QinetiQ Group plc

22 May 2014
For release at 0700 hours

Preliminary Results for the year ended 31 March 2014

	2014	2013
Business Performance		
Revenue	**£1,191.4m**	£1,327.8m
Underlying operating profit*	**£132.7m**	£168.7m
Underlying operating margin*	**11.1%**	12.7%
Underlying profit before tax*	**£119.4m**	£152.1m
Underlying net cash from operations* (post capex)	**£136.5m**	£175.9m
Underlying cash conversion ratio*	**103%**	104%
Net cash	**£170.5m**	£74.0m
Underlying earnings per share*	**16.0p**	18.9p
Full year dividend per share	**4.60p**	3.80p
Statutory Reporting		
Operating profit/(loss)	**£24.0m**	£(121.4)m
Profit/(loss) before tax	**£4.1m**	£(137.0)m
Loss after tax	**£(12.7)m**	£(133.2)m
Earnings per share – basic	**(1.9)p**	(20.5)p

Headlines

- Return to organic growth in EMEA Services
- Reduction in US conflict-related product sales and profits against strong prior year
- New Proxy Board and Chairman to help reposition US Global Products
- Sale of US Services after the year end creating a stronger, more focused Group
- Net impact of US Services sale, capital return and debt pay-down expected to enhance EPS
- Initiating previously announced £150m share buyback on completion of disposal
- Balance sheet strengthened by high cash conversion and DB pension closure to future accrual
- Maintaining expectations for overall Group performance in the current financial year
- Continuing Group better positioned to deliver rising sustainable earnings
- 21% increase in full year dividend reflecting confidence in Organic-Plus strategy

Leo Quinn, QinetiQ Chief Executive Officer said:

"Four years ago, QinetiQ faced significant challenges. Our response has been to build a stronger Group from the ground up: leaner, debt-free and focused on those capabilities most needed by our customers following the recent reset in defence budgets. The sale of US Services is a key milestone in the Group's transformation.

"From this foundation, our people are working hard across QinetiQ to deliver our growth strategy.

"In continuing uncertain markets, our EMEA Services division has achieved its first sales uplift in five years with all the core services businesses playing their part. A new Proxy Board and Chairman were appointed

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just after the year end to assist management in repositioning US Global Products and addressing its performance. Among our newer operations, OptaSense® is executing on landmark contracts in its three key vertical markets and received Queen's Awards for Export and Innovation. Our developing cyber offerings and procurement advisory services have been established as strategic business units to realise their full potential.

"We now have a Group strongly differentiated by its expertise, innovation and financial discipline. Our portfolio combines high quality earnings with growth opportunities in new sectors and geographies, importantly underpinned by the right values and commercial culture."

ENDS

Other information

There will be a presentation of the preliminary results to analysts at 0900 hours UK time on 22 May 2014 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 0203 059 8125 (confirmation: QinetiQ).

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Group Overview

Revenue was £1,191.4m (2013: £1,327.8m). EMEA Services delivered organic growth for the first time in five years, increasing revenue by 3% on an organic basis at constant currency. The performance of US Services was impacted by continued uncertainty in the US federal services market. In Global Products, there was a decrease in US conflicted-related sales against the very strong prior year levels of Q-Net® deliveries.

Underlying operating profit* fell to £132.7m (2013: £168.7m) due primarily to the impact of the US military drawdown on product sales.

Underlying profit before tax* was £119.4m (2013: £152.1m) with underlying net finance costs* falling to £13.3m (2013: £16.6m) as a result of lower levels of private placement debt.

Full year underlying earnings per share* were 16.0p (2013: 18.9p), in line with the lower underlying operating profit partially offset by the reduced net finance costs and lower underlying effective tax rate*. The latter fell to 12.9% (2013: 19.2%), reflecting the geographic split of profits between the UK and the US. Basic earnings per share were a loss of 1.9p (2013: 20.5p loss per share).

The Group has agreed to sell US Services for an initial cash consideration of $165m plus a potential earnout of up to $50m. A non-cash goodwill impairment of £84m has been recognised in the 2014 financial year, as a specific adjusting item, but the full impact of the disposal and associated transactions will be shown in the accounts for the year ending 31 March 2015. The US products business will incur circa $5m one-off costs during H1 separating from US Services infrastructure.

Specific adjusting items also included a non-cash impairment of £41.9m to acquired goodwill in the US Global Products division, partially offset by a £31.1m reduction in the Group's pension scheme liability following closure to future accrual.

Including these specific adjusting items, the statutory loss after tax was £12.7m (2013: £133.2m loss.)

The Group is highly cash generative and disciplined about cash management with underlying operating cash conversion* remaining strong at 103% (2013: 104%). At 31 March 2014, net cash was £170.5m (31 March 2013: £74.0m).

On completion of the sale of US Services, the Group will pay £6m into its pension scheme and make early repayment of its remaining $248m private placement debt, improving the efficiency of the Group's balance sheet. Following recognition of the associated accelerated interest costs of approximately $47m, future interest expense will be reduced by approximately $18 million per year. The Group retains revolving credit facilities totalling £268m at 31 March 2014 which are undrawn.

The Group will also initiate the previously announced £150m capital return to shareholders by way of an on-market share buyback on completion of the disposal. The Board believes that the scale of the proposed share buyback reflects its confidence in the Organic-Plus strategy and the strong cash generative characteristics of the Group, while taking into account the continuing uncertainty in QinetiQ's end markets, its pension obligations and its current working capital position. Once complete, the net effect of the disposal, together with the share buyback and the early repayment of private placement debt, is expected to enhance earnings per share.

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The Board proposes a final dividend of 3.20p per share for the year ended 31 March 2014 (31 March 2013: 2.70p) making the full year dividend 4.60p (31 March 2013: 3.80p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 5 September 2014 to shareholders on the register at 8 August 2013. The full year dividend represents an increase of 21% reflecting the Board's confidence that the Group's Organic-Plus strategy will deliver value to shareholders over the medium term. The Board's policy is that the dividend will be progressive from this new level which is consistent with the strength of the retained Group.

Strategy

Having delivered on the goals of its 24-month self-help programme, including the strengthening of its balance sheet, in May 2012 the Group set out the next phase of its development in its Organic-Plus strategy.

The Group will meet its goal of delivering rising sustainable earnings by investing in its strong core businesses to win market share in both the UK and international markets. The intellectual property developed by the core businesses through working with customers provides the Group with potential new revenue streams.

The Group is investing in a select number of established ('Explore') services and solutions businesses, including OptaSense®, Cyveillance®, and its Training business, to determine their ability to scale into significant future revenues particularly in new sectors, accelerated as appropriate by alliances and acquisitions.

At the same time, early stage ('Test for Value') offerings, such as MEWS™, Integrated Warrior™ and Linewatch™ power line sensors, are evaluated to determine their potential for value and how best to realise this, including through partnerships and licensing.

The sale of US Services is a key step in transforming QinetiQ into a stronger, more focused Group that offers high end technical expertise and is highly differentiated in its chosen markets. The retained Group is built around innovation, providing a dynamic source of both domain knowledge and selective future offerings.

The new Group consists of high quality core businesses in defence and security, with unique strengths that are transferable to other geographies, and growth opportunities, particularly in new sectors and markets. It is now better positioned to deliver an increase in sustainable earnings from its Organic-Plus strategy and sufficiently cash generative to support both ongoing investment in growth opportunities and a progressive dividend policy.

Following the disposal, QinetiQ will operate two divisions: EMEA Services and Global Products. A comprehensive business-by-business update on the Organic-Plus programme is provided in the Business overview.

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Summary of 'Core', 'Explore' and 'Test for Value' capabilities

'Core' **c85% of revenue**	**'Explore'** **c10% of revenue**	**'Test for Value'** **c5% of revenue**
EMEA Services: • Air • Weapons • Maritime • C4ISR • Australia	Standalone businesses: • Training • Cyber Security (includes protective monitoring) • Cyveillance® • Procurement Advisory Services Embedded in core businesses: • International ranges (Weapons) • UAS Services (Air)	• International procurement advice • Smart metering assurance • Directed Energy Weapons • Secured navigation systems (Galileo)
Global Products: • TALON® • Q-Net® • LAST® Armor • SWATS™	Standalone businesses: • OptaSense® (plus RIO acquisition) • Space Products Embedded in core businesses: • Robotic applique kits and controllers (Unmannned Systems)	• Alarm™ • E-X-Drive® • Integrated Warrior System™ • MEWS™ • Power Line Sensors (Linewatch™)

Trading Environment

UK

Service offerings to government customers account for the majority of UK sales, principally to the Ministry of Defence (MOD). This position, providing client-side support independent from the defence supply chain, sets QinetiQ apart from the majority of the larger UK defence suppliers with whom the Group often works in partnership.

This position in the supply chain also defines which elements of the MOD's budget account for the majority of revenue. In general, QinetiQ is not impacted by changes in single procurement projects and their budgets. Instead the Group accesses a broad range of budgets for research, technical advice, and test and evaluation across all military domains and the majority of equipment programmes.

