# QinetiQ Group plc

**24 May 2012**
**For release at 0700 hours**

## Preliminary Results for the year ended 31 March 2012

# Delivering value

| | **2012** | 2011 |
|---|---|---|
| **Business Performance** | | |
| **Revenue** | **£1,469.6m** | £1,702.6m |
| **Organic change at constant currency** | **(11)%** | 5% |
| **Underlying operating profit*** | **£161.3m** | £145.4m |
| **Underlying operating margin*** | **11.0%** | 8.5% |
| **Underlying profit before tax*** | **£118.3m** | £114.6m |
| **Underlying net cash from operations* (post capex)** | **£235.4m** | £265.8m |
| **Underlying cash conversion ratio*** | **146%** | 183% |
| **Net debt** | **£122.2m** | £260.9m |
| **Underlying earnings per share*** | **14.6p** | 14.2p |
| **Dividend per share** | **2.90p** | 1.60p |
| | | |
| **Statutory Reporting** | | |
| **Operating profit** | £363.0m | £54.7m |
| **Profit before tax** | £331.6m | £26.6m |
| **Earnings per share - basic** | 39.6p | 0.8p |

### Headlines

**Self-help programme achieved:**

- Group margin uplift driven by UK Services and Global Products;
- US Services restructuring completed;
- Continuing strong cash generation reduces net debt to £122m; gearing ratio† 0.5x;
- Early repayment of $177m private placement debt leading to accelerated interest of £27m;
- Pension deficit reduced to £31.5m (31 March 2011: £124.6m) following the change to CPI as the inflation index and £40m cash injection;
- MOD agreement to modernise Special Shareholder rights.

**Next phase of development launched:**

- First phase has identified strong core, new businesses and value opportunities;
- Segmented portfolio will be actively managed to deliver rising sustainable earnings;
- Organic-Plus approach: investing in organic growth plus partnerships, alliances and selective acquisitions.

**Outlook:**

- Continuing market uncertainty, particularly in the US, leaves outlook for current year unchanged;
- Final dividend: 2.00p (2011: 1.60p) reflecting achievement of self-help programme and confidence in the next phase of development.



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

Commenting on the results, Leo Quinn, Chief Executive Officer said:

"Two years ago we began QinetiQ's transformation with our 24 month self-help programme. During that time, despite market headwinds, we have focused the portfolio, upgraded the leadership to drive a more competitive commercial culture and rebuilt the balance sheet. These achievements provide a strong foundation from which to launch our next phase, the Organic-Plus programme.

"At the heart of QinetiQ is a strong defensible core, built on the deep domain expertise of its people. We will continue to invest in this core as the changing needs of our customers provide opportunities for medium-term growth. Our portfolio also contains a number of smaller businesses, some of which could have considerable potential for the future.

"Given the continuing uncertainty and lower than normal visibility in our markets, our expectations for trading performance in the current year remain unchanged. However, the success of our self-help programme in restoring both the balance sheet and portfolio to strength gives the Board confidence in QinetiQ's ability to build significant value over the next phase of its development."

## Other information

*There will be a presentation of the preliminary results to analysts at 0900 hours UK time on 24 May 2012 at the London Stock Exchange, 10 Paternoster Square, EC4M 7LS. Registration for the webcast is available at: www.QinetiQ.com/investors where the presentation will also be available on the morning of the results. An audiocast of the event will be available on the following numbers (confirmation: 7490515):*

- *UK Freephone: 0800 634 5205*
- *International / London local: +44 (0)208 817 9301*

*QinetiQ will hold an investor day on 26 September 2012. For further information and to register interest see: www.QinetiQ.com/investors.*

**For further information please contact:**


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**Disclaimer**

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

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



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

## Group Overview

Revenue was £1,469.6m (2011: £1,702.6m), down 11% on an organic basis at constant currency, excluding a £25.8m reduction in revenue for divested businesses. This reflects the uncertain trading environment and contract delays in the US and UK defence markets, and the exceptionally strong demand for the Q-Net® vehicle survivability product last year.

Underlying operating profit* rose 11% to £161.3m (2011: £145.4m) and the underlying operating margin* increased to 11.0% (2011: 8.5%) as a result of last year's early cost reduction in the UK businesses and improved efficiencies and mix in Global Products. These improvements were partially offset by lower margins in US Services where the restructuring is now complete, reducing indirect costs by $25m.

Underlying profit before tax* was £118.3m (2011: £114.6m) with net finance costs increasing to £43.0m in 2012 (2011: £30.8m). This included accelerated interest costs of £27.4m (2011: £8.8m) associated with the early repayment of $177m of private placement debt, and a net pension finance credit of £6.4m (2011: £9.1m). Full year underlying earnings per share* were 14.6p (2011: 14.2p).

In March 2012, QinetiQ obtained Ministry of Defence (MOD) agreement to changes in its Special Shareholder rights and agreed a £65m net payment to QinetiQ which discharges the MOD from its accumulated liabilities for rationalisation costs incurred in previous years. This is included in non-recurring items, although the cash payment was received after the year end. In addition, a package of measures was agreed with pension trustees to stabilise the UK defined benefit (DB) pension scheme, including the selection of the Consumer Price Index (CPI) as the inflation index and £40m cash injection which reduced the IAS19 pre-tax deficit to £31.5m. Also included in non-recurring items are gains of £20.6m relating to the disposal of businesses, investments and property and £4.1m following the cancellation of the Defence Training Rationalisation (DTR) programme in 2010.

Underlying operating cash conversion* remained very strong at 146% (2011: 183%) which incorporates a one-off payment by the Company of £40m into the DB pension scheme. Underlying cash flow from operations* of £235.4m (2011: £265.8m) was driven by the Group's rigorous internal processes, and supplemented by the continued deferral of customer-controlled capital expenditure and a net recovery of £18.5m of costs following the cancellation of DTR.

Closing net debt at 31 March 2012 improved to £122.2m, compared with £260.9m at 31 March 2011. This incorporates accelerated interest of £27m in respect of the early repayment of private placement notes and the Company's £40m cash injection into the DB pension scheme, and excludes the £65m payment from the MOD which was received after the year end. The gearing ratio† was 0.5x at 31 March 2012, compared with 1.4x at 31 March 2011. The Group's earliest maturity in its borrowings is 2016.

The Board proposes a final dividend of 2.00p per share for the year ended 31 March 2012 (31 March 2011: 1.60p) reflecting the achievement of the self-help programme and confidence in the medium term. The final dividend will be paid on 7 September 2012 to shareholders on the register at 10 August 2012.

## Board changes

At the end of January 2012, Sir David Lees, who had been Deputy Chairman and Senior Independent Director since 2005, retired from the QinetiQ Board having made a significant contribution to the development of the Group. In November 2011, Michael Harper joined the QinetiQ Board as a Non-executive Director and, following Sir David's retirement, Michael became the Group's Deputy Chairman and Senior Independent Director. An engineer by training, Michael Harper was previously the Chief Executive Officer of Kidde plc. He is also the Chairman of BBA Aviation plc, the Vitec Group plc and Ricardo plc.



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## Trading Environment

Defence markets remain challenging as the long cycle of high defence spending comes to an end and governments seek to re-set budgets to deliver deficit reduction goals.

In the US, visibility is limited with delays continuing in the award of both Department of Defense (DoD) and federal civil business. This uncertainty is expected to continue at least until the outcome of the US Presidential elections in November, particularly as the overhang of possible sequestration is unlikely to be resolved before the end of the year. In addition, the US Government and its allies plan to drawdown troops from Afghanistan, with the Overseas Expeditionary Force expected to fall to pre-surge levels during 2012. Although competition is keen, the US Government contracting market remains large and relatively resilient. Spending on IT services is expected to increase, and the DoD is committed to protecting investments in areas where QinetiQ possesses deep domain expertise such as Intelligence, Surveillance & Reconnaissance (ISR), unmanned systems, space and cyberspace.

