Preliminary Results

May 2021

Fifth year of growth – accelerating global ambition

Results for the year ended 31 March 2021

	Statutory results		Underlying* results	
	2021	2020	**2021**	2020
Revenue	£1,278.2m	£1,072.9m	£1,278.2m	£1,072.9m
Operating profit	£112.3m	£117.6m	£151.8m	£133.2m
Profit after tax	£124.7m	£106.5m	£126.1m	£113.7m
Earnings per share	21.9p	18.7p	22.1p	20.0p
Full year dividend per share	6.9p	6.6p	6.9p	6.6p
Total funded order backlog			£2,944.1m	£3,104.9m
Total orders[1]			£1,151.0m	£2,227.4m
Orders excluding LTPA amendments[1,2]			£1,151.0m	£972.1m
Net cash inflow from operations	£198.0m	£166.5m	£199.0m	£177.8m
Net cash			£164.1m	£84.7m

* Definitions of the Group's 'Alternative Performance Measures' can be found in the glossary
[1] Includes share of joint ventures, [2]2020 adjusted to exclude £1.3bn LTPA contract amendment signed 5 April 2019

Strong operational and financial performance despite COVID-19

- Orders[2] up 18%, 11% on an organic basis; largest annual order intake in a decade
- Revenue up 19%, 10% on an organic basis
- Underlying operating profit up 14%, 6% on an organic basis, underlying EPS up 11%
- 131% underlying cash conversion pre-capex, 28% ROCE
- Gain on disposals (£28m), offset by German goodwill impairment (£25m)

Customer focused strategy driven c.70% revenue growth in 5 years

- Successfully completed LTPA 2-year transition programme & achieved full operating capability
- Won major long-term contracts in UK, US and Australia
- Continued optimisation of the portfolio with acquisition of Naimuri and three disposals
- Grown international revenue from £158m to £420m in 5 years
- Adapted to new ways of working and employee engagement up 6%

Increased ambition and evolved strategy to accelerate next 5 years of c.70% growth

- Deliver consistent operational performance, with £800m revenue under contract for FY22
- Pursue strategic campaigns and win further competitive projects through distinctive offerings
- Invest in capabilities and digitisation to meet changing customer needs
- Leverage global capability, disruptive innovation and strategic acquisitions
- Focus to drive growth in our redefined >£20bn addressable market

Steve Wadey, Group Chief Executive Officer said:

"Throughout this challenging year, QinetiQ has proven its commitment and focus to deliver critical defence and security capabilities for our customers around the world. With the health, safety and wellbeing of our employees at the centre of our decision-making, we have delivered a very strong set of operational and financial results, exceeding market expectations. We have delivered a fifth consecutive year of top-line growth, growing revenue by c.70% in the last 5 years.

With an evolved strategy, strong momentum and increased ambition shaped around the changing market dynamics and needs of our customers, I am excited about this next phase of sustainable global growth, to deliver our medium to long-term targets."

Preliminary results presentation:
There will be a webcast presentation of the preliminary results at 10:00 GMT on 20 May 2021. Registration for the webcast is available here:
https://openexc.zoom.us/webinar/register/WN_tsiyOm8YRGu2woyDtAvMYg

About QinetiQ:
QinetiQ (QQ.L) is a leading science and engineering company operating primarily in the defence and security. 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.

For further information please contact:

John Haworth, Group Head of Investor Relations:	+44 (0) 7920 545841
Chris Barrie, Citigate Dewe Rogerson (Media enquiries):	+44 (0) 7968 727289

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 (FY21, FY20, 2021, 2020) 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 continued and disciplined execution of our strategy we have delivered our fifth year of growth, despite the challenging market environment due to the COVID-19 pandemic. Our FY21 performance was strong, with the largest order intake in a decade growing orders by 18% (11% on an organic basis), delivering revenue growth of 19% (10% on an organic basis), growing underlying operating profit by 14% (6% on an organic basis) with underlying operating profit margins at the top end of our short-term target range at 11.9%. We also delivered a strong cash performance with 131% underlying cash conversion before capital expenditure. International revenue now represents 33% of Group revenue, grown from £158m in FY16 to £420m in FY21.

Strong organic growth was complemented by revenue and profit contribution from recently acquired businesses. This includes the advanced sensing solutions business formerly known as MTEQ, acquired in December 2019, training specialist NSC, acquired in February 2020, and Naimuri, a specialist in software development and data analytics, acquired in July 2020. This contribution was partially offset by the disposals of Boldon James, Commerce Decisions and OptaSense in the year. These transactions were all strategy-led choices to allow increased focus on our core offerings and reflect our ambition to grow the company by delivering mission-led innovation for our defence and security customers' advantage.

This year has proved to be an important further step in the maturity and development of the company, demonstrating our strength, resilience and delivering on our promises for all our stakeholders. This year we have not only navigated the challenging dynamics of COVID-19 but we have pushed forward, launching our evolved strategy, increasing the scale of our ambition and delivering a strong set of financial results. With our strategy firmly embedded and producing consistent results, we are making good progress in building a truly integrated global defence and security company.

We are committed to providing a safe environment at all Company sites for the benefit of our employees, contractors, tenants and visitors. In March 2021 there was an incident at our Pendine site in the UK, which resulted in one of our employees sustaining serious injuries. Our focus will remain on supporting our colleague and their family over the coming months and anyone across the business who has been affected by the incident. We are continuing to support the external investigations into the incident and we have launched our own, to better understand what happened and any lessons we can learn and apply so to continue to improve our safety first culture.

Successfully mitigating the challenges of COVID-19

The COVID-19 pandemic has had a profound impact on people and our society throughout 2020. With a long-term vision-based strategy focused on anticipating and adapting to our customers' needs, a strong balance sheet and a significant order backlog, QinetiQ is well placed to continue delivering growth, as we have seen through our financial results and customer feedback this year.

Our response focused on our three strategic priorities of protecting the health and wellbeing of our employees, continuing to deliver critical work for our customers and maintaining the strength of QinetiQ for the long-term.

