QinetiQ Group plc

26 May 2011
For release at 0700 hours

Preliminary Results for the year ended 31 March 2011

Restoring Strength, Building Value

	2011	2010
<u>Business Performance</u>		
Revenue	**£1,702.6m**	£1,625.4m
Organic change at constant currency	**5%**	(3)%
Underlying operating profit*	**£145.4m**	£120.3m
Underlying operating margin*	**8.5%**	7.4%
Underlying profit before tax*	**£114.6m**	£85.7m
Underlying net cash from operations* (post capex)	**£265.8m**	£174.3m
Underlying cash conversion ratio*	**183%**	145%
Net debt	**£260.9m**	£457.4m
Underlying earnings per share*	**14.2p**	11.1p
Dividend per share	**1.60p**	1.58p
<u>Statutory Reporting</u>		
Operating profit/(loss)	**£54.7m**	£(25.3)m
Profit/(loss) before tax	**£26.6m**	£(66.1)m
Earnings per share	**0.8p**	(9.7)p

Headlines

- **Group revenues up 5% and underlying operating profit* up 21%, driven by strong sales of Q-NET vehicle survivability product**
- **Delivering on self-help programme to build future value**
    - 12 months into 24 month plan
    - Business reorganisation delivering focus
        - US Services being fully integrated
        - UK Services restructured
        - Global Products common framework implemented
    - Cultural transformation delivering a commercial, performance-orientated approach
        - Group-wide drive to reduce cost base, increase competitiveness
    - Balance sheet strengthened
        - Excellent cash generation reduced net debt to £261m (31 March 2010: £457m)
        - Gearing ratio† down from 2.5x to 1.4x
        - New revolving credit facility signed, 2013 private placement repaid May 2011 – no further debt maturity for 5 years
- **Dividend reinstated in line with commitment made May 2010. Proposed final dividend 1.60p per share.**

Leo Quinn, Chief Executive Officer said: *"We are making significant progress in restoring QinetiQ to strength. Our reshaping of the businesses, together with the reduction and refinancing of the debt, all contribute to a leaner and more agile Group. With a stronger balance sheet, we are now able to fund future growth and reinstate the dividend for shareholders.*

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

"Internally, we have made significant changes which we will embed and extend this year, to ensure that over the medium term we maximise value from both QinetiQ's inherent capabilities and emerging opportunities. Externally, by working closely with its US and UK government customers, QinetiQ will be able to align its unique expertise with their priorities to achieve greater value and efficiency.

"We are unlikely to see a repetition of last year's level of Q-NET sales, but the Board believes that the programme underway to increase competitiveness will enable the Group to perform in line with its expectations for the current financial year in what are likely to remain challenging market conditions."

Other information

There will be a presentation of the preliminary results to analysts at 0900 hours UK time on 26 May 2011 at UBS Ground Floor Conference Centre, 1 Finsbury Avenue, London, EC2M 2PP. Registration for the webcast is available at: www.QinetiQ.com/investors. An audiocast of the event can be heard using the following numbers:

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

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

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

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

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Group Overview

Restoring strength, building value

The Group has made significant progress in the year. Its programme of self-help has resulted in increased competitiveness and a strong foundation for the future. Throughout what has been a difficult year in the markets, all businesses have worked closely with their customers to ensure that QinetiQ is well-positioned to create value over the medium term.

Group revenues were up 5% at £1,702.6m (2010: £1,625.4m), including a £19.7m benefit from the strengthening US dollar exchange rate and a £29.8m reduction in revenue for divested businesses. Within this, Global Products revenues grew 66%, driven by a strong demand for Q-NET, the vehicle survivability product. US Services revenues fell 7% on an organic basis, impacted by government insourcing experienced around last year end and by delays in new awards. UK Services revenues fell 10% organically due to pressure on customer budgets, contract delays and the inclusion last year of some pass-through revenues which did not recur this year.

Underlying operating profit* increased to £145.4m (2010: £120.3m), up 21%, resulting in an improved underlying operating margin* of 8.5% (2010: 7.4%). This reflected a strong volume-led margin performance in Global Products, bolstered by Q-NET sales, against somewhat lower margins in Services. Underlying profit before tax* for the Group was £114.6m, up 34% on the previous year (2010: £85.7m).

The restructuring of the UK businesses resulted in two non-recurring items: a restructuring charge of £33.5m (2010: £44.1m) and a pension curtailment gain of £4.9m (2010: £2.0m). Other non-recurring items included a £23.8m write-off of previously incurred bid costs in relation to the termination of the Defence Training Rationalisation (DTR) programme by the Ministry Of Defence (MOD).

Rigorous Group-wide processes and the engagement of employees at all levels have resulted in a strong underlying operating cash conversion* of 183% (2010: 145%) as underlying cash flow from operations* increased to £265.8m (2010: £174.3m). Closing net debt at 31 March 2011 was £260.9m, compared with £457.4m at 31 March 2010, an improvement of £196.5m. This translated into a net debt to EBITDA ratio† of 1.4x at 31 March 2011 (31 March 2010: 2.5x). In February 2011, the Group signed a new revolving credit facility totalling £275m denominated in Sterling and Dollars, which is currently undrawn. Following the early repayment of the 2013 private placement in May 2011, the Group's earliest maturity in its borrowings is now 2016.

Net finance costs included a pension finance credit of £9.1m (2010: cost of £2.5m). Also in the net finance costs was an accelerated interest payment of £8.8m related to the early repayment of the 2013 private placement note. Full year underlying earnings per share* were 14.2p (2010: 11.1p).

In May 2010, the Board recommended a suspension of dividend payments during the first 12 months of the Group's programme to restore QinetiQ to strength. In line with its commitment at that time, the Board is recommending a return to the dividend list. The proposed final dividend is 1.60p per share for the year ended 31 March 2011 which will be paid on 2 September 2011 to shareholders on the register at 5 August 2011. The Board is also recommending the reinstatement of a progressive dividend policy which takes into account the profitability of QinetiQ's businesses and underlying growth, as well as its capital requirements and cash flows, while maintaining an appropriate level of dividend cover. The final dividend will normally represent approximately two thirds of the full year dividend in future periods.

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Board changes

In November 2010 and April 2011 respectively, Nick Luff and David Langstaff resigned from the Board due to growing executive management commitments outside the Group. On 25 October 2010, Paul Murray joined the Board as a Non-executive Director, bringing a broad range of experience in finance and corporate governance from a cross-section of industries. As announced today, Admiral Ed Giambastiani will step down as a Non-executive Director to the QinetiQ Board at the 2011 Annual General Meeting.

Update on Priorities

In May 2010, QinetiQ set out a 24 month self-help programme with three priorities: to refocus the businesses, transform the culture and strengthen the balance sheet.

Focus

The Group's new structure of three divisions – US Services, UK Services and Global Products – aligns its expertise and technology efficiently with customer needs. Each division has made progress on implementation in the period:

- Full integration of the US Services businesses is underway to reduce duplicated overhead, improving the ability of the division to compete effectively.
- The realignment of UK Services with specific customer segments was completed in the first half, with further refinements likely to reflect evolving customer requirements.
- The Global Products framework is now in place and delivering a common approach to development of the product portfolio; for example, the development of E-X-Drive® for the US Ground Combat Vehicle programme.
- The portfolio is reviewed on an on-going basis to address both performance issues and key focus areas:
  - During the year, the Group completed the disposal of the S&IS business and acquired Sensoptics Limited to support development of the OptaSense® business.
  - Existing UK synthetic training and simulation capabilities have been brought together as one business within UK Services.
  - A common US / UK cyber platform is under development to globalise the Group's cyber capabilities.

