QinetiQ Group plc

23 May 2013
For release at 0700 hours
Preliminary Results for the year ended 31 March 2013

Committed to delivering value

	2013	2012 (restated^)
Business Performance		
Revenue	**£1,327.8m**	£1,469.6m
Organic change at constant currency	**(10)%**	(11)%
Underlying operating profit*	**£168.7m**	£159.6m
Underlying operating margin*	**12.7%**	10.9%
Underlying profit before tax*	**£152.1m**	£110.2m
Underlying net cash from operations* (post capex)	**£175.9m**	£235.4m
Underlying cash conversion ratio*	**104%**	148%
Net cash / (debt)	**£74.0m**	£(122.2)m
Underlying earnings per share*	**18.9p**	13.6p
Dividend per share	**3.80p**	2.90p
Statutory Reporting		
Operating (loss) / profit	**£(121.4)m**	£361.3m
(Loss) / profit before tax	**£(137.0)m**	£316.3m
Earnings per share – basic	**(20.5)p**	37.9p

Headlines

Robust overall Group performance in tough markets during 2013:

- 6% increase in underlying operating profit* driven by excellent performance in UK Services
- Net cash position achieved through strong cash generation
- 31% increase in full year dividend, reflecting in-year growth in underlying earnings per share* and the Group's commitment to delivering value

Good progress implementing Organic-Plus programme as route to delivering value:

- Agreed five-year, £998m re-pricing of Long Term Partnering Agreement (LTPA) with MOD, underpinning core UK Services business
- Non-cash £256m goodwill impairment in US Services; initiating strategic review
- Expanding Global Products portfolio to increase focus on non-conflict markets
- Positioning for sustainable earnings growth over the medium term

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

"Overall, the Group has delivered a robust performance in tough markets. UK Services was the stand-out performer, demonstrating its unique strengths as well as the benefits of our self-help programme, with Global Products continuing to diversify into non-conflict technologies such as OptaSense®, space technology and power line sensors. The decline in performance of US Services reflected the continuing very challenging market conditions and we have decided to initiate a strategic review of this division to determine the best way to maximise its value.

* Definitions of underlying measures of performance can be found in the glossary.
^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

"A key step in transforming QinetiQ has been the achievement of net cash. Having paid down over half a billion pounds of debt in three years, we have both financial resilience and capacity to invest. We are now committed to delivering value by building a Group capable of both growth and high quality returns.

"UK Services is expected to remain steady this year but the heightened uncertainty around US federal services spending is causing low levels of visibility in US Services. As anticipated, budgetary pressures and the drawdown effect seen towards the end of last year are continuing to affect the timing and quantity of sales in Global Products. While the range of possible outcomes is wider than usual at this stage in the year and the full impact of sequestration remains unclear, the Board is maintaining its expectations for overall Group performance in the current year absent any material changes in customer requirements."

Other information

There will be a presentation of the preliminary results to analysts at 0900 hours UK time on 23 May 2013 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. An audiocast of the event will be available on the following numbers (confirmation: 10834833):

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

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Disclaimer

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

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Group Overview

Overall, the Group delivered a robust performance with underlying operating profit* increasing 6% to £168.7m (2012: £159.6m^). This was achieved despite revenue decreasing 10% on an organic basis at constant currency, principally reflecting the impact of continued budget uncertainty in the US on federal services spending and the expected second half reduction in conflict-related products.

The underlying operating margin* increased to 12.7% (2012: 10.9%^), as a result of improvements in utilisation rates and project margins in UK Services, enhanced by the mix of Global Products sales that included a large proportion of spares. In addition, there was a one-off credit of £6m relating to a contract extension. These improvements more than offset lower margins in US Services.

Underlying profit before tax* was £152.1m (2012: £110.2m^) with underlying net finance costs* falling to £16.6m (2012: £49.4m^), reflecting accelerated interest costs of £27.4m in the prior year following the completion of the programme to repay $177m of private placement debt.

Full year underlying earnings per share* were 18.9p (2012: 13.6p^), a 39% increase, benefitting from the increase in operating profit and the decision in the prior year to pay down private placement debt.

Significant adjusting items included a non-cash impairment of £255.8m to the acquired goodwill in the US Services division and a net exceptional restructuring cost of £16.3m (2012: £69.4m gain) primarily resulting from actions to place the US cost base on a more competitive footing, as indicated at the pre-close statement on 28 March 2013. Following the adoption of IAS 19 (revised) 'Employee benefits', net pension finance expense of £1.3m (2012: £7.2m^), is also included in adjusting items. Including these significant items, the statutory loss after tax was £133.2m (2012: £246.3m^ profit.)

Excluding the impact of £65m received from the Ministry Of Defence (MOD) in April 2012, underlying cash flow from operations* was £175.9m (2012: £235.4m) and underlying operating cash conversion* remained strong at 104% (2012: 148%^), despite increased contract-funded capital expenditure in UK Services.

At 31 March 2013, the Group had achieved a net cash position of £74.0m, compared with net debt of £122.2m at 31 March 2012.

The Board proposes a final dividend of 2.70p per share for the year ended 31 March 2013 (31 March 2012: 2.00p) making the full year dividend 3.80p (31 March 2012: 2.90p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 6 September 2013 to shareholders on the register at 9 August 2013. The full year dividend represents an increase of 31% on the prior period and is in line with the Group's progressive dividend policy, reflecting in-year growth in underlying earnings per share* and the Group's commitment to delivering value to shareholders.

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Trading Environment

Defence markets remain challenging as governments continue to re-set budgets to deliver deficit reduction goals.

Following the enactment of sequestration in the US on 1 March 2013, Government departments are working through its impact on future priorities and it is too early to assess what the impact will be at a contract level. This uncertainty, potentially exacerbated by compulsory non-paid leave for Government employees (furloughs), may cause delays and contract modifications, and is expected to keep visibility well below normal levels.

The reduction in federal services spending is also creating a keenly competitive environment. The continuation of 'lowest-price-technically-acceptable' evaluations is encouraging contractors to submit aggressive bids to maintain market share and to lodge protests where they are unsuccessful, further slowing down the contract award process.

However, the US Government contracting market remains large, and the Department of Defense (DoD) is committed to protecting investments in areas such as C4ISR, space, cyberspace and unmanned systems, in which QinetiQ possesses deep domain expertise. The US Government's increased focus on the Asia-Pacific region also represents a resource shift to naval markets where QinetiQ has a good contract base.

In the UK, Government expenditure remains under pressure but the MOD has made considerable progress in balancing its budget, improving visibility of anticipated spending levels. In defence research, where QinetiQ is the private sector market leader, spending has been stabilised at about £390m per annum until 2015, with an increasing proportion likely to be delivered by industry. The MOD's review of 'Yellow Book' pricing terms and conditions for single-source contracts remains ongoing.

The defence transformation programme is being implemented to meet the MOD's objectives of delivering a simpler and more effective department plus significant reductions in running costs. Responsibility for budget management has been devolved to the single service commands, increasing their influence over the shape of the equipment programme, and civil servant headcount is being reduced, which is likely to increase the requirement for support from the private sector. In addition, the MOD has stated that a Government-owned-contractor-operated (GoCo) structure is the preferred model for its procurement agency Defence Equipment and Support (DE&S) and this proposal has entered a formal one-year assessment phase alongside an enhanced public sector model. While these changes create some uncertainty, over the medium term they present potential opportunities for QinetiQ as a major provider of client-side technical services to the MOD.

Outlook

Overall, the Group delivered a robust performance in tough markets. UK Services was the stand-out performer, demonstrating its unique strengths as well as the benefits of the 24 month self-help programme, with Global Products continuing to diversify into non-conflict technologies such as OptaSense®, space technology and power line sensors. The decline in performance of US Services reflected the continuing very challenging market conditions and a strategic review of this division has been initiated to determine the best way to maximise its value.

A key step in transforming QinetiQ has been the achievement of net cash. Having paid down over half a billion pounds of debt in three years, the Group has both the financial resilience and the capacity to invest. QinetiQ is now committed to delivering value by building a Group capable of both growth and high quality returns.

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UK Services is expected to remain steady this year but the heightened uncertainty around US federal services spending is causing low levels of visibility in US Services. As anticipated, budgetary pressures and the drawdown effect seen towards the end of last year are continuing to affect the timing and quantity of sales in Global Products. While the range of possible outcomes is wider than usual at this stage in the year and the full impact of sequestration remains unclear, the Board is maintaining its expectations for overall Group performance in the current year absent any material changes in customer requirements.

Strategy

QinetiQ's transformation began with a 24 month self-help programme. The portfolio was refocused to align with customers' changing needs, to ensure a full understanding of profit potential, and to determine which businesses are scalable into significant core units. The Group is now organised as distinct businesses, each representing one of QinetiQ's key areas of capability, with an accountable leader and a clear route map to maximise future performance. The new cadre of leaders running these businesses is building an open commercial culture which has enabled the recent de-layering of leadership in both the UK and the US.

The self-help programme also addressed the Group's immediate financial situation, driving a reduction in debt of over half a billion pounds in three years. Today the Group's balance sheet carries net cash and has the strength to weather challenging defence markets and the capacity for carefully targeted investment choices.