As we entered the COVID-19 crisis, we took necessary and decisive action to maintain the strength of our company and ensure we retained the critical skills and capabilities to drive long-term growth. We implemented a series of short-term temporary actions which included salary reductions, stringent cost control, incentives paid in shares and deferral of the dividend decision. The actions taken increased the resilience of the company, allowing us to maintain a strong balance sheet, deliver for our customers and to position the company for growth as we emerged from the crisis. We adapted our ways of working to ensure we continued to deliver for our customers while ensuring we protected the health and wellbeing of our employees.

As the COVID-19 pandemic continues to evolve in all of the countries in which we operate, we continue to follow national guidelines, providing testing and equipment as appropriate to support our employees and interactions with our customers. This “new normal” is continuing to prove effective and will be a catalyst for change in our ways of working. Like all businesses, QinetiQ has been impacted by the COVID-19 pandemic, by differing amounts across the company, but we have successfully managed to offset the negative impacts through our strong, decisive and collective actions pulling together as a company to deliver a strong financial performance even in the face of this unprecedented global pandemic.

Significant strategic progress

Despite the COVID-19 pandemic we have made significant strategic progress during FY21:

- Delivering the modernised LTPA – we successfully completed the two year transition programme and achieved Full Operating Capability on 31 March 2021 – over the transition period we have successfully delivered all milestones, focused on improving services, enhancing customer engagement and maximising value for money. We are demonstrating the resilience of our operations with all sites remaining operational and significant volumes of activity throughout the COVID-19 pandemic.
- Leveraging our capabilities into the global test and evaluation (T&E) market – we are successfully leveraging our UK T&E skills and experience into the global market, securing new business in both Australia and Canada.
- International usage of our UK LTPA ranges – we are successfully increasing international customers’ use of LTPA ranges, including a five year contract signed with the US Air Force in Europe (USAFE) to train at MOD Aberporth and MOD Hebrides.
- We have made significant progress in the integration and delivery of our now-combined US business, both in delivery, with the successful delivery of the RCV-L prototypes, winning a number of notable sensor and autonomy contracts in the year and developing strategic relationships for key programs of record.
- Engineering Delivery Partner growth (EDP) – EDP is demonstrating fast growth, surpassing 1,100 tasks and £600m of orders since inception in October 2018, delivering improved supply-chain collaboration, better programme performance and long-term savings for the UK MOD.
- Becoming a strategic partner to Defence Digital (MOD’s digital and information technology organisation) – in collaboration with Naimuri, Inzpire and NSC, winning further programmes with Defence Digital and Defence Intelligence.
- Portfolio optimisation – strategy-led decisions taken to optimise the portfolio with the disposal of non-core assets Boldon James, Commerce Decisions and OptaSense, for a combined enterprise value of £69m; and acquisition of Naimuri, for an enterprise value of £25m to support strategically aligned growth in the domain of data intelligence and analytics.

Further detail is provided in the Operating Review section.

The changing market dynamics present opportunities for the Group

As a global defence and security company we operate in six home and priority markets with a multi-domestic strategy, supporting the development and sustainment of indigenous capabilities.

As the threat environment becomes increasingly complex, enabled by rapid technological advances and our adversaries’ alternative approaches to warfare, Western forces must rethink their approach to defence and security. The importance of information advantage, emerging technologies, cyber capabilities and autonomous systems is increasing significantly. In addition, the interoperability between platforms to create integrated systems and seamless co-ordination between forces and nations, to ensure a concerted approach to countering modern threats, including those that sit below the threshold of conventional warfare, is of paramount importance.

Pressure on Government resources world-wide will intensify and global Defence departments will need to balance investment in traditional platforms against investment in new technologies including data and information capability. With our domain knowledge, partnering skills and a track record of delivering mission-led innovation to create and assure capabilities with agility and at pace, whilst delivering efficiencies and savings to customers, we are well positioned to benefit from this transition. We are investing significantly in digital transformation to enhance customer solutions. While the world around us continues to change, our offerings are becoming more relevant than ever. Furthermore, in our home countries of the UK, US and Australia we are well aligned with the key areas of future increased spend, such as data analytics, robotics, autonomy and sensing – partnering alongside our customers to help solve their complex challenges.

Evolution of the strategy to accelerate future growth

Our strategy to apply mission-led innovation for our customers' advantage has enabled us to grow in an uncertain world over the last five years. We have delivered c.70% revenue growth and c.40% operating profit growth, more than doubled our order backlog, increased our qualified order pipeline by three times to over £6bn and increased our 3 year forward revenue under contract by c.60%. We have made seven acquisitions and three disposals, invested significantly to drive organic growth and modernised the LTPA contract and relationship with the UK MOD.

In light of the changing market dynamics and our successful track record of growth, at our Interim Results we announced an evolution of our strategy to reflect our global business, our distinctive offerings, and the innovative approach we take to solving our customers' problems. The three pillars of our strategy, which are mutually reinforcing and complementary have evolved to:

1. Global leverage	2. Distinctive offerings	3. Disruptive innovation
Build an integrated global defence and security company to leverage our capability through single routes to market in the UK, US, Australia, Canada, Germany and Belgium	Co-create distinctive services and products to offer exceptional value for our customers in engineering, experimentation, test, training, information and autonomous systems	Invest in and apply disruptive business models, digitisation and advanced technologies to enable our customers' operational mission at pace

Following five years of growth we have evolved our strategy and created greater focus for our next five years of growth, building distinctive offerings to provide high-value solutions, supporting nations with a shared defence and security mission. We have redefined our addressable market from >£8bn to >£20bn per year, with increased clarity around our distinctive offerings into our target markets in the UK and Australia and specific inclusion of the RDT&E market in the US (£15bn addressable market) and reduced our Rest of World addressable market to reflect our reprioritised focus. We are targeting global expansion through careful investment decisions and execution of a multi-domestic strategy, delivering value for our customers and growing our revenues to over £2bn. The next phase of growth will have a lower capital intensity, thereby supporting a strong return on capital (ROCE) for our shareholders.

Environmental, Social and Governance (ESG)

Our core purpose as a company is clear, and what drives us as a company and as employees is our critical role in defence and security; protecting the lives of our armed forces and the societies in which we operate, and defending sovereign capability. This core purpose is central to our organisation and at the heart of what we do.