The UK Government's priorities for defence (beyond success in current operations) are financial stability coupled with essential transformation. The MOD has made considerable progress in the last three years balancing its budget. In addition, although the MOD did not adopt a Government Owned Contractor Operated model for its procurement agency, DE&S, the agency is for the first time operating at arm's length from government with greater responsibility for managing its business, outputs and workforce. This is creating some uncertainty in the UK defence market as DE&S shapes its policies and procedures. A new set of regulations and pricing terms for single source contracts, known as the "Yellow Book," is also progressing through Parliament as part of this transformation programme. Because QinetiQ's combination of facilities

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and capabilities is unique in the UK, EMEA Services often contracts under single source rules so the Group is following closely the implementation of the new regime.

The EMEA Services division is well placed to capitalise on opportunities created by the defence transformation programme having aligned its structure to the Front Line Commands (Navy, Army, Air) that have taken on responsibility for managing military capability and budget. In addition, the creation of a Joint Forces Command provides a new channel into which the C4ISR and Cyber businesses can deliver their capabilities. As the private sector leader in defence research, QinetiQ's EMEA Services division has also benefitted from improved visibility of defence research spending, which has been stabilised at around £400m per annum until 2015.

US

QinetiQ's disposal of its US Services division removes the Group's exposure to the US federal services market. US Services was not delivering on its role in the portfolio which was to grow profitably by building market share, because it was too small to generate significant economies of scale, but too large to benefit from US government small business set-aside initiatives. QinetiQ, as a UK-listed company, also faced additional administrative obligations and costs associated with US national security to which the purchaser, as a US company, will not be subject.

The Global Products division continues to have a significant US footprint which provides a route to the world's largest defence market. While demand for conflict-related products is being impacted by the drawdown of US military forces from Afghanistan, US military customers are currently assessing their post-war requirements and formulating new programs of record. To reduce the volatility of the division's revenue over time, QinetiQ is seeking both to widen its products portfolio, and to find new sectors and applications for existing technology offerings.

International

QinetiQ's traditional geographic markets are the UK and US, but the Group is now pursuing a pipeline of international opportunities to build on the order momentum achieved in the 2014 financial year. Many of these opportunities leverage the reputation of EMEA Services for a unique range of capabilities and facilities. For example, as the Canadian and Australian Governments pursue similar defence transformation programmes to the UK, they value the independent advice, test and evaluation provided by QinetiQ to support better procurement. Governments in Europe, the Middle East and Asia are also building their defence and security capabilities, increasing the demand for such expertise as offered by QinetiQ businesses such as C4ISR and Unmanned Systems, both of which increase their international sales in the year.

New market sectors

Much of QinetiQ's innovation arises from working closely with defence customers to address their requirements, generating technology and expertise with potential to be transferred into new sectors offering higher growth potential. The Group's Organic-Plus strategy is designed to manage, test and triage these options appropriately to develop the portfolio beyond defence into commercial lines of revenue. The Group then invests in and monitors the resulting businesses to develop significant sales and scale.

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Outlook

Notwithstanding the strong performance in EMEA Services last year, the MOD transformation programme is likely to create some short-term uncertainty in the UK defence market, and the division's performance as a whole is expected to remain steady this year.

At the same time there is a wide range of possible outcomes for the performance of Global Products as the division has a lumpy revenue profile which is dependent on the timing and shipment of key orders. Although newer products are recording notable milestones, the drawdown of American overseas military forces is expected to continue to depress demand for conflict-related products, and the division is unlikely to see significant benefits from the repositioning of its US operations until later in the year.

The Board is maintaining its expectations for overall Group performance in the current financial year.

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Business Overview

EMEA Services

	2014 £m	2013^ £m
Orders[1]	**447.8**	402.2
Revenue	**607.0**	594.6
Underlying operating profit*	**86.7**	84.8
Underlying operating margin*	**14.3%**	14.3%
Book to bill ratio[1]	**1.1x**	1.0x
Funded backlog[1]	**686.3**	640.7

(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.

Market and operational review

EMEA Services (formerly UK Services) performed well throughout the year in an environment where the UK Government remains focused on financial stability and defence transformation. The division delivered organic growth for the first time in five years, increasing revenue by 3% on an organic basis at constant currency. The C4ISR business performed particularly strongly and the other core Air, Weapons and Maritime businesses all produced good results.

Orders grew 11% to £447.8m (2013: £402.2m^), demonstrating the unique strengths of the division and its highly differentiated position in the UK market. International order intake was also encouraging, and the division was renamed EMEA Services during the year to reflect its current and potential geographic end markets.

Underlying operating profit* increased to £86.7m (2013: £84.8m^) as a result of continued productivity improvements and better project execution embedded during the self-help phase, enhanced by the contribution of certain international projects.

Organic-Plus update

EMEA Services combines world-leading expertise with unique facilities to provide technical assurance, test and evaluation, and training services, mainly under long-term contracts. The division is also a market leader in research and advice in specialist areas such as C4ISR, acquisition services and cyber security. Its structure is closely aligned to the Front Line Commands (Navy, Army and Air) that have taken on responsibility for managing military capability, and the creation of a Joint Forces Command provides a new sales channel for its C4ISR and Cyber businesses. The EMEA Services division is also leveraging its core strengths and intellectual property to pursue a pipeline of opportunities in new sectors and international markets.

QinetiQ's Air business combines unique facilities, capabilities and world-class experts to de-risk complex aviation programmes by testing military aircraft and equipment, evaluating the risks and assuring safety. Its core business delivers test and evaluation for the MOD as well as aircraft manufacturers. During the year it was awarded a £16m contract to support the conversion of Merlin helicopters for maritime use, and renewed a multi-year contract with Boeing for the wind tunnel testing of future aircraft designs. The business is building market share beyond test and evaluation and won its first major engineering services contract to extend the life of an RAF aircraft type. The year also saw the first flight of the Watchkeeper Unmanned Air System (UAS) from Boscombe Down, which QinetiQ operates and manages for the MOD. The business is looking to leverage its UAS expertise through an agreement to develop the Llanbedr Airfield in

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Wales as a test range for UAS development, and through the provision of turn-key remotely piloted aircraft services to military and commercial customers.

The Weapons business provides independent research, evaluation and training services for integrated weapons systems. Its core business operates ranges, managing upgrades and enhancements for these strategically important facilities. It also provides research and advice, principally through a four-year contract to manage the Weapons Science and Technology Centre which was awarded at the start of the year. The Weapons business is working with its customers and supply chain partners to combat the growing threat from Fast In-Shore Attack Craft and is supporting the MOD's 'soft market testing' phase of a new, more efficient approach to the management of the UK's £6bn munitions inventory. The business delivered test and evaluation services to international governments in Europe and South Korea during the year. It is also responding to increased demand for advice on range design, management and operations from international customers looking to enhance their in-country capabilities.

QinetiQ's Maritime business provides independent research, design, integration, test and evaluation to naval clients worldwide, with significant revenue underpinned by three long-term contracts. The core UK Maritime business delivered strong order intake throughout the year driven by demand for expertise to support vital submarine capability. As well as test and evaluation, the business is establishing a new hydrodynamic development facility and designing signature measurement facilities for the 'Successor' (future nuclear deterrent) and Maritime Underwater Future Capability programmes. In addition, the Maritime business opened a Communications Development and Integration Facility during the year to de-risk the procurement of future communications systems, and won a £5m contract from a competitor shortly after year end to deploy and maintain the MOD's mobile underwater targets. It is also leveraging core strengths to win new international work, securing a contract from Daewoo Shipbuilding to support the development of the Republic of Korea's new KSS-III attack submarine.

QinetiQ's C4ISR business is a leading supplier of research and advice on sensors, communications and intelligence. The business manages significant enabling contracts, working with partners to deliver C4ISR research for the MOD. During the year it was awarded two new research enabling contracts, unseating the incumbent supplier to win an enabling contract for defence logistics research, and winning the next stage of the contract under which it leads research into secure information infrastructure. The independent technical expertise of its scientists and engineers is in demand in the UK to provide advice on the transition required following the Afghanistan conflict and in support of the new Joint Forces Command. There is also encouraging demand from international customers, and during the year the business advised governments in Europe, the Middle East and South East Asia on the procurement of complex C4ISR technology.

QinetiQ Australia is a multi-disciplinary engineering and consultancy business, within the defence, maritime and rail markets. Despite short-term uncertainty following September's federal election, the core defence business has continued to grow, underpinned by partnership contracts with the Department of Defence to support the airworthiness of military aircraft and develop sovereign munitions manufacturing facilities. During the year the business won positions on new government framework contracts known as "panels" and grew its footprint in the maritime market by supporting the Hydrographic Systems, Frigates and Helicopter Dock Program Offices. Future opportunities exist as a result of the Coalition Government's commitment to restore defence expenditure to 2% of GDP within ten years, as well as in adjacent markets such as rail.

In the 'Explore' category of its portfolio, QinetiQ is nurturing certain products and services to determine their ability to scale. While some of these solutions remain embedded within the appropriate core business, significant progress has been made establishing the more mature growth opportunities as distinct, agile business units better placed to realise their potential.

