

Preliminary Results



21 May 2020

Fourth year of growth – well positioned for a new world

Results for the year ended 31 March 2020

	Statutory results		Underlying* results	
	2020	2019	2020	2019
Revenue	£1,072.9m	£911.1m	£1,072.9m	£911.1m
Operating profit [^]	£117.6m	£114.8m	£133.2m	£124.9m
Profit after tax	£106.5m	£113.9m	£113.7m	£111.5m
Earnings per share	18.7p	20.1p	20.0p	19.7p
Full year dividend per share	2.2p	6.6p	2.2p	6.6p
Total funded order backlog ¹			£3,104.9m	£3,133.6m
Total orders			£2,227.4m	£776.4m
Orders excluding LTPA amendments ²			£972.1m	£776.4m
Net cash inflow from operations [^]	£166.5m	£134.6m	£177.8m	£135.3m
Net cash [^]			£84.7m	£160.5m

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary ^ Prior year restated due to the retrospective adoption of the new accounting standard, IFRS 16, in respect of leases; refer to Note 1. ¹ 2019 adjusted to include £1.3bn LTPA amendment signed 5 April 2019 ² Includes share of Joint Ventures, excludes £1.3bn LTPA contract amendment signed 5 April 2019

Delivered fourth year of growth

- Orders up 25% (excluding the LTPA amendment); largest annual order intake in 9 years
- Revenue up 18%, 10% on an organic basis
- Underlying operating profit up 7%, 2% on an organic basis, underlying EPS up 2%
- 133% underlying cash conversion pre-capex

Driving growth through disciplined execution of strategy

- Secured £168m of orders under Engineering Delivery Partner (EDP) contract
- Won four major long-term contracts in UK, US and Belgium
- Completed acquisitions of MTEQ in the US and NSC in the UK
- Grown international revenue from 21% to 31% in four years
- Improved employee engagement by 10%, driving a high performance culture

Strategic response to COVID-19 crisis over the coming year and beyond

- Robust action to build resilience to immediate challenges
- Partnering with our customers to respond to their evolving priorities
- Engaging our employees to adapt our working practices
- Accelerating capabilities to meet the needs of a new world
- As previously announced, guidance for Group performance and dividend decision later in the year

Steve Wadey, Group Chief Executive Officer said:

"Our immediate priority in response to the COVID-19 crisis remains protecting the health and wellbeing of our people who are doing a fantastic job continuing to deliver critical work for our customers. The impact on our performance has been limited to date, predominantly in our shorter-cycle products business. We have taken prudent actions to boost the resilience of our company by managing cash outflows and reducing costs in the short-term, whilst ensuring we continue to deliver for our customers."

"We delivered a fourth consecutive year of top-line growth. Our strategy is working to successfully become a truly integrated global company. With strong order intake, organic profit growth and net cash on balance sheet, we enter this period of uncertainty in a strong position enabling us to be agile and proactive in addressing both the short-term challenges and pursuing medium- to long-term growth."

Preliminary results presentation:

There will be a webcast presentation of the preliminary results at 1000 hours UK time on 21 May 2020. The webcast is available at https://us02web.zoom.us/webinar/register/WN_EUdJ4Q-URMGpkjiC-EMfFA

About QinetiQ:

QinetiQ (QQ.L) is a leading science and engineering company operating primarily in the defence, security and critical infrastructure markets. We work in partnership with our customers to solve real world problems through innovative solutions delivering operational and competitive advantage. Visit our website www.QinetiQ.com. Follow us on LinkedIn and Twitter @QinetiQ. Visit our blog www.QinetiQ-blogs.com.

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Basis of preparation:

Throughout this document, certain measures are used to describe the Group's financial performance which are not recognised under IFRS or other generally accepted accounting principles (GAAP). The Group's Directors and management assess financial performance based on underlying measures of performance, which are adjusted to exclude certain 'specific adjusting items'. In the judgment of the Directors, the use of alternative performance measures (APMs) such as underlying operating profit and underlying earnings per share are more representative of ongoing trading, facilitate meaningful year-to-year comparison and, therefore, allow the reader to obtain a fuller understanding of the financial information. The adjusted measures used by QinetiQ may differ from adjusted measures used by other companies. Details of QinetiQ's APMs are set out in the glossary to the document.

Year references (FY20, FY19, FY18, 2020, 2019, 2018) refer to the year ended 31 March.

Disclaimer

This document contains certain forward-looking statements relating to the business, strategy, financial performance and results of the Company and/or the industry in which it operates. Actual results, levels of activity, performance, achievements and events are most likely to vary materially from those implied by the forward-looking statements. The forward-looking statements concern future circumstances and results and other statements that are not historical facts, sometimes identified by the words 'believes', 'expects', 'predicts', 'intends', 'projects', 'plans', 'estimates', 'aims', 'foresees', 'anticipates', 'targets', 'goals', 'due', 'could', 'may', 'should', 'potential', 'likely' and similar expressions, although these words are not the exclusive means of doing so. These forward-looking statements include, without limitation, statements regarding the Company's future financial position, income growth, impairment charges, business strategy, projected levels of growth in the relevant markets, projected costs, estimates of capital expenditures, and plans and objectives for future operations. Forward-looking statements contained in this announcement regarding past trends or activities should not be taken as a representation that such trends or activities will continue in the future. Nothing in this document should be regarded as a profit forecast.

The forward-looking statements, including assumptions, opinions and views of the Company or cited from third party sources, contained in this announcement are solely opinions and forecasts which are uncertain and subject to risks. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to be correct. Actual results may differ materially from those expressed or implied by these forward-looking statements. A number of factors could cause actual events to differ significantly and these are set out in the principal risks and uncertainties section of this document.

Most of these factors are difficult to predict accurately and are generally beyond the control of the Company. Any forward-looking statements made by, or on behalf of, the Company speak only as of the date they are made. Save as required by law, the Company will not publicly release the results of any revisions to any forward-looking statements in this document that may occur due to any change in the Directors' expectations or to reflect events or circumstances after the date of this document.

Chief Executive Officer's Review

Through the consistent and successful implementation of our strategy we have delivered our fourth year of growth. Our FY20 performance was strong, with the largest order intake in nearly a decade, revenue growth of 18% and operating profit growth of 7%. We also completed our largest acquisition to date under our strategy with the purchase of MTEQ. This significantly enhances our capabilities in sensing technology, complements our existing US business and expands our presence in the world's largest defence market. With our strategy firmly embedded and delivering consistent results, we are taking steps to mature our organisation ensuring we have the right teams, systems and processes in place to continue building a truly integrated global defence and security company.

Strategic achievements

Having launched our vision-based strategy in 2016, we are delivering significant progress and continue to drive its implementation. Our strategy has three mutually reinforcing pillars: 1) leading and modernising UK defence test and evaluation (T&E), 2) building an international company, and 3) innovating to deliver advantage to our customers.

During the course of FY20 we secured many strategic achievements, winning significant orders, delivering for our customers, investing in our capabilities and successfully acquiring two businesses. What has been particularly notable is the consistency of performance across our business. The growth we are delivering is across all areas of QinetiQ, both within EMEA Services and Global Products in the UK and internationally.

UK	International	Innovation
<ul style="list-style-type: none">▪ Continuing successful investment and delivery against amended LTPA contract▪ Acquired Newman & Spurr Consultancy, enhancing our training and simulation capabilities	<ul style="list-style-type: none">▪ Record year of growth in Australia▪ Grew international revenues to 31% of our company▪ Completed acquisition of MTEQ and secured special security agreement; enabling global collaboration▪ Secured orders for key US robotic Program of Record	<ul style="list-style-type: none">▪ £168m of new orders under the Engineering Delivery Partner contract▪ €75m contract from European Space Agency for ALTIUS satellite▪ £67m contract to develop secure satellite navigation receivers

We outline more of our FY20 strategic progress in our Operating Review on page 12.

Current impact from COVID-19

Our EMEA Services division benefits from long-term contracts, performing work that is critical to sovereign defence capabilities. To date, the effects of COVID-19 have been limited within this division. We have experienced some limited delay in trial activity, and in Germany a reduction in flying hours, while other work more directly associated with the response to COVID-19 has been accelerated. While many of our employees are able to work effectively and productively from home, similar requirements for our customers and partners to do the same are likely to have a knock-on effect to our business, although it is difficult to quantify the effects at this stage.

The scale and impact of COVID-19 became increasingly apparent as we approached our year end. As we enter FY21, we are seeing isolated effects to our business associated with the restrictions on travel and requirements to implement social distancing. These effects are more likely in our shorter-cycle products business outside of our home and priority countries, particularly within QinetiQ Target Systems where some customers have delayed trial activity and reduced orders for targets.

Strategic response to COVID-19

We entered FY21 in a very strong position, with a large order book and net cash on our balance sheet. Despite our resilient business model and strong financial position, we think it is appropriate to be prudent and have taken decisive action now to maintain the strength of our business in the long-term interests of our employees, customers and investors.

The COVID-19 crisis creates uncertainty and as yet, with no clear guidance on the scale back of national safeguarding measures as well as the potential knock-on impact to customer priorities and budgets, we are taking an appropriately cautious approach. We hope the impact is less pronounced than we are planning for, in which case we will be able to remove the actions quickly.

We are ensuring that our strategic response to the COVID-19 crisis is fair, balanced and proportionate across all our stakeholders, enabling us to be agile and proactive so that we emerge from the crisis as a stronger more agile company and pursue medium- to long-term growth.

1) Our employees

Short-term

Our primary concern is for our people, whose knowledge and expertise are key to our success. Globally, we are taking steps to ensure that employees can work effectively and safely from home while continuing to feel supported. For those employees who need to work on our sites to enable delivery of critical defence and national security programmes, we have implemented a range of safeguarding measures including social distancing, additional cleaning services and provision of personal protection equipment as necessary to ensure our working environments are safe and clean.

Longer-term

With nearly 80% of our employees working from home, our people have successfully risen to the challenge of extensive remote working delivering high levels of productivity and effectiveness. To support longer-term remote working we are accelerating aspects of our digital transformation and evolving our functional delivery model. We are continuing our employee engagement activity using virtual rather than physical meetings building on the positive 10% increase in engagement scores we delivered during FY20. We have continued our All Employee Incentive Scheme, which we introduced last year, which will pay each employee £740 in QinetiQ shares and is a key enabler for growth by aligning our employee and shareholder interests.

2) Our customers

Short-term

The work QinetiQ does is vital to maintaining the capabilities of defence, security and critical national infrastructure, including the emergency services. Our customers are facing significant challenges due to the threat of COVID-19, and we are working closely with them to provide support delivering their priorities at this critical time. We are proud of the role we play in this regard, and we are aware of the responsibilities that we are fulfilling.

Longer-term

We are partnering with customers to understand how their longer-term needs will evolve. We anticipate that future defence and security budgets are likely to come under pressure as the full financial impact to governments of COVID-19 is understood. While overall budgets may come under pressure, we anticipate there being areas within overall defence spending, aligned with our strategy, that will continue to grow. We occupy a privileged position in defence with very close customer relationships and as such are able to advise on defence and security priorities as well as upgrading existing capabilities to respond to the latest threats.

We believe the challenges COVID-19 creates will accelerate the shift to a new defence paradigm that puts rapid, mission-led innovation at the centre of procurement, a trend that is well aligned with our own

innovation strategy, expertise and recently acquired businesses. Our strategy, which we have been successfully implementing over the last four years, was developed in a constrained budgetary environment, and as such we are confident we can continue to deliver medium- to long-term and profitable growth despite potential macro headwinds.

3) Our company and investors

Short-term

To protect our business we are implementing a series of short-term actions to sustain our skills and critical capabilities for the long-term. These temporary actions include the CEO and CFO volunteering a salary reduction of c.33% and the wider Board volunteering a 25% reduction in fees. We are also taking a prudent approach to controlling cash outflows, including reducing operating expenditure and deferring discretionary capital expenditure. All bonuses will be paid in shares.

Given the unprecedented nature of COVID-19 and the Board's wish to adopt a prudent course of action to protect the long-term, it will postpone the decision on the proposal of a dividend until a later date. This decision was not taken lightly and will be reviewed as soon as sensible to do so.

We have a strong balance sheet with £85m of net cash available and an undrawn committed revolving credit facility of £275m. The initial five-year facility has been extended by one year to September 2024 and has a further option to extend by one more year to September 2025.