The Organic-Plus programme continues the disciplines established during phase one, including a focus on cash generation. This in turn enables investments in growth managed through a rigorous process for prioritising resources and monitoring returns. The goal is to drive value from the portfolio by investing in 'Core' capabilities which can win market share, while nurturing a select number of established ('Explore') services and solutions to determine their ability to scale into future core businesses. Early stage ('Test for Value') technologies and offerings come under evaluation as they are generated, to determine the best route to exploit value, including potential partnerships, divestment or closure.

In parallel with the drive for profitable growth, 1,400 projects are now underway as part of the My Contribution programme which is engaging employees and capturing their insights to remove unnecessary costs and drive incremental improvements to productivity.

A strategic review has been initiated to determine the route to maximum value in US Services. This division, which has been restructured, possesses some strong capabilities and market positions, but the Group needs to determine the best way to maximise its performance and potential.

A business-by-business update on the Organic-Plus programme is provided in the Business Overview.

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Business Overview

UK Services

	2013 £m	2012^ £m
Orders[(1)]	**414.6**	450.3
Revenue	**597.3**	610.1
Underlying operating profit*	**85.8**	61.3
Underlying operating margin*	**14.4%**	10.0%
Book to bill ratio[(1)]	**1.0x**	1.1x
Funded backlog[(1)]	**659.7**	633.5

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

Operational Review

UK Services delivered a strong performance with underlying operating profit* increasing 40% to £85.8m (2012: £61.3m^) on relatively flat revenues of £597.3m (2012: £610.1m). The resulting underlying margin* of 14.4% (2012: 10.0%^) reflects improved alignment with customer needs, a more competitive cost base and better processes for project execution. The division's performance also benefited from short-term demand in certain areas driving higher levels of utilisation, and the completion of final milestones on certain projects. In February, the division successfully completed the five-yearly periodic re-pricing of the Long Term Partnering Agreement (LTPA), agreeing terms with the MOD for the provision of core test and evaluation and training support services through to March 2018.

Organic-Plus update

UK Services' core business combines world-leading expertise with unique facilities to provide technical assurance, test and evaluation, and training and simulation services. These capabilities are delivered mainly under long-term managed services contracts, which provide strong predictable cash flows and are the target for future sustainable expansion. The successful re-pricing of the 25-year LTPA contract, the key underpinning contract for the division's Air, Weapons and Maritime businesses, represents an endorsement by the customer of the LTPA model as a vehicle for 'building once using multiple times' and delivering 'more for less.' In addition, UK Services is a market leader in the provision of shorter-cycle technical and information services in C4ISR, acquisition services and cyber security.

QinetiQ's Air business de-risks complex aviation programmes by testing military aircraft and equipment, evaluating the risks and assuring safety. Its long-standing relationships with key customers have been enhanced by integrated working and new contracts for test and evaluation that are delivering efficiencies and value. The Air business is also working to build on its strong track record in the provision of Unmanned Air System (UAS) services developed through the delivery of turn-key surveillance solutions to NATO forces operating in Afghanistan.

The Weapons business provides technical assurance based on data generated by experiments, trials, modelling and research, principally at the twenty strategically located ranges it operates and manages on behalf of the MOD. Shortly after year end, it was awarded a four-year contract for the management of the joint MOD / industry Weapons Science and Technology Centre and delivery of £8m per annum research into complex weapons, munitions and energetics. Weapons is exploring medium-term opportunities presented by QinetiQ's ability to support the MOD in its defence transformation programme and is working with the customer on the assessment of its future options for munitions management. The business also operates

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ranges in Scandinavia and provides range control and safety systems in Australia. The pipeline includes opportunities to expand the provision of test and evaluation services to other international customers.

QinetiQ's Maritime business enables the frontline to deliver naval advantage and cost-effective capability. During the year, the business successfully completed the MOD's first five-year review of the 15-year Maritime Strategic Capability Agreement (MSCA), reaffirming its role in maintaining expertise and strategic maritime capabilities. As such, the business has successfully negotiated the renewal of its three long-term underpinning contracts over the past 18 months. In addition, the business was awarded a five-year £7m contract for the operational signature services that it delivers to the Royal Navy for the measurement and optimisation of ship and submarine stealth characteristics.

QinetiQ's core C4ISR business manages and delivers significant enabling research contracts on behalf of the MOD. The deep domain expertise of its employees was reflected by the continued stream of research tasks delivered under contracts for electronic surveillance, secure information infrastructure and battlespace management, and the award of a new £6m framework contract.

QinetiQ is a leading supplier of client-side technical services, providing advice to many of the operating centres within the MOD's procurement agency DE&S, principally through its Acquisition Services business. While the proposal to introduce a GoCo model for DE&S is creating some short-term uncertainty, over the medium term it presents potential opportunities for QinetiQ. There is also demand for advice on the procurement of complex systems from international and non-defence customers, and during the year Acquisition Services extended its reach into the adjacent rail market with the award of a new contract with Transport for London.

At the beginning of the year, a new leadership team was appointed for the managed services business in Australia, which reports into the UK Services division. The team's initial focus was on integrating the business, strengthening governance, building competitiveness and creating conditions for growth. The business is now demonstrating both revenue and margin progression, and changes in the political landscape resulting from the forthcoming federal election may present further opportunities. During the year the business won an AU$8m contract with the Australian Directorate General of Technical Airworthiness which underpins much of the core aerospace revenue, and AU$1m of contracts in the rail industry representing an entry point into a new adjacent market.

Within the 'Explore' category, the Group is investing in key capabilities to supplement the underlying growth rates of the 'Core' business. A key opportunity is the Training and Simulation Services (TSS) business, which uses Commercial-Off-The-Shelf (COTS) technology to reduce the cost of training. TSS has grown its UK business through an 18-month, £7m extension to its flagship Distributed Synthetic Air Land Training (DSALT) programme at RAF Waddington, and a £4m enhancement to the pre-deployment training it delivers to the British Army. The US market is key to realising the potential of TSS, building on its position on the approved companies list for a $2bn IDIQ (indefinite delivery/indefinite quantity) contract under which the US Navy is able to procure training and simulation services. The business is focused on the provision of modelling, simulation and training for the US Army, Navy and Marine Corps, with a new Orlando office due to open in June 2013.

QinetiQ's UK Security business protects critical national infrastructure and high-value commercial enterprises through the provision of consultancy, managed security services, secure information exchange, and threat and risk assessments. The ability to monitor and identify incidents on IT networks is a key customer concern and the business is investing to scale its protective monitoring solution which this year was accredited by the UK Government Cabinet Office under its GPG13 standards – the first time a private sector company has achieved this landmark accreditation.

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US Services

	2013	2012
	£m	£m
Orders	**461.9**	530.3
Revenue	**475.6**	534.5
Underlying operating profit*	**21.9**	32.1
Underlying operating margin*	**4.6%**	6.0%
Book to bill ratio	**1.0x**	1.0x
Funded backlog	**203.1**	204.7

Operational Review

Revenue declined 12% on an organic basis at constant currency, impacted by continued budget uncertainty and reduced federal services spending. Customers continued to defer decisions, leading to the delay of new and incremental orders, the de-scoping of some existing work, and the cancellation of some re-competes with shorter-term extensions being awarded in their place. Some work was also switched to small business set-aside contracts. Actions, principally in US Services, to place the US cost base on a more competitive footing resulted in an exceptional charge of $26.1m. In the annual year-end assessment of the carrying value of goodwill, the impact of current market conditions resulted in a non-cash impairment charge of £255.8m.

Underlying operating profit* was £21.9m (2012: £32.1m) and the underlying margin* was 4.6% (2012: 6.0%), as a result of the reduction in volume and the more competitive trading environment. In addition, there was a change in revenue mix as lower margin NASA work replaced higher margin sales.

A strategic review has been initiated to determine the route to maximum value in US Services. This division possesses some strong capabilities and market positions, but the Group needs to determine the best way to maximise its performance and potential.

Organic-Plus update

US Services has a broad customer base both within and beyond defence. Its core business supports customers across the US federal marketplace, delivering mission assurance, engineering, data analysis, software and systems integration, cyber solutions, modelling, training and simulation, logistics, managed services and field support. Key sources of competitive advantage include the division's skilled employees, almost all of whom possess high levels of security clearance, and the fact that these businesses enjoy long-standing customer relationships and attractive, longer-term contract vehicles.

Due to the 'cost-plus' nature of most federal services contracts, overhead costs have a significant impact on competitiveness, particularly in an environment where government budgets are under pressure. Restructuring was undertaken by QinetiQ North America during the year to reduce its cost base and maintain competitive rates. The majority of these cost reductions, which resulted in an exceptional charge of $26.1m, were in US Services and were focused on cutting property and infrastructure costs, as well as reducing management layers. The focus was on reducing indirect costs while maintaining bid and proposal activity. Despite current budget pressures, the US Government contracting market remains large, and the DoD is committed to protecting investments in areas such as C4ISR, space, cyberspace and unmanned systems, in which QinetiQ possesses deep domain expertise. At the year end, US Services had over 100 proposals pending decision by federal customers at year end, with a total contract value of more than $1bn.

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Lifecycle Solutions provides engineering services and helps customers manage their fleets and supply chains. New contracts included a $17m award for condition-based maintenance from the US Army's Tank Automotive Command and contracts for technical and logistics support from the US Army's Aviation and Missile Command. Condition-based maintenance facilitates greater automation of current processes and QinetiQ's track record with the US Army presents a number of future opportunities.