Cultural transformation

The world-class domain expertise and innovation of QinetiQ's scientists and engineers, together with its deep customer relationships in both the UK and US, provide the potential for longer-term profitable growth. Delivering this requires the right leadership, measurement and processes to enable empowerment and accountability, as well as a more flexible and competitive cost base. The following steps to achieve this have been taken:

- Over 80% of the Group's executive team has been upgraded, as well as approximately half of senior management in the UK and a third in the US. New performance related remuneration was introduced for the UK leadership team replacing legacy terms and conditions.
- Common business review processes have been implemented across the Group to ensure transparency and the ability to manage outcomes and react quickly.
- Two programmes – My Contribution and Fit4Growth – have been introduced. Together these engage all employees in raising performance and provide a single end-to-end process from bid to project delivery, driving ongoing improvements in productivity and value delivered to customers.
- In the UK, a more commercial way of working was needed to improve performance. Sales leadership was upgraded, new incentive plans introduced and over 3,000 employees trained in value-based selling, negotiation and project delivery. During the year, the business saw a 9% improvement in MOD customer

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satisfaction scores, while a recent employee survey showed higher engagement levels and a 14% rise in the leadership score since 2009.

- Changes to UK employee terms and conditions, including revised redundancy arrangements, came into effect on 1 July 2010 after a 75% favourable vote by union members. The combination of introducing a new performance management system, restructuring the UK businesses and rationalising the technology portfolio resulted in a 15% reduction in UK headcount, reducing management layers and overhead costs and addressing areas of systemic under-utilisation with minimal loss of key capability. Further reductions to the UK cost base have been achieved through structured procurement of goods and services – including IT and facilities management – and the streamlining of UK suppliers.

Balance Sheet

A key goal for the 24 month programme was to restore QinetiQ's balance sheet to strength through self-help. Significant improvement was made in the first 12 months:

- Rigorous Group-wide processes and the engagement of employees at all levels have driven strong underlying operating cash conversion* of 183% (2010: 145%).
- The Group's net debt at 31 March 2011 improved to £260.9m (31 March 2010: £457.4m).
- The gearing ratio† was reduced to 1.4x net debt: EBITDA (31 March 2010: 2.5x).
- In February 2011, the Group signed a new 5-year revolving credit facility totalling £275m denominated in Sterling and Dollars, which is currently undrawn.
- In May 2011, the $135m private placement note due to mature in 2013 was repaid from surplus cash.

As a result of these actions, the Group has no debt maturity until 2016, providing a strong foundation to fund future growth.

Ongoing priorities

Over the next 12 months, the Group's key goal is to complete its 24 month programme to build a leaner, more agile QinetiQ, focused on – and competitive in – its areas of core capability. The initiatives which are transforming the Group's culture and processes must be sustained and embedded. Improvements in productivity will be extended, as will the drive to strengthen the balance sheet. The portfolio will continue to be aligned with customers' needs, both through non-core disposals and by funding carefully selected areas in which QinetiQ has a clearly established position and therefore a base for value creation over the medium term.

Trading Environment

QinetiQ's principal markets remain challenging, with defence budgets on both sides of the Atlantic under pressure in light of government programmes to reduce fiscal deficits.

In the US, after six months operating under a Continuing Resolution, President Obama signed the Defense Appropriation Bill on 15 April 2011, which funds the Department of Defense for the remainder of the US Government 2011 fiscal year. Work within the US Government now turns to the budget for the 2012 fiscal year, accompanied by a review by the Department of Defense (DoD) to evaluate long-term spending plans. Over the medium term, budget reductions are expected in order to generate efficiency savings. Against this backdrop of fiscal austerity, customer behaviours are changing as they look "to do more with less."

In the UK, it is anticipated that budgets will be reduced to meet the Government's target of an 8% cumulative reduction in defence spending over the next four years. In December 2010, the Government published its Consultation Paper, "Equipment, Support and Technology for UK Defence and Security," on the role which industry will play in future defence programmes and the resulting White Paper is scheduled for this summer. In April 2011, the MOD also implemented its Comprehensive Commitment Control Regime, which requires the approval of senior civil servants for new expenditure except in key categories such as those which support

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current operations, the strategic deterrent and safety. Overall, the imperative for change within the MOD is likely to continue to restrict and delay the authorisation of new contracts.

Outlook

The Group retains a strong presence in attractive sectors, including test and evaluation, acquisition and programme support, training and simulation, cyber security, C4ISR, and software and engineering services. These remain key areas of focus for customers and QinetiQ's ability to deliver value by providing trusted independent expertise remains a distinguishing competitive strength.

As a result of budget pressure and continued uncertainty, competition on both sides of the Atlantic is likely to remain keen and in this environment, the Group's priority is to complete its 24 month self-help programme to improve the competitiveness and agility of its businesses while focusing on core capabilities.

The Board believes that the actions underway and the significant progress of the first 12 months demonstrate QinetiQ's ability to build value over the medium term.

The Group is unlikely to see a repetition of last year's level of Q-NET sales, but the Board believes that the programme underway to increase competitiveness will enable the Group to perform in line with its expectations for the current financial year in what are likely to remain challenging market conditions.

Operations Overview

US Services

Delivery of technical services in aerospace operations and systems, engineering and lifecycle management, information solutions, mission solutions and software and systems engineering.

	2011	2010
	£m	£m
Orders	**561.1**	577.6
Revenue	**588.2**	628.0
Underlying operating profit*	**44.3**	52.6
Underlying operating margin*	**7.5%**	8.4%
Book to bill ratio	**1.0**	0.9

Revenues declined by 7% on an organic basis at constant currency impacted by US Government insourcing around last year end as well as the switching of some work to small business preference contracts. The protracted Continuing Resolution led to a further lack of clarity around contract funding. This resulted in new and incremental orders being delayed and the cancellation of some re-competes with shorter term extensions awarded in their place. Also, during the latter part of the year, the successful Iraqi flight training project completed.

In this environment, bidding for existing services and larger programmes is very competitive necessitating a higher investment in business development. This, coupled with the volume impact on revenue, contributed to underlying operating profit* falling to £44.3m (2010: £52.6m), delivering an underlying margin* of 7.5% (2010: 8.4%).

As part of the programme to exit non-core capabilities, the sale was agreed of S&IS, an access control business, for a total cash consideration of US$60m before tax. The year-on-year revenue variance as a result of this disposal was £16m.

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The strength of ongoing relationships with key customers was evidenced by an award to provide engineering services at the Kennedy Space Centre in Florida, leveraging existing NASA support contracts at the site, as well as at the Glenn Research Centre in Ohio and the Goddard Spaceflight Centre in Maryland. The new service at the Kennedy Space Centre began on 1 March 2011 for an expected base period of five years with three one-year options.

During the year, the US Services business was awarded seven new contracts for mission-critical services by key intelligence customers totalling US$25m. Building on its track record in providing training services to the US Army, Marine Corps, Navy and Joint communities, US Services was also awarded a five year, US$36m contract to provide a full range of training development and delivery services to the Tactical C2 Engineering Division by the US Navy's Space and Naval Warfare System Centre Atlantic (SSC-A).

As competition intensifies, the decision to create a fully integrated US Services business will reduce duplicated overhead and deliver further efficiency savings, improving the division's ability to compete effectively. Significant progress has also been made in developing a common US / UK cyber platform to exploit opportunities – principally in "five eyes" markets (US, UK, Canada, Australia, New Zealand) – generated by government commitments to additional cyber security funding.

UK Services

Provision of technical services in aerospace engineering, test and evaluation, training and simulation, information and intelligence, and procurement consultancy.