Longer-term

With 92% of our revenue delivered within our six home or priority countries, we have a resilient business model and growth strategy. We believe that the steps we are taking will preserve our balance sheet strength and retain the critical talent we need within our company. Our aim is to emerge from the current crisis able to continue accelerating our strategy to meet the needs of a new world, delivering both organic and inorganic growth.

We are continuing to make good progress on the integration of our acquisitions of MTEQ and NSC. In the US, we are successfully moving our governance structure to a Special Security Agreement (SSA), which will allow greater coordination and collaboration with QinetiQ globally supporting our longer term growth. In April, we implemented our new Global Operating Model, simplifying our management structure, digitalising our business, leveraging our capabilities globally and driving a performance culture across the organisation. By taking prudent actions to preserve our balance sheet, we will be well placed to take advantage of the opportunities created by the current crisis, particularly in M&A.

Our strategy has enabled us to successfully grow in an uncertain world over the last four years by adding value to our customers. Whilst the world has changed around us, our strategy is unchanged and is more relevant than ever to meet the needs of our customers in this new world.

Outlook – FY21

While we enter FY21 in a position of strength, it is too early to draw conclusions on the overall impact of COVID-19 to our business. At this stage we are planning for a range of outcomes depending upon the duration and extent of national safeguarding measures and any potential budget pressures. We have implemented short-term temporary actions to mitigate the immediate challenges and will provide further updates to the market as we gain more clarity both in terms of near-term trading and longer-term trends.

Outlook – Longer term

With the continued implementation of our strategy and investment, we are well placed to respond to changing customer requirements delivering medium- to long-term, profitable growth.

Steve Wadey, Chief Executive Officer, 21 May 2020

Chief Financial Officer's Review

Overview of full year results

We reported a strong performance in FY20, delivering growth across orders, revenue and profitability as we continue to successfully implement our strategy. We enter FY21 in a strong position to face the challenges arising from COVID-19, with a large order backlog and a robust balance sheet. Strong cash generation from the company has continued in FY20 with 133% cash conversion and a net cash position of £84.7m continues to provide support for investment opportunities.

Orders in the year totalled £972.1m (2019: £776.4m), a 19% increase on an organic basis. This was driven by £168m of orders under the EDP framework contract in EMEA services, a £67m UK Robust Global Navigation System (R-GNS) order and €75m contract with the European Space Agency for the Altius satellite in Global Products.

At the beginning of the new financial year, approximately £850m of the Group's FY21 revenue was under contract, compared to £706m (of the FY20 revenue) at the same point last year. This reflects the contribution from the two acquired businesses in the year together with the 19% organic increase in orders won in the year.

Revenue increased 18% at £1,072.9m (2019: £911.1m), assisted by a full-year of trading from our 2019 acquisitions and a £39.7m contribution from MTEQ and NSC which both completed during the second half of FY20. Revenue grew by 10% on an organic basis, with a 12% increase in EMEA Services primarily due to Engineering Delivery Partner (EDP) and a 5% increase in Global Products driven by small robotics and upgrade kits in QNA as well as ongoing growth in QTS.

Underlying operating profit was up 7% at £133.2m (2019 restated: £124.9m), assisted by ~£6m (2019: ~£7m) non-recurring trading items. Current year non-recurring trading items include a £4m benefit in respect of finalising business rates agreements and a £3m benefit related to cost recovery on a major contract in the EMEA Services division, partially offset by a number of other project and commercial risk reassessments. During the year we completed the acquisitions of MTEQ and Newman & Spurr Consultancy which together contributed £3.4m of operating profit in the period of our ownership. Excluding the FY20 acquisitions, the impact of a full year of trading versus a part year of trading for the 2019 acquisitions and the effect of foreign exchange, underlying operating profit for the Group increased organically by ~£2m (2%).

EMEA Services operating profit grew 4% assisted by a full-year of trading from our 2019 acquisitions. On an organic basis EMEA Services profit grew by 1%. The level of profit from non-recurring trading items in FY20 was ~£2m lower compared to the prior year. Excluding such non-recurring trading items, organic growth was 4%. Global Products underlying operating profit grew by 16% reflecting the acquisition of MTEQ in December 2019. On an organic basis Global Products profit grew by 4%. The level of non-recurring charges was ~£1m lower in FY20 and excluding these items organic profit declined by 1% driven by a loss in Optasense due to a challenging trading environment.

Total operating profit was £117.6m (2019 restated: £114.8m), net of £15.6m expense in respect of specific adjusting items (2019: £10.1m), as set out below.

Underlying profit before tax increased 7% to £132.2m (2019 restated: £124.0m) in line with the increase in underlying operating profit, with underlying net finance expense at £1.0m (2019 restated: £0.9m). Total profit before tax was £123.1m (2019: £123.2m).

Specific adjusting items

Specific adjusting items, shown in the 'middle column', at the profit after tax level amounted to a total net loss of £7.2m (2019: net profit of £2.4m). This included a gain on sale of surplus property of £14.0m (2019: £0.2m) and net finance income related to the defined benefit pension scheme of £6.5m (2019:

£8.2m) offset by a £14.1m goodwill impairment (2019: nil), in relation to EIS Aircraft Operations in Germany (£4.3m) and our Group's Advisory Services business unit (£9.8m), and costs of £7.5m in respect of the acquisitions completed in the year (2019: £2.0m). The tax effect of items impacting profit before tax was an expense of £1.4m (2019: income of £0.4m). The tax line also includes a £3.3m gain from recognising tax losses and surplus interest costs on the balance sheet. See below.

Further analysis is set out in note 3 with goodwill (and impairments of) discussed in note 13.

Net finance costs

Net finance income was £5.5m (2019 restated: £7.3m). The underlying net finance expense was £1.0m (2019 restated: £0.9m) with additional income of £6.5m (2019: £8.2m) in respect of the defined benefit pension net surplus reported within specific adjusting items.

Tax

The total tax charge was £16.6m (2019: £9.3m). The underlying tax charge was £18.5m (2019: £12.5m) with an underlying effective tax rate of 14.0% for the year ended 31 March 2020 (2019: 10.1%). The effective tax rate continues to be below the UK statutory rate, primarily as a result of the benefit of research and development expenditure credits ('RDEC') in the UK which are accounted under IAS12 within the tax line. An adjusted effective tax rate before the impact of RDEC would be 20.0%. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any tax legislation changes, the geographic mix of profits, the recognition of deferred tax assets and while the benefit of net RDEC retained by the Group remains in the tax line.

A £3.3m credit in respect of recognition of tax losses in the US has been classified as a specific adjusting item. This follows from the acquisition of MTEQ in the year that contributes future taxable profits against which historic unrecognised tax losses can be utilised. The prior year included a £2.8m credit from initial recognition of corporate tax deductions for certain equity-settled share based payment schemes. Together with a £1.4m net expense (2019: income of £0.4m) in respect of the pre-tax specific adjusting items, the total specific adjusting items tax credit was £1.9m (2019: £3.2m).

At 31 March 2020 the Group had unused tax losses and surplus interest costs of £90.3m which are available for offset against future taxable profits.

Cash flow, working capital, capex and net cash

Underlying net cash flow from operations was £177.8m (2019 restated: £135.3m) with an underlying operating cash conversion of 133% (2019 restated: 108%).

Capital expenditure increased to £107.8m (2019: £80.7m) as we continue to invest in core contracts including the LTPA following the contract amendment announced in April 2019. After paying tax and net interest of £10.5m the Group generated free cash flow of £59.5m (2019 restated: £43.5m), before property disposal proceeds of £12.5m (2019: £5.3m).

Overall capex between FY21-FY23 is expected to be in the range of £70-100m per annum, of which the majority reflects our investment into the LTPA. Given the nature of our business model, we expect to be able to fund our capex requirements from operational cash flow.

As at 31 March 2020 the Group had £84.7m net cash (2019 restated: £160.5m). The reduction in net cash was primarily due to the £90.2m of consideration for the acquisition of MTEQ and NSC, and payment of £38m of dividends; these were partially offset by £59.5m free cash flow and £12.5m of property disposals.

The Company's £275m multi-currency revolving credit facility (with an 'accordion' feature to expand up to a maximum of £400m) was extended during the year to 27 September 2024, with an option to extend

to a final maturity of 27 September 2025. The facility, undrawn as at 31 March 2020, provides a modest margin adjustment of +/- 0.02% based on QinetiQ's greenhouse gas emissions, compared to targets, over the life of the facility.

Capital allocation

Priorities for capital allocation remain in the long-term:

1. Organic investment complemented by bolt-on acquisitions where there is a strong strategic fit;
2. The maintenance of balance sheet strength;
3. A progressive dividend; and
4. The return of excess cash to shareholders.

The Group is not subject to any externally imposed capital requirements.

Return on Capital Employed (ROCE)

In order to help understand the overall return profile of the Group, QinetiQ have formulated a Return on Capital employed metric. This is calculated as Underlying EBITA / (Average Capital Employed less net pension asset), where average capital employed is defined as shareholders equity plus net debt (or minus net cash).

For FY20 Group ROCE is 28% compared to 39% in the previous year reflecting investment into our business to support sustainable long term growth.

Earnings per share

Underlying basic earnings per share increased by 2% to 20.0p (2019 restated: 19.7p) benefiting from the higher underlying profit after tax. Basic earnings per share for the total Group (including specific adjusting items) decreased 7% to 18.7p (2019 restated: 20.1p).

The average number of shares in issue during the year, as used in the basic earnings per share calculations, was 567.0m (2019: 566.0m) and there were 567.2m shares in issue at 31 March 2020 (all net of Treasury shares).

Dividend

Given the unprecedented nature of COVID-19 and the Board's wish to adopt a prudent course of action to protect the long-term, as announced on 1 April 2020, it will postpone the decision on the proposal of a dividend until a later date.

Pensions

The net pension asset under IAS 19, before adjusting for deferred tax, was £309.7m (31 March 2019: £259.1m). The key driver for the increase in the net pension asset since the March 2019 year end was gains due to changes in financial assumptions (primarily in respect of inflation), which decrease the present value of scheme liabilities, partially offset by reduction in value of scheme assets.

The key assumptions used in the IAS 19 valuation of the scheme are set out in note 14.

Implementation of IFRS 16 'Leases'

The new leases standard became effective for periods beginning on or after 1 January 2019, i.e. FY20 for QinetiQ, using either the full retrospective approach or the modified retrospective approach. QinetiQ has adopted the new standard for FY20 using the full retrospective approach.

Under the new standard, companies will recognise new assets and liabilities, bringing added transparency to the balance sheet. IFRS 16 eliminates the previous dual accounting model for lessees, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to previous finance lease accounting. Lessor accounting remains similar to existing practice i.e. lessors continue to classify leases as finance leases and operating leases.

The impact on the income statement for QinetiQ is negligible at a 'profit before tax' level with no impact on EPS, but EBITDA is increased, offset by an increase in depreciation and an increase in finance expense. See note 1 for details.

The impact on the balance sheet is the recognition of a new 'right of use' asset within Property Plant & Equipment and the recognition of a new lease liability. The latter is incorporated within the Group's definition (see glossary) of net cash, hence the most significant impact on the Group's financial KPIs is this change to net cash (reducing previously reported net cash at 31 March 2019 by £28.0m).

Prior year comparatives have been restated (to the extent impacted by IFRS 16) and more details are set out in Note 1 to the financial statements.

Foreign exchange

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

	2020	2019
£/US\$ - opening	1.30	1.40
£/US\$ - average	1.27	1.31
£/US\$ - closing	1.24	1.30
£/A\$ - opening	1.83	1.83
£/A\$ - average	1.86	1.80
£/A\$ - closing	2.03	1.83

Trading Environment

The UK, US and Australia are our home countries where we have our own indigenous industrial capabilities and collectively represent 87% of our revenues.

UK

With defence spending of £41.3bn in 2020, the UK has the largest defence budget in Europe. As the threat environment continues to evolve the UK Ministry of Defence (MOD) is committed to driving innovation and developing next generation capabilities. This was recognised in the 2018 Modernising Defence Programme, which placed a particular emphasis on technologies in areas such as artificial intelligence, cyberspace and space; all areas in which we have considerable expertise.