The Software and Systems Engineering business supports the delivery of C4ISR and combat systems, and provides advice on procurement programmes and equipment lifecycles. The US Government's increased focus on the Asia-Pacific region represents a resource shift to naval markets, and Software and Systems Engineering is working to build on its good base of support contracts in the maritime domain. During the year, the business was awarded an $80m contract by Naval Air Systems Command for Tomahawk Command and Control work. It was also selected for a five-year blanket purchase agreement with a total ceiling value of $27m by the US Coast Guard National Pollution Funds Center.

At the end of the year, the division's two defence-focused businesses – Lifecycle Solutions and Software & Systems Engineering, were integrated to create Defense Solutions, aligning existing programmes with business development initiatives and removing duplicated overheads.

Aerospace Operations and Systems supports spaceflight through testing, engineering and launch services and has expertise across all aspects of a space mission from design to launch. Following commencement of work in March 2011, revenue has continued to increase on the NASA Engineering Services Contract at the Kennedy Space Center. The business also secured a 16-month extension to the contract for environmental test integration services at the Goddard Space Center. Future opportunities exist to leverage this growth in space services to compete for new business with NASA, as well as with commercial space companies and the United States Air Force (USAF). During the year, the business won new mission planning work with the USAF's Electronics Systems Center at the Hanscom Air Force Base and was selected for the TAASC II IDIQ contract by the USAF Material Command.

Mission Solutions provides cyber security, enterprise information technology and software solutions principally to non-defence customers including intelligence agencies and the Department of Homeland Security (DHS). The majority of its employees have high levels of security clearance and work on customer sites. During the year, the business commenced the provision of cyber security services at the Department of Transportation's Volpe Center to protect US transportation control systems and critical national infrastructure. It also received a $46m contract extension from the DHS for infrastructure support for the Customs and Border Protection Agency. In IT and software solutions, the business is positioned in a highly competitive market and revenue has come under pressure during the year, but there are future opportunities for its higher end offerings such as the provision of Cloud-based solutions.

The Group is nurturing a select number of 'Explore' businesses including Cyveillance® which identifies and responds to critical, real-time intelligence on the internet that represents a threat or risk to its customers. Its customer base, which includes the majority of the US Fortune 50, is primarily financial services companies but among this year's new awards were customers in the technology, healthcare, FMCG, energy and professional services sectors. Following the appointment of a new leader in October 2012, the business grew its revenues year-on-year, delivered improvements in productivity and introduced 24/7 operations. Demand for cyber intelligence solutions is likely to increase with growing threats to people, infrastructure, Cloud-based systems, mobile devices and brand reputation. Cyveillance® is responding to this demand by focusing on the delivery of commercial services, larger contracts and higher margin offerings, particularly those that aggregate both physical and virtual threat information.

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Global Products

	2013	2012
	£m	£m
Orders	**200.3**	245.7
Revenue	**254.9**	325.0
Underlying operating profit*	**61.0**	66.2
Underlying operating margin*	**23.9%**	20.4%
Book to bill ratio	**0.8x**	0.8x
Funded backlog	**106.8**	162.3

Operational Review

Revenue was £254.9m (2012: £325.0m), a 21% decrease on an organic basis at constant currency, and was first half weighted, illustrating the lumpy profile of the division's revenue and its dependency on the timing of shipments of key orders. Q-Net® revenue was strong at $120m but, as expected, there was a reduction in demand for other conflict-related products associated with the drawdown of the US troop presence in Iraq and Afghanistan. Underlying operating profit* fell 8% to £61.0m (2012: £66.2m) as the reduction in revenues was partially offset by an improved mix of US product sales, which included a high proportion of spares, and a one-off credit of £6m relating to a contract extension for additional work already undertaken in the UK.

Organic-Plus update

Global Products focuses on the provision of technology-based solutions to meet customer requirements, complemented by contract-funded research and development. The division combines a cutting edge technology base with an intimate understanding of customer problems. To reduce the volatility of its revenue profile over time, QinetiQ is seeking to increase its portfolio of products and to find new markets and applications for its existing offerings.

The Survivability business provides innovative products to US and allied governments, enabling them to protect people and assets, thereby saving lives. In the first half of the year, it delivered two key orders for the Q-Net® vehicle survivability product with a combined value of $44m. These orders were for Navistar's MaxxPro® MRAP vehicles and for the US Army's Heavy Expanded Mobility Tactical Truck (HEMTT) – the first time Q-Net® has been fitted to a large haulage vehicle. The business is leveraging the convergence of multiple military capabilities in order to expand its range of product offerings. At the beginning of 2013, it launched its Integrated Warrior System™ that enables a soldier to plug-and-play multiple sensors through a lightweight, wearable vest and access data via a tablet or smartphone.

The Unmanned Systems business is a world-leading provider of military robots. Although demand for TALON® robots has reduced as a result of the drawdown of US troops, the business is finding new markets and received $8m of TALON® orders from Poland and the Czech Republic. Unmanned Systems is also increasing its portfolio of products, receiving a $13m order from the US Government's Joint IED Defeat Organisation for the new, lightweight Dragon Runner™ 10 robot and a $10m order from the US Army's Rapid Equipping Force for innovative robotic applique kits that convert Bobcats into remote-control and semi-autonomous systems for route clearance missions. Other new products include lightweight tactical robotic controllers that can simultaneously command a variety of unmanned assets and unattended ground sensors.

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As military budgets are reduced, customer demand is increasing for solutions that extend the life of existing platforms and enhance their capability to meet new mission challenges. Global Products is also leveraging the innovative, products-focused culture of its employees to develop technology-based solutions for non-defence markets. An early example of this approach is a Smart Sensor System™ that precisely measures voltage and current on power grids to monitor the performance of distribution networks. The system was selected by British Columbia Hydro to support its smart metering programme and is currently in the testing and pre-production phase.

The OptaSense® fibre-optic sensing business is the most mature of the 'Explore' opportunities in QinetiQ's portfolio. The business delivered double digit revenue and profit growth, winning key infrastructure monitoring contracts to protect a strategic pipeline corridor in Iraq and the state-controlled Bijwasan pipeline in India. Whilst infrastructure services has been the key early adopter market for OptaSense®, oilfield services represents the biggest opportunity with a multi-billion-pound market potential. In this market, the business signed follow-on contracts with Shell to fund £10m of product development over the next three years and enable deployment of the technology throughout Shell within a recurring services model, as well as to other companies. The end of the exclusivity period with Shell is a significant milestone in the development of the OptaSense® business, which is now starting to contract with other companies across the oil and gas industry.

QinetiQ's Space business has been rigorously assessed over the last year and has the potential to deliver future profitable growth. Its key capabilities include ion engines and the Proba family of mini satellites, the latest of which was launched in early May by the European Space Agency.

In the 'Test for Value' category, early stage offerings are being tested to determine the best route to maximise value. During the year, the Zephyr® High-Altitude-Long-Endurance UAS technology was divested to EADS Astrium for further development and the Energy from Waste business was re-focused on core defence markets. A number of capabilities, such as E-X-Drive® hybrid electric drive, continue to be developed for customer-funded programmes. Others, such as the GAJT™ GPS anti-jammer and the Modular Electronic Warfare System (MEWS™) are being taken to market by partners, reducing implementation and sales risks. Follow-on orders were received for the ALARM™ radar system which provides warning of in-coming rocket fire. The licensing of intellectual property remains an important revenue stream, particularly in non-defence markets.

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Financial items

Pensions

IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the prior year comparatives have been restated accordingly. There are three specific impacts on the income statement, as outlined below:

- A reclassification of the administration costs of the defined benefit pension scheme, including the levy for the Pension Protection Fund, from finance expense to underlying operating profit;
- A change in the calculation of the interest income on plan assets. This was previously based on the expected returns on the various asset types held within the investment portfolio. It is now calculated at the same rate used to calculate the interest expense on the pension liability, being a discount rate derived from corporate bonds. The difference between this calculated return and the actual return is reported as an actuarial gain/loss through reserves; and
- The reporting of a combined net figure within finance expense, rather than showing the pension interest income and pension interest expense gross, within finance income and finance expense respectively.

The pension net finance expense, calculated under the revised standard, is reported as a specific adjusting item to better reflect the underlying performance of the Group. For further details see Note 1 on significant accounting policies.

The full impact on the income statement is set out in the table in Note 1. The impact of the restatement on the prior year reported underlying financial measures is set out below:

	Underlying reported 2012	Reclassify administration costs	Change in investment return calculation	Reclassify pension net finance expense to 'middle column' of income statement	**Underlying restated 2012**
	£m	£m	£m	£m	**£m**
Revenue	1,469.6	-	-	-	1,469.6
Operating profit	**161.3**	**(1.7)**	-	-	**159.6**
Net interest	(43.0)	1.7	(15.3)	7.2	(49.4)
Profit before tax	**118.3**	**-**	**(15.3)**	**7.2**	**110.2**
Tax	(23.5)	-	3.7	(1.7)	(21.5)
Earnings	**94.8**	**-**	**(11.6)**	**5.5**	**88.7**
EPS basic	14.6 p	-	(1.8) p	0.8 p	13.6 p
Net pension deficit (pre tax) 31 Mar 12	**(31.5)**	**-**	**-**	**-**	**(31.5)**

The adoption of the revised standard is a non-cash change and has no impact on the closing net pension liability or on net assets. The net pension deficit under IAS 19, after deducting deferred tax, was £40.4m (2012: £18.2m). The increase in net pension deficit is primarily driven by macro-economic factors, principally the reduction in the corporate bond yields that drive the liability discount rate, partially offset by the impact of the increase in the value of the equity and bond assets.