	2011	2010
	£m	£m
Orders [(1)]	**371.6**	493.8
Revenue	**611.6**	693.9
Underlying operating profit*	**48.7**	59.1
Underlying operating margin*	**8.0%**	8.5%
Book to bill ratio	**0.9**	1.0

(1) Orders excludes remaining £3.9bn (31 March 2010: £4.1bn), in respect of LTPA contract.

Revenues declined 10% on an organic basis, principally due to pressure on customer budgets and delays in spending approvals. Budget uncertainties had the greatest impact on the provision of technical and information services, where manpower utilisation has a direct correlation with profitability. In addition, the prior period included some pass-through revenues on certain contracts which did not recur this year and a contribution from the Underwater Systems business sold in 2009. Orders in the comparator period were also enhanced by approximately £40m of multi-year orders and a £31m contract associated with DTR.

Underlying operating profit* declined from £59.1m to £48.7m, principally due to falling revenue and hence utilisation, although project margins remained strong. This was exacerbated by the combined impact of approximately £5m in respect of higher pension service costs and reduced property income following a major tenant vacating premises last year. The underlying margin* for the full year was 8.0% (2010: 8.5%), an improvement on the first half margin of 7.3% as cost reductions began to take effect. Headcount was reduced by 662 in the year, largely as a result of the restructuring programme.

UK Services continues to deliver value to its customers, de-risking the procurement of technology for core defence programmes, predominantly in the UK but increasingly overseas. New opportunities came to fruition in Scandinavia including a £9m managed services contract to operate the flight physiological centre for the Swedish defence administration and a £4m order for the Norwegian Andoya Range System. The year also saw an increase in funding for the Weapons Technology Centre managed by QinetiQ in support of the future pipeline of complex weapons. At the end of the period UK Services won a £11m contract to provide technical and information services for a national police unit.

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In response to customer requirements to reduce the cost of training, existing UK synthetic training and simulation capabilities have been brought together as one business. This will enable the leveraging of QinetiQ's unique, technology-agnostic position to deliver operational and mission training for force preparation using Commercial-Off-The-Shelf (COTS) technology. Reductions in government and agency size also provide an opportunity for QinetiQ, as a trusted advisor, to deliver acquisition and procurement support.

Global Products

Focuses on the exploitation of intellectual property through the rapid development of concepts into proven products and solutions, complemented by contract-funded research and development to support the creation of the next generation of products for the international market.

	2011	2010
	£m	£m
Orders	**627.0**	329.6
Revenue	**502.8**	303.5
Underlying operating profit *	**52.4**	8.6
Underlying operating margin*	**10.4%**	2.8%
Book to bill ratio	**1.2**	1.1

Revenues were £502.8m (2010: £303.5m), a 66% organic increase at constant currency. This includes a US$288m contribution from the new Q-NET vehicle survivability product and illustrates the lumpy profile of Global Products revenue. Q-NET deliveries during the year were primarily for the MRAP Lite vehicle – although initial orders were also received for Navistar Maxxpro and the Stryker vehicle – and demonstrate the ability of the business to develop and deploy a technology in a timeframe that meets customer demand. Contributions also came from TALON™ robots and SWATS individual gunfire detection systems, with contract awards continuing in support of current operations despite wider budgetary pressures and the Continuing Resolution.

Underlying operating profit* increased to £52.4m (2010: £8.6m) and an underlying margin* of 10.4% (2010: 2.8%), with a significant contribution from the volume of Q-NET deliveries more than offsetting a disappointing performance in the UK.

In the UK, the trading environment was impacted by further contract delays and cancellations from the MOD. During the year, the UK business was reorganised, changes were made to the leadership team and management layers were removed. Total UK headcount was reduced by 346, largely as a result of the restructuring programme, and a business that lacked customer demand and funding was closed.

The OptaSense® fibre-optic sensing business continues to make strong progress in the energy sector with a three year, £26.5m contract with Shell. Follow-on orders for security and condition monitoring include a project for Cairn to protect the 700km Mangala development pipeline in India. In December 2010, the acquisition of Sensoptics Limited was completed for an initial consideration of £2.3m, net of cash acquired. Sensoptics designs and manufactures the fibre-optic sensing hardware used by OptaSense®.

Towards the end of the period, the UK business received a £12m contract from Force Protection Europe to design, optimise and supply the modular armour kits for the Light Protected Patrol Vehicle (LPPV).

A new Global Products framework has been put in place enabling a common approach to developing and marketing the product portfolio, focused on businesses with growth strategies. The development of E-X-Drive®, as part of a consortium bidding into the US Ground Combat Vehicle programme, is an early example of this approach.

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Financial items

Tax

The Group's underlying effective tax rate* was 19% (2010: 15%). The increase was due primarily to the additional US profits earned on sales of survivability products. The Group continues to benefit from the availability of research and development relief in the UK.

Earnings per share

Underlying earnings per share* was 14.2p compared with 11.1p for the year ended 31 March 2010. Basic earnings per share increased to 0.8p compared with minus 9.7p last year.

Dividend

As announced in its self-help programme of May 2010, the Group did not pay an interim dividend for the year. In line with its commitment at that time, the Board is recommending that the Group return to the dividend list. The proposed final dividend is 1.60p per share. The record date for the final dividend will be 5 August 2011. Subject to approval at the Annual General Meeting, the final dividend will be paid on 2 September 2011.

Cash flow, net debt and liquidity

The Group's cash flow from operations before restructuring costs but after capital expenditure was £265.8m (2010: £174.3m). The underlying operating cash conversion ratio* post capital expenditure was 183% (2010: 145%), as a result of rigorous Group-wide processes and the engagement of employees at all levels to reduce working capital, assisted by deferred contract capital spend in the UK Services business.

Acquisition expenditure, net of cash acquired, totalled £15.8m (2010: £45.6m), £2.3m of which was due to the acquisition of Sensoptics Limited in December 2010 and the remainder was deferred consideration in respect of DTRI, acquired in October 2008. Proceeds received from the disposal of businesses totalled £38.2m (2010: £21.1m), largely from the disposal of the S&IS business. The total cash outflow on restructuring in the year was £31.8m.

At 31 March 2011, net debt improved to £260.9m, compared with £457.4m at 31 March 2010. The Group's borrowings remained comfortably within its financial covenants with a gearing ratio† of 1.4x compared to the covenant maximum level of 3.5x. The Group refinanced its existing credit facility with a new five year revolving credit facility provided by the Group's six global relationship banks. The new multi-currency facility, which matures in February 2016, includes a £118m tranche and a US$250m tranche and was undrawn at 31 March 2011. The Group's cash performance also allowed it to make early repayment of a US$135m private placement debt, which was repaid during May 2011. Total committed facilities available to the Group at year end amounted to £625m. Following early repayment of the US$135m private placement debt in May 2011, total committed facilities amounted to £540m, with no maturity before 2016.

Foreign exchange

The principal exchange rate affecting the Group was the sterling to US dollar exchange rate.

	12 months to 31 March 2011	**12 months to 31 March 2010**
£/US$ - average	1.56	1.59
£/US$ - closing	1.60	1.52
£/US$ - opening	1.52	1.44

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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. To minimise the impact of currency depreciation of the net assets on its overseas subsidiaries, the Group seeks to borrow in the currencies of those subsidiaries, but only to the extent that its gearing covenant within its loan documentation, as well as its facility headroom, are likely to remain comfortably within limits.

Pensions

The net pension liability under IAS 19, after deducting deferred tax, was £92.2m (2010: £106.1m). The decrease in net pension liability is primarily driven by the increase in market value of scheme assets, partially offset by the impact of the assumed increase in life expectancy.