The UK spends approximately £1.5bn on Research, Development, Test & Evaluation (RDT&E) and remains a key market for QinetiQ where we continue to drive mission-led innovation. While the outcome and timing of the forthcoming Integrated Security, Defence & Foreign Policy Review is not yet known, QinetiQ is partnered closely with the MOD to support it in achieving its objectives and realising efficiencies, an approach we believe will create new opportunities for growth. Whilst the COVID-19 pandemic will result in significant fiscal pressure for the UK Government, with the possibility this could be exacerbated by an unfavourable conclusion to trade negotiations with the European Union, the UK's spending commitments to NATO and the evolving threat environment and need to ensure the resilience and security of critical national infrastructure is likely to offer support to UK defence budgets.

US

The US is by far the largest defence market globally with total spending of \$738bn in 2020, more than the next ten largest military budgets combined. With continuing tensions between the US and China, a more assertive Russia and widespread unrest in the Middle East with a resurgent Iran, the 2018 National Defense Strategy cited the need to modernise key capabilities across all domains to maintain superiority and recognised the value of collaboration with the private sector.

If passed, the FY21 Presidential budget request of \$740bn maintains support for key modernisation programmes and features the largest RDT&E budget in 70 years, as the US looks to harness emerging technologies. QinetiQ remains committed to supporting the DOD and our existing expertise in robotics and autonomy are well aligned with their ambitions to make greater use of this technology, evidenced by our recent robotics contract wins. The acquisition of MTEQ, specialising in next generation sensing solutions, a complementary area of focus for the US, also creates further opportunities for us to accelerate and sustain our growth in the world's largest defence market.

Australia

In Australia, current defence spending of \$33bn is forecast to grow at 3% per annum over the next decade, underpinned by cross party support for defence. The modernisation of defence platforms remains a key priority as Australia seeks to reform its force structure to counter rapid developments in "peer-to-peer" threats and China's increasing assertiveness in the South China Sea. In light of this environment Australia is increasingly working in partnership with allied nations, particularly in the Pacific, driving the need for greater interoperability between allied forces. With the need for innovation to counter rapid developments in the threat environment, Australia is placing an increased focus on the RDT&E of cyber capability, hypersonic weapons and autonomous vehicles. With a \$1.2bn RDT&E budget, Australia remains a key market for QinetiQ where we can provide the Australian forces with assurance of existing military capability, facilitate rapid experimentation of new capability and support operational readiness.

Broader international markets

In order to achieve our ambition of growing international revenue to 50% of Group revenue, we aim to drive growth in our three home countries, three priority countries of Canada, Germany and Belgium as well as wider international markets. Our international strategy is underpinned by harnessing the skills and expertise developed in our home countries across the Group to support allies in other high growth markets.

Canada is an attractive market for QinetiQ where we see opportunities to support the Canadian Armed Forces in modernising their own capabilities. The outlook for Canadian defence spending is positive with spending of \$16.9bn in 2020 expected to grow by 5% per annum over the next five years, underpinned by Canada's drive to hit NATO spending targets.

Europe is also an attractive market for QinetiQ, representing nearly 20% of global defence spending. Within this, Germany is a key market with our in-country operation built on the acquisition of EIS Aircraft Operations. Current defence spending in Germany is \$48bn and in a similar fashion to other NATO nations the trajectory is positive supported by the drive to hit NATO spending commitments. Belgium is another key market within Europe, where we are seeing increasing demand for our space products driven by the European Space Agency.

With growing unrest in the Gulf region, defence spending has trended upwards. However, nations driving this spend have predominantly focused on the procurement of new equipment and are increasingly aware of the benefits of integration, assurance and training to create true capabilities. We therefore see opportunities in the Gulf region to support allied nations in creating assured military capabilities.

Impact of COVID-19

The impacts of COVID-19 on our key markets have been both severe and widespread, with most affected in some way. In recent months, national safeguarding measures, including travel restrictions, put in place to halt the spread of the virus have impacted our ability to deliver for customers, with challenges relating to on-site delivery and the shipment of products. Whilst this is short-term in nature and we have been able to adapt to new ways of working to minimise its impact, it would pose more of a challenge were these measures a consistent feature over a longer period. The unprecedented stimulus that many governments have deployed in response to reduce the economic impact of the pandemic will significantly reduce their fiscal flexibility and place pressure on their spending. However, with the geopolitical environment growing increasingly complex and the need to retain superior technological advantage more pressing than ever, we believe demand in our key markets will remain robust over the long-term.

Operating review

EMEA Services

	2020	2019
	£m	£m
Orders excluding LTPA amendments ⁽¹⁾	670.0	534.6
Revenue	797.4	687.7
Underlying operating profit [^]	100.6	96.8
Underlying operating margin [^]	12.6%	14.1%
Book to bill ratio ⁽²⁾	1.1x	1.2x
Total funded order backlog	2,797.7	2,916.8

(1) Includes share of orders from Joint Ventures

(2) B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract and share of JV orders

[^] Prior year restated due to the retrospective adoption of the new accounting standard, IFRS 16, in respect of leases. Refer to Note 1.

Overview

EMEA (Europe, Middle East and Australasia) Services combines world-leading expertise with unique facilities to provide integrated capability generation and assurance. Our core value proposition is built upon our expertise in capability integration, threat representation and operational readiness underpinned by long-term contracts that provide good visibility of revenues and cash flows. The division is also a market leader in research and advice in specialist areas such as Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR), weapons and energetics, cyber security and procurement advisory services.

Financial performance

Orders for the year were £670m (2019: £534.6m), growing £115.4m (22%) on an organic basis excluding acquisitions and foreign exchange. The increase was driven by £168m of orders under the Engineering Delivery Partner (EDP) framework contract and a £67m order for the UK Robust Global Navigation System (R-GNS) programme.

Revenue increased by 16% to £797.4m (2019: £687.7m), including £29.2m from acquisitions, and increased by 12% on an organic basis, principally driven by new work under the EDP and Battlefield Tactical Communication and Information Systems (BATCIS) contracts.

At the beginning of the new financial year £656m of the division's FY21 revenue was under contract, compared to £565m (of the FY20 revenue) at the same point last year. This reflects the contribution from the acquired business in the year together with the 22% organic increase in orders won in the year.

Underlying operating profit grew by 4% to £100.6m (2019 restated: £96.8m) assisted by a full-year of trading from our 2019 acquisitions. Organic growth was 1% due to ~£2m lower non-recurring trading items at ~£7m (2019: ~£9m) comprising a £4m benefit in respect of finalising business rates agreements and a £3m benefit related to cost recovery on a major contract. The increasing proportion of EDP work drives profit growth at a lower rate than revenue growth, diluting the operating profit margin, but has limited capital requirements supporting overall returns.

Including the Long Term Partnering Agreement (LTPA), the proportion of EMEA Services revenue derived from single source contracts has remained stable at approximately 70% (2019: approximately 70%). While we have increased revenue derived from competitive contracts this has also been complemented by growth in single source EDP work.

FY20 review

Air & Space (25% of EMEA Services revenue)

The Air & Space business de-risks complex aerospace programmes by testing systems and equipment, evaluating the risks and assuring safety.

- Engineering Delivery Partner (EDP), our innovative delivery model for the provision of engineering services, continued to be a key driver of performance. In FY20 £168m of orders were contracted through EDP taking the total since inception to £238m. While EDP remains the default route for the procurement of engineering services to DE&S, it is available to other MOD departments and agencies creating further opportunities for growth.
- Key contract awards through EDP include an £11m contract to provide independent technical evaluation services on the F35 Lightning II aircraft and shortly after year end, a £30m contract that will unify the technical services provided to the Typhoon Delivery Team.
- Building on our investment in Test Aircrew Training, the transformed Empire Test Pilots' School successfully delivered its first year of the new syllabus, with all students passing. The new modernised ETPS is equipped to continue delivering world-class test aircrew training and we continue to experience strong demand for all courses from both domestic and international customers.

Maritime, Land & Weapons (MLW) (39% of EMEA Services revenue)

The Maritime, Land & Weapons business delivers operational advantage to customers by providing independent research, test, evaluation and training services.

- Following the £1.3bn amendment to the LTPA in April 2019, we are progressing through a two-year transition period to new ways of working. We successfully reached the third operating milestone in this transition on schedule with positive customer feedback. We are continuing to drive modernisation to support our customer in an increasingly complex threat environment.
- As part of this transition many of our sites are undergoing investment and enhancement of facilities and capabilities, enabling us to support larger and more complex trials adding greater value for our customers.
- In April 2020 we were awarded a £13m contract as the industry lead on the Weapons Sector Research Framework providing research and technology into current and future weapons capabilities including laser and directed energy weapons systems.
- Our long-term contracts support solving complex customer problems and have opened new opportunities for us including being awarded a £5m contract to support the Royal Navy in developing their approach to the new Carrier Strike group operations.

Cyber, Information & Training (CIT) (23% of EMEA Services revenue)

The Cyber & Information business helps government and commercial customers respond to fast-evolving threats based on its expertise in training, secure communication networks and devices, intelligence gathering and surveillance sensors, and cyber security.

- The business delivered an excellent performance across all key metrics as we continue to reposition the business to become a critical mission assurance partner, driving improved visibility and growth.
- Key contract wins include the £67m Robust Global Navigation System (R-GNS) contract to develop secure satellite navigation receivers on behalf of the MOD. The programme will deliver critical capability to provide UK Defence with accurate and resilient positioning, navigation and timing which will underpin the UK's ability to undertake 24/7 military operations around the world in the most demanding and increasingly contested operational environments.
- In February 2020 we completed the acquisition of Newman & Spurr Consultancy (NSC) for £14m (net of cash acquired). NSC provides a range of training and simulation solutions and the strategy-led acquisition enhances our capability in areas such as modelling, simulation and synthetic environments.

- Following our strategic investment in November 2018, Inzpire, the highly regarded provider of operational training services, continues to perform in line with the Board's expectations, delivering good growth in revenue and profit.

International (13% of EMEA Services revenue)

Our International business leverages our expertise and skills developed in the UK, and applies them to opportunities in attractive markets globally. Revenue derived from outside of the UK is reported in many of our businesses and is not exclusive to our International business unit.

- The International business unit delivered a strong performance with good growth in orders, revenue and profit.
- This was underpinned by our performance in Australia where we delivered record orders, as our status as a Major Service Provider in partnership with Nova Systems continues to gather momentum and drive performance. We are working with the Australian Government on a proposal to design and build an Unmanned Air System (UAS) Test Range.
- Our German operations, built on the acquisition of EIS Aircraft Operations in October 2018 performed in line with expectations for orders with some significant contract wins during the period. Delivery performance and profitability was, however, impacted by other operational and cost issues and towards the end of the financial year by the effects of COVID-19. We have written down £4.3m of goodwill associated with the acquisition in anticipation of the financial impact of lower revenue and margins. We continue to seek ways to leverage our capabilities within QinetiQ Germany and see good opportunities to drive long-term growth in a significant European defence market.
- We operate three joint ventures in the Middle East. Our progress in the region has been slower than anticipated, however we have made good progress with a number of strategic contract wins including two significant framework contracts to provide customer side consultancy services. Looking forward we see encouraging opportunities as our joint ventures continue to grow in maturity, capability and local reputation.

Global Products

	2020	2019
	£m	£m
Orders	302.1	241.8
Revenue	275.5	223.4
Underlying operating profit [^]	32.6	28.1
Underlying operating margin [^]	11.8%	12.6%
Book to bill ratio ⁽¹⁾	1.1x	1.1x
Funded backlog	307.2	216.8

[^] Prior year restated due to the retrospective adoption of the new accounting standard, IFRS 16, in respect of leases. Refer to Note 1.

¹⁾ B2B ratio is orders won divided by revenue recognised

Overview

Global Products delivers innovative solutions to meet customer requirements and undertakes contract-funded research and development, developing intellectual property in partnership with key customers and through internal funding with potential for new revenue streams. The division is technology-based and has shorter order cycles than EMEA Services so can have a more lumpy revenue profile. Our strategy is to expand the product portfolio and win larger, longer-term programmes to improve the consistency of the financial performance of this division. In FY20 the company expanded its products portfolio with the successful acquisition of MTEQ.

Financial performance

Orders increased to £302.1m (2019: £241.8m) with growth assisted by a €75m order for the European Space Agency Altius contract and £25m of orders from the acquired MTEQ business, partially offset by a C\$51m order in the prior year figure in respect of delivering unmanned air system services to the Canadian Armed Forces. Organic orders growth was 14%.