* Definitions of underlying measures of performance can be found in the glossary.
^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

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

Assumption	31 March 2013	31 March 2012
Discount rate	4.4%	4.8%
Inflation (CPI)	2.7%	2.6%
Salary increase	3.7%	3.6%
Life expectancy – male (currently aged 40)	90	90
Life expectancy – female (currently aged 40)	92	92

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

Assumption	Change in assumption	Indicative effect on scheme liabilities (before deferred tax)
Discount rate	Increase / decrease by 0.1%	Decrease / increase by £25m
Inflation	Increase / decrease by 0.1%	Increase / decrease by £26m
Salary increase	Increase / decrease by 0.1%	Increase / decrease by £4m
Life expectancy	Increase by 1 year	Increase by £28m

The market value of the assets at 31 March 2013 was £1,256.5m (2012: £1,107.9m) and the present value of scheme liabilities was £1,310.6m (2012: £1,139.4m).

The technical provisions basis of calculating scheme funding requirements differs from IAS 19 in that it does not use corporate bonds as a basis for the discount rate but instead uses the risk free rate from UK gilts, prudently adjusted for long-term expected returns for pre-retireds. Given the current extremely low gilt yields, perhaps exacerbated by quantitative easing, a funding valuation of the scheme would probably have resulted in a bigger deficit than the IAS 19 methodology if performed at the year end.

Finance costs

Net finance costs were £17.9m (2012: £56.6m^). The underlying net finance costs* were £16.6m (2012: £49.4m^), with an additional £1.3m (2012: £7.2m) in respect of the pension net finance expense reported within specific adjusting items. The reduction in underlying net finance costs* reflects the accelerated interest costs of £27.4m in the prior year, following the election to make early repayment of $177m of private placement debt, which also resulted in a reduction in the interest payable on the debt to £11.9m (2012: 17.5m).

Taxation

The Group's underlying effective tax rate* was 19.2% (2012: 19.5%^). 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.

The UK Government has been consulting on its proposal to introduce an 'above the line' credit for research and development, to be recognised in operating profit, as a replacement for the current credit which is recognised in the tax line. The mandatory move to 'above the line' treatment of R&D credits will now be delayed until April 2016 subject to the Finance Bill receiving Royal Assent in early summer 2013. At 31 March 2013, the Group has unused tax losses of £202.7m (31 March 2012: £200.0m) that are available to offset against future profits.

* Definitions of underlying measures of performance can be found in the glossary.
^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

Earnings per share

Underlying earnings per share* were 18.9p (2012: 13.6p^) benefitting from the increase in operating profit and the decision in the prior period to pay down private placement debt. Basic earnings per share reduced to (20.5)p (2012: 37.9p).

Dividend

The Board proposes a final dividend of 2.70p per share for the year ended 31 March 2013 (31 March 2012: 2.00p) making the full year dividend 3.80p (31 March 2012: 2.90p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 6 September 2013 to shareholders on the register at 9 August 2013. The full year dividend represents an increase of 31% on the prior period and is in line with the Group's progressive dividend policy, reflecting in-year growth in underlying earnings per share* and the Group's commitment to delivering value to shareholders.

Cash flow

The Group's cash flow from operations before restructuring costs but after capital expenditure was £175.9m (2012: £235.4m). Underlying operating cash conversion* remained strong at 104% (2012: 148%^) despite the impact of increased contract-funded capital expenditure in UK Services. The net cash inflow in the year on restructuring was £63.1m (2012: £8.9m outflow), which includes the impact of £65m received from MOD in April 2012 relating to the March 2012 settlement which discharges the MOD from its accumulated liabilities for rationalisation costs incurred in previous years.

At 31 March 2013 net cash was £74.0m (31 March 2012: net debt of £122.2m). This reflected the strong operating cash performance together with the receipt of £65m from MOD in April 2012.

Total committed facilities available to the Group at year end amounted to £446.3m and the remaining Group debt has 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 2013	**12 months to 31 March 2012**
£/US$ - average	1.58	1.60
£/US$ - closing	1.52	1.60
£/US$ - opening	1.60	1.60

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.

* Definitions of underlying measures of performance can be found in the glossary.
^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

Consolidated income statement

all figures in £ million	Note	2013 Underlying	2013 Specific adjusting items*	2013 Total	2012 (restated^) Underlying	2012 (restated^) Specific adjusting items*	2012 (restated^) Total
Revenue	2	**1,327.8**	**–**	**1,327.8**	**1,469.6**	**–**	**1,469.6**
Operating costs excluding depreciation, amortisation and impairment		(1,132.9)	(16.3)	(1,149.2)	(1,275.6)	223.9	(1,051.7)
Other income		5.8	–	5.8	5.2	–	5.2
EBITDA (earnings before interest, tax, depreciation and amortisation)		**200.7**	**(16.3)**	**184.4**	**199.2**	**223.9**	**423.1**
Depreciation and impairment of property, plant and equipment	3	(28.0)	(4.0)	(32.0)	(30.6)	(1.9)	(32.5)
Impairment of goodwill	9	–	(255.8)	(255.8)	–	–	–
Amortisation of intangible assets		(4.0)	(14.0)	(18.0)	(9.0)	(20.3)	(29.3)
Group operating (loss)/profit		**168.7**	**(290.1)**	**(121.4)**	**159.6**	**201.7**	**361.3**
Gain on business divestments and disposal and impairment of investments	4	–	2.3	2.3	–	11.6	11.6
Finance income	5	1.7	–	1.7	2.2	–	2.2
Finance expense	5	(18.3)	(1.3)	(19.6)	(51.6)	(7.2)	(58.8)
(Loss)/profit before tax	3	**152.1**	**(289.1)**	**(137.0)**	**110.2**	**206.1**	**316.3**
Taxation income/(expense)	6	(29.2)	33.0	3.8	(21.5)	(48.5)	(70.0)
(Loss)/profit for the year attributable to equity shareholders		**122.9**	**(256.1)**	**(133.2)**	**88.7**	**157.6**	**246.3**
Earnings per share							
Basic	8	18.9p		(20.5)p	13.6p		37.9p
Diluted	8	18.7p		(20.5)p	13.5p		37.6p

* Definitions of underlying measures of performance can be found in the glossary.

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

Consolidated statement of comprehensive income

for the year ended 31 March

all figures in £ million	2013	2012 (restated^)
(Loss)/profit for the year	**(133.2)**	**246.3**
Items that will not be reclassified to profit or loss:		
Actuarial loss recognised in defined benefit pension schemes	(42.1)	(102.9)
Tax on items that will not be reclassified to profit and loss	10.1	27.0
Total items that will not be reclassified to profit or loss	**(32.0)**	**(75.9)**
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	24.6	(1.9)
Decrease in fair value of hedging derivatives	(0.1)	(0.4)
Reclassification of hedging derivatives to the income statement	–	0.2
Impairment loss on revalued investments	(4.1)	–
Fair value gains/(losses) on available-for-sale investments	0.3	(1.2)
Tax on items that may be reclassified to profit or loss	–	0.1
Total items that may be reclassified subsequently to profit or loss	**20.7**	**(3.2)**
Other comprehensive expense for the year, net of tax	**(11.3)**	**(79.1)**
Total comprehensive (expense)/income for the year	**(144.5)**	**167.2**

Consolidated statement of changes in equity

for the year ended 31 March

all figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	**Total**	Non-controlling interest	**Total equity**
At 1 April 2012	6.6	39.9	147.6	0.1	19.7	385.4	**599.3**	0.1	**599.4**
Loss for the year	–	–	–	–	–	(133.2)	**(133.2)**	–	**(133.2)**
Other comprehensive income/ (expense) for the year, net of tax	–	–	–	(0.1)	24.6	(35.8)	**(11.3)**	–	**(11.3)**
Purchase of own shares	–	–	–	–	–	(0.4)	**(0.4)**	–	**(0.4)**
Share-based payments settlement	–	–	–	–	–	0.7	**0.7**	–	**0.7**
Share-based payments	–	–	–	–	–	3.4	**3.4**	–	**3.4**
Dividends	–	–	–	–	–	(20.1)	**(20.1)**	–	**(20.1)**
At 31 March 2013	**6.6**	**39.9**	**147.6**	**–**	**44.3**	**200.0**	**438.4**	**0.1**	**438.5**
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 (restated^)	–	–	–	–	–	246.3	**246.3**	–	**246.3**
Other comprehensive expense for the year, net of tax (restated^)	–	–	–	(0.1)	(1.9)	(77.1)	**(79.1)**	–	**(79.1)**
Purchase of own shares	–	–	–	–	–	(12.0)	**(12.0)**	–	**(12.0)**
Share-based payments	–	–	–	–	–	3.1	**3.1**	–	**3.1**
Dividends	–	–	–	–	–	(16.4)	**(16.4)**	–	**(16.4)**
At 31 March 2012	**6.6**	**39.9**	**147.6**	**0.1**	**19.7**	**385.4**	**599.3**	**0.1**	**599.4**

* Definitions of underlying measures of performance can be found in the glossary.