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QinetiQ's Cyber 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. During the year the business transferred responsibility for certain core capabilities to the C4ISR business, and is now focused on growth in the UK public sector and smart infrastructure markets. The ability to monitor and identify incidents on IT systems is a key customer concern and the Cyber business was awarded a multi-year contract by the Ministry of Justice to provide protective monitoring of its networks. It was also awarded an £8m contract to provide data security services to the UK Government's smart meter programme. Opportunities also exist for international growth, with training and capability development providing important routes to market outside the UK, and to leverage the cyber intelligence capabilities provided by Cyveillance®.

Cyveillance®, which provides cyber intelligence and was formerly managed and reported under the US Services division, did not form part of the strategic review of that division but was instead extracted from the proxy governance into a standalone commercial entity. It complements QinetiQ's UK-based cyber activities and has been established as an 'Explore' business that in future will be reported as part of EMEA Services. A new leadership team has successfully commercialised Cyveillance®, with a renewed focus on the delivery of higher margin, repeatable security services to commercial markets. During the year, the business increased its revenue from US Fortune 500 customers as companies, particularly in regulated markets such as finance, energy and healthcare, established threat intelligence centres to predict and combat cyber risks. Cyveillance® is also extending its offering to small and medium-sized enterprises, investing in cloud-based platforms and in integrated support services that assist customers in collecting and prioritising threat intelligence.

The Group has also established a new Procurement Advisory Services business to deliver government procurement advice including tender assessment, cost and risk advisory services. The business, which employs a software and services model, is targeting complex procurement programmes in the highly regulated government, transport, energy and minerals markets. QinetiQ's safety capabilities, previously delivered by this business and focused primarily on defence customers, have been transferred to the Air business, where they complement existing release-into-service work. Procurement Advisory Services incorporates Commerce Decisions, a QinetiQ subsidiary, and its AWARD® procurement evaluation software used on projects totalling $140bn worldwide. The refocused business unit also provides a route of entry into international markets, as well as a bridgehead for capabilities offered across EMEA Services. Building on early successes in the Australian market, it won a position on the framework contract through which the Canadian Government procures technical and acquisition support in the second half of the year.

The Training and Simulation Services business has been renamed QinetiQ Training. While the business remains differentiated by its use of technology to reduce the cost of training, it will draw on training capability from across QinetiQ, allowing it to address larger opportunities. The Training business consolidated its position in the UK market during the year, increasing revenue on its flagship Distributed Synthetic Air Land Training (DSALT) programme at RAF Waddington and securing a two-year extension for the Defence Simulation Centre it has established for Joint Forces Command. It also won the re-compete of a £4m underpinning contract with the UK's Defence Science and Technology Laboratory (Dstl) for demonstrating the applicability of commercial off-the-shelf technologies, such as gaming technologies, to defence and security applications. The business has yet to realise the potential offered by the US market, but QinetiQ opened an office during the year in Orlando at the heart of the US simulation community.

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US Services

	2014	2013^
	£m	£m
Orders	**375.5**	450.7
Revenue	**408.8**	463.8
Underlying operating profit*	**19.0**	23.7
Underlying operating margin*	**4.6%**	5.1%
Book to bill ratio	**0.9x**	1.0x
Funded backlog	**153.6**	203.6

The Group has agreed to sell US Services to The SI Organization, Inc.

Market and operational Review

The performance of US Services was impacted by continued uncertainties in the US federal services market, despite a deal on the US defence budget being signed into law in December 2013, providing a more gradual path to lower defence spending than was previously mandated.

In this slower contracting environment, orders fell 17% from £450.7m^ in 2013 to £375.5m as a result of budget reductions and delays to customer decision-making on both new and incremental orders. This was exacerbated by the routine lodging of protests by unsuccessful bidders.

Revenue declined 12% on an organic basis at constant currency, impacted by funding reductions on certain contracts, some work ending in period, and the switching of some work to small business set-aside contracts.

Underlying operating profit* was £19.0m (2013: £23.7m^) with the widespread adoption of lowest-price-technically-acceptable evaluations driving highly competitive market conditions. However, the reduced performance of US Services was somewhat mitigated by actions implemented last year to place the US cost base on a more competitive footing which included reducing management and property costs, as well as the ongoing control of overheads to maintain competitive rates.

Organic-Plus update

US Services is a leading provider of technical services and solutions to the US federal government. The division has a broad client base with key customers including NASA, the Department of Homeland Security, the US Government's General Services Administration and the Intelligence Community as well as the US military.

At the beginning of the year, the division's two defence-focused businesses – Lifecycle Solutions and Software & Systems Engineering, were integrated to create Defense Solutions, which provides systems engineering, fleet management and software development services to defence agencies, as well as modelling and simulation for training. The business has a long record of providing aviation engineering services, and during the year it was awarded task orders totalling more than $30m on its two major framework contracts with the US Army Air Corps. The US Government's "pacific pivot" represents a resource shift to naval markets, and during the period the Defense Solutions business built on its strong base of contracts in the maritime domain by winning a $19m contract to provide Technical Authority Support to

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the Chief Engineer at the Space and Naval Warfare System Command (SPAWAR) and a $16m contract with the Office of Naval Research.

Aerospace Operations and Systems is one of the largest contractors to NASA and the largest contractor at the Kennedy Space Center, providing spaceflight and launch support, mission analytics, satellite integration, scientific data analysis and independent launch verification. The business is building on its reputation for the successful delivery of major engineering contracts to grow revenue on its major contracts with NASA, including the Engineering Services Contract at the Kennedy Space Center and the Environmental Test and Integration Services contract at the Goddard Space Flight Center. Key projects included re-manufacturing the Crawler Transporter at Kennedy and testing of the James Webb Space Telescope, NASA's replacement for the Hubble Space Telescope due for launch in 2018. The business is also leveraging its research and development credentials with NASA and the US Air Force to meet the need for scientific and intelligence data analysis in support of military intelligence organisations.

Mission Solutions provides enterprise IT, systems design and integrated software solutions to defence, security, intelligence agencies and other customers in the federal and civil markets. The business has reduced its overhead costs significantly over the last two years in response to headwinds from reduced spending on non-differentiated IT professional services and lowest-price-technically-acceptable acquisitions. The specialist expertise of its employees remains attractive to a range of customers and during the year Mission Solutions increased revenue from the General Services Administration, winning a new $14m contract from the Public Buildings Service for enterprise data management. It was also awarded a $15m follow-on contract for software development by the Maryland Procurement Office. Although revenue fell from the Department of Homeland Security, the business was awarded a position on the Department's EAGLE II contract that will serve as its platform for acquiring IT services over the next seven years.

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Global Products

	2014 £m	2013^ £m
Orders	**149.1**	223.9
Revenue	**175.6**	269.4
Underlying operating profit*	**27.0**	60.2
Underlying operating margin*	**15.4%**	22.3%
Book to bill ratio	**0.8x**	0.8x
Funded backlog	**74.3**	125.3

Market and operational review

The performance of Global Products was impacted by the drawdown of overseas US military forces that had an increased negative effect on demand for US conflict-related products, against a strong prior year. This was partially offset by the contribution from UK Global Products which benefitted from deliveries of the Alarm™ radar system and the Modular Electronic Warfare System (MEWS™). A new Proxy Board and Chairman for US Products were appointed just after the year end to assist management in repositioning the business and addressing its performance.

Orders were £149.1m (2013: £223.9m^) due to the reduced demand for US military products and spares. The division has shorter order cycles than the services divisions and was impacted by budget reductions and slippages in order flow as a result of the drawdown, partially offset by TALON® orders from Iraq and Pakistan with a combined value of $28m.

Revenue was £175.6m (2013: £269.4m^), underlining the division's dependency on the timing of delivery schedules for key orders. Q-Net® revenue during the year was $20m (2013: $120m) with minimal spares sales as a result of the reduced operational tempo as US forces leave Afghanistan.

As anticipated, this decline in Q-Net® deliveries, including spares, reduced underlying operating profit* to £27.0m (2013: £60.2m^), partially offset by an increased profit contribution from the UK products business and a £6m benefit from a favourable legal ruling on an historic onerous contract.

Organic-Plus update

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

The Unmanned Systems business is a world-leading provider of military robots. With the US military assessing their post-war requirements for robotics and formulating new programs of record, demand from customers in the US fell during the year but international sales more than doubled with $20m of TALON® robots delivered to Iraq, $8m to Pakistan and $3m of Dragon Runner™ sales to the Netherlands. The Unmanned Systems business is also increasing its portfolio of products, often partnering with universities such as the University of Texas at Arlington with whom it works to develop advanced robotic control systems. New offerings include low-cost, lightweight robots controlled by mobile devices that are designed for non-military applications.

* Definitions of underlying measures of performance can be found in the glossary.
^ 2013 segmental data has been restated to reflect the reclassification of product sales from EMEA Services to Global Products and the Cyveillance® business from US Services to EMEA Services.