At the beginning of the new financial year £193m of the division's FY21 revenue was under contract, compared to £141m (of the FY20 revenue) at the same point last year. This reflects the contribution from the acquired business in the year together with the organic increase in orders won in the year.

Revenue was up 23% on a reported basis at £275.5m (2019: £223.4m), primarily due to contribution from the MTEQ business acquired during the year. On an organic basis, revenue increased by 5% driven by small robotics and Talon upgrade kits in QNA, ongoing growth in QTS and delivery of the Canadian armed forces contract won in FY19.

Global Products underlying operating profit grew by 16% to £32.6m (2019: £28.1m) reflecting the acquisition of MTEQ in December 2019. On an organic basis operating profit increased by 4%, but excluding non-recurring trading items declined by 1%. This was driven by a loss in Optasense, due to a challenging trading environment, partially offset by growth in QTS and a more profitable product mix in QNA.

FY20 review

United States (44% of Global Products revenue)

Our US business develops and manufactures innovative defence products specialising in robotics, autonomy and sensing solutions. This business unit comprises our existing US operations (QNA) as well as MTEQ, which we acquired in December 2019.

- Our US business delivered a strong performance in FY20, primarily driven by robotics orders, with the first deliveries under the Common Robotic System-Individual (CRS-I) contract accepted by the customer.
- We were also awarded the Robotic Combat Vehicle-Light (RCV-L) contract to provide the US military with combat vehicles to support the customer in determining the feasibility of integrating unmanned vehicles into ground combat operations.
- In December 2019, we completed the acquisition of Manufacturing Techniques Inc. (MTEQ) for \$105m with a potential further earn-out of up to \$20m. MTEQ is a leading provider of advanced sensing solutions in the US, and the combination of MTEQ with our existing expertise in robotics and autonomy capabilities creates a powerful customer proposition.
- The integration of our US businesses into a single entity operating under a Special Security Agreement (SSA) is progressing well and we are seeing an increasing number of opportunities for the combined entities to work collaboratively, including on the RCV-L programme. The change in the governance of our US business through the SSA is a significant enabling factor. It will enhance our ability to operate coherently and collaboratively across QinetiQ's global operations meaning we are better able to innovate and deliver for our customers.

OptaSense (9% of Global Products revenue)

OptaSense provides innovative fibre sensing solutions to deliver decision-ready data in multiple vertical markets.

- Despite a positive first half, performance at OptaSense deteriorated in the second half, impacted by severe weakness in oil and gas markets, which was further exacerbated by the impacts of

COVID-19. In light of this trading environment OptaSense reported a net loss for the period of £1.9m.

Space Products (9% of Global Products revenue)

QinetiQ's Space Products business provides satellites, payload instruments, sub-systems and ground station services.

- Our Belgium based space business was awarded a €75m contract with the European Space Agency (ESA) to develop and assemble the new Altius satellite. The satellite extends Europe's capabilities in operational Earth Observation and will study the distribution of ozone in the earth's stratosphere helping to chart climate change.
- The satellite will be built utilising our new, higher grade cleanroom facility in Kruibeke, Belgium that was officially opened during the year. The upgraded facility gives us the capacity to produce up to four major products at any one time supporting growth in satellite and docking systems production capacity.
- We were also awarded a €9m three-year contract to build equipment that will support experiments in the International Space Station.

EMEA Products (38% of Global Products revenue)

EMEA Products provides research services and bespoke technological solutions developed from intellectual property spun out from EMEA Services. It also includes our QinetiQ Target Systems (QTS) business.

- Building on an excellent first half, QinetiQ Target Systems delivered a strong performance with mid-teens growth in revenues and profit. This was despite the impacts of COVID-19 towards the end of the year which resulted in delayed trial activity and reduced targets orders. Whilst we are currently experiencing COVID-19 related disruption within QTS, we believe longer-term the business remains well positioned, offering advanced target systems at an attractive price point.
- To support our medium-term growth and ensure our customers can continue to emulate the most advanced aerial threats we launched two new products in the period.
- The first, our Next Generation Banshee target replicates fast flying jets, and enables customers to conduct Test & Evaluation and live-fire training exercises against faster, higher flying, more manoeuvrable and less detectable targets. We also released the Air-Launched 'Rattler' target, a low-cost supersonic target used to accurately replicate anti-radiation missiles and supersonic/high-diving threats.

Principal risks and uncertainties

The Group continues to be exposed to a number of risks and uncertainties which management continue to identify, assess and mitigate to minimise their potential impact on the reported performance of the Group. An explanation of risks and their mitigations, together with details of our risk management framework can be found in the annual report which will be available for download at: <https://www.qinetiq.com/investors>.

A summary of the significant risks and uncertainties is set out below:

- Reduced spending in the core markets in which the Group operates due to government budget pressures;
- Failure to execute the international strategy or adequately to mitigate specific risks arising from international business;
- Failure to create a culture of innovation, develop relevant technology and business models or to attract and retain the right talent to enable the realisation of new ideas for our customers and our organisation;
- A material element of the Group's revenue is dependent on a number of UK Government contracts;
- M&A activity forms a key element of our strategic growth plans in order to expand our customer offerings;
- The transformation programme does not realise the expected benefits;
- The Group operates in highly regulated environments and recognises that its operations have the potential to have an impact on a variety of stakeholders;
- A breach of physical data security, cyber-attacks or IT systems failure could have an adverse impact on our customers' operations; and
- The COVID-19 pandemic disrupts QinetiQ operations.

Consolidated income statement for the year ended 31 March

All figures in £ million	Note	2020			2019 (restated)^		
		Underlying*	Specific adjusting items*	Total	Underlying*	Specific adjusting items*	Total
Revenue¹		1,072.9	-	1,072.9	911.1	-	911.1
Operating costs excluding depreciation and amortisation		(903.6)	(8.0)	(911.6)	(753.5)	(2.7)	(756.2)
Other income		9.2	14.0	23.2	10.6	0.2	10.8
EBITDA (earnings before interest, tax, depreciation and amortisation)		178.5	6.0	184.5	168.2	(2.5)	165.7
Depreciation and impairment of property, plant and equipment		(41.0)	-	(41.0)	(40.1)	(3.7)	(43.8)
Impairment of goodwill		-	(14.1)	(14.1)	-	-	-
Amortisation of intangible assets		(4.3)	(7.5)	(11.8)	(3.2)	(3.9)	(7.1)
Operating profit/(loss)		133.2	(15.6)	117.6	124.9	(10.1)	114.8
Gain on sale of investments		-	-	-	-	1.1	1.1
Finance income	6	1.1	6.5	7.6	1.2	8.2	9.4
Finance expense	6	(2.1)	-	(2.1)	(2.1)	-	(2.1)
Profit/(loss) before tax		132.2	(9.1)	123.1	124.0	(0.8)	123.2
Taxation (expense)/income	7	(18.5)	1.9	(16.6)	(12.5)	3.2	(9.3)
Profit for the year		113.7	(7.2)	106.5	111.5	2.4	113.9
Profit is attributable to							
Owners of the Company		113.5	(7.2)	106.3	111.5	2.4	113.9
Non-controlling interests		0.2	-	0.2	-	-	-
Profit for the year		113.7	(7.2)	106.5	111.5	2.4	113.9
Earnings per share for profit attributable to the owners of the Company							
All figures in pence	Note	2020		2019 (restated)^			
		Underlying*	Total	Underlying*	Total		
Basic	8	20.0p	18.7p	19.7p	20.1p		
Diluted	8	19.8p	18.6p	19.6p	20.0p		

¹ Revenue excludes the share of revenue of joint ventures £3.3m (2019: £1.9m).

[^] Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 1 for details.

* Alternative performance measures are used to supplement the statutory figures. These are additional financial indicators used by management internally to assess the underlying performance of the Group. Definitions can be found in the glossary.

Consolidated comprehensive income statement for the year ended 31 March

All figures in £ million	2020	2019 (restated)
Profit for the year	106.5	113.9
<i>Items that will not be reclassified to profit and loss:</i>		
Actuarial gain/(loss) recognised in defined benefit pension schemes	39.8	(66.4)
Tax on items that will not be reclassified to profit and loss	(12.7)	11.3
Total items that will not be reclassified to profit and loss	27.1	(55.1)
<i>Items that may be reclassified subsequently to profit and loss:</i>		
Foreign currency translation gains on foreign operations	5.1	4.6
Movement in deferred tax on foreign currency translation	(0.6)	(0.4)
Increase in fair value of hedging derivatives	0.8	1.8
Movement in deferred tax on hedging derivatives	(0.2)	(0.2)
Recycling of gain on disposal of investments	-	(1.1)
Fair value gain on available for sale investments	-	0.7
Total items that may be reclassified to profit and loss	5.1	5.4
Other comprehensive income/(expense) for the year, net of tax	32.2	(49.7)
Total comprehensive income for the year	138.7	64.2

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

All figures in £ million	Share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 31 March 2019 (previously reported)	5.7	40.8	147.6	(0.2)	3.8	581.1	778.8	2.2	781.0
Restatement in respect of IFRS 16	-	-	-	-	-	(2.0)	(2.0)	-	(2.0)
At 31 March 2019 (restated)	5.7	40.8	147.6	(0.2)	3.8	579.1	776.8	2.2	779.0
Change in accounting policy – IFRIC 23	-	-	-	-	-	2.1	2.1	-	2.1
At 1 April 2019	5.7	40.8	147.6	(0.2)	3.8	581.2	778.9	2.2	781.1
Profit for the year	-	-	-	-	-	106.3	106.3	0.2	106.5
Other comprehensive income for the year, net of tax	-	-	-	0.6	4.5	27.1	32.2	-	32.2
Purchase of own shares	-	-	-	-	-	(0.7)	(0.7)	-	(0.7)
Share-based payments charge	-	-	-	-	-	6.8	6.8	-	6.8
Deferred tax on share options	-	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Dividends	-	-	-	-	-	(38.0)	(38.0)	-	(38.0)
At 31 March 2020	5.7	40.8	147.6	0.4	8.3	681.9	884.7	2.4	887.1
At 1 April 2018 (previously reported)	5.7	40.8	147.6	(1.8)	(0.4)	552.2	744.1	0.2	744.3
Restatement in respect of IFRS 16	-	-	-	-	-	(2.0)	(2.0)	-	(2.0)
At 1 April 2018 (restated)	5.7	40.8	147.6	(1.8)	(0.4)	550.2	742.1	0.2	742.3
Profit for the year	-	-	-	-	-	113.9	113.9	-	113.9
Acquisition of partially owned subsidiary	-	-	-	-	-	-	-	2.0	2.0
Other comprehensive income/(expense) for the year, net of tax	-	-	-	1.6	4.2	(55.5)	(49.7)	-	(49.7)
Purchase of own shares	-	-	-	-	-	(0.7)	(0.7)	-	(0.7)
Share-based payments charge	-	-	-	-	-	5.9	5.9	-	5.9
Deferred tax on share options	-	-	-	-	-	1.0	1.0	-	1.0
Dividends	-	-	-	-	-	(35.7)	(35.7)	-	(35.7)
At 31 March 2019 (restated)	5.7	40.8	147.6	(0.2)	3.8	579.1	776.8	2.2	779.0

* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. The opening position for 2020 has also been adjusted due to the adoption of a new accounting policy in respect of 'uncertainty over income tax treatments'. See note 37 for details.