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

Consolidated balance sheet

as at 31 March

all figures in £ million	Note	2013	2012
Non-current assets			
Goodwill	9	290.4	519.3
Intangible assets		57.8	71.8
Property, plant and equipment		241.4	246.6
Other financial assets		4.3	6.9
Investments		0.4	5.8
Deferred tax asset		32.4	17.0
		626.7	**867.4**
Current assets			
Inventories		25.5	31.2
Other financial assets		2.6	2.4
Trade and other receivables		284.2	404.8
Investments		1.4	1.1
Assets classified as held for sale		–	5.1
Cash and cash equivalents		240.4	117.8
		554.1	**562.4**
Total assets		**1,180.8**	**1,429.8**
Current liabilities			
Trade and other payables		(458.0)	(498.7)
Current tax		(14.2)	(13.7)
Provisions		(12.4)	(3.4)
Other financial liabilities		(2.0)	(84.9)
		(486.6)	**(600.7)**
Non-current liabilities			
Retirement benefit obligation	11	(54.1)	(31.5)
Provisions		(22.7)	(13.2)
Other financial liabilities		(171.3)	(164.4)
Other payables		(7.6)	(20.6)
		(255.7)	**(229.7)**
Total liabilities		**(742.3)**	**(830.4)**
Net assets		**438.5**	**599.4**
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		44.3	19.8
Retained earnings		200.0	385.4
Capital and reserves attributable to shareholders of the parent company		**438.4**	**599.3**
Non-controlling interest		0.1	0.1
Total shareholders' funds		**438.5**	**599.4**

* Definitions of underlying measures of performance can be found in the glossary.
^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

Consolidated cash flow statement

for the year ended 31 March

all figures in £ million	Note	2013	2012
Net cash inflow from operations before restructuring costs	13	**194.4**	**250.8**
Net cash inflow/(outflow) relating to restructuring		63.1	(8.9)
Cash inflow from operations		**257.5**	**241.9**
Tax paid		(1.6)	(23.3)
Interest received		0.8	1.0
Interest paid		(35.8)	(39.5)
Net cash inflow from operating activities		**220.9**	**180.1**
Purchases of intangible assets		(0.6)	(0.7)
Purchases of property, plant and equipment		(27.1)	(22.0)
Proceeds from sale of property, plant and equipment		9.2	7.3
Equity accounted investments and other investment funding		3.8	3.6
Purchase of subsidiary undertakings		–	(0.9)
Proceeds from sale of interests in subsidiary undertakings		–	11.2
Net cash outflow from investing activities		**(14.7)**	**(1.5)**
Repayment of bank borrowings		(63.0)	(133.6)
Settlement of forward contracts		(1.3)	(1.6)
Purchase of own shares		(0.4)	(12.0)
Dividends paid to shareholders		(20.1)	(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		**(84.6)**	**(163.4)**
Increase in cash and cash equivalents		**121.6**	**15.2**
Effect of foreign exchange changes on cash and cash equivalents		1.0	0.4
Cash and cash equivalents at beginning of year		117.8	102.2
Cash and cash equivalents at end of year		**240.4**	**117.8**

Reconciliation of movement in net cash/debt

for the year ended 31 March

all figures in £ million	Note	2013	2012
Increase in cash and cash equivalents in the year		121.6	15.2
Add back net cash flows not impacting net debt		64.1	135.0
Change in net debt resulting from cash flows		**185.7**	**150.2**
Other movements including foreign exchange		10.5	(11.5)
Movement in net debt in the year		**196.2**	**138.7**
Net debt at beginning of year		(122.2)	(260.9)
Net cash/(debt) at end of year	10	**74.0**	**(122.2)**

* Definitions of underlying measures of performance can be found in the glossary.
^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

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 2013. 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 2012 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 23 May 2013. 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 2013 were approved by the Board of Directors on 23 May 2013 and will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 26 July 2013. The financial information for 2012 is derived from the statutory accounts for 2012 which have been delivered to the Registrar of Companies. The auditors have reported on the 2013 and 2012 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 specific adjusting items separately. In the judgement of the Directors, for the reader to obtain a proper understanding of the financial information, specific adjusting items need to be disclosed separately because of their size and incidence.

Specific adjusting items include:

- amortisation of intangibles arising from acquisitions;
- pension curtailment gains/losses;
- pension past service credits/costs;
- pension net finance expense;
- gains/losses on business divestments and disposal of investments;
- restructuring costs;
- gains/losses on disposal of property;
- impairment of property;
- impairment of goodwill and intangible assets;
- net gain in respect of previously capitalised DTR programme bid costs; and
- tax on the above items.

Pension finance income and pension finance expense were, prior to this accounting period, reported within underlying performance. With effect from this accounting period the pension net finance expense is included within specific adjusting items in the middle column of the income statement and the comparative financial information has been restated accordingly. In the judgement of the Directors the exclusion of this non-cash financial item (which can swing from net expense to net income) leads to a better understanding of the financial information, given its volatility.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings to 31 March 2013. The purchase method of accounting has been adopted. Those subsidiary undertakings acquired or disposed of in the period are included in the consolidated income statement from the date control is obtained to the date that control is lost (usually on acquisition and disposal respectively). 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%-50% of the equity voting rights, in respect of financial and operating policy. A joint venture is an undertaking over which the Group exercises joint control. Associates and joint ventures are accounted for using the equity method from the date of acquisition to the date of disposal. The Group's investments in associates and joint ventures are held at cost including goodwill on acquisition and any post-acquisition changes in the Group's share of the net assets of the associate less any impairment to the recoverable amount. Where an associate or joint venture has net liabilities, full provision is made for the Group's share of liabilities where there is a constructive or legal obligation to provide additional funding to the associate or joint venture.

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

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

* Definitions of underlying measures of performance can be found in the glossary.

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

Comparative data and restatement

The Company has implemented IAS 19 (revised) 'Employee benefits' in the year ended 31 March 2013, electing to adopt this standard early. There are three specific impacts on the income statement, as outlined below:

- A reclassification of the administration costs of the defined benefit pension scheme, including the levy for the Pension Protection Fund, from finance expense to underlying operating profit;
- A change in the calculation of the interest income on plan assets. This was previously based on the expected returns on the various asset types held within the investment portfolio. It is now calculated at the same rate used to calculate the interest expense on the pension liability, being a discount rate derived from corporate bonds. The difference between this calculated return and the actual return is reported as an actuarial gain/loss through reserves; and
- The reporting of a combined net figure within finance expense, rather than showing the pension interest income and pension interest expense gross, within finance income and finance expense respectively.

Subsequent to the early adoption of IAS 19 (revised), the Group has also elected to disclose the finance expense on the net pension liability as a specific adjusting item within the middle column of the consolidated income statement. The comparative figures for the income statement for the year ended 31 March 2012 have been restated to show the effect of this early adoption and the reclassification as a specific adjusting item.

The effect of adopting IAS 19 (revised) on the Group's profit for the prior full-year period is to reduce both underlying and total reported profit after tax by £11.6m. The subsequent effect of the reclassification of net finance expense from underlying performance to within specific adjusting items is to increase underlying profit by £5.5m, although it has no impact on total reported profit. The combined effect of the two adjustments on the Group's profit for the full-year period to 31 March 2012 is therefore to reduce the underlying profit after tax by £6.1m to £88.7m and to reduce total reported profit after tax by £11.6m to £246.3m.

If the reclassification of pension finance income and pension finance expense had been made in isolation, without early adoption of IAS 19 (revised), there would have been no impact on the Group's total reported profit for the period. Underlying profit after tax for the year ended 31 March 2012 would have decreased by £4.9m, with an equal increase in profit after tax in respect of specific adjusting items in the middle column of the income statement.

The full impact on the income statement, for the year ended 31 March, is set out in the table below:

	2012 (restated)			2012 (reported)		
all figures in £ million	Underlying	Specific adjusting items*	Total	Underlying	Specific adjusting items*	Total
Operating profit	**159.6**	**201.7**	**361.3**	**161.3**	**201.7**	**363.0**
Gain on disposals	–	11.6	11.6	–	11.6	11.6
Finance income	2.2	–	2.2	69.8	–	69.8
Finance expense	(51.6)	(7.2)	(58.8)	(112.8)	–	(112.8)
Tax	(21.5)	(48.5)	(70.0)	(23.5)	(50.2)	(73.7)
Profit after tax	**88.7**	**157.6**	**246.3**	**94.8**	**163.1**	**257.9**
EPS – basic	13.6p		37.9p	14.6p		39.6p
EPS – diluted	13.5p		37.6p	14.5p		39.4p

The impact on the statement of comprehensive income, for the year ended 31 March, is as follows:

all figures in £ million	2012 (restated)	2012 (reported)
Profit for the year	246.3	257.9
Other comprehensive income for the year, net of tax	(79.1)	(90.7)
Total comprehensive income for the year attributable to equity shareholders	**167.2**	**167.2**

There is no change to the net pension liability or to net assets as a result of the early adoption of IAS 19 (revised). As a result no restatement of the balance sheet is required.

* Definitions of underlying measures of performance can be found in the glossary.