Across the company we take our ESG responsibility seriously. Ensuring it is embedded into our operations and strategy reduces risk and creates value, something we have done for many years. While we uphold the highest ethical standards and a sensitive approach to conservation, we also support and enable our customers' ESG needs and expectations through the services and products we deliver. In FY19 we set a target to reduce our scope 1 and 2 emissions by 25% by 2025 – we have exceeded this target in FY21, with a 28% reduction, earlier than targeted due to the change in working patterns through COVID-19. We will publish our plan towards Net Zero in the next year.

Our value proposition is in providing mission-led innovation for our customers to help solve their complex defence and security challenges – this value proposition helps both to support the achievement of operational outcomes and the implementation of strong ESG values, for both us and for our customers. We help our customers *"Create it"*, for example in the development of new bomb disposal equipment, or new sensing and autonomy platforms using robotics to take our armed forces out of harm's way; we help our customers *"Test it"*, ensuring the equipment works as it should improving safety and accuracy; and we help our customers *"Use it"*, supporting our customers with their training needs, often in a combined live and synthetic environment reducing emissions, cost and improving safety.

Our purpose is underpinned by our commitment to operate responsibly and sustainably for the benefit of all our stakeholders, looking after the environments in which we operate, acting as a strong ethical leader in defence and helping to make society safer for us all.

Outlook – FY22

We enter FY22 with confidence, a strong order-book, £800m revenue under contract and growing positive momentum. We remain confident to deliver in line with our current expectations for FY22, with mid-single digit organic revenue growth and 11-12% operating profit margin, lower than our mid to long-term margin guidance driven by increased investment on our digital transformation programme and by the evolution of our business mix. Capital expenditure is expected to be in the region of £90m to £120m per annum for the next two years, as previously outlined.

Outlook – Longer term

Our ambition is to deliver a similar level of growth in the next five years as we have in the last five years. This means we are targeting mid-single digit percentage compound organic revenue growth over the next five years, with strategic acquisitions further enhancing this growth. We will increase the international share of revenue to over 50%, with the UK continuing to deliver good growth enhanced by accelerated growth in the US, Australia and our other priority countries. We are targeting operating profit margin of 12-13% in the mid to long-term. ROCE is forecast to remain strong remaining at the upper end of the 15-20% range.

Chief Financial Officer’s Review

Overview of full year results

We reported a strong performance in FY21, delivering growth across orders, revenue and profitability as we continue to successfully implement our strategy. Our rigorous focus on performance and ensuring we keep costs under control means we were successfully able to offset the impact from COVID-19. We enter FY22 in a strong position, with a large order backlog and a robust balance sheet. Strong cash generation from the company has continued in FY21 with 131% cash conversion, and a net cash position of £164.1m continues to provide support for investment opportunities.

Orders in the year totalled £1,151.0m (2020: £972.1m), an 18% increase, 11% on an organic basis. This included £158m of Typhoon phase 1 orders under the EDP framework contract in EMEA services.

At the beginning of FY22 approximately £800m of the Group’s FY22 revenue was under contract, compared to £850m (of the FY21 revenue) at the same point last year. This reflects the disposal of businesses and converting backlog on long-term contracts into revenue during the year.

Revenue increased 19% to £1,278.2m (2020: £1,072.9m), assisted by an additional £117.2m from a full-year of trading from our FY20 acquisitions and a small contribution from Naimuri which completed in the first half of FY21. Revenue grew by 10% on an organic basis, with a 15% organic increase in EMEA Services primarily due to Engineering Delivery Partner (EDP) offset by a 6% organic decrease in Global Products driven by COVID-19 related impacts in QTS, OptaSense and our US business.

Underlying operating profit was up 14% at £151.8m (2020: £133.2m). The majority of the increase was due to a full year contribution from businesses acquired in the prior year (offset partially by the impact of three disposals in the current year) but the organic performance was still an increase of 6% (£7.3m), a strong performance considering the impact on operations due to COVID-19. The inorganic growth also included a small contribution from Naimuri, which was acquired in the first half of FY21.

EMEA Services operating profit grew 18% assisted by a full-year of trading from our FY20 NSC acquisition and FY21 acquisition of Naimuri. On an organic basis EMEA Services profit grew by 13% due to revenue growth and significant cost savings. Global Products underlying operating profit grew by 2% reflecting a full year of trading from our FY20 MTEQ acquisition. On an organic basis Global Products profit declined by 20% due to COVID-19 significantly impacting shipments in QTS and OptaSense (before disposal).

Total operating profit was £112.3m (2020: £117.6m), net of a £39.5m expense in respect of specific adjusting items (2020: £15.6m), as set out below.

Underlying profit before tax increased 13% to £149.9m (2020: £132.2m) in line with the increase in underlying operating profit, with underlying net finance expense at £1.9m (2020: £1.0m).
Total profit before tax was £146.2m (2020: £123.1m).

Specific adjusting items

Specific adjusting items, shown in the “middle column”, at the profit after tax level amounted to a total net loss of £1.4m (2020: net loss of £7.2m). This included a gain on sale of businesses and investments of £28.7m (2020: £nil) and finance income of £7.1m (2020: £6.5m) related to the defined benefit pension net surplus, offset by a £25.4m goodwill impairment (2020: £14.1m) in relation to the QinetiQ Germany business and £10.9m amortisation of acquisition-related intangibles (2020: £7.5m). The tax effect of items impacting profit before tax was an income of £2.3m (2020: expense of £1.4m). The tax line also included a £3.3m gain in the prior year from recognising US tax losses.

Further analysis is set out in note 3 with goodwill (and impairments of) discussed in note 14.

Net finance costs

Net finance income was £5.2m (2020: £5.5m). The underlying net finance expense was £1.9m (2020: £1.0m) with additional income of £7.1m (2020: £6.5m) in respect of the defined benefit pension net surplus reported within specific adjusting items.

Tax

The total tax charge was £21.5m (2020: £16.6m). Deferred tax has been calculated at the rate at which the timing difference is expected to reverse. The underlying tax charge was £23.8m (2020: £18.5m) with an underlying effective tax rate of 15.9% for the year ending 31 March 2021 (2020: 14.0%). 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 for under IAS 12 within the tax line. An adjusted effective tax rate before the impact of RDEC would be 19.4%. 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.