All figures in £ million	Note	2020	2019 (restated)	2018 (restated)
Non-current assets				
Goodwill	13	180.8	148.6	101.5
Intangible assets		138.9	88.5	41.1
Property, plant and equipment		375.6	323.2	295.4
Other financial assets		1.0	0.9	0.3
Equity accounted investments		3.6	4.5	2.2
Retirement benefit surplus	14	309.7	259.1	316.2
Deferred tax asset		13.3	7.8	6.4
		1,022.9	832.6	763.1
Current assets				
Inventories		52.3	40.1	38.1
Other financial assets		6.7	0.5	16.9
Trade and other receivables		250.0	208.5	150.3
Investments		-	-	0.7
Current tax receivable		0.2	1.5	-
Assets held for sale		-	1.9	1.2
Cash and cash equivalents		105.8	190.8	254.1
		415.0	443.3	461.3
Total assets		1,437.9	1,275.9	1,224.4
Current liabilities				
Trade and other payables		(379.8)	(346.6)	(334.9)
Current tax payable		(4.1)	(8.5)	(8.9)
Provisions		(1.8)	(6.2)	(6.0)
Other financial liabilities		(8.9)	(10.8)	(9.4)
		(394.6)	(372.1)	(359.2)
Non-current liabilities				
Deferred tax liability		(101.3)	(72.7)	(66.0)
Provisions		(9.7)	(10.7)	(14.3)
Other financial liabilities		(19.9)	(20.9)	(23.9)
Other payables		(25.3)	(20.5)	(18.7)
		(156.2)	(124.8)	(122.9)
Total liabilities		(550.8)	(496.9)	(482.1)
Net assets		887.1	779.0	742.3
Equity				
Share capital		5.7	5.7	5.7
Capital redemption reserve		40.8	40.8	40.8
Share premium		147.6	147.6	147.6
Hedging reserve		0.4	(0.2)	(1.8)
Translation reserve		8.3	3.8	(0.4)
Retained earnings		681.9	579.1	550.2
Capital and reserves attributable to shareholders of the parent company		884.7	776.8	742.1
Non-controlling interest		2.4	2.2	0.2

Total equity	887.1	779.0	742.3
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Consolidated balance sheet as at 31 March

Consolidated cash flow statement for year ended 31 March

All figures in £ million	Note	2020	2019 (restated)
Underlying net cash inflow from operations	9	177.8	135.3
Less: specific adjusting items	9	(11.3)	(0.7)
Net cash inflow from operations	9	166.5	134.6
Tax paid		(10.0)	(10.7)
Interest received		1.2	1.3
Interest paid		(1.7)	(1.7)
Net cash inflow from operating activities		156.0	123.5
Purchases of intangible assets		(16.7)	(10.6)
Purchases of property, plant and equipment		(92.7)	(77.0)
Proceeds from disposals of plant and equipment		1.6	6.9
Proceeds from sale of property		12.5	5.3
Proceeds from sale of investments		-	1.5
Acquisition of businesses		(90.2)	(61.2)
Investment in joint venture		-	(1.6)
Proceeds from disposal of available-for-sale investments		-	15.7
Net cash outflow from investing activities		(185.5)	(121.0)
Purchase of own shares		(0.7)	(0.7)
Dividends paid to shareholders		(38.0)	(35.7)
Repayment of external bank loan		-	(20.0)
Payment of bank facility arrangement fees		(0.3)	(1.5)
Capital element of finance lease payments		(9.7)	(8.4)
Net cash outflow from financing activities		(48.7)	(66.3)
Decrease in cash and cash equivalents		(78.2)	(63.8)
Effect of foreign exchange changes on cash and cash equivalents		(6.8)	0.5
Cash and cash equivalents at beginning of year		190.8	254.1
Cash and cash equivalents at end of year		105.8	190.8

Reconciliation of movement in net cash for the year ended 31 March

All figures in £ million	Note	2020	2019 (restated)
Decrease in cash and cash equivalents in the year		(78.2)	(63.8)
Add back net cash flows not impacting net cash		10.0	14.2
Change in net cash resulting from cash flows		(68.2)	(49.6)
Lease and debt recognised on acquisition		(2.7)	(22.7)
Increase in lease obligation		(4.0)	(7.2)
Other movements including foreign exchange		(0.9)	2.0
Decrease in net cash as defined by the Group		(75.8)	(77.5)
Net cash as defined by the Group at beginning of the year		160.5	238.0
Net cash as defined by the Group at end of the year	10	84.7	160.5
Less: non-cash net financial liabilities	10	21.1	30.3
Total cash and cash equivalents	10	105.8	190.8

Notes to the financial statements

1. Significant accounting policies

Basis of preparation

QinetiQ Group plc is a public limited company, which is listed on the London Stock Exchange and is incorporated and domiciled in the United Kingdom.

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, subject to the changes noted below, as those published by the Group within its Annual Report for the year ended 31 March 2019 which is available on the Group's website, www.QinetiQ.com.

The preliminary announcement was approved by the Board of Directors on 21 May 2020. 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 2020 were approved by the Board of Directors on 21 May 2020 and will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 24 July 2020. The financial information for 2019 is derived from the statutory accounts for 2019 which have been delivered to the Registrar of Companies. The auditors have reported on the 2020 and 2019 accounts. The reports were (i) unqualified; (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

In the income statement, the Group presents specific adjusting items separately. In the judgement of the Directors, for the reader to obtain a proper understanding of the financial information, specific adjusting items need to be disclosed separately because of their size and nature. Underlying measures of performance exclude specific adjusting items. Specific adjusting items include:

Item	Distorting due to irregular nature year on year	Distorting due to fluctuating nature (size and sign)	Does not reflect in-year operational performance of continuing business
Amortisation of intangible assets arising from acquisitions			✓
Pension net finance income and pension past service cost		✓	✓
Gains/losses on disposal of property, investments and intellectual property	✓	✓	✓
Transaction & integration costs in respect of business acquisitions	✓		✓
Impairment of property and goodwill	✓		
The tax impact of the above	✓	✓	✓
Other significant non-recurring tax movements	✓	✓	✓

All items treated as a specific adjusting item in the current and prior year are detailed in note 3. These 'specific adjusting items' are of a 'non-operational' nature and do not include all significant, irregular items that are of an operational nature, for example contract risk provisions, cost of redundancy exercises and gains/losses on disposal of plant and equipment. Such 'non-recurring trading items' are referred to in the business performance narrative to aid readers from a 'quality of earnings perspective'. They are considered by the Directors to be irregular but still part of our businesses' normal 'operating' performance and are included within the KPIs used to measure those business units (and total Group performance for remuneration purposes).

Recent accounting developments adopted by the Group

IFRS 16 'Leases'

Under the new standard, the Group has recognised new assets and liabilities, bringing added transparency to the balance sheet. IFRS 16 has eliminated the current dual accounting model for lessees, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 has brought about a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to previous practice i.e. lessors have continued to classify leases as finance and operating leases.

The standard became effective for periods beginning on or after 1 January 2019, i.e. FY20 for QinetiQ. The Group has adopted the new standard on the required effective date, 1 April 2019, using the full retrospective approach. Under the full retrospective approach, QinetiQ has applied IFRS 16 to all periods presented as if it had always been applied by restating comparative periods.

Under IFRS 16, a liability is recognised at lease inception equal to the discounted lease payments under the lease. The lease payments also include extension options, where reasonably certain to be exercised by the Group. The lease liability is subsequently measured using the effective interest method, with the liability increasing to reflect the accretion of interest and

reduced by lease payments made, with interest charged to finance costs. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, for example a change in the lease term or non-fixed lease payments.

The initial cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct cost incurred, expected asset restoration costs and lease payments made at or before the commencement date, less any lease incentives received. The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and the economic life of the asset. The right-of-use asset is tested for impairment where appropriate.

When applying the full retrospective approach, QinetiQ elected to use the short-term lease and low-value asset exemptions for leases less than 12 months and lease assets under £5,000. QinetiQ also elected to reassess all leases using new IFRS 16 lease definitions and have not elected to use the practical expedient which exempts entities from doing so.

The comparative information presented in these financial statements has been restated as disclosed in the tables below. The main restatement impacts to the balance sheet related to the recognition of right-to-use assets and additional lease obligations. Trade and other receivables and trade and other payables have been restated to remove balances related to leases such as lease incentives, advance payments and accrued liabilities.

'Net cash' (as defined by the Group, see Glossary) decreases through implementation of IFRS 16. As well as the recognition of right-of-use assets on the balance sheet (increasing property, plant and equipment) IFRS 16 also creates a finance lease liability, which impacts the Group's 'net cash' measure. Net cash as defined by the Group combines cash and cash equivalents with other financial assets and liabilities, primarily available for sale investments, derivative financial instruments and finance lease assets/liabilities. There is no impact on 'free cash flow' as a result of implementing IFRS 16.

Impact on the condensed consolidated balance sheet at 31 March 2020 and 31 March 2019

	2020			2019		
All figures in £ million	If applying IAS 17	Applying IFRS 16	As presented	As originally presented	Applying IFRS 16	Restated
Assets						
Property, plant and equipment	350.8	24.8	375.6	298.0	25.2	323.2
Deferred tax asset	13.3	-	13.3	7.8	-	7.8
Other assets	1,049.0	-	1,049.0	944.9	-	944.9
	1,413.1	24.8	1,437.9	1,250.7	25.2	1,275.9
Liabilities						
Trade and other payables	(405.1)	-	(405.1)	(367.1)	-	(367.1)
Other financial liabilities	(0.9)	(27.9)	(28.8)	(3.7)	(28.0)	(31.7)
Deferred tax liability	(101.3)	-	(101.3)	(73.1)	0.4	(72.7)
Other liabilities	(15.6)	-	(15.6)	(25.8)	0.4	(25.4)
	(522.9)	(27.9)	(550.8)	(469.7)	(27.2)	(496.9)
Net assets	890.2	(3.1)	887.1	781.0	(2.0)	779.0
Equity						
Retained earnings	685.0	(3.1)	681.9	581.1	(2.0)	579.1
Share capital and other reserves	202.8	-	202.8	197.7	-	197.7
Capital and reserves attributable to shareholders of the parent company	887.8	(3.1)	884.7	778.8	(2.0)	776.8
Non-controlling interest	2.4	-	2.4	2.2	-	2.2
Total equity	890.2	(3.1)	887.1	781.0	(2.0)	779.0
Impact on net cash						
Net cash (as defined by the Group – see glossary)	112.6	(27.9)	84.7	188.5	(28.0)	160.5

Impact on the condensed consolidated balance sheet at 1 April 2018

All figures in £ million	As originally presented	Applying IFRS 16	1 April 2018 Restated
Assets			
Property, plant and equipment	269.0	26.4	295.4
Deferred tax asset	6.4	-	6.4
Other assets	922.6	-	922.6
	1,198.0	26.4	1,224.4
Liabilities			
Trade and other payables	(353.6)	-	(353.6)
Other financial liabilities	(4.5)	(28.8)	(33.3)
Deferred tax liability	(66.4)	(0.4)	(66.0)
Other liabilities	(29.2)	-	(29.2)
	(453.7)	(28.4)	(482.1)
Net assets	744.3	(2.0)	742.3
Equity			
Retained earnings	552.2	(2.0)	550.2
Share capital and other reserves	191.9	-	191.9
Non-controlling interest	0.2	-	0.2
Total equity	744.3	(2.0)	742.3

Impact on the condensed consolidated income statement

The impact to the Income Statement as a result of adopting IFRS 16 was insignificant. Operating profit increased, reflecting the removal of the operating lease expenses previously charged to profit, offset by the inclusion of depreciation of the right-of-use assets.

All figures in £ million unless stated otherwise	Year ended 31 March 2020			Year ended 31 March 2019		
	If applying IAS 17	Applying IFRS 16	As presented	As originally presented	Applying IFRS 16	Restated
EBITDA (earnings before interest, tax, depreciation and amortisation)	173.8	10.7	184.5	156.7	9.0	165.7
Depreciation and impairment of property, plant and equipment	(31.3)	(9.7)	(41.0)	(35.8)	(8.0)	(43.8)
Impairment of goodwill	(14.1)	-	(14.1)	-	-	-
Amortisation of intangible assets	(11.8)	-	(11.8)	(7.1)	-	(7.1)
Operating profit	116.6	1.0	117.6	113.8	1.0	114.8
Gain on sale of investment	-	-	-	1.1	-	1.1
Finance income	7.6	-	7.6	9.4	-	9.4
Finance expense	(1.1)	(1.0)	(2.1)	(1.1)	(1.0)	(2.1)
Profit before tax	123.1	-	123.1	123.2	-	123.2
Taxation expense	(16.6)	-	(16.6)	(9.3)	-	(9.3)
Profit for the year attributable to equity shareholders	106.5	-	106.5	113.9	-	113.9

Impact on underlying measures of performance:

All figures in £ million unless stated otherwise	Year ended 31 March 2020			Year ended 31 March 2019		
	If applying IAS 17	Applying IFRS 16	As presented	As originally presented	Applying IFRS 16	Restated
Underlying operating profit	132.2	1.0	133.2	123.9	1.0	124.9

IFRIC 23 'Uncertainty over income tax treatment'

This interpretation was published in June 2017 and is required to be applied in the determination of taxable profits / losses and tax attributes, when there is uncertainty over their treatment under IAS 12. The primary impact on QinetiQ's financial statements arises in relation to the provision for potential overseas tax liabilities in territories where the Group does not have a registered taxable presence (i.e. territories to which the Group exports goods or provides short-term services).