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

Recent accounting developments

Significant developments adopted by the Group in 2013

IAS 19 (revised) 'Employee benefits'. The amendments became effective for accounting periods beginning on or after 1 January 2013. QinetiQ has elected to early-adopt the revised standard during 2013. The main impact on QinetiQ is the change in measurement of the expected return on scheme assets in the income statement; now measured with reference to the discount rate previously applied solely to scheme liabilities. Under the previous requirements, expected return on assets was measured at an appropriately calculated rate which was normally higher than the discount rate. As a result, there is likely to be an increase in the net pension finance expense in the profit and loss account, offset by changes in the actuarial gains/losses recognised in other comprehensive income Other amendments include changes to the recognition and treatment of curtailment gains, presentation of scheme administration expenses and the removal of the corridor method. The latter had not previously been applied by the Group.

Developments adopted by the Group in 2013 with no material impact on the financial statements

The following EU-endorsed amendments, improvements and interpretations of published standards are effective for accounting periods beginning on or after 1 April 2012 and have been adopted with no material impact on the Group's financial statements:

IFRS 7 'Financial Instruments – Disclosures'. The amendment introduces new requirements about transfers of financial assets including disclosure for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement.

IAS 12 'Income Taxes'. The amendment introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 Investment Property.

IFRS 1 'First Time Adoption of IFRS'. This change adds an exemption that an entity can apply at the date of transition to IFRSs after being subject to severe hyperinflation.

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

FRS 100, 101 and 102. FRS 100 sets out the application of financial reporting requirements in the UK and Republic of Ireland and FRS 101 or 'IFRS with reduced disclosures' outlines the reduced disclosure framework available for use by qualifying entities choosing to report under IFRS. FRS 102 is applicable in the UK and Republic of Ireland and is known as the 'new UK GAAP'. The mandatory effective date for the new framework of reporting is for accounting periods beginning on or after 1 January 2015. A qualifying entity is defined as a parent or subsidiary undertaking which is consolidated in publicly available consolidated financial statements. QinetiQ's subsidiaries meet the criteria; they currently report under UK GAAP and it is likely that the new FRS 102 will be the preferred option - a full analysis is currently being undertaken.

Revenue from Contracts with Customers. The Group awaits the final publication of the new IFRS standard 'Revenue from Contracts with Customers' which is expected to be published by June 2013. The new Standard will replace IAS 18 'Revenue' and IAS11 'Construction Contracts'. It will become effective for accounting periods on or after 1 January 2017 and will therefore be applied for the first time to the Group accounts in 2018; the IASB have indicated that early adoption will not be permitted. The Group has begun a systematic review of all existing major contracts to ensure that the impact and effect of the new Standard is fully understood and any changes to current accounting procedures are highlighted and acted upon well in advance of the effective date.

Leases. Following the issue of the first exposure draft in 2011, the IASB and FASB are reconsidering the proposed accounting standard for lease accounting. A revised exposure draft is expected by June 2013. The first exposure draft removes the distinction between finance leases and operating leases and requires all leased assets to be accounted for in a similar way to finance leases. A right-of-use asset and matching liability will be recognised on the balance sheet, with lease expenditure and depreciation reported in the income statement.

Developments expected in future periods with no material impact on the Group's financial statements

The Directors anticipate that the adoption of the following new, revised, amended and improved published standards and interpretations, which were in issue at the date of authorisation of these Financial Statements, will have no material impact on the Financial Statements of the Group when they become applicable in future periods:

IFRS 7 'Financial Instruments: Disclosures';
IFRS 1 'First-time Adoption of IFRS';
IAS 1 'Presentation of Financial Statements';
Annual Improvements IFRS 2009-2011 cycle;
IFRS 9 'Financial Instruments';
IFRS 10 'Consolidated Financial Statements';
IFRS 11 'Joint Arrangements';
IFRS 12 'Disclosure of Interests in Other Entities';
IFRS 13 'Fair Value Measurement';
IAS 27 'Separate Financial Statements'; and
IAS 28 'Investments in Associates'.

2. Segmental analysis

Operating segments

For the year ended 31 March

all figures in £ million	Note	2013		2012 (restated^)	
		Revenue	Operating profit	Revenue	Operating profit
UK Services		597.3	85.8	610.1	61.3
US Services		475.6	21.9	534.5	32.1
Global Products		254.9	61.0	325.0	66.2
Total operating segments		**1,327.8**	**168.7**	**1,469.6**	**159.6**
Operating profit before specific adjusting items[1]			**168.7**		**159.6**
Specific adjusting items before amortisation, depreciation and impairment			(16.3)		223.9
Impairment of property			(4.0)		(1.9)
Impairment of goodwill	9		(255.8)		–
Amortisation of intangible assets arising from acquisitions			(14.0)		(20.3)
Operating (loss)/profit			**(121.4)**		**361.3**
Gain on business divestments and disposal and impairment of investments			2.3		11.6
Net finance expense			(17.9)		(56.6)
(Loss)/profit before tax			**(137.0)**		**316.3**
Taxation income/(expense)			3.8		(70.0)
(Loss)/profit for the year			**(133.2)**		**246.3**

[1] The measure of profit presented to the chief operating decision maker is operating profit stated before specific adjusting items.

3. Profit/loss before tax

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

all figures in £ million	2013	2012
Depreciation of property, plant and equipment:		
Owned assets: before impairment	(28.0)	(28.2)
Owned assets: impairment	(4.0)	(4.3)
Foreign exchange gain	**1.0**	**0.2**
Research and development expenditure – customer funded contracts	**(311.0)**	**(331.1)**
Research and development expenditure – Group funded	**(24.6)**	**(15.2)**

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

all figures in £ million	2013	2012 (restated^)
Net restructuring (charges)/recoveries	(16.3)	69.4
Pension past service gain	–	141.4
Gain on disposal of property	–	9.0
Net gain in respect of previously capitalised DTR programme bid costs	–	4.1
Specific adjusting items before amortisation, depreciation and impairment	**(16.3)**	**223.9**
Impairment of goodwill	(255.8)	–
Impairment of property	(4.0)	(1.9)
Total intangible impairment and acquisition amortisation	(14.0)	(20.3)
Specific adjusting items operating (loss)/profit	**(290.1)**	**201.7**
Gain on business divestments and disposal of investments	2.9	11.6
Unrealised impairment of investments	(0.6)	–
Gain on business divestments and disposal/impairment of investments	**2.3**	**11.6**
Defined benefit pension scheme net finance expense	(1.3)	(7.2)
Total specific adjusting items (loss)/profit before tax	**(289.1)**	**206.1**

* Definitions of underlying measures of performance can be found in the glossary.

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

4. Gain on business divestments and disposal and impairment of investments

For the year ended 31 March

all figures in £ million	2013	2012
Gain on business divestments	–	8.0
Gain on disposal of investments	2.9	3.6
Unrealised impairment of investments	(0.6)	–
	2.3	**11.6**

The gain on business divestments relates to the disposal of QinetiQ's investment in Infoscitex Inc.

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

5. Finance income and expense

For the year ended 31 March

all figures in £ million	2013	2012 (restated^)
Receivable on bank deposits	1.0	1.3
Finance lease income	0.7	0.9
Finance income	**1.7**	**2.2**
Amortisation of recapitalisation fee	(0.6)	(0.6)
Payable on bank loans and overdrafts	(1.4)	(1.6)
Payable on US dollar private placement debt[1]	(14.2)	(46.8)
Finance lease expense	(0.6)	(0.8)
Unwinding of discount on financial liabilities	(1.5)	(1.8)
Finance expense before specific adjusting items	**(18.3)**	**(51.6)**
Defined benefit pension scheme net finance expense	(1.3)	(7.2)
Finance expense	**(19.6)**	**(58.8)**
Net finance expense	**(17.9)**	**(56.6)**

[1] During 2012, the Group elected to make early repayment of US$177m of private placement debt from surplus cash. Net finance expense in 2012 was affected by an accelerated interest charge of £27.4m in respect of these early repayments.

* Definitions of underlying measures of performance can be found in the glossary.

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

6. Taxation

all figures in £ million	2013 Underlying*	2013 Specific adjusting items*	2013 Total	2012 (restated^) Underlying*	2012 (restated^) Specific adjusting items*	2012 (restated^) Total
Analysis of charge						
Current UK tax expense/(income)	0.8	(0.2)	0.6	–	13.1	13.1
Overseas corporation tax						
Current year	(0.2)	1.5	1.3	15.5	2.3	17.8
Adjustment for prior year	–	0.4	0.4	(2.3)	–	(2.3)
Current tax expense	**0.6**	**1.7**	**2.3**	**13.2**	**15.4**	**28.6**
Deferred tax expense/(income)	28.0	(34.4)	(6.4)	5.3	33.1	38.4
Deferred tax impact of change in rates	0.6	(0.9)	(0.3)	1.4	–	1.4
Deferred tax in respect of prior years	–	0.6	0.6	1.6	–	1.6
Taxation expense/(income)	**29.2**	**(33.0)**	**(3.8)**	**21.5**	**48.5**	**70.0**
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	152.1	(289.1)	(137.0)	110.2	206.1	316.3
Tax on profit/(loss) before tax at 24% (2012: 26%)	**36.5**	**(69.4)**	**(32.9)**	**28.6**	**53.6**	**82.2**
Effect of:						
Expenses not deductible for tax purposes, research and development relief and non-taxable items	(12.4)	49.0	36.6	(11.8)	(2.5)	(14.3)
Current tax losses for which no deferred tax asset was recognised	(2.2)	–	(2.2)	(4.3)	–	(4.3)
Deferred tax impact of change in rates	0.7	(0.1)	0.6	1.4	–	1.4
Deferred tax in respect of prior years	0.1	–	0.1	0.9	–	0.9
Effect of different rates in overseas jurisdictions	6.5	(12.5)	(6.0)	6.7	(2.6)	4.1
Taxation expense/(income)	**29.2**	**(33.0)**	**(3.8)**	**21.5**	**48.5**	**70.0**
Effective tax rate	**19.2%**		**2.8%**	**19.5%**		**22.1%**

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 2013 Finance Bill allows the continued recognition of R&D tax credits in the tax line until April 2016, when mandatory 'Above the Line' treatment is introduced, which could increase the Group's effective tax rate over time to a blend of the US and UK corporation tax rates.