In the UK, the MOD is committed to defence transformation, including a review of its “Yellow Book” pricing terms and conditions for single-source contracts. The reform of the MOD’s procurement agency, Defence Equipment and Support (DE&S), creates short-term uncertainty, but presents an opportunity over the medium term for QinetiQ as the MOD's major supplier of impartial, client-side programme and technical advice. The UK Government White Paper on “Technology, Equipment and Support,” was published in February 2012 with a strong emphasis on the UK’s need for onshore advanced technology to maintain its national security capability. After a decade of significant falls in spending on defence research, the White Paper set a “floor” for Government expenditure on research and development (R&D) at 1.2% of the defence budget. The White Paper also emphasised the need for onshore skills in system integration, training and simulation, and test and evaluation particularly as the UK Government intends to procure a greater proportion of commercial-off-the-shelf (COTS) equipment.

## Outlook

Given the continuing uncertainty and lower than normal visibility in defence markets, the Board’s expectations for trading performance in the current year remain unchanged. However, underlying earnings per share will benefit from early repayment of private placement debt and the reduction in the deficit of the UK defined benefit pension scheme following the change to CPI as the inflation index.

The success of the self-help programme in restoring both the balance sheet and portfolio to strength gives the Board confidence in QinetiQ’s ability to build significant value over the next phase of its development.



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## Transformation programme

**First phase: Self-help**

Transforming QinetiQ began in May 2010 with a 24 month self-help programme. This addressed the Group's immediate financial situation, but also targeted three areas for fundamental change: focus, cultural transformation and strengthening the balance sheet. This programme achieved its objectives, meeting key goals well ahead of schedule.

1. Focus

The Group is now managed as a strong defensible core, well positioned for growth once markets stabilise, with a number of further potentially scalable businesses. During the self-help programme, the portfolio was realigned to ensure a full understanding of where profits were made and lost, and segmented by the sustainability of each business. This has resulted in distinct investable businesses, each representing one of the Group's key areas of capability, with a clear route-map for the future. Loss-making businesses are being addressed, divested or closed. Specific progress during the year included:

- Following on from the restructuring of the UK business last year, the current year saw the reshaping of US Services into a single integrated business under a new President;
- Completion of an internal review of every business unit's potential to drive value;
- Ongoing disposals: Spectro, a supplier of oil and fuel analysis instrumentation based in Massachusetts, and the UK fuel and lubricants business, generating total net proceeds of £11.2m.

2. Cultural transformation

The goal of building a more competitive, customer-focused culture began with a leaning out of processes and a wide-ranging upgrade in leadership to ensure every business has clear end-to-end accountability. At the same time, measures to engage employees directly in raising productivity and customer satisfaction were underpinned by the My Contribution programme and widespread commercial training. These changes were implemented in the UK during the first 12 months of the self-help programme and removed £50m from the cost base. Similar steps followed in the US during the past 12 months, when US Services was integrated, reducing indirect costs by $25m.

Customer satisfaction – a key goal of the transformation programme – continues to rise strongly in both the UK and the US. QinetiQ's satisfaction ranking with the UK MOD improved from 17$^{th}$ to 3$^{rd}$ position overall, and in the US, NASA performance scores ran at well over 90% throughout the year on both new and established contracts. Specific progress during the year included:

- An 8 percentage point rise in competed win rates in the UK and the creation of a centralised proposal function in US Services, increasing the number and quality of bids;
- The My Contribution productivity programme completed its second year, with more than 9,000 proposed projects; these included US and global initiatives, such as a Group-wide IT procurement deal with potential benefits of £1.5m;
- The creation of an elected Employee Engagement Group (EEG) to give all UK employees a voice in the Company.

In March 2012, the MOD recognised QinetiQ's progress when it agreed to change its Special Shareholder rights, so that the Group can operate more competitively and commercially. These changes, which are subject to shareholder approval at the Group's AGM, will help modernise QinetiQ through the removal of the MOD's right



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to veto any transaction or activity and the introduction of a less onerous compliance system. The material shareholder thresholds are unchanged.

3. Strengthening the balance sheet

By focusing on cash generation throughout the business lifecycle, working capital has been reduced by more than £200m since 31 March 2009. Net debt has been driven down by more than £400m, from £537.9m to £122.2m, and the gearing ratio has fallen from 2.5x to 0.5x. This provides a robust foundation for the future and enables selective investment in medium-term growth opportunities. Specific progress during the year included:

- A package of measures to stabilise the UK defined benefit pension scheme, including the selection of CPI as the inflation index which reduced its deficit by £141.4m. The year end IAS19 pre-tax deficit fell to £31.5m (30 September 2011: £228.1m; 31 March 2011: £124.6m) as a result of this change and a £40m cash injection;
- An agreement with the MOD, which discharges the UK Government from its accumulated liabilities for rationalisation costs incurred in previous years, the net result of which was a £65m, one-off payment to QinetiQ, received after the year end. This settles liabilities which would otherwise be expected to be recovered through revenue rates over approximately ten years;
- The election to make early repayment of $177m private placement debt which will complete after the year end.

**Second phase: Organic-Plus**

The wide-ranging changes of the past 24 months have created a leaner, fitter Group which is now focused on driving value by growing its sustainable earnings.

The next phase will continue the disciplines established during the self-help programme, including performance improvement, balance sheet strength and high cash conversion. Customer satisfaction and excellent engagement of employees will be key internal metrics.

Building on the detailed understanding acquired in phase one, the Group will manage its portfolio actively by investing in organic growth supplemented, where appropriate, by partnerships, alliances and selective acquisitions to deliver the strategy and diversify risk. This will enable mature core businesses to win market share and explore adjacent markets, while nurturing a select number of newer capabilities to determine whether their business models are scalable. Each opportunity that emerges will be managed through a disciplined process to identify and expand those which can generate sustainable returns, or to target the best point at which to crystallise their value. Through an Organic-Plus approach, QinetiQ will build out its core as a leading technology-based solutions Group, and will apply the innovation and capabilities of its people in targeted sectors.

The strength of the balance sheet will be applied to investment choices, with an increased capacity for capital expenditure and internal R&D for the 2013 financial year and a rigorous process for prioritising resources and monitoring returns.

**Organic-Plus: Maximise the Core**

Approximately 90% of QinetiQ's revenue is generated by proven businesses that have sustainable competitive advantage. The businesses are focused on relatively resilient sectors in which the deep domain expertise of QinetiQ's people is used to provide trusted independent advice and solutions for customers' critical operations. These are the Group's core capabilities, mostly comprising UK and US Services, and operating largely in the aerospace, defence and security markets. They exhibit relatively low risk characteristics with low capital



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requirements and strong, predictable cash flows. Much of the revenue is derived from longer term contracts, with known dates for renewal and re-tender.

QinetiQ's core businesses retain and win market share by applying their detailed understanding of customer domains and their technical expertise to provide support for customers' on-going and developing needs. Core businesses will receive investment on a sustainable basis as these opportunities emerge and where existing expertise can be deployed in adjacent sectors and geographic markets, from the proven platform of UK or US capability.

QinetiQ's less mature businesses will be managed through a "value pipeline" with a range of new capabilities at various stages of business readiness.

**Organic-Plus: Scale the Explore**

Approximately 8% of QinetiQ's revenue comes from fully commercial businesses in its Explore category. These are businesses that have a proven technology and customers, but have yet to prove that they can achieve significant scale. Examples include Cyveillance, which delivers cyber intelligence solutions principally for US Fortune 500 customers, the OptaSense® fibre-optic sensing business, and Training & Simulation Services, which is using COTS technology to meet customer requirements to reduce the cost of training.

The Group will selectively invest in these businesses to create a broader base of significant and, therefore, core businesses for the future.

**Organic-Plus: Maintain the rigour in Test for Value**

Approximately 2% of QinetiQ's revenue is in the Test for Value category. These are businesses, with proven technologies but that have yet to prove commercial viability. In some cases, the technology is being developed for a customer-funded programme, such as the E-X-Drive® hybrid electric drive transmission, which is being developed as part of a consortium for the technology development phase of the US Army's Ground Combat Vehicle Program. In other cases, the intellectual property is licensed out to reduce implementation and sales risks, with revenues dependent on third party sales channels. Examples include the GAJT™ GPS anti-jammer via NovAtel and the Modular Electronic Warfare System (MEWS) via L-3 TRL. Over the medium term, these early-stage technologies will be managed rigorously to resolution, through investment, divestment, closure or trade-through until project completion.