The tax in respect of the pre-tax specific adjusting items of £3.7m (note 4) was a £2.3m net income. The prior year tax in respect of the pre-tax specific adjusting items of £9.1m was a £1.4m net expense. Together with a £3.3m credit in respect of recognition of tax losses in the US the total specific adjusting items tax income in the prior year was £1.9m.

At 31 March 2021 the Group had unused tax losses and US carried forward interest expenses of £73.2m (2020: £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 £199.0m (2020: £177.8m) with an underlying operating cash conversion pre-capex of 131% (2020: 133%). This included a £12.7m working capital unwind driven by the timing of contract receivables

Capital expenditure decreased to £79.5m (2020: £107.8m) impacted by project delays due to COVID-19. 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 £16.4m the Group generated free cash flow of £103.1m (2020: £59.5m), before business disposal proceeds, net of cash divested and transaction costs, of £54.4m (2020: £nil) and business acquisition consideration of £28.5m (2020: £90.2m). Looking forward, given the nature of our business model, we expect to continue to fund our capex requirements from operational cash flow.

As at 31 March 2021 the Group had £164.1m net cash (2020: £84.7m). The increase in net cash was primarily due to the £103.1m free cash flow and business disposal proceeds of £54.4m, offset by business acquisition consideration of £28.5m and dividend payments of £37.7m (2020: £38.0m).

The Company is party to a £275m multi-currency revolving credit facility (with an "accordion" feature to expand up to a maximum of £400m), provided by a consortium of banks, of which £65m will mature on 27 September 2024 and £210m will mature on 27 September 2025. The facility, undrawn as at 31 March 2021, contains a modest pricing adjustment (+/- 2bps), aligned to delivering our FY25 (Scope 1 and 2) carbon reduction target.

Capital allocation

Priorities for capital allocation remain in the long-term as:

1. Organic investment complemented by 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.

Through FY21 we have demonstrated our capital allocation policy in action, continuing our investment in our core international business, disposing of non-core assets and acquiring strategically aligned capabilities to drive long-term growth.

Return on Capital Employed (ROCE)

In order to help understand the overall return profile of the Group, last year we reported our Return on Capital Employed, using the calculation of: 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 FY21 Group ROCE was 28%, in line with the previous year (2020: 28%). As we continue to invest in our business to support sustainable long term growth our ROCE is forecast to decrease but to remain attractive, at the upper end of the 15-20% range.

Earnings per share

Underlying basic earnings per share increased by 11% to 22.1p (2020: 20.0p) benefiting from the higher underlying profit after tax. Basic earnings per share for the total Group (including specific adjusting items) increased 17% to 21.9p (2020: 18.7p).

The average number of shares in issue during the year, as used in the basic earnings per share calculations, was 569.7m (2020: 567.0m) and there were 571m shares in issue at 31 March 2021 (all net of Treasury shares).

Dividend

The Board proposes a final FY21 dividend per share of 4.7p (2020: 4.4p) making the full year dividend 6.9p (2020: 6.6p). The full year dividend represents an increase of 5% in line with the Group's progressive dividend policy.

Subject to approval at the Annual General Meeting, the final FY21 dividend will be paid on 26 August 2021 to shareholders on the register at 30 July 2021.

Pensions

The net pension asset under IAS 19, before adjusting for deferred tax, was £214.3m (31 March 2020: £309.7m). The key driver for the decrease in the net pension asset since the March 2020 year end was losses due to changes in financial assumptions (primarily in respect of inflation), which increase the present value of scheme liabilities, partially offset by an increase in value of scheme assets.

The key assumptions used in the IAS 19 valuation of the scheme are set out in note 15.

Foreign exchange

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

	2021	**2020**
£/US$ - opening	1.24	1.30
£/US$ - average	1.31	1.27
£/US$ - closing	1.38	1.24
£/A$ - opening	2.03	1.83
£/A$ - average	1.84	1.86
£/A$ - closing	1.81	2.03

Trading Environment

The UK, US and Australia are our home countries and collectively represent 90% of our revenue. We also have a significant presence in our three priority countries of Canada, Germany and Belgium.

UK

In March 2021, the UK published the Integrated Review, which will determine defence and security policy moving forwards. This followed the previous announcement of the allocation of an additional £24.1bn in funding over a four-year period in November 2020, the largest investment in UK defence since the Cold War period. The Integrated Review has placed science and technology at the heart of the UK's defence policy with innovation cited as critical to UK success. Over the next four years, the UK will invest over £6.6bn in research and development to develop next generation and emerging technologies in areas such as cyber, space, directed energy weapons, and advanced high-speed missiles.

As the UK seeks to develop and deploy next generation capabilities faster than their adversaries, we are well positioned to support them in applying mission-led innovation to achieve this. Our unrivalled expertise in Research & Development and Test & Evaluation combined with our recent investment to modernise UK test ranges will help our customers generate and assure new and emerging technologies at pace. Delivering value for money remains critical to our customers and we will continue to utilise innovative delivery models to support our customers in achieving this.

US

The US maintains the largest defence budget worldwide, with the FY21 budget of $741bn, more than the next ten largest countries combined. Despite the impact of COVID-19, the FY22 budget request of $753bn is broadly flat in real terms and highlights the need to counter the threat from China as the Department of Defence's top challenge. It also cited the need to deter destabilising behaviour by Russia and emphasised the need for collaboration with partners and allies to build the concepts, capabilities, and posture necessary to meet these challenges.

In the US, we are a market leader in robotics, autonomy and advanced sensing solutions, an area of budget growth, delivering value to our customers through the rapid development and deployment of disruptive solutions. We have ambitious growth plans in the US. This is underpinned by a relevant offering with a growing need to provide actionable intelligence in to war fighters' hands quicker and a push to develop and integrate multiple autonomous and semi-autonomous systems as the US seeks to invest in next generation technologies to maintain a technological advantage.