The Group previously recorded provisions under IAS 12 reflecting the potential risk of QinetiQ's many activities across many jurisdictions. These provisions have been reassessed and recalculated to meet the more prescriptive threshold for recognition under IFRIC 23, which explicitly requires consideration of each tax jurisdiction individually. Combined with an assessment of other tax reserves, the impact of the adoption of IFRIC 23 in FY20 is a reduction in tax provisions (within current tax payable) of £2.1m.

QinetiQ has chosen to apply the transition approach for adopting IFRIC 23 and not restate comparative information in the first year of adoption. An adjustment, to the value of £2.1m, has been made to retained earnings at the beginning of the first period of adoption (the year to 31 March 2020) as shown in the consolidated statement of changes in equity.

Going concern basis

The Group meets its day-to-day working capital requirements through its available cash funds and its bank facilities. The Covid-19 crisis has introduced considerably more uncertainty across markets globally. As such the market conditions in which the Group operates are expected to be challenging as spending from the Group's key customers comes under pressure. Despite these challenges, and considering the decisive action already taken by management to maintain the strength of our business, the Directors believe that the Group is well positioned to manage its overall business risks successfully.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going-concern basis in preparing its financial statements.

The Group is exposed to various risks and uncertainties, the principal ones being summarised in the 'Principal risks and uncertainties' section. Crystallisation of such risks, to the extent not fully mitigated, would lead to a negative impact on the Group's financial results but none are deemed sufficiently material to prevent the Group from continuing as a going concern for at least the next 12 months.

2. Disaggregation of revenue and segmental analysis

Revenue by category and other income

for the year ended 31 March

All figures in £ million

	2020	2019
Service contracts with customers	945.6	790.9
Sale of goods contracts with customers	116.8	105.6
Royalties and licences	10.5	14.6
Total revenue	1,072.9	911.1
Less: adjust current year for acquired businesses [^]	(66.2)	-
Adjust to constant prior year exchange rates	(1.1)	-
Total revenue on an organic, constant currency basis	1,005.6	911.1
<i>Organic revenue growth at constant currency</i>	<i>10%</i>	<i>8%</i>

[^] For the period of which there was no contribution in the equivalent period in the prior year which was pre-ownership by the Group

Other income	2020	2019
Share of joint ventures' and associates' (loss)/profit after tax	(0.7)	0.6
Other income	9.9	10.0
Other income – underlying	9.2	10.6
Specific adjusting item: gain on sale of assets	14.0	0.2
Total other income	23.2	10.8

Revenue by customer geographical location

for the year ended 31 March

All figures in £ million

	2020	2019
US	136.0	105.3
Australia	60.7	55.2
Europe	75.9	60.8
Middle East	16.3	11.0
Rest of World	44.5	41.4
International	333.4	273.7
United Kingdom	739.5	637.4
Total revenue	1,072.9	911.1
<i>International revenue %</i>	<i>31.1%</i>	<i>30.0%</i>

Reconciliation of international revenue to organic international revenue including share of joint ventures

for the year ended 31 March

	2020	2019
All figures in £ million		
International revenue	333.4	273.7
Less: international revenue from businesses acquired in current (2020) financial year	(37.0)	-
Add: incremental share of revenue from joint ventures	3.3	1.9
Organic international revenue including share of joint ventures	299.7	275.6

The year on year organic growth in international revenue including share of joint ventures was £24.1m. This metric is used for management remuneration purposes under the Deferred Share Plan remuneration scheme in 2020.

Revenue by major customer type

for the year ended 31 March

All figures in £ million

	2020	2019
UK Government	667.2	562.7
US Government	116.2	83.1
Other	289.5	265.3
Total revenue	1,072.9	911.1

'Other' does not contain any customers with revenue in excess of 10% of total Group revenue.

Operating segments

for the year ended 31 March

All figures in £ million

	2020		2019 (restated)	
	Revenue from external customers	Underlying operating profit	Revenue from external customers	Underlying operating profit
EMEA Services	797.4	100.6	687.7	96.8
Global Products	275.5	32.6	223.4	28.1
Total operating segments	1,072.9	133.2	911.1	124.9
<i>Underlying operating margin*</i>		<i>12.4%</i>		<i>13.7%</i>

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary.

Reconciliation of segmental results to total profit

for the year ended 31 March

	Note	2020	2019 (restated)
All figures in £ million			
Underlying operating profit		133.2	124.9
Specific adjusting items loss	3	(15.6)	(10.1)
Operating profit		117.6	114.8
Gain on sale of investment		-	1.1
Net finance income		5.5	7.3
Profit before tax		123.1	123.2
Taxation expense		(16.6)	(9.3)
Profit for the year		106.5	113.9

3. Specific adjusting items

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. Underlying measures of performance exclude specific adjusting items. The following specific adjusting items have been (charged)/credited in the consolidated income statement:

All figures in £ million	Note	2020	2019
Gain on sale of property		14.0	0.2
Pension past service costs in respect of GMP equalisation		-	(0.7)
Acquisition transaction costs		(7.4)	(1.3)
Acquisition integration costs		(0.1)	(0.7)
Acquisition related remuneration costs		(0.5)	-
Specific adjusting items profit/(loss) before interest, tax, depreciation and amortisation		6.0	(2.5)
Impairment of goodwill		(14.1)	-
Impairment of property		-	(3.7)
Amortisation of intangible assets arising from acquisitions		(7.5)	(3.9)
Specific adjusting items operating loss		(15.6)	(10.1)
Gain on sale of investment		-	1.1
Defined benefit pension scheme net finance income		6.5	8.2
Specific adjusting items loss before tax		(9.1)	(0.8)
Specific adjusting items - tax	7	1.9	3.2
Total specific adjusting items (loss)/profit after tax		(7.2)	2.4

Reconciliation of underlying profit for the year to total profit for the year

all figures in £ million	2020	2019
Underlying profit after tax - total Group	113.7	111.5
Total specific adjusting items (loss)/profit after tax	(7.2)	2.4
Total profit for the year	106.5	113.9

4. Profit before tax

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

All figures in £ million	2020	2019 restated
Cost of inventories expensed	32.6	28.5
Owned assets: depreciation	31.7	29.0
Leases assets: depreciation	9.7	8.4
Foreign exchange loss	1.4	0.5
Research and development expenditure - customer funded contracts	270.8	272.9
Research and development expenditure - Group funded	21.5	26.0

5. Business combinations

Acquisitions in the year to 31 March 2020

Company acquired	Date acquired	Cash consideration	Goodwill	Fair value of net assets acquired	Contribution post-acquisition	
					Revenue	Operating profit
Manufacturing Techniques Inc	20 December 2019	81.7	(35.1)	46.6	37.0	2.9
Newman and Spurr Consultancy	03 February 2020	17.1	(7.6)	9.5	2.7	0.5
Total current year acquisitions		98.8	(42.7)	56.1	39.7	3.4
Payment of deferred consideration – prior year acquisitions ¹		0.1				
Less: deferred consideration and contingent consideration ²		(2.2)				
Less: cash acquired		(6.5)				
Net cash outflow in the year		90.2				

¹ Deferred consideration has been paid in respect of the prior year acquisition of QinetiQ Target Systems.

² Deferred consideration of £0.8m is expected to be payable in respect of the NSC acquisition and contingent consideration of £1.4m is expected in respect of the MTEQ acquisition.

Manufacturing Techniques Inc. (MTEQ)

On 20 October 2019 the Group acquired a 100% of the issued share capital of MTEQ for \$105m on a cash-free, debt-free valuation basis and an earn-out of up to \$20m payable in cash and shares dependent on delivering stretching financial targets over three years. MTEQ is a leading US provider of advanced sensing solutions with a strong reputation for mission-led innovation, rapidly developing and fielding operationally relevant solutions to deliver information advantage to the war-fighter. The MTEQ acquisition will accelerate our growth in the USA, the world's largest defence and security market by delivering solutions critical to next generation warfighting capability through the combination of MTEQ's expertise in advanced sensors with our existing capabilities in robotics and autonomy, transitioning MTEQ's sensors solutions into larger production programmes, leveraging our manufacturing capabilities in the USA and deepening our US Army relationship and broadening our US customer base. MTEQ will form part of QinetiQ's USA business unit and will be reported within QinetiQ's Global Products division. If the acquisition had occurred on the first day of the financial year, Group revenue for the period would have been £1,167.2m and the Group profit before tax would have been £128.2m

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition and the adjustments required to the book values of the assets and liabilities in order to present the net assets of these businesses at fair value and in accordance with Group accounting policies. The fair values remain provisional, but will be finalised within 12 months of acquisition.

All figures in £ million	Note	Book value	Fair value adjustment	Fair value at acquisition
Intangible assets		0.7	38.1	38.8
Property, plant and equipment		3.4	-	3.4
Inventory		0.1	-	0.1
Trade and other receivables		12.4	-	12.4
Cash and cash equivalents		3.1	-	3.1
Trade and other payables		(9.0)	-	(9.0)
Lease liabilities		(2.2)	-	(2.2)
Net assets acquired		8.5	38.1	46.6
Goodwill	13			35.1
				81.7
Consideration satisfied by:				
Cash				80.3
Contingent consideration				1.4
Total consideration				81.7

The fair value adjustments include £38.1m in relation to the recognition of acquired intangible assets of which £20.5m relates to customer relationships and £17.7m relates to existing technology. The goodwill is attributable mainly to the skills and technical talent of the MTEQ's work force and the synergies expected to be achieved from integrating the company into the Group's existing business.

On 9 January 2020, MTEQ changed its name to QinetiQ Inc.

Newman & Spurr Consultancy Limited (NSC)

On 3 February 2020 the Group acquired a 100% of the issued share capital of NSC for £17.1m (£13.7m net of cash acquired). NSC offers a range of attractive training and simulation solutions, primarily in land and joint training areas. NSC represents another strategy-led acquisition, enhancing our capability in areas such as modelling and simulation, synthetic environments and operational analysis. The acquisition will support our global training and mission rehearsal campaign driving future sustainable growth. NSC will form part of QinetiQ's Cyber, Information & Training (CIT) business unit and will be reported within QinetiQ's EMEA Services Products division. If the acquisition had occurred on the first day of the financial year, Group revenue for the period would have been £1,079.9m and the Group profit before tax would have been £124.3m.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition and the adjustments required to the book values of the assets and liabilities in order to present the net assets of the business at fair value and in accordance with Group accounting policies. The fair values remain provisional, but will be finalised within 12 months of acquisition.

all figures in £ million	Note	Book value	Fair value adjustment	Fair value at acquisition
Intangible assets		-	6.7	6.7
Property, plant and equipment		0.6	-	0.6
Trade and other receivables		2.4	-	2.4
Cash and cash equivalents		3.4	-	3.4
Trade and other payables		(1.9)	-	(1.9)
Lease liability		(0.5)	-	(0.5)
Deferred tax asset/(liability)		0.1	(1.3)	(1.2)
Net assets acquired		4.1	5.4	9.5
Goodwill	13			7.6
				17.1
Considerations satisfied by:				
Cash				16.3
Deferred consideration				0.8
Total Consideration				17.1

The fair value adjustments include £6.7m in relation to the recognition of acquired intangible assets of which £4.1m relates to customer relationships and £2.6m relates to existing technology. The goodwill is attributable mainly to the skills and technical talent of NSC's work force and the synergies expected to be achieved from integrating the company into the Group's existing business.