***Examples of Core, Explore and Test for Value capabilities***

| Maximise the Core | Scale the Explore | Test for Value |
|---|---|---|
| UK Services<br>US Services<br>Global Products (partial):<br>• TALON®<br>• Q-Nets®<br>• LAST™ Armor | Cyveillance<br>International ranges<br>OptaSense®<br>Training and Simulation<br>Protective monitoring<br>Robotic controller kits<br>UAS Services | ALARM<br>Energy from waste<br>E-X-Drive®<br>GAJT™<br>MEWS<br>CueSim<br>Space<br>UAS Sensors |



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## Operations Overview

### UK Services

***UK Services combines world-leading expertise and unique facilities to provide technical assurance, test and evaluation, training and simulation, force / base protection, information and intelligence, cyber security, and acquisition services.***

| | 2012 £m | 2011[2] £m |
|---|---|---|
| Orders | **450.3** | 420.4 |
| Revenue | **610.1** | 652.7 |
| Underlying operating profit* | **63.0** | 47.4 |
| Underlying operating margin* | **10.3%** | 7.3% |
| Book to bill ratio[1] | **1.1** | 0.9 |
| Backlog[1] | **633.5** | 611.0 |

(1) B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract. Backlog also excludes the LTPA contract.
(2) Restated to reflect the transfer of QinetiQ's Force Protection business from Global Products at the beginning of the 2012 financial year.

UK Services delivered an encouraging profit and margin performance, despite revenue being down 7% on an organic basis, principally as a result of pressure on customer budgets. Approximately £19m of the organic reduction was due to revenue in the prior year from the DTR Early Works contract which has completed.

Underlying operating profit* grew 33% to £63.0m (2011: £47.4m) and the underlying margin* increased to 10.3% (2011: 7.3%), as the division took action to address its cost base last year ahead of the expected market headwinds. These results show the impact of the 24 month self-help programme, with improved customer satisfaction and project management.

At the beginning of the year, QinetiQ's Force Protection business, which had £41m revenue during the 2011 financial year, was transferred from Global Products to UK Services to align with customer requirements. In August 2011, the UK fuel and lubricants business was sold as part of ongoing portfolio reviews.

The majority of UK Services' revenue is derived from long-term managed services contracts, including the Long-Term Partnering Agreement (LTPA), under which £180m of savings have been delivered to the customer to date. In December 2011, the division won a four year, £38m contract in the maritime domain which broadens the Naval Combat Systems Integration Support Services it provides to the MOD.

UK Services continues to deliver value to its customers by de-risking the deployment of technology for core defence programmes. In June 2011, it won a £22m multi-year contract to provide test and evaluation services for the A400M aircraft as it comes into service in 2014. This contract delivers an end-to-end evaluation capability, including flight trials, safety advice, airworthiness and acquisition support. The division began operating ranges in Scandinavia during the year and recently delivered range control and safety systems for the Australian Woomera range. Its pipeline includes opportunities to expand the provision of test and evaluation services to other international customers.

R&D activity increased over the year, particularly for capabilities in which QinetiQ has a leading market position. These include C4ISR, where UK Services manages key enabling contracts on behalf of the MOD, and cryptography, where the business successfully delivered the world's first reception of an encrypted signal from a Galileo satellite working for the European Space Agency. Reductions in Government departmental staffing levels



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are also providing outsourcing opportunities to QinetiQ as the UK's main supplier of impartial, client-side programme and technical advice.

The newly created Training and Simulation Services (TSS) business is using COTS technology to meet customer requirements to reduce the cost of training. Its platform independent and technology-agnostic approach enables the business to integrate a broad range of simulation technologies to deliver operational and mission training. By collaborating with QinetiQ's US Services division, TSS was awarded a position on the approved companies list for a $2bn IDIQ (indefinite delivery/indefinite quantity) contract under which the US Naval Air Warfare Centre is able to procure training and simulation services. This gives the business access to the US market as a key training supplier to the US Navy.

**US Services**

***US Services supports customers across the US Federal marketplace delivering mission assurance, engineering, data analysis, IT systems and software engineering and integration, cyber solutions, modelling, training and simulation, logistics, managed services, mobility solutions and field support.***

| | **2012** | 2011[1] |
|---|---|---|
| | **£m** | £m |
| Orders | **530.3** | 580.9 |
| Revenue | **534.5** | 607.3 |
| Underlying operating profit* | **32.1** | 45.9 |
| Underlying operating margin* | **6.0%** | 7.6% |
| Book to bill ratio | **1.0** | 1.0 |
| Backlog | **204.7** | 207.0 |

(1) Restated to reflect the transfer of the Maritime and Transportation services business from Global Products at the beginning of the 2012 financial year.

Revenue was down in the year by 7% on an organic basis at constant currency, reflecting continued uncertainties in the federal services market. This resulted in the delay of new and incremental orders and the cancellation of some re-competes, with shorter term extensions being awarded in their place. The organic revenue variance excluded a £17m reduction following the divestment of the S&IS business in the prior year but included:

- A reduction of £33m due to completed programmes such as the Iraqi Flight Training School;
- £29m revenue impact from Government insourcing which has now slowed;
- A £16m reduction resulting from the switching of some work to small business set-aside contracts.

Underlying operating profit* was £32.1m (2011 £45.9m) and the underlying margin* was 6.0% (2011: 7.6%) as a result of the volume impact on revenue, higher investment in business development, and a change in revenue mix as lower margin NASA work replaced higher margin sales.

The US Services division was the focus of the second year of the Group's 24 month self-help programme. To position for future growth, while responding to market conditions, US Services executed a major restructuring programme reducing indirect costs by $25m. This programme focused on eliminating duplicate overhead costs and management layers and has improved the ability of the division to compete effectively. The leadership of US Services was strengthened by the appointment of a single experienced President and the upgrading of the majority of his direct reports. Key new hires have included leaders for the newly centralised business development, pricing strategy and proposal functions in order to drive sales growth.



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US Services was fully integrated during the first half of the year and reorganised into four business units that report direct to the President – Aerospace Operations and Systems, Lifecycle Solutions, Mission and Information Solutions, and Software and Systems Engineering, aligning existing programmes with business development initiatives. During the year, the Maritime and Transportation Services business, which had FY11 revenues of £19m, was transferred from Global Products to US Services to align with customer requirements.

Despite current uncertainties, the US Government contracting market remains large and relatively resilient, and the division had 109 proposals pending decision by Federal customers at year end, with a total contract value of approximately $1.3bn.

Following commencement of work in March 2011, revenue streams ramped up on the NASA ESC contract to provide engineering support services at the Kennedy Space Center in Florida. During the year, the team won the re-compete for the $40m Enhanced Launch Vehicle Imaging System (ELVIS) contract, and earned a 100% customer satisfaction rating in both contract support overall and safety / mission assurance. Future opportunities exist in enhancing NASA's capabilities for deep space exploration at Kennedy, growing QinetiQ's presence at other NASA sites and extending core competencies to US Air Force space programmes. The award of a $36.5m IDIQ contract to provide expert scientific and analytical support at the Patrick Air Force Base in Florida demonstrates the potential of this approach.

US Services has a broad customer base and is positioned in segments expected to be relatively resilient to defence cuts. The year's largest award was a five year, $85m classified contract for the US Government. Other significant contract awards included a contract to provide key components of the IT platform for the Public Buildings Service, with a total value of $41m if all options are exercised, and a $39m US Army IDIQ contract for its architecture characterisation programme.

The division continues to invest in its cyber security capability. At the end of the year, it was selected by the Department of Transportation's Volpe Center to provide cyber security services to protect US transportation control systems and critical national infrastructure.

**Global Products**

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

| | **2012** | 2011[1] |
|---|---|---|
| | **£m** | £m |
| Orders | **245.7** | 558.4 |
| Revenue | **325.0** | 442.6 |
| Underlying operating profit * | **66.2** | 52.1 |
| Underlying operating margin* | **20.4%** | 11.8% |
| Book to bill ratio | **0.8** | 1.3 |
| Backlog | **162.3** | 242.2 |

[1] Restated to reflect the transfer of the Maritime and Transportation services business to US Services and QinetiQ's Force Protection business to UK Services at the beginning of the 2012 financial year.

As expected, revenue declined by 24% organically at constant currency, following the exceptionally strong demand for the Q-Net® vehicle survivability product in the previous year.