Australia

Tensions in the Indo-Pacific region remain heightened with the area becoming the main theatre for competition between global powers. In light of the increased possibility of conflict in the region, Australia published its Defence Strategic Update and Force Structure Plan in July 2020, placing an increased emphasis on force readiness and capability modernisation. Despite the economic impact of COVID-19, the Defence Strategic Update stated that defence spending would rise to AUD 74bn by 2029-30, from AUD 42bn in 2020-21, with AUD 270bn of investment to modernise defence capabilities over the next decade. With growing expertise in Test & Evaluation and Engineering Services in Australia and the ability to leverage expertise from across the wider Group, we see many opportunities to support the Australian forces in modernising sovereign defence capabilities as they seek to deter adversaries and maintain stability in the region.

Broader international markets

In order to achieve our ambition of growing international revenue to more than 50% of Group revenue, we aim to drive growth in our three home countries and in our three priority countries of Canada, Germany and Belgium. Leveraging Group-wide capabilities is a critical part of our international growth strategy which supports allies in developing sovereign defence capabilities.

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 $18bn in 2020 expected to grow by 3% 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, where the need to modernise defence capabilities creates exciting opportunities for growth. Within this, Germany is a key market for QinetiQ where we currently offer airborne training. Recent performance has been below expectation and a significant contract loss and competitive market dynamics have resulted in a £25m goodwill impairment in the year, but new management are growing the pipeline in other areas and we do expect future growth from this important market. Belgium is another key market within Europe, where we are seeing increasing demand for our space products driven by the European Space Agency.

Operating Review

EMEA Services

	2021 **£m**	2020 £m
Orders	**866.0**	670.0
Revenue	**939.9**	797.4
Underlying operating profit	**118.6**	100.6
Underlying operating margin	**12.6%**	12.6%
Book to bill ratio(1)	**1.2x**	1.1x
Total funded order backlog	**2,710.6**	2,797.7

(1) B2B ratio is orders won, excluding the share of JV orders divided by revenue recognised, excluding the LTPA contract revenue of £226m (FY20: £222m):

Overview

EMEA (Europe, Middle East and Australasia) Services combines world-leading expertise with unique facilities to provide capability generation and assurance, underpinned by long-term contracts that provide good visibility of revenue 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, and cyber security.

Financial performance

Orders for the year increased by 29% to £866.0m (2020: £670.0m), including £19.3m from acquisitions and growing £173.2m (26%) on an organic basis. The organic increase was driven by £158m of orders for Typhoon phase 1 under the Engineering Delivery Partner (EDP) framework contract.

Revenue increased by 18% to £939.9m (2020: £797.4m), including £18.3m from acquisitions, and grew by 15% on an organic basis, principally driven by new work under the EDP contract, Defence Digital contracts (in Cyber & Information) and ongoing growth in Australia.

At the beginning of FY22, £684m of the division's FY22 revenue was under contract, compared to £656m (of the FY21 revenue) at the same point last year. This reflects the contribution from the acquired business in the year together with the 26% organic increase in orders won in the year.

Underlying operating profit grew by 18% to £118.6m (2020: £100.6m) assisted by the inorganic contribution from acquisition. Organic underlying operating profit growth was 13% driven by revenue growth, good margin performance on LTPA and EDP, and cost actions, including lower travel whilst most employees were working from home.

Including the Long Term Partnering Agreement (LTPA), the proportion of EMEA Services revenue derived from single source contracts has reduced slightly to approximately 68% (2020: approximately 70%). While we have increased revenue derived from competitive contracts this has continued to be complemented by growth in single source EDP work.

Business Unit commentary

Maritime & Land (39% of EMEA Services revenue)

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

- We successfully completed the Reinvigorated LTPA two-year transition programme and achieved Full Operating Capability (FOC) on 31 March 2021. Following the 2016 and 2019 LTPA amendments, we have transformed the Test, Evaluation and Training Services contract from an availability-style approach to one that delivers clear outputs to customers measured through delivery of Event Types (trials and other activities) and by improving our capabilities through our investment programme. Over the transition period we have delivered all milestones on or ahead of schedule improving our services, enhancing customer engagement and maximising value for money. The transition phase also saw a significant mobilisation of our investment programme with over 50 projects commencing and a number reaching a conclusion, for example, new weapons facilities at the Hebrides and Shoeburyness ranges and the delivery of a new range helicopter supporting operations in Scotland.
- Leveraging our investment in UK T&E, we were awarded a five year $27m contract with the US Air Force in Europe (USAFE) to provide training events and targets for their F-15E and F-35 5th generation fighter aircrafts, utilising facilities at MOD Aberporth and MOD Hebrides ranges. This is an important example of our LTPA investment attracting international customers to our UK ranges – the first return to the UK for the USAFE since 2015 for their training needs. Initial air-to-air missile target firings at our Hebrides range in the financial year have been successful.
- In June 2020, alongside industry partners MBDA and Thales, we were appointed to lead the Weapons Sector Research Framework (WSRF) by DSTL, expected to be worth £300m over five years. The framework, which brings together over 70 industry and academic partners to develop and exploit technology for the benefit of the UK, replaces the previous Weapons Science and Technology Centre (WSTC) contract, with a broader scope of research activities including laser and radio-frequency directed energy weapons.

Air & Space (24% of EMEA Services revenue)

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

- Engineering Delivery Partner (EDP) has continued to drive performance, surpassing 1,100 tasks and £600m of orders since inception in October 2018. Delivery in the year has remained strong with over 3,400 deliverables to our customers through the EDP contract. Key contract awards through EDP include:
  - A five-year contract valued at £158m to provide a range of engineering services for Typhoon, from planning and acceptance through to regulatory assurance, trials support and optimisation of in-service capability
  - Two five-year contracts totalling £28m to provide engineering and safety services for the A400M and P8 Poseidon aircrafts. Services include providing support to the multi-nation certification and qualification programme, release to service, safety and airworthiness, structural integrity, environmental management support and trials.
  - An extension of the EDP contract with a multi-year agreement named *Futures Lab*, replacing and building on the former Niteworks contract, to bring EDP's network of SMEs and technology organisations to solve complex defence challenges, maximising innovation and exploitation of new capabilities to the front line.
- QinetiQ has signed a pre-collaboration agreement to work alongside industry partners and the UK MOD on the UK's next generation fighter concept known as Tempest. Drawing on our extensive T&E expertise and investment in new digital techniques we will provide capability assurance, helping streamline the development programme while also exploring how our advanced technologies could be used to enhance operational capability of the platform.

