2m) of cash was held by the Group's captive insurance subsidiary, including £0.1m (2014: £0.1m) that was restricted in its use.

All US$ private placement notes were repaid in the year (see note 7). The Circular seeking shareholder approval for the sale of the US Services division specified that the proceeds would be applied in settling the remaining private placement debt of $248m, which was put in place to finance the acquisitions of the US Services business.

Reconciliation of net cash flow to movement in net cash

all figures in £ million	**2015**	2014
(Decrease)/increase in cash and cash equivalents in the year	**(137.3)**	85.9
Repayment of US$ private placement notes	**147.1**	–
Outflow in respect of available for sale investment	**10.0**	–
Payment of bank loan arrangement fee	**1.3**	–
Capital element of finance lease payments	**2.8**	2.8
Capital element of finance lease receipts	**(3.0)**	(3.0)
Change in net cash resulting from cash flows	**20.9**	85.7
Cash and cash equivalents disposed	**(1.0)**	–
Amortisation of deferred financing costs	**(0.7)**	(0.6)
Finance lease receivables	**0.3**	0.4
Finance lease payables	**(0.2)**	(0.4)
Foreign exchange and other non-cash movements	**5.7**	11.4
Movement in net cash in year	**25.0**	96.5
Net cash at beginning of year	**170.5**	74.0
Net cash at 31 March	**195.5**	170.5

13. Post-retirement benefits

In the UK the Group operates the QinetiQ Pension Scheme ('the Scheme') for a significant proportion of its UK employees. The Scheme closed to future accrual on 31 October 2013. After this date, defined benefit members transferred to a defined contribution scheme. On closure, the Group realised a reduction in Scheme liabilities of £31.1m and a one-off cost of £4.0m arising from associated contributions to affected members' defined contribution plans following the closure of the Scheme.

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 change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods, and thus inherently uncertain, were:

all figures in £ million	**2015**	2014	2013	2012	2011
Equities	**517.2**	434.4	487.3	583.2	564.1
LDI investment[1]	**323.4**	273.6	205.9	–	–
Corporate bonds	**311.4**	279.9	276.8	194.6	158.7
Alternative bonds[2]	**176.3**	183.0	174.8	–	–
Government bonds	**–**	–	–	183.5	165.3
Property	**113.4**	94.0	81.3	82.4	78.0
Other	**12.9**	39.7	30.4	64.2	15.0
Total market value of assets	**1,454.6**	1,304.6	1,256.5	1,107.9	981.1
Present value of Scheme liabilities	**(1,494.0)**	(1,326.8)	(1,310.6)	(1,139.4)	(1,105.7)
Net pension liability before deferred tax	**(39.4)**	(22.2)	(54.1)	(31.5)	(124.6)
Deferred tax asset	**1.6**	1.3	13.7	13.3	32.4
Net pension liability after deferred tax	**(37.8)**	(20.9)	(40.4)	(18.2)	(92.2)

[1] The Scheme has assets invested in a Liability Driven Investment portfolio. As at 31 March 2015 this hedges against approximately 20% of the interest rate and 45% of the inflation rate risk, as measured on the Trustee's gilt-funding basis.

[2] Includes allocations to high-yield bonds, secured loans and emerging market debt.

Changes to the fair value of Scheme assets

all figures in £ million	**2015**	2014
Opening fair value of Scheme assets	**1,304.6**	1,256.5
Interest income on Scheme assets	**53.9**	54.9
Re-measurement gain on Scheme assets	**116.3**	2.6
Contributions by the employer	**9.2**	20.6
Net benefits paid out and transfers	**(28.1)**	(28.8)
Administrative expenses	**(1.3)**	(1.2)
Closing fair value of Scheme assets	**1,454.6**	1,304.6

Changes to the present value of the defined benefit obligation

all figures in £ million	**2015**	2014
Opening defined benefit obligation	**(1,326.8)**	(1,310.6)
Current service cost	**–**	(11.3)
Interest cost	**(54.5)**	(56.6)
Actuarial (loss)/gain on Scheme liabilities based on:		
Change in financial assumptions	**(128.3)**	(39.2)
Experience gains	**7.8**	31.0
Change in demographic assumptions	**(20.3)**	–
Curtailment gain	**–**	31.1
Net benefits paid out and transfers	**28.1**	28.8
Closing defined benefit obligation	**(1,494.0)**	(1,326.8)

Total income/expense recognised in the income statement

all figures in £ million	**2015**	2014
Current service cost	**–**	11.3
Past service gain (including curtailments)	**–**	(31.1)
Net interest on the net defined benefit liability	**0.6**	1.7
Administrative expenses	**1.3**	1.2
Total expense/(income) recognised in the income statement (gross of deferred tax)	**1.9**	(16.9)

Assumptions

The major assumptions used in IAS19 valuation of the Scheme were:

	2015	2014
Discount rate applied to scheme liabilities	**3.2%**	4.2%
CPI inflation assumption	**2.1%**	2.6%
Assumed life expectancies in years:		
Future male pensioners (currently aged 60)	**88**	88
Future female pensioners (currently aged 60)	**91**	90
Future male pensioners (currently aged 40)	**91**	90
Future female pensioners (currently aged 40)	**93**	92

14. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £36.2m at 31 March 2015 (2014: £40.3m) in the ordinary course of business.