Despite the announcement of a timetable for the drawdown of US troops from Afghanistan, the Global Products division met its target of generating $100m of revenue from the Q-Net® vehicle survivability product (2011: $288m) with products and spares contributing c$50m each. To date, Q-Net® has been selected to provide



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protection on the MRAP-Lite, Stryker, RG31 and MaxxPro vehicles in the US, against such alternatives as bar and slat armour, as well as for vehicles in France and Poland. Significant revenue was also generated by the Precision Air Drop System (PADS™), survivability products such as LAST™ Armor spall liners, and the TALON® family of robots, including an order for over 100 new Dragon Runner 10™ robots from the US Government's Joint IED Defeat Organisation (JIEDDO).

Underlying operating profit* increased to £66.2m (2011: £52.1m) with an underlying profit margin* of 20.4% (2011: 11.8%). The margin improvement primarily reflects the mix of US product sales and substantially improved performance in the UK, where the business was re-aligned with customer demand late 2010 / 2011. The technology portfolio is now rigorously tested for the best routes to value creation with loss-makers divested, or closed, where they lack a viable business model or suitable market access.

During the year, businesses that deliver technical services were transferred to UK and US Services, enabling the Global Products division to focus on the commercialisation of technology. In July, as part of on-going portfolio review, the Group agreed to dispose of Spectro, a supplier of oil and fuel analysis instrumentation based in Massachusetts, for $20m.

To even out its lumpy revenue profile, the division continues to increase its portfolio of products and the Global Products framework is delivering a transatlantic approach to product commercialisation. For example, E-X-Drive®, a hybrid electric drive system developed in the UK, was selected as part of a consortium for the technology development phase of the US Army's Ground Combat Vehicle Program, and the first transmission system was delivered at the end of the year. The division's Global Integrated Project Team is also targeting future opportunities for US sales of ALARM, a radar that provides warning of in-coming rocket fire, and further UK sales of the lightweight Dragon Runner™ robot.

The OptaSense® fibre-optic sensing business has been incorporated as an independent global business, with new offices in North America and the Middle East. OptaSense®, a platform technology, is already generating revenues in the oil and gas down-hole and linear asset markets. Following the signing of a three year £26.5m contract with Shell last year, the business agreed a global commercial framework agreement and began commercial hydraulic fracture monitoring services on shale wells in North America. OptaSense® now protects more than 6,000kms of linear assets, including the world's single largest pipeline project, which connects to 75% of India's refinery capacity.

## Financial items

### Net finance costs

Net finance costs increased from £30.8m in 2011 to £43.0m in 2012. This included accelerated interest costs of £27.4m (2011: £8.8m) associated with the early repayment of $177m of private placement debt, and a net pension finance credit of £6.4m (2011: £9.1m).

### Tax

The Group's underlying effective tax rate* was 19.9% (2011: 19.0%). The rate is primarily dependent on the geographic split of profits between the UK and US businesses, and the availability of Research and Development relief.



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

## Earnings per share

Underlying earnings per share* were 14.6p (2011: 14.2p). Basic earnings per share were 39.6p compared with 0.8p last year, boosted by the inclusion in 2012 of significant non-recurring items in respect of pensions and the recovery of UK restructuring costs from MOD. Future underlying earnings per share will benefit from early repayment of private placement debt and the reduction in the deficit of the UK defined benefit pension scheme following the change to CPI as the inflation index.

## Dividend

The proposed final dividend is 2.00p per share (2011: 1.60p) reflecting the achievement of the self-help programme and confidence in the medium term. The Group has a progressive dividend policy which takes into account the profitability of QinetiQ's businesses, longer term growth prospects, capital requirements and cash flows, while maintaining an appropriate level of dividend cover. The record date for the final dividend will be 10 August 2012. Subject to approval at the Annual General Meeting, the final dividend will be paid on 7 September 2012.

## Cash flow, net debt and liquidity

The Group's cash flow from operations before restructuring costs but after capital expenditure was £235.4m (2011: £265.8m). The underlying operating cash conversion ratio* post capital expenditure was 146% (2011: 183%), as a result of rigorous Group-wide processes and the engagement of employees at all levels to reduce working capital, assisted by deferred customer-controlled capital expenditure in the UK Services business.

Working capital is now negative £62.7m (2011: negative £30.7m) and while the focus on cash generation will continue, there is a risk of reversal of some of this working capital over the short to medium term.

At 31 March 2012, net debt improved to £122.2m, compared with £260.9m at 31 March 2011. This incorporates accelerated interest of £27m in respect of the early repayment of private placement notes and the Company's £40m cash injection into the DB pension scheme, and excludes the £65m payment from the MOD which was received after the year end. The Group's borrowings remained comfortably within its financial covenants with a gearing ratio† of 0.5x compared to the covenant maximum level of 3.5x. Following early repayment of private placement debt, total committed facilities amount to £429.4m.

## Foreign exchange

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

| | 12 months to 31 March 2012 | 12 months to 31 March 2011 |
|---|---|---|
| £/US$ - average | 1.60 | 1.56 |
| £/US$ - closing | 1.60 | 1.60 |
| £/US$ - opening | 1.60 | 1.52 |

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



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

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 £18.2m (2011: £92.2m).

The market value of the assets at 31 March 2012 was £1,107.9m (31 March 2011: £981.1m). The increase was the result of market performance, augmented by a one-off £40m cash injection by the Company as part of a package of measures agreed with the trustees to stabilise the scheme.

The present value of scheme liabilities increased to £1,139.4m (31 March 2011: £1,105.7m) as a result of a significant reduction in the rate used to discount the gross scheme liabilities to present value, due to declining bond yields. This was partially off-set by the agreement to select the Consumer Price Index as a suitable index for the payment of pensions and the revaluation of benefits, which reduced the liabilities by £141.4m before tax.

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

| Assumption | **31 March 2012** | **31 March 2011** |
| --- | --- | --- |
| Discount rate | 4.8% | 5.6% |
| Inflation | 2.6% | 3.6% |
| Salary increase | 3.6% | 4.6% |
| Life expectancy – male (currently aged 40) | 90 | 90 |
| Life expectancy – female (currently aged 40) | 92 | 91 |

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

| Assumption | Change in assumption | Indicative effect on scheme liabilities (before deferred tax) |
| --- | --- | --- |
| Discount rate | Increase / decrease by 0.1% | Decrease / increase by £21.1m |
| Inflation | Increase / decrease by 0.1% | Increase / decrease by £22.2m |
| Salary increase | Increase / decrease by 0.1% | Increase / decrease by £3.5m |
| Life expectancy | Increase by 1 year | Increase by £19.3m |

Under the agreement between the trustees and the Company, the 30 June 2011 triennial actuarial valuation was finalised. The resulting funding deficit was measured at £74.7m and a recovery plan was agreed, with the Company making annual contributions of £13m to 31 March 2018, approximately £2.5m of which will be derived from a new asset-backed funding structure, secured on certain QinetiQ UK property.



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

# Consolidated income statement

## for the year ended 31 March

| all figures in £ million | Note | 2012<br>Before acquisition amortisation and specific non-recurring items | 2012<br>Acquisition amortisation and specific non-recurring items* | 2012<br>Total | 2011<br>Before acquisition amortisation and specific non-recurring items | 2011<br>Acquisition amortisation and specific non-recurring items* | 2011<br>Total |
|---|---|---|---|---|---|---|---|
| **Revenue** | **2** | **1,469.6** | **–** | **1,469.6** | **1,702.6** | **–** | **1,702.6** |
| Operating costs excluding depreciation and amortisation | | (1,273.9) | 223.9 | (1,050.0) | (1,516.4) | (58.5) | (1,574.9) |
| Other income | | 5.2 | – | 5.2 | 4.3 | – | 4.3 |
| **EBITDA (earnings before interest, tax, depreciation and amortisation)** | | **200.9** | **223.9** | **424.8** | **190.5** | **(58.5)** | **132.0** |
| Depreciation and impairment of property, plant and equipment | | (30.6) | (1.9) | (32.5) | (33.6) | (5.9) | (39.5) |
| Amortisation and impairment of intangible assets | | (9.0) | (20.3) | (29.3) | (11.5) | (26.3) | (37.8) |
| **Group operating profit/(loss)** | **2** | **161.3** | **201.7** | **363.0** | **145.4** | **(90.7)** | **54.7** |
| Gain on business combinations and divestments and disposal of investments | 4 | – | 11.6 | 11.6 | – | 2.7 | 2.7 |
| Finance income | 5 | 69.8 | – | 69.8 | 70.4 | – | 70.4 |
| Finance expense | 5 | (112.8) | – | (112.8) | (101.2) | – | (101.2) |
| **Profit/(loss) before tax** | | **118.3** | **213.3** | **331.6** | **114.6** | **(88.0)** | **26.6** |
| Taxation (expense)/income | 7 | (23.5) | (50.2) | (73.7) | (21.8) | 0.2 | (21.6) |
| **Profit/(loss) for the year attributable to equity shareholders** | | **94.8** | **163.1** | **257.9** | **92.8** | **(87.8)** | **5.0** |
| **Earnings per share** | | | | | | | |
| Basic | 8 | 14.6p | | 39.6p | 14.2p | | 0.8p |
| Diluted | 8 | 14.5p | | 39.4p | 14.0p | | 0.8p |

* For details of 'Specific non-recurring items' refer to note 3.