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

Assumption	**31 March 2011**	**31 March 2010**
Discount rate	5.6%	5.6%
Inflation	3.6%	3.6%
Salary increase	4.6%	4.6%
Life expectancy – male (currently aged 40)	90	89
Life expectancy - female (currently aged 40)	91	90

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 £24m
Inflation	Increase / decrease by 0.1%	Increase / decrease by £25m
Salary increase	Increase / decrease by 0.1%	Increase / decrease by £6m
Life expectancy	Increase by 1 year	Increase by £22m

The market value of the assets at 31 March 2011 was £981.1m (31 March 2010: £915.9m) and the present value of scheme liabilities was £1,105.7m (31 March 2010: £1,063.2m).

The investment principles of the QinetiQ Pension Scheme were revised during the year by the trustees in consultation with QinetiQ. A shift from the historical weighting towards equity investments, to a more balanced portfolio, was considered appropriate by the trustees to reflect the relative age of the scheme and changes to the membership profile. The next triennial full actuarial valuation of the QinetiQ pension scheme is due to be undertaken as at 30 June 2011.

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Consolidated income statement
for the year ended 31 March

all figures in £ million	note	**2011** Before acquisition amortisation and specific non-recurring items	**2011** Acquisition amortisation and specific non-recurring items*	**2011** Total	2010 Before acquisition amortisation and specific non-recurring items	2010 Acquisition amortisation and specific non-recurring items*	2010 Total
Revenue	2	**1,702.6**	**–**	**1,702.6**	**1,625.4**	**–**	**1,625.4**
Operating costs excluding depreciation and amortisation		(1,516.4)	(58.5)	(1,574.9)	(1,465.8)	(42.1)	(1,507.9)
Share of post-tax profit of equity accounted joint ventures and associates		0.2	–	0.2	0.2	–	0.2
Other income		4.1	–	4.1	6.9	–	6.9
EBITDA (earnings before interest, tax, depreciation and amortisation)		**190.5**	**(58.5)**	**132.0**	**166.7**	**(42.1)**	**124.6**
Depreciation and impairment of property, plant and equipment		(33.6)	(5.9)	(39.5)	(35.1)	(24.0)	(59.1)
Amortisation and impairment of intangible assets		(11.5)	(26.3)	(37.8)	(11.3)	(79.5)	(90.8)
Group operating profit/(loss)		**145.4**	**(90.7)**	**54.7**	**120.3**	**(145.6)**	**(25.3)**
Gain/(loss) on business combinations and divestments and unrealised impairment of investments	4	–	2.7	2.7	–	(6.2)	(6.2)
Finance income	5	70.4	–	70.4	48.1	–	48.1
Finance expense	5	(101.2)	–	(101.2)	(82.7)	–	(82.7)
Profit/(loss) before tax		**114.6**	**(88.0)**	**26.6**	**85.7**	**(151.8)**	**(66.1)**
Taxation (expense)/income	7	(21.8)	0.2	(21.6)	(12.9)	15.7	2.8
Profit/(loss) for the year attributable to equity shareholders		**92.8**	**(87.8)**	**5.0**	**72.8**	**(136.1)**	**(63.3)**
Earnings per share							
Basic	8			0.8p			(9.7)p
Diluted	8			0.8p			(9.7)p

* Specific non-recurring items include amounts relating to: restructuring charges; pension curtailment gains; contingent payments on acquisition treated as remuneration; net inventory write-offs in respect of capitalised DTR-programme bid costs; impairment of property, plant and equipment; impairment of intangible assets; gain/(loss) on business combinations and divestments; unrealised impairments of investments; and tax thereon. See note 3.

Consolidated statement of comprehensive income
for the year ended 31 March

all figures in £ million	**2011**	2010
Profit/(loss) for the year	**5.0**	**(63.3)**
Other comprehensive income/(expense):		
Effective portion of change in fair value of net investment hedges	–	28.7
Foreign currency translation differences for foreign operations	(19.4)	(30.8)
Movement in fair value of hedging derivatives	(0.4)	(0.2)
Reclassification of hedging derivatives to the income statement	4.1	6.6
Movement in deferred tax on hedging derivatives	(4.8)	(1.8)
Fair value movement on available for sale investments	–	1.7
Actuarial loss recognised in defined benefit pension schemes	(4.7)	(60.2)
Increase in deferred tax asset due to actuarial movement in pension deficit	1.3	16.9
Other comprehensive income/(expense) for the year, net of tax	**(23.9)**	**(39.1)**
Total comprehensive income/(expense) for the year attributable to equity holders	**(18.9)**	**(102.4)**

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 2010	6.6	39.9	147.6	(12.1)	54.4	237.2	473.6	0.1	473.7
Total comprehensive income/(expense) for the year	–	–	–	(1.1)	(19.4)	1.6	(18.9)	–	(18.9)
Transfers	–	–	–	13.4	(13.4)	–	–	–	–
Purchase of own shares	–	–	–	–	–	(0.6)	(0.6)	–	(0.6)
Share-based payments	–	–	–	–	–	3.3	3.3	–	3.3
At 31 March 2011	**6.6**	**39.9**	**147.6**	**0.2**	**21.6**	**241.5**	**457.4**	**0.1**	**457.5**
At 1 April 2009	6.6	39.9	147.6	(16.7)	56.5	368.7	602.6	0.1	602.7
Total comprehensive income/(expense) for the year	–	–	–	4.6	(2.1)	(104.9)	(102.4)	–	(102.4)
Dividends paid	–	–	–	–	–	(31.6)	(31.6)	–	(31.6)
Purchase of own shares	–	–	–	–	–	(0.8)	(0.8)	–	(0.8)
Share-based payments	–	–	–	–	–	5.8	5.8	–	5.8
At 31 March 2010	**6.6**	**39.9**	**147.6**	**(12.1)**	**54.4**	**237.2**	**473.6**	**0.1**	**473.7**

Consolidated balance sheet

as at 31 March

all figures in £ million	Note	**2011**	2010 (Restated)[1]
Non-current assets			
Goodwill		521.1	577.8
Intangible assets		103.2	141.7
Property, plant and equipment		260.9	285.5
Other financial assets		8.2	10.0
Equity accounted investments		1.1	0.9
Other investments		4.8	4.8
Deferred tax asset		33.8	28.7
		933.1	**1,049.4**
Current assets			
Inventories		45.4	79.8
Other financial assets		3.0	7.8
Trade and other receivables		389.5	423.8
Investments		2.3	2.3
Assets classified as held for sale		7.5	5.1
Cash and cash equivalents		102.5	63.9
		550.2	**582.7**
Total assets		**1,483.3**	**1,632.1**
Current liabilities			
Trade and other payables		(465.6)	(396.4)
Current tax		(4.2)	(7.5)
Provisions		(20.4)	(16.1)
Other financial liabilities		(97.2)	(8.9)
		(587.4)	**(428.9)**
Non-current liabilities			
Retirement benefit obligation	13	(124.6)	(147.3)
Deferred tax liability		-	(8.9)
Provisions		(12.6)	(7.9)
Other financial liabilities		(277.4)	(530.2)
Other payables		(23.8)	(35.2)
		(438.4)	**(729.5)**
Total liabilities		**(1,025.8)**	**(1,158.4)**
Net assets		**457.5**	**473.7**
Capital and reserves			
Ordinary shares		6.6	6.6
Capital redemption reserve		39.9	39.9
Share premium account		147.6	147.6
Hedging and translation reserve		21.8	42.3
Retained earnings		241.5	237.2
Capital and reserves attributable to shareholders of the parent company		**457.4**	**473.6**
Non-controlling interest		0.1	0.1
Total shareholders' funds		**457.5**	**473.7**