6. Finance income and expense

All figures in £ million	2020	2019 (restated)
Receivable on bank deposits	1.1	1.2
Finance income before specific adjusting items	1.1	1.2
Amortisation of deferred financing costs	(0.4)	(0.3)
Payable on commitment fees	(0.6)	(0.6)
Lease expense	(1.0)	(1.1)
Unwinding of discount on financial liabilities	(0.1)	(0.1)
Finance expense before specific adjusting items	(2.1)	(2.1)
Net finance expense - underlying	(1.0)	(0.9)
Specific adjusting items:		
Defined benefit pension scheme net finance income	6.5	8.2
Net finance income	5.5	7.3

7. Taxation

All figures in £ million

	2020			2019 (restated)		
	Underlying	Specific adjusting items	Total	Underlying	Specific adjusting items	Total
Profit/(loss) before tax	132.2	(9.1)	123.1	124.0	(0.8)	123.2
Taxation (expense)/income	(18.5)	1.9	(16.6)	(12.5)	3.2	(9.3)
Profit for the year	113.7	(7.2)	106.5	111.5	2.4	113.9
Effective tax rate	14.0%			10.1%		

The total tax charge was £16.6m (2019: £9.3m). Deferred tax has been calculated at the rate at which the timing difference is expected to reverse. The underlying tax charge was £18.5m (2019: £12.5m) with an underlying effective tax rate of 14.0% for the year ending 31 March 2020 (2019: 10.1%). The tax rate for the year has increased as certain deferred tax liabilities have been recalculated following the decision not to reduce the UK rate to 17% as previously enacted. An amount of £5.1m has been taken to OCI in respect of the deferred tax rate change related to the net pension surplus. The effective tax rate continues to be below the UK statutory rate, primarily as a result of the benefit of research and development expenditure credits ('RDEC') in the UK which are accounted under IAS12 within the tax line. An adjusted effective tax rate before the impact of RDEC would be 20.0%. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any tax legislation changes, the geographic mix of profits, the recognition of deferred tax assets and while the benefit of net RDEC retained by the Group remains in the tax line.

Tax losses and specific adjusting items

A £3.3m credit in respect of recognition of tax losses in the US has been classified as a specific adjusting item. This follows from the acquisition of MTEQ in the year that contributes future taxable profits against which historic unrecognised tax losses can be utilised. The prior year included a £2.8m credit from initial recognition of corporate tax deductions for certain equity-settled share based payment schemes. Together with a £1.4m net expense (2019: income of £0.4m) in respect of the pre-tax specific adjusting items (including £0.7m of deferred tax movements following the decision not to reduce the UK tax rate to 17% as previously enacted), the total specific adjusting items tax credit was £1.9m (2019: £3.2m).

At 31 March 2020 the Group had unused tax losses and surplus interest costs of £90.3m which are available for offset against future taxable profits. Deferred tax assets are recognised on the balance sheet of £7.8m in respect of £37.3m of US net operating losses and £1.5m in respect of £5.8m of US net interest expense. No deferred tax asset is recognised in respect of the remaining £47.2m of losses/interest costs due to uncertainty over the timing and extent of their utilisation. Full recognition of the remaining losses/interest would increase the deferred tax asset by £12.2m. The Group has £33.8m of time-limited US net operating losses of which £22.8m will expire in 2035, £9.5m in 2036 and £1.5m in 2038. US capital losses of £28.2m expired in 2020. Deferred tax has been calculated using the enacted future statutory tax rates.

Adoption of IFRIC 23 'Uncertainty over income tax treatment'

Following adoption of the new accounting standard, IFRIC 23 'Uncertainty over income tax treatment', the Group's tax provisions have been re-assessed and recalculated. QinetiQ has chosen to apply the transition approach and has not restated comparative information in the financial statements. Rather, IFRIC 23 has been applied as an adjustment (to the value of £2.1m) to retained earnings at the beginning of the current financial year. Refer to note 1 for more details.

Factors affecting future tax charges

The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to the impact of any tax legislation changes, the geographic mix of profits and the assumption that the benefits of net R&D expenditure credits retained by the Group remain in the tax line. Future recognition of unrecognised tax losses will also affect future tax charges.

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.

for the year ended 31 March		2020	2019
Weighted average number of shares	Million	567.0	566.0
Effect of dilutive securities	Million	5.4	4.0
Diluted number of shares	Million	572.4	570.0

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.

Underlying EPS

for the year ended 31 March		2020	2019
Profit attributable to equity shareholders	£ million	106.3	113.9
Remove loss/(profit) after tax in respect of specific adjusting items	£ million	7.2	(2.4)
Underlying profit after taxation	£ million	113.5	111.5
Weighted average number of shares	Million	567.0	566.0
Underlying basic EPS	Pence	20.0	19.7
Diluted number of shares	Million	572.4	570.0
Underlying diluted EPS	Pence	19.8	19.6

Basic and diluted EPS

for the year ended 31 March		2020	2019
Profit attributable to equity shareholders	£ million	106.3	113.9
Weighted average number of shares	Million	567.0	566.0
Basic EPS – total Group	Pence	18.7	20.1
Diluted number of shares	Million	572.4	570.0
Diluted EPS – total Group	Pence	18.6	20.0

9. Cash flows from operations

All figures in £ million	2020	2019 (restated)
Profit after tax for the year	106.5	113.9
<i>Adjustments for:</i>		
Taxation expense	16.6	9.3
Net finance income	(5.5)	(7.3)
Gain on sale of investment	-	(1.1)
Gain on sale of property	(14.0)	(0.2)
Impairment (reversal)/charge in respect of property, plant and equipment	(0.4)	6.4
Impairment of goodwill	14.1	-
Acquisition transaction costs unpaid as at year end	-	1.3
Acquisition related remuneration costs unpaid as at year end	0.5	-
Pension past service cost	-	0.7
Amortisation of purchased or internally developed intangible assets	4.3	3.2
Amortisation of intangible assets arising from acquisitions	7.5	3.9
Depreciation of property, plant and equipment	41.4	37.4
Profit on disposal of plant and equipment	(1.6)	(5.5)
Share of post-tax loss/(profit) of equity accounted entities	0.7	(0.6)
Share-based payments charge	7.4	6.1
Retirement benefit contributions in excess of income statement expense	(4.3)	(1.8)
Net movement in provisions	(5.4)	(3.6)
	167.8	162.1
Increase in inventories	(11.3)	(0.5)
Increase in receivables	(25.5)	(48.7)
Increase in payables	35.5	21.7
Changes in working capital	(1.3)	(27.5)
Net cash flow from operations	166.5	134.6

Reconciliation of net cash flow from operations to underlying net cash flow from operations and to free cash flow

All figures in £ million	2020	2019 (restated)
Net cash flow from operations	166.5	134.6
Add back specific adjusting item: acquisition integration costs	3.8	-
Add back specific adjusting item: acquisition transaction costs	7.5	-
Add back specific adjusting item: proceeds from sale of intellectual property	-	0.7
Underlying net cash flow from operations	177.8	135.3
Add: proceeds from disposal of plant and equipment	1.6	6.9
Less: tax and net interest payments	(10.5)	(11.1)
Less: purchases of intangible assets and property, plant & equipment	(109.4)	(87.6)
Free cash flow	59.5	43.5

Underlying cash conversion ratio

	2020	2019 (restated)
Underlying operating profit - £ million	133.2	124.9
Underlying net cash flow from operations - £ million	177.8	135.3
Underlying cash conversion ratio - %	133%	108%

10. Net cash

All figures in £ million	2020	2019 (restated)
<i>Current financial assets/(liabilities)</i>		
Deferred financing costs	0.4	0.4
Derivative financial assets	6.3	0.1
Leases	(8.6)	(9.7)
Derivative financial liabilities	(0.3)	(1.1)
Total current net financial liabilities	(2.2)	(10.3)
<i>Non-current financial assets/(liabilities)</i>		
Deferred financing costs	0.9	0.9
Derivative financial assets	0.1	-
Leases	(19.3)	(20.6)
Derivative financial liabilities	(0.6)	(0.3)
Total non-current net financial liabilities	(18.9)	(20.0)
Total net financial liabilities	(21.1)	(30.3)
Cash and cash equivalents	105.8	190.8
Total net cash as defined by the Group	84.7	160.5

11. Financial risk management

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – measured using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 2 derivatives comprise forward foreign exchange contracts which have been fair valued using forward exchange rates that are quoted in an active market; and

Level 3 – measured using inputs for the assets or liability that are not based on observable market data (i.e. unobservable inputs).

The Group's assets and liabilities that are measured at fair value, as at 31 March 2020, are as follows:

All figures in £ million	Level 1	Level 2	Level 3	Total
Assets:				
Current derivative financial instruments	-	6.3	-	6.3
Non-current derivative financial instruments	-	0.1	-	0.1
Liabilities:				
Current derivative financial instruments	-	(0.3)	-	(0.3)
Non-current derivative financial instruments	-	(0.6)	-	(0.6)
Total	-	5.5	-	5.5

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2019:

All figures in £ million	Level 1	Level 2	Level 3	Total
Assets:				
Current derivative financial instruments	-	0.1	-	0.1
Non-current derivative financial instruments	-	-	-	-
Liabilities:				
Current derivative financial instruments	-	(1.1)	-	(1.1)
Non-current derivative financial instruments	-	(0.3)	-	(0.3)
Total	-	(1.3)	-	(1.3)

For cash and cash equivalents, trade and other receivables and bank and current borrowings, the fair value of the financial instruments approximate to their carrying value as a result of the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within the carrying value for credit risk. For other financial instruments, the fair value is based on market value, where available. Where market values are not available, the fair values have been calculated by discounting cash flows to net present value using prevailing market-based interest rates translated at the year-end rates, except for unlisted fixed asset investments where fair value equals carrying value. There have been no transfers between levels.

12. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2020 and 31 March 2019 is provided below:

	Pence per ordinary share	£m	Date paid/payable
Interim 2020	2.2	12.5	Feb 2020
Final 2020 (proposed)	-	-	See below
Total for the year ended 31 March 2020	2.2	12.5	
Interim 2019	2.1	11.9	Feb 2019
Final 2019	4.5	25.5	Aug 2019
Total for the year ended 31 March 2019	6.6	37.4	

Given the unprecedented nature of COVID-19 and the Board's wish to adopt a prudent course of action to protect the long term, it will postpone the decision on the proposal of a dividend until a later date.

13. Goodwill

All figures in £ million	2020	2019
Cost		
At 1 April	257.4	203.0
Acquisitions	42.7	45.0
Foreign exchange	7.8	9.4
At 31 March	307.9	257.4
Impairment		
At 1 April	(108.8)	(101.5)
Impairment in the year	(14.1)	-
Foreign exchange	(4.2)	(7.3)
At 31 March	(127.1)	(108.8)
Net book value at 31 March	180.8	148.6

The goodwill acquired of £42.7m arises from the acquisitions of MTEQ and NSC in the year, generating goodwill of £35.1m and £7.6m respectively. Foreign exchange movements in respect of MTEQ's goodwill post acquisition result in the MTEQ closing goodwill as at 31 March 2020 increasing to £36.6m (as per the following table). The impairment in the year relates to the Group's Advisory Services business unit (£9.8m) and the Germany business unit (£4.3m), see below.

Cash-generating units (CGU)

Goodwill is allocated across four cash generating units ('CGUs') within the EMEA Services segment and six CGUs within the Global Products segment. The full list of CGUs that have goodwill allocated to them is as follows:

All figures in £ million	Primary reporting segment	2020	2019
QinetiQ North America ('QNA')	Global Products	43.9	41.9
MTEQ (acquired in year, see note 5)	Global Products	36.6	-
Target Systems	Global Products	24.2	24.3
Boldon James	Global Products	10.7	10.7
Commerce Decisions	Global Products	6.4	6.4
Space Products	Global Products	5.8	5.7
QinetiQ Germany	EMEA services	28.7	32.2
Inzpire	EMEA services	11.7	11.7
NSC (acquired in year, see note 5)	EMEA services	7.6	-
Advisory Services	EMEA services	-	9.8
Australia	EMEA Services	5.2	5.9
Net book value at 31 March		180.8	148.6

Goodwill is attributable to the excess of consideration over the fair value of net assets acquired and includes expected synergies, future growth prospects and employee knowledge, expertise and security clearances. The Group tests each CGU for impairment annually, or more frequently if there are indications that goodwill might be impaired. Impairment testing is dependent on management's estimates and judgments, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates. Significant headroom exists in all CGUs with the exception of QinetiQ Germany (see below) and management considers that there are no likely variations in the key assumptions which would lead to an impairment being recognised in those CGUs.

Key assumptions

Cash flows

The value in use calculations generally use discounted future cash flows based on financial plans approved by the Board covering a five-year period (aligned with the Group's Integrated Strategic Business Plan process and the longer-term viability assessment period). These are 'bottom-up' forecasts based on detailed analysis by contract for the revenue under contract and by opportunity for the pipeline. Pipeline opportunities are categorised as 'base case' and 'high case' by management and only 'base case' opportunities are included in the financial plans used for the value-in-use calculations. Cash flows for periods beyond these periods are extrapolated based on the last year of the plans, with a terminal growth-rate assumption applied.