# Consolidated statement of comprehensive income

## for the year ended 31 March

| all figures in £ million | 2012 | 2011 |
|---|---|---|
| **Profit for the year** | **257.9** | **5.0** |
| | | |
| **Other comprehensive income/(expense):** | | |
| Foreign currency translation differences for foreign operations | (1.9) | (19.4) |
| Movement in fair value of hedging derivatives | (0.4) | (0.4) |
| Reclassification of hedging derivatives to the income statement | 0.2 | 4.1 |
| Movement in deferred tax on hedging derivatives | 0.1 | (4.8) |
| Fair value losses on available-for-sale investments | (1.2) | – |
| Actuarial loss recognised in defined benefit pension schemes | (118.2) | (4.7) |
| Increase in deferred tax asset due to actuarial movement in pension deficit | 30.7 | 1.3 |
| **Other comprehensive income/(expense) for the year, net of tax** | **(90.7)** | **(23.9)** |
| **Total comprehensive income/(expense) for the year attributable to equity holders** | **167.2** | **(18.9)** |

# 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 2011** | 6.6 | 39.9 | 147.6 | 0.2 | 21.6 | 241.5 | **457.4** | 0.1 | **457.5** |
| Profit for the year | – | – | – | – | – | 257.9 | **257.9** | – | **257.9** |
| Other comprehensive income/ (expense) for the year, net of tax | – | – | – | (0.1) | (1.9) | (88.7) | **(90.7)** | – | **(90.7)** |
| Purchase of own shares | – | – | – | – | – | (12.0) | **(12.0)** | – | **(12.0)** |
| Dividends | – | – | – | – | – | (16.4) | **(16.4)** | – | **(16.4)** |
| Share-based payments | – | – | – | – | – | 3.1 | **3.1** | – | **3.1** |
| **At 31 March 2012** | **6.6** | **39.9** | **147.6** | **0.1** | **19.7** | **385.4** | **599.3** | **0.1** | **599.4** |
| | | | | | | | | | |
| **At 1 April 2010** | 6.6 | 39.9 | 147.6 | (12.1) | 54.4 | 237.2 | **473.6** | 0.1 | **473.7** |
| Profit for the year | – | – | – | – | – | 5.0 | **5.0** | – | **5.0** |
| Other comprehensive income/ (expense) for the year, net of tax | – | – | – | (1.1) | (19.4) | (3.4) | **(23.9)** | – | **(23.9)** |
| 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** |

# Consolidated balance sheet

## as at 31 March

| all figures in £ million | Note | **2012** | 2011 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill | | 519.3 | 521.1 |
| Intangible assets | | 71.8 | 103.2 |
| Property, plant and equipment | | 246.6 | 260.9 |
| Other financial assets | 11 | 6.9 | 8.2 |
| Investments | | 5.8 | 5.9 |
| Deferred tax asset | | 17.0 | 33.8 |
| | | **867.4** | **933.1** |
| **Current assets** | | | |
| Inventories | | 31.2 | 45.4 |
| Other financial assets | 11 | 2.4 | 3.0 |
| Trade and other receivables | | 404.8 | 389.5 |
| Investments | | 1.1 | 2.3 |
| Assets classified as held for sale | | 5.1 | 7.5 |
| Cash and cash equivalents | | 117.8 | 102.5 |
| | | **562.4** | **550.2** |
| **Total assets** | | **1,429.8** | **1,483.3** |
| **Current liabilities** | | | |
| Trade and other payables | | (498.7) | (465.6) |
| Current tax | | (13.7) | (4.2) |
| Provisions | | (3.4) | (20.4) |
| Other financial liabilities | 11 | (84.9) | (97.2) |
| | | **(600.7)** | **(587.4)** |
| **Non-current liabilities** | | | |
| Retirement benefit obligation | 12 | (31.5) | (124.6) |
| Provisions | | (13.2) | (12.6) |
| Other financial liabilities | 11 | (164.4) | (277.4) |
| Other payables | | (20.6) | (23.8) |
| | | **(229.7)** | **(438.4)** |
| **Total liabilities** | | **(830.4)** | **(1,025.8)** |
| **Net assets** | | **599.4** | **457.5** |
| **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 | | 19.8 | 21.8 |
| Retained earnings | | 385.4 | 241.5 |
| **Capital and reserves attributable to shareholders of the parent company** | | **599.3** | **457.4** |
| Non-controlling interest | | 0.1 | 0.1 |
| **Total shareholders' funds** | | **599.4** | **457.5** |

# Consolidated cash flow statement

### for the year ended 31 March

| all figures in £ million | Note | 2012 | 2011 |
|---|---|---|---|
| **Net cash inflow from operations before restructuring costs** | 10 | **250.8** | **287.6** |
| Net cash outflow relating to UK restructuring | | (8.9) | (31.8) |
| **Cash inflow from operations** | | **241.9** | **255.8** |
| Tax paid | | (23.3) | (42.9) |
| Interest received | | 1.0 | 0.3 |
| Interest paid | | (39.5) | (28.9) |
| **Net cash inflow from operating activities** | | **180.1** | **184.3** |
| Purchases of intangible assets | | (0.7) | (2.4) |
| Purchases of property, plant and equipment | | (22.0) | (19.7) |
| Proceeds from sale of property, plant and equipment | | 7.3 | 0.3 |
| Equity accounted investments and other investment funding | | 3.6 | – |
| Purchase of subsidiary undertakings | | (0.9) | (15.8) |
| Proceeds from sale of interests in subsidiary undertakings | | 11.2 | 38.2 |
| **Net cash (outflow)/inflow from investing activities** | | **(1.5)** | **0.6** |
| Repayment of bank borrowings | | (133.6) | (144.1) |
| Proceeds from bank borrowings | | – | 4.9 |
| Payment of bank loan arrangement fees | | – | (2.4) |
| Settlement of forward contracts | | (1.6) | – |
| Purchase of own shares | | (12.0) | (0.6) |
| Dividends paid to shareholders | | (16.4) | – |
| 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** | | **(163.4)** | **(142.0)** |
| **Increase in cash and cash equivalents** | | **15.2** | **42.9** |
| Effect of foreign exchange changes on cash and cash equivalents | | 0.4 | (1.4) |
| Cash and cash equivalents at beginning of year | | 102.2 | 60.7 |
| **Cash and cash equivalents at end of year** | | **117.8** | **102.2** |
| Comprising: | | | |
| Cash and cash equivalents | | 117.8 | 102.5 |
| Overdrafts | | – | (0.3) |
| **Cash and cash equivalents at end of year** | | **117.8** | **102.2** |

# Reconciliation of movement in net debt

### for the year ended 31 March

| all figures in £ million | Note | 2012 | 2011 |
|---|---|---|---|
| Increase in cash and cash equivalents in the year | | 15.2 | 42.9 |
| Cash flows from repayment of bank loans and other financial instruments | | 135.0 | 141.4 |
| **Change in net debt resulting from cash flows** | 11 | **150.2** | **184.3** |
| Other non-cash movements including foreign exchange | 11 | (11.5) | 12.2 |
| **Movement in net debt in the year** | 11 | **138.7** | **196.5** |
| Net debt at beginning of year | | (260.9) | (457.4) |
| **Net debt at end of year** | 11 | **(122.2)** | **(260.9)** |

# 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 2012. 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 2011 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 24 May 2012. 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 2012 were approved by the Board of Directors on 24 May 2012 and will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 26 July 2012. The financial information for 2011 is derived from the statutory accounts for 2011 which have been delivered to the Registrar of Companies. The auditors have reported on the 2012 and 2011 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.