- In June 2020 we completed an Army Warfighting Experiment, with an airborne team comprising a manned helicopter and semi-autonomous unmanned aircraft working together to identify targets, the first time such a trial has taken place in the UK.
- As outlined in our 4 March 2021 Investor Seminar, *Renewed ambition to accelerate sustainable growth*, to ensure we are even more relevant to the changing character of warfare and stay ahead for our customers' advantage, one important area of our digital transformation programme is our investment in digital T&E to enable the rapid development of next generation products & services. This investment will expand our strong physical offerings into the virtual world to add greater value and pace to our customers and enable our future growth.

<u>Cyber & Information (27% of EMEA Services revenue)</u>

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.

- As cyber capabilities and informational advantage become increasingly critical we are seeing growing demand for C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance), data intelligence and training services across our markets.
- In July 2020 we acquired Naimuri, a leading software development and data analytics company for £24.4m, net of cash received. Naimuri partners with QinetiQ on a number of key programmes delivering mission-led innovation to UK intelligence and law enforcement customers. We aim to invest in their capabilities to drive growth in existing security markets and new defence markets.
- Vivace is our agile QinetiQ-run programme for the Home Office where we are working with over 250 organisations to rapidly bring the best minds to bear on the most complex digital challenges for front line law enforcement and security – this programme has been renewed and is delivering significant wider benefits to society, for example, supporting how human trafficking cases can be solved quicker in a more technically advanced way, and using technology to catch child abuse offenders and keeping children safe online.
- We have been recognised as a key strategic supplier to Strategic Command (Defence Digital and Defence Intelligence), winning orders in excess of £82m in the period across the UK Army's communication and information programme (BATCIS contract), Defence's new operational IT programme (New Style of IT contract), supporting the transformation of Defence Intelligence, intelligence solution contracts and various ongoing services including support to crypt-key developments and Skynet 5 operations.
- Included in the above, we have won a £18m contract through EDP in support of the ongoing transformation of Strategic Command's Defence Intelligence capabilities. This contract will support many areas of the transformation of Defence Intelligence including training, information assessment and operation, and Typhoon mission data production; providing advice and technical leadership to improve interoperability of systems and platforms, the broader exploitation of key information assets and support to the modernisation of the defence information enterprise. Also included is a new Rapid Innovation Capability based on similar agile services provided to the Home Office under the Vivace contract, bringing ideas from concept to operational capability at pace. This contract has been won in collaboration with Naimuri, Inzpire and NSC – a great example of leveraging our acquired capabilities into an important core and growing market.
- In December 2020 we acquired the final 15% share capital of Inzpire Group Limited, two years after our initial strategic investment. Both Inzpire and NSC, leading providers of operational training, mission rehearsal and simulation across the Air and Land domain, are performing well and delivering strong growth.

<u>International (10% of EMEA Services revenue)</u>

Our International business leverages our expertise and the skills we have developed in the UK and applies them to opportunities in attractive markets globally.

- Leveraging our T&E expertise from the UK we won two important contracts in Australia, to design & construct and operate & maintain an unmanned aerial systems (UAS) flight test range in Queensland. The test range was opened on schedule and has completed its first customer exercise in December 2020. This demonstrates excellent progress in leveraging our UK capabilities to support international growth.
- In November 2020 we won a framework contract with the Australian Space Services Training Areas and Simulation Branch (SSTASB) worth up to AU$55m over five years, to provide consultancy and advice for satellite communications, PNT (position, navigation and timing), simulation, health knowledge management, and records digitisation.
- We have commenced a multi-million investment programme in Australia to create and operate an Engineering and Innovation Centre, to leverage our global engineering capabilities and products, such as targets and robotics into the Australian market.
- In Canada we are making good progress and secured a contract to develop a roadmap for the modernisation of Royal Canadian Air Force (RCAF) air weapons ranges. This is a critical step in accommodating Canada’s next generation of fighter aircraft and a major step in becoming a trusted partner in the region.
- In Germany, despite COVID-19 impacting flying hours in Q1, flying activity recovered strongly resulting in revenue for the year being roughly flat compared to the prior year. However, order intake in the year was less than target and new orders are taking longer to convert than our original expectations. As a result of this and re-baselining the future business plan with the new Managing Director of the business, we have written down £25m 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 this significant European defence market.

Global Products

	2021 £m	2020 £m
Orders	**285.0**	302.1
Revenue	**338.3**	275.5
Underlying operating profit	**33.2**	32.6
Underlying operating margin	**9.8%**	11.8%
Book to bill ratio(1)	**0.8x**	1.1x
Funded backlog	**233.5**	307.2

1) B2B ratio is orders won divided by revenue recognised

Overview

Global Products delivers innovative solutions to meet customer requirements. The division is technology-based and has shorter order cycles than EMEA Services. 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.

Financial performance

Orders decreased by 6% to £285.0m (2020: £302.1m) following the significant €75m order for the European Space Agency Altius contract in FY20 and delays in US contracting due to COVID-19 and the change in administration, offset by an £83m inorganic contribution from the prior year MTEQ acquisition. The organic orders decline was 26%.

At the beginning of FY22, £117m of the division's FY22 revenue was under contract, compared to £193m (of the FY21 revenue) at the same point last year. This decrease reflects the lost contribution from the disposed business in the year together with the timing of orders and delivery, especially in the US and QTS.

Revenue was up 23% on a reported basis at £338.3m (2020: £275.5m), primarily due to a whole year's contribution from the MTEQ business acquired in December 2019. On an organic basis, revenue decreased by 6% due to COVID-19 impacting delivery of small robotics in the US and shipments in QTS and OptaSense (before disposal).

Global Products underlying operating profit grew by 2% to £33.2m (2020: £32.6m) reflecting a whole year's trading of MTEQ. On an organic basis operating profit decreased by 20%. This was driven primarily by QTS delays of high margin products and a loss in OptaSense prior to disposal.