[1] Goodwill and deferred tax liabilities have been restated to reflect fair value changes in respect of an acquisition in the year ended 31 March 2010 (see note 9)

Consolidated cash flow statement
for the year ended 31 March

all figures in £ million	note	**2011**	2010
Net cash inflow from operations before restructuring costs	10	**287.6**	**204.6**
Net cash outflow relating to UK restructuring		(31.8)	(35.4)
Cash inflow from operations		**255.8**	**169.2**
Tax (paid)/received		(42.9)	1.5
Interest received		0.3	0.4
Interest paid		(28.9)	(36.8)
Net cash inflow from operating activities		**184.3**	**134.3**
Purchases of intangible assets		(2.4)	(6.2)
Purchases of property, plant and equipment		(19.7)	(24.1)
Proceeds from sale of property, plant and equipment		0.3	–
Costs from sale of property, plant and equipment		–	(0.7)
Equity accounted investments and other investment funding		–	(1.1)
Purchase of subsidiary undertakings		(16.3)	(46.3)
Net cash acquired with subsidiary undertakings		0.5	0.7
Proceeds from sale of interests in subsidiary undertakings		38.2	21.1
Net cash inflow/(outflow) from investing activities		**0.6**	**(56.6)**
Repayment of bank borrowings		(144.1)	(232.1)
Proceeds from bank borrowings		4.9	–
Payment of bank loan arrangement fees		(2.4)	–
Settlement of forward contracts designated as net investment hedges		–	(14.3)
Purchase of own shares		(0.6)	(0.8)
Dividends paid to shareholders		–	(31.6)
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		**(142.0)**	**(278.6)**
Increase/(decrease) in cash and cash equivalents		42.9	(200.9)
Effect of foreign exchange changes on cash and cash equivalents		(1.4)	(0.5)
Cash and cash equivalents at beginning of year		60.7	262.1
Cash and cash equivalents at end of year		**102.2**	**60.7**
Cash and cash equivalents		102.5	63.9
Overdrafts		(0.3)	(3.2)
Cash and cash equivalents at end of year		**102.2**	**60.7**

Reconciliation of movement in net debt
For the year ended 31 March

all figures in £ million	Note	**2011**	2010
Increase/(decrease) in cash and cash equivalents in the year		42.9	(200.9)
Cash flows from repayment of bank loans and other financial instruments		141.4	246.2
Change in net debt resulting from cash flows	11	**184.3**	**45.3**
Other non-cash movements including foreign exchange	11	12.2	35.2
Movement in net debt in the year		**196.5**	**80.5**
Net debt at beginning of year	11	(457.4)	(537.9)
Net debt at end of the year		**(260.9)**	**(457.4)**

Notes to the financial statements

1. Significant accounting policies

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 2011. The Group's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ('IFRSs') as adopted in the European Union ('EU') and those parts of the Companies Act 2006 ('the Act') that remain applicable to companies reporting under IFRS.

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 2010 which is available on the Group's website, www.QinetiQ.com subject to the changes noted below, with the exception of the accounting policy in respect of business combinations. Business combinations on or after 1 April 2010 are now accounted for in accordance with the requirements of IFRS 3 (revised), *Business Combinations*.

The preliminary announcement was approved by the Board of Directors on 26 May 2011. 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 financial information set out above does not constitute the Company's statutory accounts for the years ended 31 March 2011. The statutory accounts for 2011 are expected to be finalised and signed following approval by the Board of Directors on 27 May 2011 on the basis of the financial information presented by the Directors in this preliminary announcement. These statutory accounts will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 2 August 2011. The financial information for 2010 is derived from the statutory accounts for 2010 which have been delivered to the Registrar of Companies. The auditors have reported on the 2010 accounts; their report was unqualified.

The Group separately presents acquisition amortisation and specific non-recurring items in the income statement which, in the judgement of the Directors, need to be disclosed separately by virtue of their size and incidence in order for the reader to obtain a proper understanding of the financial information. Specific non-recurring items include amounts relating to restructuring costs; pension curtailment gains; contingent payments on acquisition treated as remuneration; net inventory write-offs in respect of capitalised DTR-programme bid costs; impairment of property, plant and equipment; impairment of intangible assets; gain/(loss) on business combinations and divestments; unrealised impairments of investments; and tax thereon.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings up to 31 March 2011. The purchase method of accounting has been adopted. Those subsidiary undertakings acquired or disposed 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). A subsidiary is an entity over which the Group has the power to govern financial and operating policies in order to obtain benefits. Potential voting rights that are currently exercisable or convertible are considered when determining control.

An associate is an undertaking over which the Group exercises significant influence, usually from 20% to 50% of the equity voting rights, over 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 up 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.

Recent accounting developments
The following EU endorsed new, revised and amended published standards and interpretations are effective for accounting periods beginning on or after 1 April 2010 and have been adopted:

IFRS 3 (revised), Business Combinations and amendments to IAS 27, Consolidated and Separate Financial Statements. The standard continues to apply the acquisition method to business combinations with some significant changes. For example, all acquisition related costs are expensed, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments subsequently re-measured at fair value through the income statement. There are also changes to the reporting of non-controlling interest. The change has been applied prospectively.

Notes to the financial statements (continued)

Improvements to IFRSs 2009. The improvements include changes to finance leases and financial instrument disclosures. These consolidated Financial Statements have been prepared under the revised disclosure requirements.
The following EU endorsed amendments, improvements and interpretations of published standards are effective for accounting periods beginning on or after 1 April 2010 and have been adopted with no material impact on the Group's financial statements:

- Amendment to IFRS 2, Share-based payment;
- Amendment to IAS 32, Financial Instruments: Presentation;
- Amendment IAS 39, Financial Instruments: Recognition and Measurement;
- IFRIC 17, Distributions of Non-cash Assets to Owners;
- IFRIC 18, Transfer of Assets from Customers; and
- Management Commentary practice statement.

2. Segmental analysis

Business segments

all figures in £ million	Year ended 31 March 2011		Year ended 31 March 2010	
	Revenue	**Operating Profit**[1]	Revenue	Operating Profit[1]
US Services	588.2	44.3	628.0	52.6
UK Services	611.6	48.7	693.9	59.1
Global Products	502.8	52.4	303.5	8.6
Total operating segments	1,702.6	145.4	1,625.4	120.3
Operating profit before acquisition amortisation and specific non-recurring items[1]		**145.4**		**120.3**
Restructuring charge		(33.5)		(44.1)
Pension curtailment gain		4.9		2.0
Contingent payments on acquisition treated as remuneration		(6.1)		-
Net inventory write-offs in respect of capitalised DTR-programme bid costs		(23.8)		-
Non-recurring operating costs before amortisation, depreciation and impairment		(58.5)		(42.1)
Impairment of property, plant and equipment		(5.9)		(24.0)
Amortisation of intangible assets arising from acquisitions		(26.3)		(26.1)
Impairment of intangible assets		-		(53.4)
Operating profit/(loss)		**54.7**		**(25.3)**
Gain/(loss) on business divestments and unrealised impairment of investments		2.7		(6.2)
Net finance expense		(30.8)		(34.6)
Profit/(loss) before tax		**26.6**		**(66.1)**
Taxation (expense)/income		(21.6)		2.8
Profit/(loss) for the year		**5.0**		**(63.3)**

[1] The measure of profit presented to the chief operating decision maker is operating profit stated before amortisation of intangible assets arising from acquisitions and specific non-recurring items. Specific non-recurring items include amounts relating to: reorganisation costs; pension curtailment gains; contingent payments on acquisition treated as remuneration; net inventory write-offs in respect of capitalised DTR-programme bid costs; impairment of property, plant and equipment; and impairment of intangible assets.
[2] The comparative figures for the year ended 31 March 2010 have been restated to reflect the reorganised structure adopted at the start of the current financial year. The segments previously reported were Europe, Middle East and Australasia (EMEA), QinetiQ North America (QNA) and Ventures.
[3] There were no internal sales from US Services to UK Services during the year.