Terminal growth rates and discount rates

The specific plans for each of the CGUs have been extrapolated using the terminal growth rates as detailed below. 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. 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 an appropriate estimate of a market participant discount rate.

All figures % 2020: (2019)	QNA	Target Systems	Space NV	Boldon James	Commerce Decisions	MTEQ	Inzpire	Australia	QinetiQ Germany	NSC
Terminal growth rate	2.1 (1.9)	1.8 (1.9)	1.8 (1.0)	1.8 (1.9)	1.8 (1.9)	2.1 (N/A)	1.8 (1.9)	2.3 (2.4)	1.5 (1.0)	1.8 (N/A)
Pre-tax discount rate	11.3 (14.6)	10.2 (11.3)	9.8 (12.0)	9.9 (11.8)	11.1 (11.4)	11.3 (N/A)	11.3 (12.3)	10.0 (11.3)	8.7 (10.0)	10.3 (N/A)

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

Significant CGUs

QinetiQ North America ('QNA')

The carrying value of the goodwill for QNA CGU, was £43.9m as at 31 March 2020 (2019: £41.9m). The recoverable amount of this CGU as at 31 March 2020, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £71.9m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. These cash flows include certain assumptions about revenue and profit in respect of new product lines still to be launched and the success of winning certain government contracts. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

MTEQ

The carrying value of the goodwill for the MTEQ CGU as at 31 March 2020 was £36.6m (2019: nil). The recoverable amount of this CGU as at 31 March 2020, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £85m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

Target Systems

The carrying value of the goodwill for the MTEQ CGU as at 31 March 2020 was £24.2m (2019: £24.3m). The recoverable amount of this CGU as at 31 March 2020, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £93.9m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount. COVID-19 has resulted in temporary closure of this businesses' manufacturing site and employees being furloughed. This short-term impact on trading is not considered to have a significant impact on the long-term cash flows of this CGU.

Boldon James

The carrying value of the goodwill for the Boldon James CGU as at 31 March 2020 was £10.7m (2019: £10.7m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

Germany

The carrying value of the goodwill for the Germany CGU as at 31 March 2020 was £28.7m (2019: £32.2m). The decrease results from an impairment of £4.3m in the year following a reduction in the value in use, calculated using the assumptions noted above. Our German operations performed in line with expectations for orders with some significant contract wins during the period. Delivery performance and profitability was, however, impacted by other operational and cost issues and towards the end of the financial year by the effects of Covid-19. We have written down £4.3m of goodwill associated with the acquisition in anticipation of the financial impact of lower revenue and margins. The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m would have increased the impairment charge by £11.1m, £8.9m and £19.7m respectively.

Inzpire

The carrying value of the goodwill for the Inzpire CGU as at 31 March 2020 was £11.7m (2019: £11.7m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

Advisory Services

The goodwill in respect of the Advisory Services CGU was written off in the current year and the carrying value is now nil (2019: £9.8m). Trading in this CGU has recently declined and following an internal reorganisation it no longer remains a viable CGU in its own right. Any residual contract activity has been transferred to other CGUs.

14. Post-retirement benefits

In the UK the Group operates a defined benefit pension scheme ('the Scheme') for approximately one quarter of its UK employees. The Scheme closed to future accrual on 31 October 2013 and there is no on-going service cost. After this date, defined benefit members transferred to a defined contribution section of the Scheme. The Scheme is a final salary plan, which provides benefits to members in the form of a guaranteed level of pension payable for life.

The Scheme is in a net asset position with the market value of assets in excess of the present value of Scheme liabilities. These have the values set out below as at 31 March of each year end.

All figures in £ million	2020	2019
Total market value of assets – see following table for analysis by category of asset	1,912.3	1,963.6
Present value of Scheme liabilities	(1,602.6)	(1,704.5)
Net pension asset before deferred tax	309.7	259.1
Deferred tax liability	(63.8)	(48.6)
Net pension asset after deferred tax	245.9	210.5

The balance sheet net pension asset is a snapshot view which can be significantly influenced by short-term market factors. The calculation of the surplus or deficit depends, therefore, on factors which are beyond the control of the Group – principally the value at the balance sheet date of the various categories of assets in which the Scheme has invested and long-term interest rates and inflation rates used to value the Scheme liabilities. This is particularly pertinent during the COVID-19 pandemic whilst markets are extremely volatile. Sensitivities are described on the following page.

Total expense recognised in the income statement

All figures in £ million	2020	2019
Net finance income	6.5	8.2
Past service cost	–	(0.7)
Administrative expenses	(1.2)	(0.9)
Total net income recognised in the income statement (gross of deferred tax)	5.3	6.6

Movement in the net pension asset

The movement in the net pension asset (before deferred tax) is set out below:

All figures in £ million	2020	2019
Opening net pension asset	259.1	316.2
Net finance income	6.5	8.2
Net actuarial gain/(loss)	39.8	(66.4)
Administration expenses	(1.2)	(0.9)
Past service cost	-	(0.7)
Contributions by the employer	5.5	2.7
Closing net pension asset	309.7	259.1

The fair value of the Scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, were:

All figures in £ million	2020			2019		
	Quoted	Not quoted in an active market	Total	Quoted	Not quoted in an active market	Total
Equities	113.5	47.3	160.8	127.0	51.8	178.8
Liability Driven Investment	347.5	-	347.5	690.8	-	690.8
Asset backed securities	465.0	-	465.0	-	-	-
Corporate bonds	-	-	-	96.0	-	96.0
Alternative bonds	215.3	-	215.3	304.4	-	304.4
Property fund	-	167.0	167.0	-	145.6	145.6
Cash and cash equivalents	-	15.8	15.8	-	75.1	75.1
Insurance buy-in policy	-	546.0	546.0	-	566.4	566.4
Outstanding payment due in respect of buy-in	-	-	-	-	(96.0)	(96.0)
Derivatives	-	(5.1)	(5.1)	-	2.5	2.5
Total market value of scheme assets	1,141.3	771.0	1,912.3	1,218.2	745.4	1,963.6

Per the Scheme rules the Company has an unconditional right to a refund of any surplus, assuming gradual settlement of all liabilities over time. Such surplus may arise on cessation of the Scheme in the context of IFRIC 14 paragraphs 11(b) and 12 and therefore the full net pension asset can be recognised on the Group's balance sheet and the Group's minimum funding commitments to the Scheme do not give rise to an additional balance sheet liability.

Assumptions

The major assumptions used in the IAS 19 valuation of the Scheme's liabilities were:

	2020	2019
Discount rate applied to Scheme liabilities	2.30%	2.45%
CPI inflation assumption	1.90%	2.35%
Assumed life expectancies in years:		
Future male pensioners (currently aged 60)	87	87
Future female pensioners (currently aged 60)	90	89
Future male pensioners (currently aged 40)	89	89
Future female pensioners (currently aged 40)	91	91

The sensitivity of the gross Scheme liabilities to each of the key assumptions is shown in the following table:

Key assumptions	Change in assumption	Indicative impact on gross Scheme liabilities before deferred tax	Indicative impact on net pension asset
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £30m	Decrease/increase by £18m
Rate of inflation	Increase/decrease by 0.1%	Increase/decrease by £29m	Increase/decrease by £14m
Life expectancy	Increase by one year	Increase by £53m	Decrease by £35m

The impact of movements in Scheme liabilities will, to an extent, be offset by movements in the value of Scheme assets as the Scheme has assets invested in a Liability Driven Investment portfolio. As at 31 March 2020 this hedges against approximately 90% of the interest rate and also 90% of the inflation rate risk, as measured on the Trustees' gilt-funded basis.

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (projected unit credit method) has been applied as when calculating the pension liability recognised within the statement of financial position. The methods and types of assumption did not change.

In addition to the sensitivity of the liability side of the net pension surplus (which will impact the value of the net pension surplus) the net pension surplus is also exposed to significant variation due to changes in the fair value of Scheme assets. A specific sensitivity on assets has not been included in the above table but any change in valuation of assets flows straight through to the value of the net pension surplus e.g. if equities fall by £10m then the net pension surplus falls by £10m. The values of unquoted assets assume that an available buyer is willing to purchase those assets at that value. For the Group's portfolio of assets, the property portfolio of £167.0m and the unquoted equities of £47.3m are the assets with most uncertainty as to valuation as at 31 March 2020.

The accounting assumptions noted above are used to calculate the period end net pension asset in accordance with the relevant accounting standard, IAS 19 (revised) 'Employee benefits'. Changes in these assumptions have no impact on the Group's cash payments into the scheme. The payments into the scheme are reassessed after every triennial valuation. The triennial valuations are calculated on a 'funding basis' and use a different set of assumptions, as agreed with the pension Trustees. The key assumption that varies between the two methods of valuation is the discount rate. The funding basis valuation uses the risk-free rate from UK gilts as the base for calculating the discount rate, whilst the IAS 19 accounting basis valuation uses corporate bond yields as the base.

15. Own shares and share-based awards

Own shares represent shares in the Company that are held by independent trusts and include treasury shares and shares held by the employee share ownership plan. Included in retained earnings at 31 March 2020 are 6,123,406 shares (2019: 6,946,678 shares). In the year ended 31 March 2020 the Group granted/awarded 1.0m new share-based awards to employees (2019: 4.0m).

16. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £40.4m at 31 March 2020 (2019: £29.9m) 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, including in respect of environmental and regulatory issues. 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, ongoing investigations 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 remote.

17. Related party transactions with equity accounted investments

During the year there were sales to associates and joint ventures of £5.7m (2019: £10.1m). At the year end there were outstanding receivables from associates and joint ventures of £2.1m (2019: £1.4m).

18. Capital commitments

The Group had the following capital commitments for which no provision has been made:

All figures in £ million	2020	2019
Contracted	32.0	40.6

Capital commitments at 31 March 2020 include £19.1m (2019: £20.6m) in relation to property, plant and equipment that will be wholly funded by a third party customer under long-term contract arrangements. These primarily relate to investments under the LTPA contract.

Glossary

C4ISR	Command, control, communications, computers, intelligence, surveillance and reconnaissance
CPI	Consumer Price Index
EBITDA	Earnings before interest, tax, depreciation and amortisation
EPS	Earnings per share
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
SSRO	Single Source Regulations Office

Alternative performance measures ('APM's)

The Group uses various non-statutory measures of performance, or APMs. Such APMs are used by management internally to monitor and manage the Group's performance and also allow the reader to obtain a proper understanding of performance (in conjunction with statutory financial measures of performance). The APMs used by QinetiQ are set out below:

Measure	Explanation	Note reference to calculation or reconciliation to statutory measure
Organic growth	The level of year-on-year growth, expressed as a percentage, calculated at constant prior year foreign exchange rates, adjusting for business acquisitions and disposals to reflect equivalent composition of the Group	Note 2
Underlying operating profit	Operating profit as adjusted to exclude 'specific adjusting items'	Note 2
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue	Note 2
Underlying net finance income/expense	Net finance income/expense as adjusted to exclude 'specific adjusting items'	Note 6
Underlying profit before/after tax	Profit before/after tax as adjusted to exclude 'specific adjusting items'	Note 7
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	Note 7
Underlying basic and diluted EPS	Basic and diluted earnings per share as adjusted to exclude 'specific adjusting items'	Note 8
Orders	The level of new orders (and amendments to existing orders) booked in the year. Includes share of orders won by joint ventures	N/A
Backlog, funded backlog or order book	The expected future value of revenue from contractually committed and funded customer orders	N/A
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 due to significant size and timing differences of LTPA order and revenue recognition which may distort the ratio calculation.	N/A
Underlying net cash flow from operations	Net cash flow from operations before cash flows of specific adjusting items	Note 9
Underlying operating cash conversion or cash conversion ratio	The ratio of underlying net cash flow from operations to underlying operating profit	Note 9
Free cash flow	Underlying net cash flow from operations less net tax and interest payments less purchases of intangible assets and property, plant and equipment plus proceeds from disposals of plant and equipment	Note 9
Net cash	Net cash as defined by the Group combines cash and cash equivalents with other financial assets and liabilities, primarily available for sale investments and derivative financial instruments.	Note 10
Specific adjusting items	Amortisation of intangible assets arising from acquisitions; impairment of property and goodwill; gains/losses on disposal of property, investments and intellectual property; net pension finance income; pension past service costs; acquisition costs; tax impact of the preceding items and significant non-recurring deferred tax movements	Note 3