Business Unit commentary

United States (62% of Global Products revenue)

Our US operations are managed as a single business, bringing together our expertise in robotics with the acquired capabilities (from MTEQ in December 2019) of autonomy and sensing solutions.

- In July 2020 we signed an agreement with the Defense Counterintelligence & Security Agency enabling us to operate all of our US defence operations under a Special Security Agreement. This replaces the previous Proxy Agreement, fundamentally changing how we approach the world's largest defence market.
- Our US business has experienced some COVID-19 and change of administration delays impacting performance. MTEQ, that we acquired in December 2019, has delivered revenue growth compared to the previous 12 months on a like-for-like basis (part of which was before QinetiQ's ownership) and positive momentum is growing, with continued growth in key sectors, strong delivery and cost efficiencies.

- We won a number of notable contracts in the year including: a $24m four-year sensor services contract; a $21m three-year contract to provide architecture and multi-modal sensor integration for mounted and dismounted war fighters; and three contracts totalling $47m across sensor research, development, engineering services. We are successfully leveraging our capabilities into our global markets, with the hybrid electric drive technology in the US, supporting expanded targets capabilities and pursuing sales of US robotics systems into Australia. Our orders won provide a strong foundation for growth, in many areas of increased customer funding. We continue our expansion into Airborne ISR, large robotic combat vehicles and early development on Space payloads.
- In partnership with Pratt Miller Defense, we delivered the four prototype vehicles required to the US DoD ahead of schedule, under the Robotic Combat Vehicle Light (RCV-L) programme, in advance of testing and experimentation in 2021.
- We delivered over 300 thermal sighting units to the US Army national training centres to support enhanced soldier training, and completed multiple critical ISR, Maritime and Robotics systems for the US Army and other customers, providing higher confidence in target detection and engagement.
- With our focus on larger and longer-term programs of record we are establishing strategic relationships on major programmes, including the Pratt Miller partnership on the RCV-L, with Hypersat for the launch of six commercial hyperspectral satellites and with General Atomics for our work on aircraft carrier launch and recovery systems and our ISR systems.

Space Products (12% of Global Products revenue)

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

- We have won a number of significant new contracts in our Belgium Space business, including a new contract with the European Space Agency worth €8.5m for the development and production of microgravity based heat transfer experiments, expected to be installed on the International Space Station in 2026. This represents further progress as we build on our €4m investment into new, higher grade cleanroom facilities in Belgium.

EMEA Products (23% 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.

- Working in partnership with BAE Systems, our E-X-Drive technology has been selected for use by the US Army for their prototype hybrid-electric Bradley Fighting Vehicle. This is a £7m prototype contract as a testbed for integrating the E-X-Drive as part of a series hybrid powertrain under the Combat Vehicle Power and Energy architecture and mobility capabilities development program. It is an excellent example of deploying our IP to enhanced operational performance whilst improving the sustainability of the platform.
- QinetiQ Target Systems experienced significant disruption due to COVID-19 during the first half with cancellations of trials and deployments due to travel restrictions around the world. The business saw a good level of recovery in the second half with customers resuming trials and exercises. Furthermore, in the second half we won some significant orders giving further confidence in business recovery and growth. We expect to return to pre-COVID levels from FY22 and we remain extremely positive on the longer-term outlook for the business.

Disposals (3% of Global Products)

During FY21 we completed three disposals of non-core businesses resulting in a net cash benefit of £54.4m (combined enterprise value of £69m). The decision to divest of these three businesses was a strategic choice to allow increased focus on our core capabilities:

- In June 2020 we completed the sale of Boldon James to HelpSystems International Limited for an enterprise value of £30m. Boldon James was acquired by QinetiQ in 2007 and it has become a leading provider of data classification and secure email solutions. In the year ended 31 March 2020 Boldon James generated revenue of £9m.
- In November 2020 we completed the sale of Commerce Decisions to Harris Computer, a division of Constellation Software, for an enterprise value of £8.5m and deferred consideration of up to £1.5m contingent on performance to March 2022. QinetiQ acquired Commerce Decisions in 2008 and it has become a market leader providing software and consultancy services to enable some of the largest and most complex procurements around the world. In the year ended 31 March 2020 Commerce Decisions generated revenue of £8.3m.
- In December 2020 we completed the sale of OptaSense to Luna Innovations Inc. for an enterprise value of £29m. QinetiQ created OptaSense in 2008 and it has become a global leader in distributed fibre optic sensing solutions, delivering decision-ready data in multiple vertical markets, including pipelines, oil and gas, border and perimeter security, transportation, and power and utilities. In the year ended 31 March 2020 OptaSense generated revenue of £24.2m.

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 our growth strategy within the UK market impacts the overall financial performance of the Group;
- Difficulty in establishing a robust and distinct position in the US market, resulting in slower growth;
- 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;
- The M&A strategy, which is a key element of our strategic growth does not realise the maximum potential benefits;
- The transformation and digitisation programmes do 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 evolving COVID-19 pandemic materially disrupts QinetiQ operations.

Consolidated income statement
for the year ended 31 March

All figures in £ million	Note	2021 Underlying*	2021 Specific adjusting items*	2021 Total	2020 Underlying*	2020 Specific adjusting items*	2020 Total
Revenue	2	**1,278.2**	**-**	**1,278.2**	**1,072.9**	**-**	**1,072.9**
Operating costs excluding depreciation and amortisation		(1,086.0)	(2.8)	(1,088.8)	(903.6)	(8.0)	(911.6)
Other income		9.9	0.1	10.0	9.2	14.0	23.2
EBITDA (earnings before interest, tax, depreciation and amortisation)		**202.1**	**(2.7)**	**199.4**	**178.5**	**6.0**	**184.5**
Depreciation and impairment of property, plant and equipment		(45.6)	(0.5)	(46.1)	(41.0)	-	(41.0)
Impairment of goodwill		-	(25.4)	(25.4)	-	(14.1)	(14.1)
Amortisation and impairment of intangible assets		(4.7)	(10.9)	(15.6)	(4.3)	(7.5)	(11.8)
Operating profit		**151.8**	**(39.5)**	**112.3**	**133.2**	**(15.6)**	**117.6**
Gain on business divestments	6	-	28.4	28.4	-	-	-
Gain on sale of investments		-	0.3	0.3	-	-	-
Finance income	7	0.3	7.1	7.4	1.1	6.5	7.6
Finance expense	7	(2.2)	-	(2.2)	(2.1)	-	(2.1)
Profit before tax		**149.9**	**(3.7)**	**146.2**	**132.2**	**(9.1)**	**123.1**
Taxation (charge)/income	8	(23.8)	2.3	(21.5)	(18.5)	1.9	(16.6)
Profit for the year		**126.1**	**(1.4)**	**124.7**	**113.7**	**(7.2)**	**106.5**
Profit is attributable to:							
Owners of the parent company		125.9	(1.4)	124.5	113.5	(7.2)	106.3
Non-controlling interests		0.2	-	0.2	0.2	-	0.2
Profit for the year		**126.1**	**(1.4)**	**124.7**	**113.7**	**(7.2)**	**106.5**