In the income statement, the Group presents acquisition amortisation and specific non-recurring items separately. In the judgement of the Directors, for the reader to obtain a proper understanding of the financial information, acquisition amortisation and specific non-recurring items need to be disclosed separately because of their size and incidence. Specific non-recurring items are referred to in note 3.

**Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings up to 31 March 2012. 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.

**Comparative data**

The comparative figures for the year ended 31 March 2011 do not contain all of the information required for full annual financial statements. The Group's full annual financial statements for the year ended 31 March 2011 have been reported on by the Group's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The Group's financial statements for the year ended 31 March 2011 are available upon request from the Company's registered office at Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

# Notes to the financial statements

**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 2011 and have been adopted with no material impact on the Group's financial statements:

**IAS 24 (revised), Related Party Disclosures**. The changes introduced by the standard relate mainly to the related party disclosure requirements for government-related entities, and the definition of a related party. The change has been applied prospectively.

**Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement.** The amendment to IFRIC 14 removes unintended consequences arising from the treatment of prepayments when there is a minimum funding requirement (MFR). The amendment results in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.

**Improvements to IFRSs 2010.** The improvements are included in the list below. These consolidated statements have been prepared under the revised disclosure requirements.

- IFRS 3, Business Combinations;
- IFRS 1, First-time Adoption of IFRS;
- IFRS 7, Financial instruments: Disclosures;
- IAS 1, Presentation of Financial Statements;
- IAS 34, Interim Financial Reporting;
- IAS 27, Consolidated and Separate Financial Statements; and
- IFRIC 13, Customer Loyalty Programmes.

## 2. Segmental analysis

**Operating segments**

| For the year ended 31 March<br>all figures in £ million | **2012** | | 2011[2] | |
|---|---|---|---|---|
| | **Revenue** | **Operating profit** | Revenue | Operating Profit |
| UK Services | 610.1 | 63.0 | 652.7 | 47.4 |
| US Services | 534.5 | 32.1 | 607.3 | 45.9 |
| Global Products | 325.0 | 66.2 | 442.6 | 52.1 |
| **Total operating segments** | 1,469.6 | 161.3 | 1,702.6 | 145.4 |
| **Operating profit before acquisition amortisation and specific non-recurring items[1]** | | **161.3** | | **145.4** |
| Non-recurring operating costs before amortisation, depreciation and impairment | | 223.9 | | (58.5) |
| Impairment of property | | (1.9) | | (5.9) |
| Amortisation of intangible assets arising from acquisitions | | (20.3) | | (26.3) |
| **Operating profit** | | **363.0** | | **54.7** |
| Gain on business combinations and divestments and disposal of investments | | 11.6 | | 2.7 |
| Net finance expense | | (43.0) | | (30.8) |
| **Profit before tax** | | **331.6** | | **26.6** |
| Taxation expense | | (73.7) | | (21.6) |
| **Profit for the year** | | **257.9** | | **5.0** |

(1) The measure of profit presented to the chief operating decision maker is operating profit before amortisation of intangible assets arising from acquisitions and specific non-recurring items. For details see note 3.

(2) The 2011 figures have been restated to reflect the transfer of businesses from Global Products to UK Services and US Services at the beginning of 2012.

# Notes to the financial statements

## 3. Profit/loss before tax

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

| For the year ended 31 March<br>all figures in £ million | Note | **2012** | 2011 |
|---|---|---|---|
| Net restructuring (recoveries)/charges | | (69.4) | 28.6 |
| Pension past service gain | | (141.4) | – |
| Gain on disposal of property | | (9.0) | – |
| Contingent payments on acquisition treated as remuneration | | – | 6.1 |
| Net (gain)/loss in respect of previously capitalised DTR-programme bid costs | | (4.1) | 23.8 |
| **Non-recurring operating (income)/expense before amortisation, depreciation and impairment** | | **(223.9)** | **58.5** |
| Impairment of property | | 1.9 | 5.9 |
| Total goodwill and intangible impairment and acquisition amortisation | | 20.3 | 26.3 |
| **Non-recurring operating (profit)/loss** | | **(201.7)** | **90.7** |
| Gain on business combinations and divestments and disposal of investments | 4 | (11.6) | (2.1) |
| Gain in respect of negative goodwill on acquisitions in the period | 4 | – | (0.2) |
| Gain in respect of deferred consideration on prior year acquisitions | 4 | – | (0.4) |
| **Gain on business combinations and divestments and disposal of investments** | | **(11.6)** | **(2.7)** |
| **Total non-recurring (income)/expense before tax** | | **(213.3)** | **88.0** |

The net restructuring recovery of £69.4m (2011: expense of £28.6m) primarily relates to the agreement with the UK MOD in March 2012 involving a payment to QinetiQ of £65.0m that was received after the year end in April 2012. The agreement involves the discharging of MOD from its accumulated liabilities for restructuring costs incurred in previous years, together with MOD agreement to changes in its Special Shareholder rights, and certain other operational issues.

## 4. Gain on business combinations and divestments and disposal of investments

| For the year ended 31 March<br>all figures in £ million | **2012** | 2011 |
|---|---|---|
| Gain on business divestments | 8.0 | 2.1 |
| Gain on disposal of investments | 3.6 | – |
| 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 |
| | **11.6** | **2.7** |

The gain on business divestments includes the disposal of Spectro Inc., a business within the Global Products sector, for consideration before costs of US$20.5m and a gain on disposal of £4.7m. Of the £3.6m gain on disposal of investments, £2.8m relates to the sale of QinetiQ's investment in Nomad Holdings Limited.

The prior year 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 prior year included £1.0m in respect of 2010 divestments. Total proceeds from the sale of interests in subsidiary undertakings were £38.2m.

The prior year gain in respect of negative goodwill on acquisitions in the period relates to the acquisition of Sensoptics Ltd on 16 December 2010.

The prior year 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.

# Notes to the financial statements

## 5. Finance income and expense

| For the year ended 31 March<br>all figures in £ million | **2012** | 2011 |
|---|---|---|
| Receivable on bank deposits | 1.3 | 0.6 |
| Finance lease income | 0.9 | 1.2 |
| Expected return on pension scheme assets | 67.6 | 68.6 |
| **Finance income** | **69.8** | **70.4** |
| | | |
| Amortisation of recapitalisation fee[1] | (0.6) | (1.8) |
| Payable on bank loans and overdrafts | (1.6) | (5.9) |
| Payable on US Dollar private placement debt[2] | (46.8) | (32.6) |
| Finance lease expense | (0.8) | (1.0) |
| Unwinding of discount on financial liabilities | (1.8) | (0.4) |
| Interest on pension scheme liabilities | (61.2) | (59.5) |
| **Finance expense** | **(112.8)** | **(101.2)** |
| **Net finance expense** | **(43.0)** | **(30.8)** |

[1] In 2011 the Group refinanced its existing credit facility with a new five-year revolving credit facility. The un-amortised amount of the fees previously capitalised in respect of the pre-existing facility was written off on termination of that facility and charged to finance expense.
[2] The Group elected to make early repayment of US$177m of private placement debt, which will complete after the year end, from surplus cash. Net finance expense in 2012 is affected by an accelerated interest charge of £27.4m in respect of these early repayments. Net finance expense in 2011 was also affected by an accelerated interest charge of £8.8m in respect of the year-end obligation to make early repayment of US$135m of private placement debt.

## 6. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2012 and 2011 is provided below:

| | Pence per share | £m | Date paid/ payable |
|---|---|---|---|
| Interim 2012 | 0.90 | 5.8 | Feb 2012 |
| Final 2012 (proposed) | 2.00 | 13.0 | Sep 2012 |
| **Total for the year ended 31 March 2012** | **2.90** | **18.8** | |
| | | | |
| Interim 2011 | – | – | – |
| Final 2011 | 1.60 | 10.5 | Sept 2011 |
| **Total for the year ended 31 March 2011** | **1.60** | **10.5** | |

The Directors propose a final dividend of 2.00p (2011: 1.60p). The dividend, which is subject to shareholder approval, will be paid on 7 September 2012. The ex-dividend date is 8 August 2012 and the record date is 10 August 2012.