Notes to the financial statements (continued)

3. Profit/loss before tax

The following non-recurring items have been charged in arriving at profit/loss before tax:

all figures in £ million	**2011**	2010
Restructuring costs[1]	33.5	44.1
Pension curtailment gain	(4.9)	(2.0)
Contingent payments on acquisition treated as remuneration	6.1	–
Net inventory write-offs in respect of capitalised DTR-programme bid costs	23.8	–
Non-recurring operating costs before amortisation, depreciation and impairment	**58.5**	**42.1**
Impairment of property, plant and equipment	**5.9**	**24.0**
Amortisation of intangible asset arising on acquisitions	26.3	26.1
Impairment of intangible asset	–	3.3
Impairment of goodwill	–	50.1
Total goodwill and intangible impairment and acquisition amortisation	**26.3**	**79.5**
Gain/(loss) on business divestments and unrealised impairment of investments	**(2.7)**	**6.2**
Total non-recurring items before tax	**88.0**	**151.8**

[1] The UK restructuring programme announced in May 2009 was largely completed in the last financial year and the cost of the programme was £44.1m. A subsequent 24-month self-help program was announced in May 2010 to refocus the businesses, build a more commercial performance-oriented culture and strengthen the balance sheet. A charge of £33.5m has been taken in the current financial year in respect of restructuring the UK business.

4. Gain/(loss) on business combinations and divestments and unrealised impairment of investments

all figures in £ million	**2011**	2010
Gain on business divestments	2.1	5.1
Gain in respect of negative goodwill on acquisitions in the period	0.2	–
Gain in respect of deferred consideration on prior year acquisitions	0.4	–
Unrealised impairment of investments	–	(11.3)
	2.7	**(6.2)**

The gain on business divestments in the year relates to the disposal of S&IS, a non-core security operations and access control business within QinetiQ's US Services operation, to ManTech International Corporation. The total consideration net of disposal costs was £37.2m and resulted in a gain on disposal of £2.1m. Additional cash receipts in the year included £1.0m in respect of prior year divestments. Total proceeds from sale on interests in subsidiary undertakings are £38.2m (2010: £21.1m).

The gain in respect of negative goodwill on acquisitions in the period relates to the acquisition of Sensoptics Ltd on 16 December 2010 as described in note 9.

The gain in respect of deferred consideration on prior year acquisitions is the result of conditions for the deferred consideration in respect of the Cyveillance, Inc acquisition not being met.

The prior year gain on business divestments relates to the disposal of two businesses. On 30 September 2009 the Group disposed of the Underwater Systems business, a division of QinetiQ Limited, to Atlas Elektronik UK Limited for a consideration before costs of £23.5m which resulted in a profit on disposal of £6.9m. On 31 July 2009 the Calibration business of the Group, including ASAP Calibration Ltd, was sold for proceeds before costs of £0.4m and resulted in a loss on disposal of £1.8m.

The prior year unrealised impairment of investments and associated committed costs relates to a £11.3m charge in respect of the impairment in the carrying value of investments held for sale.

Notes to the financial statements (continued)

5. Finance income and expense

all figures in £ million	**2011**	2010
Receivable on bank deposits	0.6	0.4
Finance lease income	1.2	1.4
Expected return on pension scheme assets	68.6	46.3
Finance income	**70.4**	**48.1**
Amortisation of recapitalisation fee[1]	(1.8)	(0.7)
Payable on bank loans and overdrafts	(5.9)	(7.9)
Payable on US dollar private placement debt[2]	(32.6)	(23.2)
Finance lease expense	(1.0)	(1.1)
Unwinding of discount on financial liabilities	(0.4)	(1.0)
Interest on pension scheme liabilities	(59.5)	(48.8)
Finance expense	**(101.2)**	**(82.7)**
Net finance expense	**(30.8)**	**(34.6)**

[1]In 2011 the Group refinanced its existing credit facility with a new 5-year revolving credit facility. The un-amortised amount of the fees previously capitalised in respect of the pre-existing facility were written off on termination of that facility and charged to Finance expense.

[2]The Group elected to make early repayment of $135m of US dollar private placement debt, which was repaid post year end in May 2011 from surplus cash. Net interest in 2011 was impacted by an accelerated interest charge of £8.8m in respect of the year end obligation to make this early repayment.

6. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2011 and 2010 is provided below:

	Pence per share	£m	Date paid/ payable
Interim 2011	–	–	–
Final 2011 (proposed)	1.60	10.5	Sept 2011
Total for the year ended 31 March 2011	**1.60**	**10.5**	
Interim 2010	1.58	10.4	Feb 2010
Final 2010	–	–	–
Total for the year ended 31 March 2010	**1.58**	**10.4**	

The Directors proposed a final dividend of 1.60p (2010 nil). The dividend, which is subject to shareholder approval, will be paid on 2 September 2011. The ex-dividend date is 3 August 2011 and the record date is 5 August 2011.

Notes to the financial statements (continued)

7. Taxation

all figures in £ million	**2011 Before acquisition amortisation and specific non-recurring items**	**2011 Acquisition amortisation and specific non-recurring items**	**2011 Total**	2010 Before acquisition amortisation and specific non-recurring items	2010 Acquisition amortisation and specific non-recurring items	2010 Total
Analysis of charge						
UK corporation tax	–	–	–	–	–	–
Overseas corporation tax						
Current year	41.3	(1.1)	40.2	16.7	(8.8)	7.9
Adjustment for prior year	(0.8)	–	(0.8)	–	–	–
Current tax expense/(income)	**40.5**	**(1.1)**	**39.4**	**16.7**	**(8.8)**	**7.9**
Deferred tax	(20.2)	0.9	(19.3)	(3.6)	(6.9)	(10.5)
Deferred tax impact of change in rates	2.5	–	2.5	–	–	–
Deferred tax in respect of prior years	(1.0)	–	(1.0)	(0.2)	–	(0.2)
Taxation expense/(income)	**21.8**	**(0.2)**	**21.6**	**12.9**	**(15.7)**	**(2.8)**
Factors affecting the tax charge in year						
The principal factors reducing the Group's current year tax charge below the UK statutory rate are explained below:						
Profit/(loss) before tax	114.6	(88.0)	26.6	85.7	(151.8)	(66.1)
Tax on profit/(loss) before tax at 28% (2010: 28%)	**32.1**	**(24.7)**	**7.4**	**24.0**	**(42.5)**	**(18.5)**
Effect of:						
Expenses not deductible for tax purposes, research and development relief and non-taxable items	(33.4)	22.0	(11.4)	(19.6)	29.4	9.8
Utilisation of previously unrecognised tax losses of overseas subsidiaries	(0.3)	–	(0.3)	(0.1)	–	(0.1)
Current tax losses for which no deferred tax asset was recognised	17.5	–	17.5	6.1	–	6.1
Deferred tax impact of change in rates	2.5	–	2.5	–	–	–
Deferred tax in respect of prior years	(1.0)	–	(1.0)	(0.2)	–	(0.2)
Effect of different rates in overseas jurisdictions	4.4	2.5	6.9	2.7	(2.6)	0.1
Taxation expense/(income)	**21.8**	**(0.2)**	**21.6**	**12.9**	**(15.7)**	**(2.8)**

The total tax expense in the year to 31 March 2011 includes a credit of £0.2m (2010: £15.7m) for tax on acquisition amortisation and specific non-recurring items. The rate on this credit is low as the majority of items do not attract tax relief in the current period.