The survivability business provides innovative products that protect people and assets, thereby saving lives. During the year the business delivered its Q-Net® vehicle survivability product to Oshkosh to fit to MATV vehicles under an $18m contract. It is also finding new markets outside the US as European governments rebuild military capabilities and governments in the Middle East and Asia increase their expenditure on security and defence. International product sales during the year included delivery of the Precision Air Drop System (PADS®) to a Middle Eastern customer and the Shoulder-Worn Acoustic Targeting System (SWATS™) to Germany. In the 'Test for Value' category, the business has developed an Integrated Warrior System™ that enables a soldier to plug-and-play multiple sensors through a lightweight vest and access data via a tablet or smartphone. The system has a wide range of applications including training, mission rehearsal and operations.

The division continues to diversify its product portfolio especially beyond defence. In the 'Explore' category some products, such as newer robotic technologies, remain embedded within the appropriate core business, but other more mature growth opportunities, such as OptaSense® and QinetiQ's Space Products business, have been established as distinct business units. Early-stage emerging technologies are classified in the 'Test for Value' category, with the relevant core business responsible for their development.

The OptaSense® bespoke fibre sensing business is the most mature of the 'Explore' opportunities in QinetiQ's portfolio, recently winning Queen's Awards for Export and Innovation. The development of the business has been accelerated by the acquisition of Redfern Integrated Optics (RIO), a market leading supplier of low noise semi-conductor lasers, with a turnover of $5m in 2013. The acquisition provides OptaSense® with access to current and future generations of highly coherent semi-conductor lasers that are ideally suited to distributed fibre sensing particularly in the harsh environment of oil and gas. OptaSense® technology has applications in multiple vertical markets in which the business normally looks to partner to achieve the necessary access and scale. The largest of these markets is down-hole oil and gas, and discussions are already underway with oilfield services companies to establish the optimum model to address this market. Following the end of the exclusivity period with Shell in 2013, the business has signed enabling agreements to supply its products and services to seven oil and gas companies including BP and Conoco Philips. OptaSense® continues to work with Shell under a three-year product development contract that was extended during the year to include the marinisation of its technology for the subsea and deep water market. The business also won the oil and gas industry's first multi-year 4D distributed acoustic sensing contract for the vertical seismic profiling of up to 12 oil wells simultaneously in Oman. In the rail market OptaSense® is partnering with Deutsche Bahn under an 18-month contract to develop applications and validate their ability to replace current rail sensors. The business also delivered trials for Austrian Rail on its infrastructure near Vienna and on the M5 and M4 motorways in the UK. In the infrastructure security market, OptaSense® won three key orders to protect over 1,600km of pipeline in the Middle East. This brought the total of new contracts from customers in the Middle East to $24m for the year and follows the decision to invest in the region two years ago. The business is also engaged in four pilot programmes for border security.

QinetiQ's Space Products business provides satellites, payload instruments, sub-systems and ground station services. The business is a partner in the European Space Agency (ESA) ground station at Redu, Belgium and recently signed an agreement that ensured the long-term development of this facility as a strategic focus for European space activities. Proba V, the latest of the Space Products business' family of small satellites, was launched in May and is being used by ESA to study vegetation following its successful commissioning in December. The business is also a member of a Belgian consortium that won a contract to design and build an agriculture monitoring satellite for the Vietnam Academy of Science and Technology, an important first step in growing its international satellite business.

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^ 2013 segmental data has been restated to reflect the reclassification of product sales from EMEA Services to Global Products and the Cyveillance® business from US Services to EMEA Services.

In the 'Test for Value' category, early-stage offerings are evaluated as they emerge to determine the best route to maximise value. During the year, there were further sales of the Alarm™ radar system to provide warning of ultra-low-level rocket attacks in support of UK military operations in Afghanistan. While some emerging military technologies will be impacted by the drawdown, others have potential beyond operations in Afghanistan. One example is the Modular Electronic Warfare System (MEWS™) which is being taken to market with L-3 TRL and received a £4m order from the government of a NATO country.

Other 'Test for Value' technologies are focused on non-defence markets, such as the secured navigation systems currently being proven on ESA's Galileo programme and stealth wind turbine technology, which achieved its first license sale during the year. In addition a pilot of the Linewatch™ power line sensor system, that precisely measures voltage and current on power grids, is currently underway with a major North American hydro-electric company to support its smart metering programme.

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

^ 2013 segmental data has been restated to reflect the reclassification of product sales from EMEA Services to Global Products and the Cyveillance® business from US Services to EMEA Services.

Financial items

Net finance costs

Net finance costs were £15.0m (2013: £17.9m). The underlying net finance costs* were £13.3m (2013: £16.6m), with an additional £1.7m (2013: £1.3m) in respect of the pension net finance expense reported within specific adjusting items. The reduction in underlying net finance costs* was the result of lower levels of private placement debt.

Tax

The Group's underlying effective tax rate* was 12.9% (2013: 19.2%). The rate is primarily dependent on the geographic split of profits between the UK and the US businesses. 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. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to the impact of any tax legislation changes and the geographic mix of profits. The 2013 Finance Act allows the continued recognition of R&D tax credits as a super deduction in the tax line until April 2016, when R&D Expenditure Credit ('RDEC') treatment becomes mandatory, which could increase the Group's effective tax rate over time to a blend of the US and UK corporation tax rates. At 31 March 2014, the Group had unused tax losses of £191.4m (31 March 2013: £202.7m) potentially available for offset against future profits.

Earnings per share

Underlying earnings per share* were 16.0p (2013: 18.9p) due to the reduction in underlying operating profit* partially offset by a lower interest expense on the reduced level of private placement debt and a lower underlying effective tax rate*. Basic earnings per share were a loss of 1.9p (2013: loss of 20.5p).

Dividend

The Board proposes a final dividend of 3.20p per share for the year ended 31 March 2014 (31 March 2013: 2.70p) making the full year dividend 4.60p (31 March 2013: 3.80p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 5 September 2014 to shareholders on the register at 8 August 2014. The full year dividend represents an increase of 21% reflecting the Board's confidence that the Group's Organic-Plus strategy will deliver value to shareholders over the medium term. The Board's policy is that the dividend will be progressive from this new level which is consistent with the strength of the retained Group.

Cash flow, net cash and liquidity

Underlying cash flow from operations (post capex)* was £136.5m (2013: £175.9m) and underlying operating cash conversion* remained strong at 103% (2013: 104%). This excluded operating cash outflows of £10.3m related to the prior year restructuring of the North American divisions and £4.0m in respect of compensation options associated with the closure of the defined benefit pension scheme in the UK. At 31 March 2014, the Group had £170.5m net cash, compared to £74.0m net cash at 31 March 2013. The total value of the Group's revolving credit facilities at 31 Match 2014 was £267.9m, which are undrawn.

* Definitions of underlying measures of performance can be found in the glossary.
^ 2013 segmental data has been restated to reflect the reclassification of product sales from EMEA Services to Global Products and the Cyveillance® business from US Services to EMEA Services.

Foreign exchange

The Group's income and expenditure is largely settled in the functional currency of the relevant Group entity, mainly Sterling or US dollar. The Group has a policy in place to hedge all material transaction exposure at the point of commitment to the underlying transaction. Uncommitted future transactions are not routinely hedged. The Group continues its practice of not hedging income statement translation exposure. The Group seeks to mitigate the effect of translational exposures by matching the net investment in overseas operations with borrowings denominated in their functional currencies unless the cost of such hedging activity is uneconomic. This is achieved by borrowing in the local currency or, in some cases, indirectly through the use of forward foreign exchange contracts. The principal exchange rate affecting the Group was the Sterling to US Dollar exchange rate.

	12 months to 31 March 2014	**12 months to 31 March 2013**
£/US$ - average	1.59	1.58
£/US$ - closing	1.67	1.52
£/US$ - opening	1.52	1.60

Pensions

The net pension liability under IAS 19, after deducting deferred tax, was £20.9m (31 March 2013: £40.4m). The change in net pension liability since the year end is primarily a result of the closure of the Group's defined benefit pension scheme to future accrual. This generated a reduction in scheme liabilities of £31.1m, which is reported as a significant adjusting item in the income statement. Additional movement is driven by macro-economic factors, with a slightly lower inflation assumption reducing the scheme liabilities. Scheme assets were materially unchanged since year end. The key assumptions used in the IAS 19 valuation of the scheme were:

Assumption	**31 March 2014**	**31 March 2013**
Discount rate	4.2%	4.4%
CPI Inflation	2.6%	2.7%
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 £25m
Life expectancy	Increase by 1 year	Increase by £31m

The market value of the assets at 31 March 2014 was £1,304.6m (31 March 2013: £1,256.5m) and the present value of scheme liabilities was £1,326.8m (31 March 2013: £1,310.6m). The funding basis of calculating scheme funding requirements differs from IAS 19 in that it does not use corporate bonds as a basis for the discount rate but instead uses the risk free rate from UK gilts, prudently adjusted for long-term expected returns for 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 period end.

* Definitions of underlying measures of performance can be found in the glossary.
^ 2013 segmental data has been restated to reflect the reclassification of product sales from EMEA Services to Global Products and the Cyveillance® business from US Services to EMEA Services.