The 2013 Budget delivered on 20 March 2013 announced that the UK corporation tax rate will reduce to 21% on 1 April 2014 and to 20% on 1 April 2015. A reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012. These changes will reduce the Group's future tax charge accordingly. The deferred tax asset at 31 March 2013 has been calculated based on the rate of 23% substantively enacted at the balance sheet date. It has not yet been possible to quantify the full anticipated effect of the announced rate reductions in 2014 and 2015, although these will further reduce the Group's future tax charge and reduce the Group's deferred tax asset accordingly.

At 31 March 2013, the Group had unused tax losses of £202.7m (2012: £200.0m) potentially available for offset against future profits.

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7. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2013 and 2012 is provided below:

	Pence per share	£m	Date paid/ payable
Interim 2013	1.10	7.1	Feb 2013
Final 2013 (proposed)	2.70	17.6	Sept 2013
Total for the year ended 31 March 2013	**3.80**	**24.7**	
Interim 2012	0.90	5.8	Feb 2012
Final 2012	2.00	13.0	Sept 2012
Total for the year ended 31 March 2012	**2.90**	**18.8**	

The Directors propose a final dividend of 2.70p (2012: 2.00p) per share. The dividend, which is subject to shareholder approval, will be paid on 6 September 2013. The ex-dividend date is 7 August 2013 and the record date is 9 August 2013.

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, because the Directors consider this gives a more relevant indication of underlying business performance and reflects the adjustments to basic earnings per share for the impact of specific adjusting items, amortisation of acquired intangible assets and tax thereon.

For the year ended 31 March		2013	2012 (restated^)
Basic EPS			
(Loss)/profit attributable to equity shareholders	£ million	(133.2)	246.3
Weighted average number of shares	Million	648.7	650.5
Basic EPS	Pence	**(20.5)**	**37.9**
Diluted EPS			
(Loss)/profit attributable to equity shareholders	£ million	(133.2)	246.3
Weighted average number of shares	Million	648.7	650.5
Effect of dilutive securities[1]	Million	–	4.0
Diluted number of shares	Million	648.7	654.5
Diluted EPS	Pence	**(20.5)**	**37.6**

[1]The loss attributable to equity shareholders in the year ended March 2013 results in the effect of dilutive securities on the weighted average number of shares being nil in 2013.

		2013	2012 (restated^)
Underlying basic EPS			
(Loss)/profit attributable to equity shareholders	£ million	(133.2)	246.3
Loss/(profit) after tax in respect of acquisition amortisation and specific adjusting items	£ million	256.1	(157.6)
Underlying profit after taxation	£ million	122.9	88.7
Weighted average number of shares	Million	648.7	650.5
Underlying basic EPS	Pence	**18.9**	**13.6**
Underlying diluted EPS			
(Loss)/profit attributable to equity shareholders	£ million	(133.2)	246.3
Loss/(profit) after tax in respect of specific adjusting items	£ million	256.1	(157.6)
Underlying profit after taxation	£ million	122.9	88.7
Weighted average number of shares	Million	648.7	650.5
Effect of dilutive securities	Million	7.1	4.0
Diluted number of shares	Million	655.8	654.5
Underlying diluted EPS	Pence	**18.7**	**13.5**

* Definitions of underlying measures of performance can be found in the glossary.

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

9. Goodwill

all figures in £ million	2013	2012
Cost		
At 1 April	564.2	566.2
Disposals	–	(3.0)
Foreign exchange	28.8	1.0
At 31 March	**593.0**	**564.2**
Impairment		
At 1 April	(44.9)	(45.1)
Disposals	–	0.3
Impairment	(255.8)	–
Foreign exchange	(1.9)	(0.1)
At 31 March	**(302.6)**	**(44.9)**
Net book value at 31 March	**290.4**	**519.3**

Goodwill at 31 March 2013 was allocated across various CGUs in the following segments: UK Services (two), Global Products (two) and US Services (one).

Goodwill is attributable to the excess of consideration over the fair value of net assets acquired and includes expected synergies, future growth prospects and employee knowledge, expertise and security clearances. The Group tests goodwill impairment for each CGU annually, or more frequently if there are indications that goodwill might be impaired.

Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates. Significant headroom exists in all CGU's with the exception of US Services, discussed below, and management considers that there are no likely variations in the key assumptions which would lead to an impairment being recognised in any of the other CGU's.

Key assumptions

Cash flows

The value-in-use calculations use discounted future cash flows based on financial plans approved by the Board covering a two-year period. Cash flows for periods beyond this period are extrapolated based on the second year of the two-year plan, with a terminal growth-rate assumption applied. Cash flows of the US Services division in 2013 were affected adversely by the continued budget uncertainty and reduced Federal spending which resulted in 12% organic reduction in revenue compared to the prior year. Customers continue to defer decisions leading to delay of new and incremental orders, the de-scoping of some existing work and the cancellation of some contract re-competes with shorter-term extensions being awarded in their place. The cash flow assumptions for the US Services CGU reflect the challenges described above.

Terminal growth rates

The specific plans for each of the CGUs have been extrapolated using a terminal growth rate of 2.0%-3.0% (2012: 2.0%-3.0%). Growth rates are based on management's estimates which take into consideration the long-term nature of the industry in which the CGUs operate and external forecasts as to the likely growth of the industry in the longer term.

Discount rates

The Group's weighted average cost of capital was used as a basis in determining the discount rate to be applied adjusted for risks specific to the market characteristics of CGUs as appropriate on a pre-tax basis. This is considered to appropriately estimate a market participant discount rate. The pre-tax discount rates applied for the two UK Services CGUs were 10.6% and 10.7%, for the US Services CGU 9.7%, and for the Global Products CGUs 9.7% and 10.4%.

Sensitivity analysis shows that both the discount rate and growth rate assumptions are key variables that have an impact on the outcome of the recoverable amount.

Significant CGUs

The value in use of the US Services CGU, calculated using the key assumptions discussed above, was lower than the carrying value of the CGU's net operating assets which resulted in an impairment of £255.8m. Sensitivity analysis shows that a decrease or increase of 1% in the discount rate assumption would result in an impairment of £180.2m or £301.2m respectively. Sensitivity analysis also shows that a decrease or increase of 1% in the terminal growth rate would result in an impairment of £300.0m or £182.1m. The carrying value of goodwill for this CGU as at 31 March 2013, after impairment, was £142.8m and its net operating assets excluding

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goodwill were £88.0m. A reduction of 5% in the value of the terminal year cash flows would result in an addition £12.4m reduction in the carrying value of goodwill.

The Technology Solutions CGU in the US has significant headroom. An increase in the discount rate or a decrease in the terminal growth rate of 1% would not cause the net operating assets to exceed their recoverable amount. The carrying value of goodwill for this CGU as at 31 March was £111.7m.

The Technology Solutions CGU in the UK and the individual CGUs within UK Services all have significant headroom. An increase in the discount rate or a decrease in the terminal growth rate by 1% would not cause the net operating assets to exceed their recoverable amount. The carrying value of goodwill for the Technology Solutions CGU in the UK as at 31 March was £5.7m. The carrying value of goodwill for the UK Services CGUs as at 31 March was £27.5m and £2.7m.

The Directors have not identified any other likely changes in other significant assumptions between 31 March 2013 and the signing of the financial statements that would cause the carrying value of the recognised goodwill to exceed its recoverable amount.

10. Net cash/debt

As at 31 March 2013

	2013			2012		
all figures in £ million	Assets	Liabilities	Net	Assets	Liabilities	Net
Current financial assets/(liabilities)						
US$ private placement notes – 7.13%	–	–	–	–	(15.9)	(15.9)
US$ private placement notes – 7.62%	–	–	–	–	(67.3)	(67.3)
Deferred financing costs	–	0.6	0.6	–	0.6	0.6
Borrowings	–	0.6	0.6	–	(82.6)	(82.6)
Derivative financial instruments	0.1	(0.2)	(0.1)	0.1	(0.1)	–
Finance lease debtor/(creditor)	2.5	(2.4)	0.1	2.3	(2.2)	0.1
Total current financial assets/(liabilities)	**2.6**	**(2.0)**	**0.6**	**2.4**	**(84.9)**	**(82.5)**
Non-current assets/(liabilities)						
US$ private placement notes – 7.13%	–	(29.2)	(29.2)	–	(26.6)	(26.6)
US$ private placement notes – 5.50%	–	(32.1)	(32.1)	–	(30.4)	(30.4)
US$ private placement notes – 7.62%	–	(106.4)	(106.4)	–	(102.0)	(102.0)
Deferred financing costs	–	0.5	0.5	–	1.0	1.0
Borrowings	–	(167.2)	(167.2)	–	(158.0)	(158.0)
Derivative financial instruments	–	(0.1)	(0.1)	0.1	–	0.1
Finance lease debtor/(creditor)	4.3	(4.0)	0.3	6.8	(6.4)	0.4
Total non-current financial assets/(liabilities)	**4.3**	**(171.3)**	**(167.0)**	**6.9**	**(164.4)**	**(157.5)**
Cash	32.6	–	32.6	46.2	–	46.2
Cash equivalents	207.8	–	207.8	71.6	–	71.6
Total cash and cash equivalents	**240.4**	**–**	**240.4**	**117.8**	**–**	**117.8**
Total net cash/(debt) as defined by the Group			**74.0**			**(122.2)**

At 31 March 2013 £2.7m (2012: £5.2m) of cash was held by the Group's captive insurance subsidiary, including £0.2m (2012: £0.2m) that was restricted in its use.