The Company has on occasion been required to take legal action to protect its intellectual property rights, to enforce commercial contracts or otherwise and similarly to defend itself against proceedings brought by other parties. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, taking into account professional advice received, and represent management's best estimate of the likely outcome. The timing of utilisation of these provisions is uncertain pending the outcome of various court proceedings and negotiations. However, no provision is made for proceedings which have been or might be brought by other parties unless management, taking into account professional advice received, assesses that it is more likely than not that such proceedings may be successful. Contingent liabilities associated with such proceedings have been identified but the Directors are of the opinion that any associated claims that might be brought can be resisted successfully and therefore the possibility of any outflow in settlement is assessed as not probable.

The Group has not recognised contingent amounts receivable relating to the Chertsey property which was disposed of during 2004 or the Fort Halstead property disposed of in September 2005. Additional consideration is potentially due on the purchasers obtaining additional planning consents, with the quantum dependent on the scope of the consent achieved.

The Group has also not recognised contingent amounts receivable relating to property impairments in prior years that may potentially be recovered from the MOD. Recovery is subject to future negotiations. It is not considered practicable to calculate the value of this contingent asset.

15. Cash flows from operations

For the year ended 31 March

all figures in £ million	**2015**	2014
Profit/(loss) after tax for the year	**104.7**	(12.7)
Adjustments for:		
Taxation (income)/expense	**(11.8)**	16.8
Net finance costs	**4.1**	15.0
Loss on business divestments and disposal of investments	**12.9**	4.9
Reversal of unutilised restructuring provisions	**(1.0)**	–
Amortisation of purchased or internally developed intangible assets	**1.5**	1.0
Amortisation of intangible assets arising from acquisitions	**3.6**	11.0
Impairment of goodwill	**–**	125.9
Depreciation and impairment of property, plant and equipment	**22.0**	22.6
Loss on disposal of property, plant and equipment	**1.2**	1.4
Share of post-tax (loss)/profit of equity accounted entities	**0.1**	(0.1)
Share-based payments charge	**3.6**	4.5
Changes in retirement benefit obligations	**(7.9)**	(8.1)
Pension curtailment gain	**–**	(31.1)
Net movement in provisions	**(1.6)**	(10.5)
	131.4	140.6
Decrease in inventories	**2.6**	4.4
Decrease in receivables	**27.3**	21.7
Decrease in payables	**(22.2)**	(23.7)
Changes in working capital	**7.7**	2.4
Cash generated from operations	**139.1**	143.0
Add back: cash outflow relating to restructuring	**0.6**	10.3
Add back: disposal-related pension contribution	**6.0**	–
Less: cash generated from discontinued operations	**(1.8)**	(30.3)
Add back: cash outflow relating to pension scheme closure costs	**–**	4.0
Net cash flow from operations before restructuring costs	**143.9**	127.0

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
CPI	Consumer Price Index
DE&S	MOD's Defence, Equipment and Support organisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
Funded backlog	The expected future value of revenue from contractually committed and funded customer orders (excluding the £998m third-term re-pricing of the LTPA contract)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LTPA	Long Term Partnering Agreement – 25-year contract established in 2003 to manage the MOD's test and evaluation ranges
MOD	UK Ministry of Defence
Organic growth	The level of year-on-year growth, expressed as a percentage, calculated at constant foreign exchange rates, adjusting comparatives to incorporate the results of acquired entities but excluding the results for any disposals or discontinued operations for the same duration of ownership as the current period
Specific adjusting items	Amortisation of intangible assets arising from acquisitions; net restructuring charges/recoveries; net pension finance expense; net pension gain on closure to future accrual; impairment of property; impairment of goodwill and intangible assets; gain/loss on business combinations and divestments; gain/loss on disposal of investments; tax on the preceding items; and tax credits on one-off recognition of deferred tax asset in respect of UK trade losses
SDSR	Strategic Defence and Security Review
SSRO	Single Source Regulations Office
UK GAAP	UK Generally Accepted Accounting Practice
Underlying basic earnings per share	Basic earnings per share as adjusted to exclude 'specific adjusting items'
Underlying effective tax rate	The tax charge for the year excluding the tax impact of 'specific adjusting items' expressed as a percentage of underlying profit before tax
Underlying net cash from operations (post capex)	Net cash inflow from operations before cash flows of specific adjusting items less net cash outflow on purchase/sale of intangible assets and property, plant and equipment
Underlying net finance costs	Net finance costs excluding net pension finance costs
Underlying operating cash conversion	The ratio of underlying net cash from operations (post capex) to underlying operating profit excluding share of post-tax result of equity-accounted joint ventures and associates
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue
Underlying operating profit	Operating profit as adjusted to exclude 'specific adjusting items'
Underlying profit before tax	Profit before tax as adjusted to exclude 'specific adjusting items'