# Notes to the financial statements

## 7. Taxation

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| all figures in £ million | **Before acquisition amortisation and specific non-recurring items** | **Acquisition amortisation and specific non-recurring items** | **Total** | Before acquisition amortisation and specific non-recurring items | Acquisition amortisation and specific non-recurring items | Total |
| **Analysis of charge** | | | | | | |
| Current UK tax expense | – | 13.1 | 13.1 | – | – | – |
| **Overseas corporation tax** | | | | | | |
| Current year | 15.5 | 2.3 | 17.8 | 41.3 | (1.1) | 40.2 |
| Adjustment for prior year | (2.3) | – | (2.3) | (0.8) | – | (0.8) |
| **Current tax expense/(income)** | **13.2** | **15.4** | **28.6** | **40.5** | **(1.1)** | **39.4** |
| Deferred tax | 7.3 | 34.8 | 42.1 | (20.2) | 0.9 | (19.3) |
| Deferred tax impact of change in rates | 1.4 | – | 1.4 | 2.5 | – | 2.5 |
| Deferred tax in respect of prior years | 1.6 | – | 1.6 | (1.0) | – | (1.0) |
| **Taxation expense/(income)** | **23.5** | **50.2** | **73.7** | **21.8** | **(0.2)** | **21.6** |
| **Factors affecting tax charge in year** | | | | | | |
| Principal factors reducing the Group's current year tax charge below the UK statutory rate are explained below: | | | | | | |
| Profit/(loss) before tax | 118.3 | 213.3 | 331.6 | 114.6 | (88.0) | 26.6 |
| **Tax on profit/(loss) before tax at 26% (2011: 28%)** | **30.7** | **55.5** | **86.2** | **32.1** | **(24.7)** | **7.4** |
| Effect of: | | | | | | |
| Expenses not deductible for tax purposes, research and development relief and non-taxable items | (11.9) | (2.7) | (14.6) | (33.4) | 22.0 | (11.4) |
| Utilisation of previously unrecognised tax losses of overseas subsidiaries | – | – | – | (0.3) | – | (0.3) |
| Current tax losses for which no deferred tax asset was recognised | (4.3) | – | (4.3) | 17.5 | – | 17.5 |
| Deferred tax impact of change in rates | 1.4 | – | 1.4 | 2.5 | – | 2.5 |
| Deferred tax in respect of prior years | 0.9 | – | 0.9 | (1.0) | – | (1.0) |
| Effect of different rates in overseas jurisdictions | 6.7 | (2.6) | 4.1 | 4.4 | 2.5 | 6.9 |
| **Taxation expense/(income)** | **23.5** | **50.2** | **73.7** | **21.8** | **(0.2)** | **21.6** |
| **Effective tax rate** | **19.9%** | | **22.2%** | **19.0%** | | **81.2%** |

**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 tax legislation changes and the geographic mix of profits.

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 30 March 2012. This will reduce the Group's future tax charge accordingly. The deferred tax asset at 31 March 2012 has been calculated based on the rate of 24% substantively enacted at the balance sheet date. It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the Group's future tax charge and reduce the Group's deferred tax asset accordingly.

At 31 March 2012, the Group had unused tax losses of £200.0m (2011: £188.7m) potentially available for offset against future profits.

## 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 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 non-recurring items, amortisation of intangible assets arising from acquisition and tax thereon.

| For the year ended 31 March | | **2012** | 2011 |
|---|---|---|---|
| **Basic EPS** | | | |
| Profit attributable to equity shareholders | £ million | 257.9 | 5.0 |
| Weighted average number of shares | Million | 650.5 | 654.6 |
| **Basic EPS** | Pence | **39.6** | **0.8** |
| | | | |
| **Diluted EPS** | | | |
| Profit attributable to equity shareholders | £ million | 257.9 | 5.0 |
| Weighted average number of shares | Million | 650.5 | 654.6 |
| Effect of dilutive securities | Million | 4.0 | 6.8 |
| Diluted number of shares | Million | 654.5 | 661.4 |
| **Diluted EPS** | Pence | **39.4** | **0.8** |
| | | | |
| **Underlying basic EPS** | | | |
| Profit attributable to equity shareholders | £ million | 257.9 | 5.0 |
| (Profit)/loss after tax in respect of acquisition amortisation and specific non-recurring items | £ million | (163.1) | 87.8 |
| Underlying profit after taxation | £ million | 94.8 | 92.8 |
| Weighted average number of shares | Million | 650.5 | 654.6 |
| **Underlying basic EPS** | Pence | **14.6** | **14.2** |
| | | | |
| **Underlying diluted EPS** | | | |
| Profit attributable to equity shareholders | £ million | 257.9 | 5.0 |
| (Profit)/loss after tax in respect of acquisition amortisation and specific non-recurring items | £ million | (163.1) | 87.8 |
| Underlying profit after taxation | £ million | 94.8 | 92.8 |
| Weighted average number of shares | Million | 650.5 | 654.6 |
| Effect of dilutive securities | Million | 4.0 | 6.8 |
| Diluted number of shares | Million | 654.5 | 661.4 |
| **Underlying diluted EPS** | Pence | **14.5** | **14.0** |

# Notes to the financial statements

## 9. Own shares and share-based awards

Own shares represent shares in the Company that are held by independent trusts and include treasury shares and shares held by the employee share ownership plan. Included in retained earnings at 31 March 2012 are 12,819,460 own shares (2011: 5,494,001).

In the year to 31 March 2012 the Group granted 8.7 million (31 March 2011: 11.5 million) new share-based awards to employees.

## 10. Cash flows from operations

| For the year ended 31 March<br>all figures in £ million | **2012** | 2011 |
|---|---|---|
| Profit after tax for the period | 257.9 | 5.0 |
| Adjustments for: | | |
| Taxation expense | 73.7 | 21.6 |
| Net finance costs | 43.0 | 30.8 |
| Gain on business combinations and divestments and disposal of investments | (11.6) | (2.7) |
| Amortisation of purchased or internally developed intangible assets | 9.0 | 11.5 |
| Amortisation of intangible assets arising from acquisitions and impairments | 20.3 | 26.3 |
| Depreciation and impairment of property, plant and equipment | 32.5 | 39.5 |
| (Gain)/loss on disposal of property, plant and equipment | (5.8) | 1.0 |
| Share of post-tax profit of equity accounted entities | (0.1) | (0.2) |
| Share-based payments charge | 4.2 | 3.3 |
| (Gain)/loss in respect of previously capitalised DTR-programme bid costs | (4.1) | 23.8 |
| Changes in retirement benefit obligations | (62.4) | (13.7) |
| Pension curtailment gain | (1.1) | (4.9) |
| Pension past service (gain)/loss | (141.4) | 0.3 |
| Net movement in provisions | (15.8) | 9.0 |
| | **198.3** | **150.6** |
| Decrease/(increase) in inventories | 12.1 | (5.1) |
| Decrease in receivables | 1.2 | 45.6 |
| Increase in payables | 30.3 | 64.7 |
| **Changes in working capital** | **43.6** | **105.2** |
| **Cash generated from operations** | **241.9** | **255.8** |
| Add back: cash outflow relating to UK restructuring | 8.9 | 31.8 |
| **Net cash flow from operations before UK restructuring costs** | **250.8** | **287.6** |