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 relief in the UK. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any future tax legislation changes and the geographical mix of profits. At the balance sheet date, the Group had unused tax losses of £188.7m (2010: £117.1m) potentially available for offset against future profits.

Notes to the financial statements (continued)

8. 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 as the directors consider this gives a more relevant indication of underlying business performance and reflects the adjustments to basic earnings per share for the impact of specific non-recurring items, amortisation of acquired intangible assets and tax thereon.

For the year ended 31 March		**2011**	2010
Basic EPS			
Profit/(loss) attributable to equity shareholders	£m	5.0	(63.3)
Weighted average number of shares	million	654.6	653.5
Basic EPS	pence	**0.8**	**(9.7)**
Diluted EPS			
Profit/(loss) attributable to equity shareholders	£m	5.0	(63.3)
Weighted average number of shares	million	654.6	653.5
Effect of dilutive securities*	million	6.8	–
Diluted number of shares	million	661.4	653.5
Diluted EPS	pence	**0.8**	**(9.7)**
Underlying basic EPS			
Profit/(loss) attributable to equity shareholders	£m	5.0	(63.3)
Reorganisation costs	£m	33.5	42.1
(Gain)/loss on business divestments, disposals and unrealised impairment of investments	£m	(2.7)	6.2
Impairment of property plant and equipment	£m	5.9	24.0
Contingent payments on acquisition treated as remuneration	£m	6.1	–
Pension curtailment gain	£m	(4.9)	–
Amortisation of intangible assets arising from acquisitions and impairment of intangible assets	£m	26.3	79.5
Net inventory write-offs in respect of capitalised DTR programme bid costs	£m	23.8	–
Tax impact of items above	£m	(0.2)	(15.7)
Underlying profit after taxation	£m	92.8	72.8
Weighted average number of shares	million	654.6	653.5
Underlying basic EPS	pence	**14.2**	**11.1**

* The loss attributable to equity shareholders in the year ended 31 March 2010 resulted in no effect of dilutive securities to the weighted average number of shares. If there had been a profit in the year ended 31 March 2010 the effect of dilutive securities would have been to increase the diluted number of shares by 4.2m.

Notes to the financial statements (continued)

9. Business combinations

Acquisition of subsidiaries for the year ended 31 March 2011

The Group has adopted IFRS 3 (2008) *Business Combinations* and IAS 27 (2008) *Consolidated and separate financial statements* with effect from 1 April 2010.

On 16 December 2010, the Group acquired 100 per cent of the issued share capital of Sensoptics Limited from its founder management team. If the acquisition had been completed on the first day of the financial year, Group revenues for the period would have been £1,705.0m and the Group profit before tax would have been £27.3m.

Acquisitions in the year to 31 March 2011
all figures in £ million

						Contribution post-acquisition	
Company acquired	**Date acquired**	**Cash consideration**[1]	**Deferred consideration**	**Goodwill**	**Fair value of assets acquired**[2]	**Revenue**	**Operating profit**
Sensoptics Limited	16 December 2010	2.8	0.9	(0.2)	3.9	0.7	0.2
Current year acquisitions		**2.8**	**0.9**	**(0.2)**	**3.9**	**0.7**	**0.2**
Consideration in respect of prior year acquisitions[3]							
Dominion Technology Resources, Inc.		13.5	–	–	–	–	–
Total		**16.3**	**0.9**	**(0.2)**	**3.9**	**0.7**	**0.2**

[1] Initial cash consideration includes price adjustments for working capital and net debt
[2] Fair value of assets acquired are provisional
[3] Cash consideration paid in the year includes consideration amounts in respect of prior year acquisitions.

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 these businesses at fair value and in accordance with Group accounting policies. The fair values remain provisional, but will be finalised within 12 months of acquisition.

Sensoptics Limited

Acquisition in the year to 31 March 2011

all figures in £ million	note	**Book value**	**Fair value adjustment**	**Fair value at acquisition**
Intangible assets		–	4.0	4.0
Property, plant and equipment		–	–	–
Trade and other receivables		1.0	–	1.0
Other current assets		0.5	–	0.5
Trade and other payables		(1.0)	–	(1.0)
Cash and cash equivalents		0.5	–	0.5
Deferred tax liability		–	(1.1)	(1.1)
Net assets acquired		**1.0**	**2.9**	**3.9**
Goodwill				(0.2)
				3.7
Consideration satisfied by:				
Cash				2.8
Deferred consideration				0.9
Total consideration				**3.7**

Sensoptics Limited is a designer of fibre-optic sensing hardware. Sensoptics Limited was acquired to combine its technology with QinetiQ’s OptaSense® signal processing capabilities. The OptaSense® solution provides cost-effective around-the-clock distributed acoustic monitoring over long distances.

Notes to the financial statements (continued)

9. Business combinations (continued)

The intangible assets acquired as part of the business combination relate to the intellectual property embodied within the Sensoptics Limited existing products and products under development.

Total expected payments are in excess of the fair value of net assets acquired. However, certain potential payments are linked to continuing employment assumptions for the retained founder management team, which would be forfeited in full should they leave within the stipulated period. Under IFRS 3 (revised) this type of arrangement is required to be accounted for as a remuneration expense as opposed to part of the consideration. As a result, the acquisition resulted in negative goodwill, of £0.2m, which was recognised as a gain in the consolidated income statement within "gain/(loss) on business combinations and divestments and unrealised impairment of investments". The discounted fair value of the deferred contingent purchase price payments treated as remuneration was £6.1m and this was charged to the consolidated income statement within operating costs (significant non-recurring items).

Acquisition-related costs (included within other operating costs excluding depreciation and amortisation) amount to £0.2m.

Adjustments to goodwill in respect of prior year acquisitions

Cyveillance, Inc.

The comparative figures for the balance sheet for the year ended 31 March 2010 have been restated to update the initial estimate of the fair value of assets acquired with Cyveillance, Inc. on 1 July 2009. The tax losses acquired at the time have subsequently been valued. The financial effect of this is to reduce goodwill and decrease the deferred tax liability on the balance sheet by £1.9m. There is no impact on the Group's reported profit before tax for these periods. An additional column has not been included on the balance sheet to show the opening position in relation to the restated amounts as the restatement would not have affected the opening position.