Consolidated income statement

all figures in £ million	Note	2014 Underlying	2014 Specific adjusting items*	2014 Total	2013 Underlying	2013 Specific adjusting items*	2013 Total
Revenue	2	**1,191.4**	–	**1,191.4**	**1,327.8**	–	**1,327.8**
Operating costs excluding depreciation, amortisation and impairment		(1,040.7)	26.8	(1,013.9)	(1,132.9)	(16.3)	(1,149.2)
Other income		7.0	–	7.0	5.8	–	5.8
EBITDA (earnings before interest, tax, depreciation and amortisation)		**157.7**	**26.8**	**184.5**	**200.7**	**(16.3)**	**184.4**
Depreciation and impairment of property, plant and equipment	3	(24.0)	1.4	(22.6)	(28.0)	(4.0)	(32.0)
Impairment of goodwill	9	–	(125.9)	(125.9)	–	(255.8)	(255.8)
Amortisation of intangible assets		(1.0)	(11.0)	(12.0)	(4.0)	(14.0)	(18.0)
Group operating profit/(loss)		**132.7**	**(108.7)**	**24.0**	**168.7**	**(290.1)**	**(121.4)**
Net (loss)/gain on disposal/impairment of businesses and investments	4	–	(4.9)	(4.9)	–	2.3	2.3
Finance income	5	1.9	–	1.9	1.7	–	1.7
Finance expense	5	(15.2)	(1.7)	(16.9)	(18.3)	(1.3)	(19.6)
Profit/(loss) before tax	3	**119.4**	**(115.3)**	**4.1**	**152.1**	**(289.1)**	**(137.0)**
Taxation (expense)/income	6	(15.4)	(1.4)	(16.8)	(29.2)	33.0	3.8
Profit/(loss) for the year attributable to equity shareholders		**104.0**	**(116.7)**	**(12.7)**	**122.9**	**(256.1)**	**(133.2)**
Earnings per share							
Basic	8	16.0p		(1.9)p	18.9p		(20.5)p
Diluted	8	15.8p		(1.9)p	18.7p		(20.5)p

* Definitions of specific adjusting items can be found in the glossary

Consolidated statement of comprehensive income

for the year ended 31 March

all figures in £ million	2014	2013
Loss for the year	**(12.7)**	**(133.2)**
Items that will not be reclassified to profit or loss:		
Actuarial loss recognised in defined benefit pension schemes	(5.6)	(42.1)
Tax on items that will not be reclassified to profit and loss	1.3	10.1
Total items that will not be reclassified to profit or loss	**(4.3)**	**(32.0)**
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation differences for foreign operations	(21.2)	24.6
Increase/(decrease) in fair value of hedging derivatives	0.4	(0.1)
Reclassification of hedging derivatives to the income statement	(0.2)	–
Impairment loss on revalued investments	–	(4.1)
Fair value gains on available-for-sale investments	0.9	0.3
Tax on items that may be reclassified to profit or loss	(0.1)	–
Total items that may be reclassified subsequently to profit or loss	**(20.2)**	**20.7**
Other comprehensive expense for the year, net of tax	**(24.5)**	**(11.3)**
Total comprehensive expense for the year	**(37.2)**	**(144.5)**

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 2013	6.6	39.9	147.6	–	44.3	200.0	**438.4**	0.1	**438.5**
Loss for the year	–	–	–	–	–	(12.7)	**(12.7)**	–	**(12.7)**
Other comprehensive income/(expense) for the year, net of tax	–	–	–	0.1	(21.2)	(3.4)	**(24.5)**	–	**(24.5)**
Purchase of own shares	–	–	–	–	–	(0.5)	**(0.5)**	–	**(0.5)**
Share-based payments settlement	–	–	–	–	–	0.9	**0.9**	–	**0.9**
Share-based payments	–	–	–	–	–	3.2	**3.2**	–	**3.2**
Dividends	–	–	–	–	–	(26.8)	**(26.8)**	–	**(26.8)**
At 31 March 2014	**6.6**	**39.9**	**147.6**	**0.1**	**23.1**	**160.7**	**378.0**	**0.1**	**378.1**
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**

Consolidated balance sheet

as at 31 March

all figures in £ million	Note	2014	2013
Non-current assets			
Goodwill	9	141.3	290.4
Intangible assets		44.2	57.8
Property, plant and equipment		233.8	241.4
Other financial assets		1.5	4.3
Investments		0.5	0.4
Deferred tax		18.1	32.4
		439.4	**626.7**
Current assets			
Inventories		19.8	25.5
Other financial assets		3.1	2.6
Trade and other receivables		250.5	284.2
Investments		2.1	1.4
Cash and cash equivalents		322.2	240.4
		597.7	**554.1**
Total assets		**1,037.1**	**1,180.8**
Current liabilities			
Trade and other payables		(425.6)	(458.0)
Current tax		(4.6)	(14.2)
Provisions		(4.8)	(12.4)
Other financial liabilities		(2.2)	(2.0)
		(437.2)	**(486.6)**
Non-current liabilities			
Retirement benefit obligation	11	(22.2)	(54.1)
Deferred tax		(15.0)	–
Provisions		(19.3)	(22.7)
Other financial liabilities		(154.1)	(171.3)
Other payables		(11.2)	(7.6)
		(221.8)	**(255.7)**
Total liabilities		**(659.0)**	**(742.3)**
Net assets		**378.1**	**438.5**
Capital and reserves			
Ordinary shares		6.6	6.6
Capital redemption reserve		39.9	39.9
Share premium account		147.6	147.6
Hedging and translation reserve		23.2	44.3
Retained earnings		160.7	200.0
Capital and reserves attributable to shareholders of the parent company		**378.0**	**438.4**
Non-controlling interest		0.1	0.1
Total shareholders' funds		**378.1**	**438.5**

Consolidated cash flow statement

for the year ended 31 March

all figures in £ million	Note	2014	2013
Net cash inflow from operations before restructuring costs	13	**157.3**	**194.4**
Net cash (outflow)/inflow relating to restructuring		(10.3)	63.1
Net cash outflow relating to pension restructuring costs		(4.0)	–
Cash inflow from operations		**143.0**	**257.5**
Tax received/(paid)		2.1	(1.6)
Interest received		1.0	0.8
Interest paid		(12.3)	(35.8)
Net cash inflow from operating activities		**133.8**	**220.9**
Purchases of intangible assets		(2.6)	(0.6)
Purchases of property, plant and equipment		(24.2)	(27.1)
Proceeds from sale of property, plant and equipment		6.0	9.2
Proceeds from sale of investments		–	3.8
Net cash outflow from investing activities		**(20.8)**	**(14.7)**
Repayment of bank borrowings		–	(63.0)
Settlement of forward contracts		–	(1.3)
Purchase of own shares		(0.5)	(0.4)
Dividends paid to shareholders		(26.8)	(20.1)
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		**(27.1)**	**(84.6)**
Increase in cash and cash equivalents		**85.9**	**121.6**
Effect of foreign exchange changes on cash and cash equivalents		(4.1)	1.0
Cash and cash equivalents at beginning of year		240.4	117.8
Cash and cash equivalents at end of year		**322.2**	**240.4**

Reconciliation of movement in net cash/debt

for the year ended 31 March

all figures in £ million	Note	2014	2013
Increase in cash and cash equivalents in the year		85.9	121.6
Add back net cash flows not impacting net debt		(0.2)	64.1
Change in net debt resulting from cash flows		**85.7**	**185.7**
Other movements including foreign exchange		10.8	10.5
Movement in net cash in the year		**96.5**	**196.2**
Net cash/(debt) at beginning of year		74.0	(122.2)
Net cash at end of year	10	**170.5**	**74.0**

1. Significant accounting policies

Accounting policies

The following accounting policies have been applied consistently to all periods presented in dealing with items that are considered material in relation to the Group's financial statements. In the income statement, the Group presents specific adjusting items separately. In the judgement of the Directors, for the reader to obtain a proper understanding of the financial information, specific adjusting items need to be disclosed separately because of their size and nature.

Specific adjusting items include:

- amortisation of intangibles arising from acquisitions;
- pension curtailment gains/losses;
- pension gain on closure to future accrual and associated Scheme-closure mitigation costs;
- pension net finance expense;
- gains/losses on business divestments and disposal of investments;
- restructuring costs;
- gains/losses on disposal of property;
- impairment of property;
- impairment of goodwill and other intangible assets; and
- tax on the above items.

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 2014. The Group's financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS') and the Companies Act 2006 applicable to companies reporting under IFRS.

The 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 2014 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 22 May 2014. 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 2014 were approved by the Board of Directors on 22 May 2014 and will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 25 July 2014. The financial information for 2013 is derived from the statutory accounts for 2013 which have been delivered to the Registrar of Companies. The auditors have reported on the 2014 and 2013 accounts. The reports were (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings to 31 March 2014. 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.