All US$ private placement notes have been issued as fixed-rate bonds and have not been converted to floating-rate. In the year ended 31 March 2013 the Group completed the previously announced programme to repay US$177m of private placement debt.

* Definitions of underlying measures of performance can be found in the glossary.

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

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

all figures in £ million	2013	2012
Increase in cash in the year	121.6	15.2
Repayment of US$ private placement notes	63.0	133.6
Settlement of forward contracts	1.3	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 cash/debt resulting from cash flows	**185.7**	**150.2**
Amortisation of deferred financing costs	(0.5)	(0.6)
Finance lease receivables	0.7	0.9
Finance lease payables	(0.6)	(0.8)
Foreign exchange and other non-cash movements	10.9	(11.0)
Movement in net cash/debt in year	**196.2**	**138.7**
Net debt at beginning of year	(122.2)	(260.9)
Net cash/(debt) at 31 March 2013	**74.0**	**(122.2)**

11. Post-retirement benefits

The Company has implemented IAS 19 (revised) 'Employee benefits' in the year ended 31 March 2013, electing to adopt this standard early. Comparative figures have been restated to show the effect of this early adoption. Refer to note 1.

The fair value of the QinetiQ Pension Scheme assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods, and thus inherently uncertain, were:

all figures in £ million	2013	2012	2011	2010	2009
Equities	487.3	583.2	564.1	714.6	473.7
LDI investment*	205.9	–	–	–	–
Corporate bonds	276.8	194.6	158.7	69.5	78.4
Alternative bonds**	174.8	–	–	–	–
Government bonds	–	183.5	165.3	69.6	83.2
Property	81.3	82.4	78.0	53.4	–
Other	30.4	64.2	15.0	8.8	12.1
Total market value of assets	**1,256.5**	**1,107.9**	**981.1**	**915.9**	**647.4**
Present value of scheme liabilities	(1,310.6)	(1,139.4)	(1,105.7)	(1,063.2)	(752.6)
Net pension liability before deferred tax	**(54.1)**	**(31.5)**	**(124.6)**	**(147.3)**	**(105.2)**
Deferred tax asset	13.7	13.3	32.4	41.2	29.4
Net pension liability	**(40.4)**	**(18.2)**	**(92.2)**	**(106.1)**	**(75.8)**

* The Scheme has assets invested in a Liability Driven Investment portfolio. As at 31 March this hedges against approximately 14% of the interest rate and 11% of the inflation rate risk, as measured on the Trustee's gilt-funding basis.

**Includes allocations to high-yield bonds, secured loans and emerging market debt.

Changes to the fair value of scheme assets

all figures in £ million	2013	2012 (restated^)
Opening fair value of scheme assets	1,107.9	981.1
Interest income on scheme assets	53.3	54.0
Re-measurement gain on scheme assets	78.4	18.2
Contributions by the employer	40.8	83.2
Contributions by plan participants	0.1	0.1
Net benefits paid out and transfers	(22.0)	(27.0)
Administrative expenses	(2.0)	(1.7)
Closing fair value of scheme assets	**1,256.5**	**1,107.9**

* Definitions of underlying measures of performance can be found in the glossary.

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

Changes to the present value of the defined benefit obligation

all figures in £ million	2013	2012 (restated^)
Opening defined benefit obligation	1,139.4	1,105.7
Current service cost	18.7	20.8
Interest cost	54.6	61.2
Contributions by plan participants	0.1	0.1
Actuarial loss/(gain) on scheme liabilities based on:		
Change in financial assumptions	103.8	113.2
Change in demographic assumptions	–	18.7
Experience losses/(gains)	16.7	(10.8)
Curtailment gain	(0.7)	–
Past service gain	–	(142.5)
Net benefits paid out and transfers	(22.0)	(27.0)
Closing defined benefit obligation	**1,310.6**	**1,139.4**

Total income/expense recognised in the income statement

all figures in £ million	2013	2012 (restated^)
Pension costs charged to the income statement:		
Current service cost	18.7	20.8
Past service gain (including curtailments)	(0.7)	(142.5)
Net interest on the net defined benefit liability	1.3	7.2
Administrative expenses	2.0	1.7
Total expense/(income) recognised in the income statement (gross of deferred tax)	**21.3**	**(112.8)**

Assumptions

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

	2013	2012
Rate of increase in salaries	3.7%	3.6%
Discount rate applied to scheme liabilities	4.4%	4.8%
CPI inflation assumption	2.7%	2.6%
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	92

12. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £54.3m at 31 March 2013 (2012: £55.1m) in the ordinary course of business.

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

The Group has not recognised contingent amounts receivable relating to the Chertsey property which was disposed of during 2004 or the Fort Halstead property disposed of in September 2005. Additional consideration, 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.

* Definitions of underlying measures of performance can be found in the glossary.

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

13. Cash flows from operations

For the year ended 31 March

all figures in £ million	2013	2012 (restated^)
(Loss)/profit after tax for the year	**(133.2)**	**246.3**
Adjustments for:		
Taxation (income)/expense	(3.8)	70.0
Net finance costs	17.9	56.6
Gain on business divestments and disposal of investments	(2.9)	(11.6)
Impairment of investments	0.6	–
Amortisation of purchased or internally developed intangible assets	4.0	9.0
Amortisation of intangible assets arising from acquisitions and impairments	14.0	20.3
Impairment of goodwill	255.8	–
Depreciation and impairment of property, plant and equipment	32.0	32.5
Loss/(gain) on disposal of property, plant and equipment	0.8	(5.8)
Share of post-tax profit of equity accounted entities	(0.1)	(0.1)
Share-based payments charge	5.5	4.2
Gain in respect of previously capitalised DTR programme bid costs	–	(4.1)
Changes in retirement benefit obligations	(20.1)	(60.7)
Pension curtailment gain	(0.7)	(1.1)
Pension past service gain	–	(141.4)
Net movement in provisions	17.7	(15.8)
	187.5	198.3
Decrease in inventories	6.6	12.1
Decrease in receivables	124.1	1.2
(Decrease)/increase in payables	(60.7)	30.3
Changes in working capital	**70.0**	**43.6**
Cash generated from operations	**257.5**	**241.9**
Add back: cash (inflow)/outflow relating to restructuring	(63.1)	8.9
Net cash flow from operations before restructuring costs	**194.4**	**250.8**

* Definitions of underlying measures of performance can be found in the glossary.

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.

Glossary

Book to bill ratio Ratio of funded orders received in the year to revenue for the year, adjusted to exclude revenue from the 25-year LTPA contract

C4ISR Command, control, communications, computers, intelligence, surveillance and reconnaissance

COTS Commercial off-the-shelf

CPI Consumer Price Index

DoD US Department of Defense

DTR MOD's Defence Training Rationalisation programme

DE&S MOD's Defence, Equipment and Support organisation

EBITDA Earnings before interest, tax, depreciation and amortisation

EPS Earnings per share

Funded backlog The expected future value of revenue from contractually committed and funded customer orders (excluding £3.4bn value of the remaining 15 years of the LTPA contract)

Gearing ratio This is the ratio of net debt to adjusted EBITDA in accordance with the Group's credit-facility ratios. 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

IDIQ Indefinite Delivery/Indefinite Quantity

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

Organic Growth The level of year-on-year growth, expressed as a percentage, calculated at constant foreign exchange rates, adjusting comparatives to incorporate the results of acquired entities but excluding the results for any disposals or discontinued operations for the same duration of ownership as the current period

Specific adjusting items Net restructuring charges/recoveries; net pension finance expense; 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

UK GAAP UK Generally Accepted Accounting Practice

Underlying basic earnings per share Basic earnings per share as adjusted to exclude 'specific adjusting items'

Underlying effective tax rate The tax charge for the year excluding the tax impact of 'specific adjusting items' expressed as a percentage of underlying profit before tax

Underlying net cash from operations (post capex) Net cash inflow from operations before restructuring costs less net cash outflow on purchase/sale of intangible assets and property, plant and equipment

Underlying net finance costs Interest cost on the defined benefit pension scheme's liability offset by the interest income on the scheme's assets

Underlying operating cash conversion The ratio of underlying net cash from operations (post capex) to underlying operating profit excluding share of post-tax result of equity-accounted joint ventures and associates

Underlying operating margin Underlying operating profit expressed as a percentage of revenue

Underlying operating profit Operating profit as adjusted to exclude 'specific adjusting items'

Underlying profit before tax Profit before tax as adjusted to exclude 'specific adjusting items'

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

* Definitions of underlying measures of performance can be found in the glossary.
^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly. Refer to note 1.