10. Cash flows from operations

all figures in £ million	**Year ended 31 March 2011**	Year ended 31 March 2010
Profit/(loss) after tax for the period	5.0	(63.3)
Adjustments for:		
Taxation expense/(credit)	21.6	(2.8)
Net finance costs	30.8	34.6
(Gain)/loss on business divestments and unrealised impairment of investments	(2.7)	6.2
Amortisation of purchased or internally developed intangible assets	11.5	11.3
Amortisation of intangible assets arising from acquisitions and impairments	26.3	79.5
Depreciation and impairment of property, plant and equipment	39.5	59.1
Loss on disposal of property, plant and equipment	1.0	–
Share of post tax profit of equity accounted entities	(0.2)	(0.2)
Share-based payments charge	3.3	5.8
Net inventory write-offs in respect of capitalised DTR-programme bid costs	23.8	–
Changes in retirement benefit obligations	(13.4)	(18.4)
Pension curtailment gain	(4.9)	(2.0)
Net movement in provisions	9.0	10.9
	150.6	**120.7**
Increase in inventories[1]	(5.1)	(13.1)
Decrease in receivables	45.6	89.9
Increase/(decrease) in payables	64.7	(28.3)
Changes in working capital	**105.2**	**48.5**
Cash generated from operations	**255.8**	**169.2**
Add back: cash outflow relating to UK restructuring	31.8	35.4
Net cash flow from operations before UK restructuring costs	**287.6**	**204.6**

[1] Excludes inventory write-offs in respect of capitalised DTR-programme bid costs

Notes to the financial statements (continued)

11. Analysis of net debt

all figures in £ million	Year ended 31 March 2010	**Cash flow**	**Reclassification**	**Non cash movement**	**Year ended 31 March 2011**
Due within one year					
Bank and cash	63.9	40.0	–	(1.4)	102.5
Bank overdraft	(3.2)	2.9	–	–	(0.3)
Recapitalisation fee	0.7	–	–	(0.1)	0.6
Finance lease receivables	3.0	(3.0)	–	3.0	3.0
US private placement	–	–	(94.3)	–	(94.3)
Finance lease payables	(2.8)	2.8	–	(2.8)	(2.8)
Derivative financial assets	4.8	–	–	(4.8)	–
Derivative financial liabilities	(3.6)	–	–	3.2	(0.4)
	62.8	**42.7**	**(94.3)**	**(2.9)**	**8.3**
Due after one year					
Bank loan	(143.7)	139.2	–	4.5	–
Recapitalisation fee	0.9	2.4	–	(1.6)	1.7
US private placement	(376.7)	–	94.3	11.2	(271.2)
Finance lease receivables	10.0	–	–	(1.8)	8.2
Finance lease payables	(9.7)	–	–	1.8	(7.9)
Derivative financial assets	–	–	–	–	–
Derivative financial liabilities	(1.0)	–	–	1.0	–
	(520.2)	**141.6**	**94.3**	**15.1**	**(269.2)**
Total net debt as defined by the Group	**(457.4)**	**184.3**	**–**	**12.2**	**(260.9)**

12. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £56.7m at 31 March 2011 (31 March 2010: £55.1m) in the ordinary course of business.

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

The Group has not recognised contingent amounts receivable relating to the Chertsey property which was disposed of during 2004 or the Fort Halstead property disposed of in September 2005. Additional consideration, subject to clawback to the MOD pursuant to the arrangements referred to in note 35 to the 2010 Annual Report & Accounts, is potentially due upon the purchasers obtaining additional planning consents, with the quantum dependent on the scope of the consent achieved.

Notes to the financial statements (continued)

13. Post-retirement benefits

Set out below is a summary of the overall IAS 19 defined benefit pension schemes' liabilities. The fair value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods, and thus inherently uncertain, were:

all figures in £ million	**2011**	2010	2009	2008
Equities	564.1	714.6	473.7	620.8
Corporate bonds	158.7	69.5	78.4	83.9
Government bonds	165.3	69.6	83.2	76.3
Property	78.0	53.4	–	–
Other	15.0	8.8	12.1	3.2
Total market value of assets	**981.1**	915.9	647.4	784.2
Present value of scheme liabilities	**(1,105.7)**	(1,063.2)	(752.6)	(807.6)
Net pension liability before deferred tax	(124.6)	(147.3)	(105.2)	(23.4)
Deferred tax asset	32.4	41.2	29.4	6.5
Net pension liability	**(92.2)**	**(106.1)**	**(75.8)**	**(16.9)**

Changes to the fair value of scheme assets

all figures in £ million	**2011**	2010
Opening fair value of scheme assets	915.9	647.4
Expected return on assets	68.6	46.3
Actuarial (loss)/gain on scheme assets	(14.0)	206.6
Contributions by the employer	36.6	38.4
Contributions by plan participants	0.2	0.3
Net decrease in assets from disposals	–	(0.6)
Net benefits paid out and transfers	(26.2)	(22.5)
Closing fair value of scheme assets	**981.1**	**915.9**

Changes to the present value of the defined benefit obligation

all figures in £ million	**2011**	2010
Opening defined benefit obligation	1,063.2	752.6
Current service cost	22.9	20.0
Interest cost	59.5	48.8
Contributions by plan participants	0.2	0.3
Actuarial (gain)/loss on scheme liabilities	(9.3)	266.8
Net decrease in liabilities from disposals	–	(0.8)
Curtailment gain	(4.9)	(2.0)
Past service cost	0.3	–
Net benefits paid out and transfers	(26.2)	(22.5)
Closing defined benefit obligation	**1,105.7**	**1,063.2**

Notes to the financial statements (continued)

13. Post-retirement benefits (continued)

Assumptions

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

	2011	2010
Rate of increase in salaries	4.6%	4.6%
Rate of increase in pensions in payment	3.6%	3.6%
Discount rate applied to scheme liabilities	5.6%	5.6%
RPI Inflation assumption	3.6%	3.6%
CPI Inflation assumption	2.7%	N/A
Assumed life expectancies in years		
Future male pensioners (currently aged 60)	88	87
Future female pensioners (currently aged 60)	90	89
Future male pensioners (currently aged 40)	90	89
Future female pensioners (currently aged 40)	91	90

Glossary

AGM	Annual General Meeting
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
BPS	Basis points
C4ISR	Command, control, communications, computers, intelligence surveillance and reconaissance
Compliance Principles	The principles underlying the Compliance Regime, covering impartiality, integrity, conflicts, confidentiality and security
DHS	US Department of Homeland Security
DoD	US Department of Defense
DTR	MOD's Defence Training Rationalisation programme
EBITDA	Earnings before interest, tax, depreciation and amortisation
EMEA	Europe, Middle East and Australasia
EPS	Earnings per share
EU	European Union
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
KPI	Key Performance Indicator
LTPA	Long-Term Partnering Agreement – 25 year contract established in 2003 to manage the MOD's test and evaluation ranges
MOD	UK Ministry of Defence
NASA	National Aeronautics and Space Administration (USA)
Organic Growth	The level of year-on-year growth, expressed as a percentage, calculated at constant foreign exchange rates, adjusting comparatives to incorporate the results of acquired entities and excluding the results for any disposals or discontinued operations for the same duration of ownership as the current period
QNA	QinetiQ North America
R&D	Research & Development
Specific non-recurring items and acquisition amortisation	Restructuring charges; pension curtailment gains; contingent payments on acquisition treated as remuneration; net inventory write-offs in respect of capitalised DTR-programme bid costs; impairment of property, plant and equipment; impairment of intangible assets; gain/(loss) on business combinations and divestments; unrealised impairments of investments; and tax thereon.
Underlying basic earnings per share	Basic earnings per share as adjusted to exclude 'specific non-recurring items and acquisition amortisation'
Underlying effective tax rate	The tax charge for the year excluding the tax impact of 'specific non-recurring items and acquisition amortisation'expressed as a percentage of underlying profit before tax
Underlying net cash from operations (post capex)	Net cash inflow from operations before restructuring costs less net cash outflow on purchase/sale of intangible assets and property, plant and equipment.
Underlying operating cash conversion	The ratio of underlying net cash from operations (post capex) to underlying operating profit excluding share of post tax result of equity accounted joint ventures and associates
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue
Underlying operating profit	Operating profit as adjusted to exclude 'specific non-recurring items and acquisition amortisation'
Underlying profit before tax	Profit before tax as adjusted to exclude 'specific non-recurring items and acquisition amortisation'
Unfunded Orders	Typically long term contracts awarded by the US government which the customer funds incrementally over the life of the contract. The Group does not recognise such awards into the reported backlog until funding is confirmed.