The Group comprises certain entities that are operated under the management of a Proxy Board. Details of the Proxy Board arrangements and the powers of the proxy holders and QinetiQ management are set out in the Corporate Governance section of the Annual Report. IAS 27 is the accounting standard currently applicable in respect of consolidation of entities. This does not specifically deal with proxy situations. However, having considered the terms of the proxy agreement, the Directors consider that the Group has control over the operating and financial policies of such affected entities and, therefore, consolidates these entities in the consolidated accounts.

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

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

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

Recent accounting developments

Developments adopted by the Group in 2014 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 2013 and have been adopted with no material impact on the Group's financial statements. Note that QinetiQ adopted IAS19 (revised) in the prior year:

IFRS 13 'Fair value measurement' - new standard replacing existing guidance on fair value measurement in different IFRSs with a single definition of fair value.

IAS 1 'Presentation of financial statements' - amendments revising the way both other comprehensive income and comparative information are presented.

IFRS 1 'First Time Adoption of IFRS' - amendments relating to government grants, hyperinflation and fixed dates.

IFRS 7 'Financial Instruments' - amendments relating to asset and liability offsetting.

Annual improvements 2011 - annual improvements cycle including amendments to IAS 16, IAS 32 and IAS 34.

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

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

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 imminently. The new Standard will replace IAS 18 'Revenue' and IAS 11 'Construction Contracts'. It will become effective for accounting periods on or after 1 January 2017 at the earliest 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. During 2014 the IASB and FASB discussed fundamental aspects of their lease accounting proposals published in 2013, covering both lessee and lessor accounting, and potential simplifications to the accounting models. Although both accounting bodies remain committed to on-balance sheet recognition of leases by lessees, the IASB and FASB could not agree on key aspects of the proposals.

IFRS 10 'Consolidated financial statements'. This new standard could have an impact on the Group's US subsidiaries operating under proxy arrangements. The impact on the Group for future reporting periods is currently being assessed.

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 11 'Joint Arrangements'; IFRS 12 'Disclosure of Interests in Other Entities'; IFRS 14 'Regulatory deferral accounts';
- IAS 27 'Separate Financial Statements'; IAS 28 'Investments in Associates'.
- Amendments to new standards IFRS 10, 11, 12 and 27; Amendments to IAS 36 and 39.

2. Segmental analysis

Operating segments

For the year ended 31 March

all figures in £ million	Note	2014		2013 (restated^)	
		Revenue	Operating profit	Revenue	Operating profit
EMEA Services		607.0	86.7	594.6	84.8
US Services		408.8	19.0	463.8	23.7
Global Products		175.6	27.0	269.4	60.2
Total operating segments		**1,191.4**	**132.7**	**1,327.8**	**168.7**
Operating profit before specific adjusting items[1] – underlying operating profit			**132.7**		**168.7**
Specific adjusting items before amortisation, depreciation and impairment			26.8		(16.3)
Property impairment reversal/(charge)			1.4		(4.0)
Impairment of goodwill	9		(125.9)		(255.8)
Amortisation of intangible assets arising from acquisitions			(11.0)		(14.0)
Operating profit/(loss)			**24.0**		**(121.4)**
(Loss)/gain on business divestments and disposal and impairment of investments			(4.9)		2.3
Net finance expense			(15.0)		(17.9)
Profit/(loss) before tax			**4.1**		**(137.0)**
Taxation (expense)/income			(16.8)		3.8
Loss for the year			**(12.7)**		**(133.2)**

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

^ Restated to reflect the reclassification of product businesses from EMEA Services to Global Products and the reclassification of Cyveillance® from US Services to EMEA Services.

3. Profit/loss before tax

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

all figures in £ million	2014	2013
Depreciation of property, plant and equipment:		
Owned assets: before impairment	(24.0)	(28.0)
Owned assets: property impairment reversal/(charge)	1.4	(4.0)
Foreign exchange (loss)/gain	**(1.1)**	**1.0**
Research and development expenditure – customer funded contracts	**(288.9)**	**(311.0)**
Research and development expenditure – Group funded	**(26.8)**	**(24.6)**

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

all figures in £ million	2014	2013
Restructuring costs in respect of 2013 US restructuring	(0.3)	(16.3)
Reduction in pension liabilities on closure to future accrual	31.1	–
Pension scheme closure mitigation costs	(4.0)	–
Specific adjusting items before amortisation, depreciation and impairment	**26.8**	**(16.3)**
Impairment of goodwill	(125.9)	(255.8)
Property impairment reversal/(charge)	1.4	(4.0)
Intangible impairment and acquisition amortisation	(11.0)	(14.0)
Specific adjusting items operating loss	**(108.7)**	**(290.1)**
Gain on business divestments and disposal of investments	1.1	2.9
US Services transaction costs	(6.0)	–
Unrealised impairment of investments	–	(0.6)
(Loss)/gain on business divestments and disposal/impairment of investments	**(4.9)**	**2.3**
Defined benefit pension scheme net finance expense	(1.7)	(1.3)
Total specific adjusting items loss before tax	**(115.3)**	**(289.1)**

4. Net gain/loss on disposal/impairment of businesses and investments

For the year ended 31 March

all figures in £ million	2014	2013
Gain on business divestments	1.1	–
US Services transaction costs	(6.0)	–
Gain on disposal of investments	–	2.9
Unrealised impairment of investments	–	(0.6)
Net (loss)/gain on disposal/impairment of businesses and investments	**(4.9)**	**2.3**

The gain on business divestments relates to deferred consideration received in respect of the disposal of the Calibration business in 2009. The US Services transaction costs relate to costs incurred in the current year in relation to the planned disposal of the US Services business. The disposal itself is a non-adjusting post balance sheet event (see note 14)

The prior year gain on disposal of investments relates to the disposal of QinetiQ's investment in Infoscitex Inc.

5. Finance income and expense

For the year ended 31 March

all figures in £ million	2014	2013
Receivable on bank deposits	1.4	1.0
Finance lease income	0.5	0.7
Finance income	**1.9**	**1.7**
Amortisation of recapitalisation fee	(0.6)	(0.6)
Payable on bank loans and overdrafts	(2.1)	(1.4)
Payable on US dollar private placement debt	(11.3)	(14.2)
Finance lease expense	(0.4)	(0.6)
Unwinding of discount on financial liabilities	(0.8)	(1.5)
Finance expense before specific adjusting items	**(15.2)**	**(18.3)**
Specific adjusting items:		
Defined benefit pension scheme net finance expense	(1.7)	(1.3)
Total finance expense	**(16.9)**	**(19.6)**
Net finance expense	**(15.0)**	**(17.9)**

6. Taxation

all figures in £ million	2014 Underlying*	2014 Specific adjusting items*	2014 Total	2013 Underlying*	2013 Specific adjusting items*	2013 Total
Analysis of charge						
Current UK tax (income)/expense	(4.2)	(0.9)	(5.1)	0.8	(0.2)	0.6
Overseas corporation tax						
Current year	(6.3)	(4.3)	(10.6)	(0.2)	1.5	1.3
Adjustment for prior year	–	–	–	–	0.4	0.4
Current tax (income)/expense	**(10.5)**	**(5.2)**	**(15.7)**	**0.6**	**1.7**	**2.3**
Deferred tax expense/(income)	25.0	7.8	32.8	28.0	(34.4)	(6.4)
Deferred tax impact of change in rates	0.9	–	0.9	0.6	(0.9)	(0.3)
Deferred tax in respect of prior years	–	(1.2)	(1.2)	–	0.6	0.6
Taxation expense/(income)	**15.4**	**1.4**	**16.8**	**29.2**	**(33.0)**	**(3.8)**
Factors affecting tax charge/(credit) in year						
Principal factors reducing the Group's current year tax charge below the UK statutory rate are explained below:						
Profit/(loss) before tax	119.4	(115.3)	4.1	152.1	(289.1)	(137.0)
Tax on profit/(loss) before tax at 23% (2013: 24%)	**27.5**	**(26.5)**	**1.0**	**36.5**	**(69.4)**	**(32.9)**
Effect of:						
Expenses not deductible for tax purposes, research and development relief and non-taxable items	(9.9)	29.7	19.8	(12.4)	49.0	36.6
Current tax losses for which no deferred tax asset was recognised	(1.0)	–	(1.0)	(2.2)	–	(2.2)
Deferred tax impact of change in rates	0.9	–	0.9	0.7	(0.1)	0.6
Deferred tax in respect of prior years	0.2	–	0.2	0.1	–	0.1
Effect of different rates in overseas jurisdictions	(2.3)	(1.8)	(4.1)	6.5	(12.5)	(6.0)
Taxation expense/(income)	**15.4**	**1.4**	**16.8**	**29.2**	**(33.0)**	**(3.8)**
Effective tax rate	**12.9%**		**>100%**	**19.2%**		**2.8%**

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 the impact of any tax legislation changes and the geographic mix of profits. The 2013 Finance Act allows the continued recognition of R&D tax credits as a super deduction in the tax line until April 2016, when R&D Expenditure Credit treatment becomes mandatory, which could increase the Group's effective tax rate over time to a blend of the US and UK corporation tax rates.