# Notes to the financial statements

## 11. Net debt

| As at 31 March<br>all figures in £ million | 2012<br>**Assets** | **Liabilities** | **Net** | 2011<br>Assets | Liabilities | Net |
|---|---|---|---|---|---|---|
| **Current financial assets/(liabilities)** | | | | | | |
| US$ private placement notes – 5.44% | – | – | – | – | (94.3) | (94.3) |
| US$ private placement notes – 7.13% | – | (15.9) | (15.9) | – | – | – |
| US$ private placement notes – 7.62% | – | (67.3) | (67.3) | – | – | – |
| Bank overdraft | – | – | – | – | (0.3) | (0.3) |
| Deferred financing costs | – | 0.6 | 0.6 | – | 0.6 | 0.6 |
| Bank borrowings | – | (82.6) | (82.6) | – | (94.0) | (94.0) |
| Derivative financial instruments | 0.1 | (0.1) | – | – | (0.4) | (0.4) |
| Finance lease debtor/(creditor) | 2.3 | (2.2) | 0.1 | 3.0 | (2.8) | 0.2 |
| **Total current financial assets/(liabilities)** | **2.4** | **(84.9)** | **(82.5)** | **3.0** | **(97.2)** | **(94.2)** |
| **Non-current assets/(liabilities)** | | | | | | |
| US$ private placement notes – 7.13% | – | (26.6) | (26.6) | – | (39.6) | (39.6) |
| US$ private placement notes – 5.50% | – | (30.4) | (30.4) | – | (78.9) | (78.9) |
| US$ private placement notes – 7.62% | – | (102.0) | (102.0) | – | (152.7) | (152.7) |
| Deferred financing costs | – | 1.0 | 1.0 | – | 1.7 | 1.7 |
| Bank borrowings | – | (158.0) | (158.0) | – | (269.5) | (269.5) |
| Derivative financial instruments | 0.1 | – | 0.1 | – | – | – |
| Finance lease debtor/(creditor) | 6.8 | (6.4) | 0.4 | 8.2 | (7.9) | 0.3 |
| **Total non-current financial assets/(liabilities)** | **6.9** | **(164.4)** | **(157.5)** | **8.2** | **(277.4)** | **(269.2)** |
| Cash | 46.2 | – | 46.2 | 58.3 | – | 58.3 |
| Cash equivalents | 71.6 | – | 71.6 | 44.2 | – | 44.2 |
| **Total cash and cash equivalents** | **117.8** | **–** | **117.8** | **102.5** | – | **102.5** |
| | | | | | | |
| **Total net debt as defined by the Group** | | | **(122.2)** | | | **(260.9)** |

All US$ private placement notes have been issued as fixed-rate bonds and have not been converted to floating-rate. In May 2011 the Group repaid the US$135m private placement originally maturing December 2013. In March 2012 the Group elected to make early repayment of US$177m of private placement debt, which will complete after the year end from surplus cash.

**Reconciliation of net cash flow to movement in net debt**

| all figures in £ million | **2012** | 2011 |
|---|---|---|
| Increase in cash in the year | 15.2 | 42.9 |
| Repayment of bank loans | – | 144.1 |
| Proceeds from bank borrowings | – | (4.9) |
| Repayment of US$ private placement notes | 133.6 | – |
| Payment of bank loan arrangement fees | – | 2.4 |
| Settlement of forward contracts | 1.6 | – |
| Capital element of finance lease payments | 2.8 | 2.8 |
| Capital element of finance lease receipts | (3.0) | (3.0) |
| **Change in net debt resulting from cash flows** | **150.2** | **184.3** |
| Amortisation of deferred financing costs | (0.6) | (1.7) |
| Finance lease receivables | 0.9 | 1.2 |
| Finance lease payables | (0.8) | (1.0) |
| Foreign exchange and other non-cash movements | (11.0) | 13.7 |
| **Movement in net debt in year** | **138.7** | **196.5** |
| Net debt at 31 March 2011 | (260.9) | (457.4) |
| **Net debt at 31 March 2012** | **(122.2)** | **(260.9)** |

## 12. Post-retirement benefits

Set out below is a summary of the overall IAS 19 defined benefit pension scheme's liabilities. The fair value of the scheme's 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 | **2012** | 2011 | 2010 | 2009 |
|---|---|---|---|---|
| Equities | 583.2 | 564.1 | 714.6 | 473.7 |
| Corporate bonds | 194.6 | 158.7 | 69.5 | 78.4 |
| Government bonds | 183.5 | 165.3 | 69.6 | 83.2 |
| Property | 82.4 | 78.0 | 53.4 | – |
| Other | 64.2 | 15.0 | 8.8 | 12.1 |
| **Total market value of assets** | **1,107.9** | **981.1** | **915.9** | **647.4** |
| **Present value of scheme liabilities** | **(1,139.4)** | **(1,105.7)** | **(1,063.2)** | **(752.6)** |
| Net pension liability before deferred tax | (31.5) | (124.6) | (147.3) | (105.2) |
| Deferred tax asset | 13.3 | 32.4 | 41.2 | 29.4 |
| **Net pension liability** | **(18.2)** | **(92.2)** | **(106.1)** | **(75.8)** |

**Changes to the fair value of scheme assets**

| all figures in £ million | **2012** | 2011 |
|---|---|---|
| Opening fair value of scheme assets | 981.1 | 915.9 |
| Expected return on assets | 67.6 | 68.6 |
| Actuarial gain/(loss) on scheme assets | 2.9 | (14.0) |
| Contributions by the employer | 83.2 | 36.6 |
| Contributions by plan participants | 0.1 | 0.2 |
| Net benefits paid out and transfers | (27.0) | (26.2) |
| **Closing fair value of scheme assets** | **1,107.9** | **981.1** |

**Changes to the present value of the defined benefit obligation**

| all figures in £ million | **2012** | 2011 |
|---|---|---|
| Opening defined benefit obligation | 1,105.7 | 1,063.2 |
| Current service cost | 20.8 | 22.9 |
| Interest cost | 61.2 | 59.5 |
| Contributions by plan participants | 0.1 | 0.2 |
| Actuarial loss/(gain) on scheme liabilities | 121.1 | (9.3) |
| Curtailment gain | (1.1) | (4.9) |
| Past service (gain)/cost | (141.4) | 0.3 |
| Net benefits paid out and transfers | (27.0) | (26.2) |
| **Closing defined benefit obligation** | **1,139.4** | **1,105.7** |

**Assumptions**

| | **2012** | 2011 |
|---|---|---|
| Rate of increase in salaries | 3.6% | 4.6% |
| Rate of increase in pensions in payment | 3.6% | 3.6% |
| Discount rate applied to scheme liabilities | 4.8% | 5.6% |
| RPI inflation assumption | 3.4% | 3.6% |
| CPI inflation assumption | 2.6% | 2.7% |
| Assumed life expectancies in years: | | |
| Future male pensioners (currently aged 60) | 88 | 88 |
| Future female pensioners (currently aged 60) | 90 | 90 |
| Future male pensioners (currently aged 40) | 90 | 90 |
| Future female pensioners (currently aged 40) | 92 | 91 |

# Notes to the financial statements

## 13. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £55.1m at 31 March 2012 (31 March 2011: £56.7m) in the ordinary course of business.

The Group is aware of claims and potential claims by, or on behalf of, current and former employees, including former employees of the MOD and DERA and contractors, in respect of intellectual property, employment rights and industrial illness and injury, which involve or may involve legal proceedings against the Group. The Directors are of the opinion, having regard to legal advice received, and the Group's insurance arrangements 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, 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.

## 14. Related party transactions with equity accounted investments

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

# Notes to the financial statements

## Glossary

| Term | Definition |
| --- | --- |
| **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 |
| **C4ISR** | Command, control, communications, computers, intelligence surveillance and reconnaissance |
| **Compliance Principles** | The principles underlying the Compliance Regime, covering impartiality, integrity, conflicts, confidentiality and security |
| **COTS** | Commercial Off-The-Shelf technology |
| **DoD** | US Department of Defense |
| **DTR** | MOD's Defence Training Rationalisation programme |
| **EBITDA** | Earnings before interest, tax, depreciation and amortisation |
| **EPS** | Earnings per share |
| **EU** | European Union |
| **Gearing ratio** | The ratio of adjusted net debt to adjusted EBITDA. EBITDA is adjusted to exclude charges for share-based payments. Net debt is adjusted to reflect the same exchange rates as used for EBITDA and to reflect other requirements of the debt-holders' covenant calculations. |
| **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 |
| **R&D** | Research & Development |
| **Specific non-recurring items and acquisition amortisation** | Net restructuring recoveries/charges; pension curtailment gains; pension past service gains; contingent payments on acquisition treated as remuneration; net gain/loss in respect of previously capitalised DTR-programme bid costs; impairment of property; impairment of intangible assets; gain/loss on business combinations and divestments; gain/loss on disposal 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' |