Previously, the UK Government announced reductions to the UK corporation tax rate to 21% on 1 April 2014 and to 20% on 1 April 2015 and these were substantively enacted on 2 July 2013. Deferred tax has been calculated at 21% being the tax rate effective for the financial year to 31 March 2015. The subsequent change to 20% will reduce the Group's future tax charge accordingly. It has not yet been possible to quantify the full anticipated effect of the announced rate reduction to 20% in 2015, although this will further reduce the Group's future tax charge and reduce the Group's deferred tax accordingly.

At 31 March 2014 the Group had unused tax losses of £191.4m (2013: £202.7m) potentially available for offset against future profits.

7. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2014 and 2013 is provided below:

	Pence per share	£m	Date paid/ payable
Interim 2014	1.40	9.2	Feb 2014
Final 2014 (proposed)	3.20	20.8	Sept 2014
Total for the year ended 31 March 2014	**4.60**	**30.0**	
Interim 2013	1.10	7.1	Feb 2013
Final 2013	2.70	17.6	Sept 2013
Total for the year ended 31 March 2013	**3.80**	**24.7**	

The Directors propose a final dividend of 3.20p (2013: 2.70p) per share. The dividend, which is subject to shareholder approval, will be paid on 5 September 2014. The ex-dividend date is 6 August 2014 and the record date is 8 August 2014.

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 (see note 3) and tax thereon.

For the year ended 31 March		2014	2013
Basic EPS			
Loss attributable to equity shareholders	£ million	(12.7)	(133.2)
Weighted average number of shares	Million	651.7	648.7
Basic EPS	Pence	**(1.9)**	**(20.5)**
Diluted EPS			
Loss attributable to equity shareholders	£ million	(12.7)	(133.2)
Weighted average number of shares	Million	651.7	648.7
Effect of dilutive securities[1]	Million	–	–
Diluted number of shares	Million	651.7	648.7
Diluted EPS	Pence	**(1.9)**	**(20.5)**

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

Underlying basic EPS*			
Loss attributable to equity shareholders	£ million	(12.7)	(133.2)
Loss after tax in respect of specific adjusting items	£ million	116.7	256.1
Underlying profit after taxation	£ million	104.0	122.9
Weighted average number of shares	Million	651.7	648.7
Underlying basic EPS	Pence	**16.0**	**18.9**
Underlying diluted EPS*			
Loss attributable to equity shareholders	£ million	(12.7)	(133.2)
Loss after tax in respect of specific adjusting items	£ million	116.7	256.1
Underlying profit after taxation	£ million	104.0	122.9
Weighted average number of shares	Million	651.7	648.7
Effect of dilutive securities	Million	5.1	7.1
Diluted number of shares	Million	656.8	655.8
Underlying diluted EPS	Pence	**15.8**	**18.7**

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

9. Goodwill

all figures in £ million	2014	2013
Cost		
At 1 April	593.0	564.2
Foreign exchange	(51.6)	28.8
At 31 March	**541.4**	**593.0**
Impairment		
At 1 April	(302.6)	(44.9)
Impairment	(125.9)	(255.8)
Foreign exchange	28.4	(1.9)
At 31 March	**(400.1)**	**(302.6)**
Net book value at 31 March	**141.3**	**290.4**

Goodwill at 31 March 2014 was allocated across various CGUs in the following segments: EMEA Services (three), 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 each CGU for impairment annually, or more frequently if there are indications that goodwill might be impaired.

Impairment testing is dependent on management's estimates and 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 and US Global Products, discussed below, and management considers that there are no likely variations in the key assumptions which would lead to an impairment being recognised in any of the other CGUs.

US Services CGU

A strategic review was announced in May 2013 to determine the route to maximise the performance and value of US Services. This concluded with the decision to dispose of the CGU and a sale was agreed post year end (see note 14). At 31 March 2014 the Group intended to realise value from US Services via sale rather than use. An impairment loss has been recognised at year end based on a comparison of the US Services goodwill with its recoverable amount, being fair value less costs to sell. Fair value has been determined by taking the initial cash consideration for the disposal of $165m together with a potential earn out of up to $50m in cash. The earn out is scheduled to be payable no earlier than 1 April 2015 on a sliding scale between zero and $50m based on gross profit generated by the US Services division between $100m and $132m in the financial year ending 31 March 2015. Management estimates have been used to determine the value of the likely earn out. The re-measurement to fair value less costs to sell resulted in an impairment loss of £84.0m. The carrying value of goodwill for this CGU as at 31 March 2014, after impairment, was £41.4m and its net operating assets excluding goodwill were £55.6m.

The Cyveillance® business which previously formed part of US Services, was excluded from the strategic review and was separated out from US Services during 2014. Goodwill of £4.6m was allocated to this new CGU and it has significant headroom as at 31 March 2014. 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 CGU sits within EMEA Services.

Key assumptions used for other CGUs

Cash flows

The value-in-use calculations generally use discounted future cash flows based on financial plans approved by the Board covering a two-year period. Discounted cash flows for the US Global Products CGU were based on a Board-approved 3-year plan, reflecting increases in revenue from new product lines. Cash flows for years beyond these periods are extrapolated based on the final year of these plans, with a terminal growth-rate assumption applied.

Terminal growth rates

The specific plans for each of the CGUs have been extrapolated using a terminal growth rate of 2.0%-3.0% (2013: 2.0%-3.0%). Growth rates are based on management's estimates which take into consideration the long-term nature of the industry in which the CGUs operate and external forecasts as to the likely growth of the industry in the longer term.

Discount rates

The Group's weighted average cost of capital was used as a basis in determining the discount rate to be applied adjusted for risks specific to the market characteristics of CGUs as appropriate on a pre-tax basis. This is considered to appropriately estimate a market participant discount rate. The pre-tax discount rates applied for the three EMEA Services CGUs were 11.5%, 15.6% and 18.3% and for the Global Products CGUs 10.1% and 11.4%.

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

Other significant CGUs

The performance of Global Products was impacted by the drawdown of overseas US military forces. The value in use of the US Global Products 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 £41.9m. Sensitivity analysis shows that a 33% decrease in the terminal year cash flow would result in an increase in the impairment charge of £24.4m. Sensitivity analysis also shows that a decrease or increase of 1% in the discount rate assumption would result in an impairment of £25.6m or £53.3m respectively. Sensitivity analysis also shows that a decrease or increase of 1% in the terminal growth rate would result in an impairment of £52.5m or £27.9m. The carrying value of goodwill for this CGU as at 31 March 2014, after impairment, was £60.0m and its net operating assets excluding goodwill were £12.8m.

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

	2014			2013		
all figures in £ million	Assets	Liabilities	Net	Assets	Liabilities	Net
Current financial assets/(liabilities)						
Deferred financing costs	–	0.5	0.5	–	0.6	0.6
Borrowings	–	0.5	0.5	–	0.6	0.6
Derivative financial instruments	0.3	(0.1)	0.2	0.1	(0.2)	(0.1)
Finance lease debtor/(creditor)	2.8	(2.6)	0.2	2.5	(2.4)	0.1
Total current financial assets/(liabilities)	**3.1**	**(2.2)**	**0.9**	**2.6**	**(2.0)**	**0.6**
Non-current assets/(liabilities)						
US$ private placement notes – 7.13%	–	(26.6)	(26.6)	–	(29.2)	(29.2)
US$ private placement notes – 5.50%	–	(29.2)	(29.2)	–	(32.1)	(32.1)
US$ private placement notes – 7.62%	–	(96.9)	(96.9)	–	(106.4)	(106.4)
Deferred financing costs	–	–	–	–	0.5	0.5
Borrowings	–	(152.7)	(152.7)	–	(167.2)	(167.2)
Derivative financial instruments	0.1	–	0.1	–	(0.1)	(0.1)
Finance lease debtor/(creditor)	1.4	(1.4)	–	4.3	(4.0)	0.3
Total non-current financial assets/(liabilities)	**1.5**	**(154.1)**	**(152.6)**	**4.3**	**(171.3)**	**(167.0)**
Cash	53.7	–	53.7	32.6	–	32.6
Cash equivalents	268.5	–	268.5	207.8	–	207.8
Total cash and cash equivalents	**322.2**	–	**322.2**	**240.4**	–	**240.4**
Total net cash as defined by the Group			**170.5**			**74.0**

At 31 March 2014 £2.2m (2013: £2.7m) of cash was held by the Group's captive insurance subsidiary, including £0.1m (2013: £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.

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

all figures in £ million	2014	2013
Increase in cash and cash equivalents in the year	85.9	121.6
Repayment of US$ private placement notes	–	63.0
Settlement of forward contracts	–	1.3
Capital element of finance lease payments	2.8	2.8
Capital element of finance lease receipts	(3.0)	(3.0)
Change in net cash/debt resulting from cash flows	**85.7**	**185.7**
Amortisation of deferred financing costs	(0.6)	(0.5)
Finance lease receivables	0.4	0.7
Finance lease payables	(0.4)	(0.6)
Foreign exchange and other non-cash movements	11.4	10.9
Movement in net cash/debt in year	**96.5**	**196.2**
Net cash/(debt) at beginning of year	74.0	(122.2)
Net cash at 31 March	**170.5**	**74.0**

11. Post-retirement benefits

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

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

all figures in £ million	2014	2013	2011	2010	2009
Equities	434.4	487.3	583.2	564.1	714.6
LDI investment[1]	273.6	205.9	–	–	–
Corporate bonds	279.9	276.8	194.6	158.7	69.5
Alternative bonds[2]	183.0	174.8	–	–	–
Government bonds	–	–	183.5	165.3	69.6
Property	94.0	81.3	82.4	78.0	53.4
Other	39.7	30.4	64.2	15.0	8.8
Total market value of assets	**1,304.6**	**1,256.5**	**1,107.9**	**981.1**	**915.9**
Present value of Scheme liabilities	(1,326.8)	(1,310.6)	(1,139.4)	(1,105.7)	(1,063.2)
Net pension liability before deferred tax	**(22.2)**	**(54.1)**	**(31.5)**	**(124.6)**	**(147.3)**
Deferred tax asset	1.3	13.7	13.3	32.4	41.2
Net pension liability	**(20.9)**	**(40.4)**	**(18.2)**	**(92.2)**	**(106.1)**

[1] The Scheme has assets invested in a Liability Driven Investment portfolio. As at 31 March 2014 this hedges against approximately 22% of the interest rate and 20% of the inflation rate risk, as measured on the Trustee's gilt-funding basis.

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

Changes to the fair value of Scheme assets

all figures in £ million	2014	2013
Opening fair value of Scheme assets	1,256.5	1,107.9
Interest income on Scheme assets	54.9	53.3
Re-measurement gain on Scheme assets	2.6	78.4
Contributions by the employer	20.6	40.8
Contributions by plan participants	–	0.1
Net benefits paid out and transfers	(28.8)	(22.0)
Administrative expenses	(1.2)	(2.0)
Closing fair value of Scheme assets	**1,304.6**	**1,256.5**

Changes to the present value of the defined benefit obligation

all figures in £ million	2014	2013
Opening defined benefit obligation	1,310.6	1,139.4
Current service cost	11.3	18.7
Interest cost	56.6	54.6
Contributions by plan participants	–	0.1
Actuarial loss/(gain) on Scheme liabilities based on:		
Change in financial assumptions	39.2	103.8
Experience loss/(gain)	(31.0)	16.7
Curtailment gain	(31.1)	(0.7)
Net benefits paid out and transfers	(28.8)	(22.0)
Closing defined benefit obligation	**1,326.8**	**1,310.6**

Total income/expense recognised in the income statement

all figures in £ million	2014	2013
Pension costs charged to the income statement:		
Current service cost	11.3	18.7
Past service gain (including curtailments)	(31.1)	(0.7)
Net interest on the net defined benefit liability	1.7	1.3
Administrative expenses	1.2	2.0
Total (income)/expense recognised in the income statement (gross of deferred tax)	**(16.9)**	**21.3**

Assumptions

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

	2014	2013
Discount rate applied to scheme liabilities	4.2%	4.4%
CPI inflation assumption	2.6%	2.7%
Assumed life expectancies in years:		
Future male pensioners (currently aged 60)	88	88
Future female pensioners (currently aged 60)	90	90
Future male pensioners (currently aged 40)	90	90
Future female pensioners (currently aged 40)	92	92

12. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £40.3m at 31 March 2014 (2013: £54.3m) in the ordinary course of business.

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

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

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

13. Cash flows from operations

For the year ended 31 March

all figures in £ million	2014	2013
Loss after tax for the year	**(12.7)**	**(133.2)**
Adjustments for:		
Taxation expense/(income)	16.8	(3.8)
Net finance costs	15.0	17.9
Loss/(gain) on business divestments and disposal of investments	4.9	(2.9)
Impairment of investments	–	0.6
Amortisation of purchased or internally developed intangible assets	1.0	4.0
Amortisation of intangible assets arising from acquisitions and impairments	11.0	14.0
Impairment of goodwill	125.9	255.8
Depreciation and impairment of property, plant and equipment	22.6	32.0
Loss on disposal of property, plant and equipment	1.4	0.8
Share of post-tax profit of equity accounted entities	(0.1)	(0.1)
Share-based payments charge	4.5	5.5
Changes in retirement benefit obligations	(8.1)	(20.1)
Pension curtailment gain	(31.1)	(0.7)
Net movement in provisions	(10.5)	17.7
	140.6	187.5
Decrease in inventories	4.4	6.6
Decrease in receivables	21.7	124.1
Decrease in payables	(23.7)	(60.7)
Changes in working capital	**2.4**	**70.0**
Cash generated from operations	**143.0**	**257.5**
Add back: cash outflow/(inflow) relating to restructuring	10.3	(63.1)
Add back: cash outflow relating to pension scheme closure costs	4.0	–
Net cash flow from operations before restructuring costs	**157.3**	**194.4**

14. Post balance sheet events

On 22 April 2014 the Group agreed to sell the US Services division, comprising QinetiQ North America Inc. and its subsidiaries, for an initial cash consideration of $165m plus potential deferred consideration of up to $50m. As at 31 March 2014 negotiations to conclude the transaction were still on-going, with significant terms still unresolved. As such the Directors' are of the opinion that the successful conclusion to the transaction was not 'highly probable' as at 31 March 2014. The financial reporting implications of which are that the US Services division cannot be presented as an "asset held for sale" as at the balance sheet date, and the results of US Services are not reported as a "discontinued operation" within the income statement.

At 31 March 2014, the Group had the intention to realise value from US Services via sale rather than use and an impairment loss (to goodwill) has been recognised in 2014 following valuation at 'fair value less costs to sell'. The full impact of the disposal, including the remaining transaction costs, estimated warranty/indemnity liabilities, completion bonuses/change of control payments, and deferred foreign exchange gains/losses recycled from reserves, will be shown in the accounts for the year ending 31 March 2015, subject to transaction completion.

The income statement of the US Services division is as follows:

all figures in £ million	2014	2013
Revenue	**408.8**	**463.8**
Operating costs excluding depreciation, amortisation and impairment	(387.3)	(438.4)
EBITDA (earnings before interest, tax, depreciation and amortisation)	**21.5**	**25.4**
Depreciation and impairment of property, plant and equipment	(2.3)	(1.6)
Amortisation of intangible assets	(0.2)	(0.1)
Underlying operating profit	**19.0**	**23.7**
Impairment of goodwill	(84.0)	(246.7)
Other specific adjusting items	(8.1)	(17.7)
Operating loss before tax	**(73.1)**	**(240.7)**
Finance expense	(0.8)	–
Loss before tax	**(73.9)**	**(240.7)**
Taxation (expense)/income	(3.0)	17.6
Loss for the year	**(76.9)**	**(223.1)**

Net assets of the disposed business as at 31 March 2014 are set out below.

	2014
Assets	
Non-current assets	
Goodwill	41.4
Intangible assets	33.6
Property, plant and equipment	6.1
Deferred tax asset	7.3
	88.4
Current assets	
Inventory	0.7
Trade and other receivables	75.8
	76.5
Total assets	**164.9**
Liabilities	
Current liabilities	
Trade and other payables	(52.5)
Provisions	(1.4)
Current tax liabilities	(1.7)
	(55.6)
Non-current liabilities	
Other payables	(3.0)
Provisions for other liabilities and charges	(2.0)
	(5.0)
Total liabilities	**(60.6)**
Net assets	**104.3**

Glossary

Book to bill ratio	Ratio of funded orders received in the year to revenue for the year, adjusted to exclude revenue from the 25-year LTPA contract
C4ISR	Command, control, communications, computers, intelligence, surveillance and reconnaissance
CPI	Consumer Price Index
DE&S	MOD's Defence, Equipment and Support organisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
Funded backlog	The expected future value of revenue from contractually committed and funded customer orders (excluding £3.2bn value of the remaining 14 years of the LTPA contract)
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LTPA	Long-Term Partnering Agreement – 25-year contract established in 2003 to manage the MOD's test and evaluation ranges
MOD	UK Ministry of Defence
Organic growth	The level of year-on-year growth, expressed as a percentage, calculated at constant foreign exchange rates, adjusting comparatives to incorporate the results of acquired entities but excluding the results for any disposals or discontinued operations for the same duration of ownership as the current period
Specific adjusting items	Amortisation of intangible assets arising from acquisitions; net restructuring charges/recoveries; net pension finance expense; pension curtailment gains; net pension gain on closure to future accrual; impairment of property; impairment of goodwill and intangible assets; gain/loss on business combinations and divestments; gain/loss on disposal of investments; 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 cash flows of specific adjusting items less net cash outflow on purchase/sale of intangible assets and property, plant and equipment
Underlying net finance costs	Net finance costs excluding net pensions finance costs
Underlying operating cash conversion	The ratio of underlying net cash from operations (post capex) to underlying operating profit excluding share of post-tax result of equity-accounted joint ventures and associates
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue
Underlying operating profit	Operating profit as adjusted to exclude 'specific adjusting items'
Underlying profit before tax	Profit before tax as adjusted to exclude 'specific adjusting items'