Earnings per share for profit attributable to the owners of the parent company

All figures in pence	Note	2021 Underlying*	2021 Total	2020 Underlying*	2020 Total
Basic	9	22.1p	21.9p	20.0p	18.7p
Diluted	9	21.9p	21.6p	19.8p	18.6p

* 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	**2021**	2020
Profit for the year	**124.7**	**106.5**
Items that will not be reclassified to profit and loss:		
Actuarial (loss)/gain recognised in defined benefit pension schemes	(104.1)	39.8
Tax on items that will not be reclassified to profit and loss	19.8	(12.7)
Total items that will not be reclassified to profit and loss	**(84.3)**	**27.1**
Items that may be reclassified subsequently to profit and loss:		
Foreign currency translation (losses)/gains on foreign operations	(12.0)	5.1
Movement in deferred tax on foreign currency translation	0.8	(0.6)
(Decrease)/increase in the fair value of hedging derivatives	(1.0)	0.8
Movement in deferred tax on hedging derivatives	0.2	(0.2)
Total items that may be reclassified to profit and loss	**(12.0)**	**5.1**
Other comprehensive (expense)/income for the year, net of tax	**(96.3)**	**32.2**
Total comprehensive income for the year	**28.4**	**138.7**
Total comprehensive income is attributable to:		
Owners of the parent company	28.2	138.5
Non-controlling interests	0.2	0.2
Total comprehensive income for the year	**28.4**	**138.7**

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 1 April 2020	**5.7**	**40.8**	**147.6**	**0.4**	**8.3**	**681.9**	**884.7**	**2.4**	**887.1**
Profit for the year	-	-	-	-	-	124.5	124.5	0.2	124.7
Other comprehensive expense for the year, net of tax	-	-	-	(0.8)	(11.2)	(84.3)	(96.3)	-	(96.3)
Purchase of own shares	-	-	-	-	-	(9.0)	(9.0)	-	(9.0)
Share settled liabilities	-	-	-	-	-	13.7	13.7	-	13.7
Share-based payments charge	-	-	-	-	-	10.6	10.6	-	10.6
Deferred tax on share options	-	-	-	-	-	0.5	0.5	-	0.5
Transactions with NCI (note 5)	-	-	-	-	-	(1.6)	(1.6)	(2.3)	(3.9)
Dividends	-	-	-	-	-	(37.7)	(37.7)	-	(37.7)
At 31 March 2021	**5.7**	**40.8**	**147.6**	**(0.4)**	**(2.9)**	**698.6**	**889.4**	**0.3**	**889.7**
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**

Consolidated balance sheet as at 31 March

All figures in £ million	Note	2021	2020
Non-current assets			
Goodwill	14	145.5	180.8
Intangible assets		139.2	138.9
Property, plant and equipment		397.2	375.6
Other financial assets		0.8	1.0
Financial assets at fair value through profit or loss	6	0.9	-
Equity accounted investments		4.2	3.6
Retirement benefit surplus	15	214.3	309.7
Deferred tax asset		11.7	13.3
		913.8	**1,022.9**
Current assets			
Inventories		54.4	52.3
Other financial assets		0.9	6.7
Trade and other receivables		326.7	250.0
Current tax asset		0.7	0.2
Cash and cash equivalents		190.1	105.8
		572.8	**415.0**
Total assets		**1,486.6**	**1,437.9**
Current liabilities			
Trade and other payables		(411.7)	(379.8)
Current tax		(3.8)	(4.1)
Provisions		(4.2)	(1.8)
Other financial liabilities		(7.0)	(8.9)
		(426.7)	**(394.6)**
Non-current liabilities			
Deferred tax liability		(89.7)	(101.3)
Provisions		(7.8)	(9.7)
Other financial liabilities		(20.7)	(19.9)
Other payables		(52.0)	(25.3)
		(170.2)	**(156.2)**
Total liabilities		**(596.9)**	**(550.8)**
Net assets		**889.7**	**887.1**
Equity			
Ordinary shares		5.7	5.7
Capital redemption reserve		40.8	40.8
Share premium account		147.6	147.6
Hedging reserve		(0.4)	0.4
Translation reserve		(2.9)	8.3
Retained earnings		698.6	681.9
Capital and reserves attributable to shareholders of the parent company		**889.4**	**884.7**
Non-controlling interest		0.3	2.4
Total equity		**889.7**	**887.1**

Consolidated cash flow statement for year ended 31 March

All figures in £ million	Note	2021	2020
Underlying net cash inflow from operations	10	**199.0**	**177.8**
Less: specific adjusting items	10	(1.0)	(11.3)
Net cash inflow from operations	10	198.0	166.5
Tax paid		(15.0)	(10.0)
Interest received		0.3	1.2
Interest paid		(1.7)	(1.7)
Net cash inflow from operating activities		**181.6**	**156.0**
Purchases of intangible assets		(14.5)	(16.7)
Purchases of property, plant and equipment		(65.0)	(92.7)
Proceeds from disposals of plant and equipment		-	1.6
Proceeds from sale of property		0.1	12.5
Proceeds from disposal of businesses		54.4	-
Proceeds from disposal of investment		0.3	-
Acquisition of businesses		(28.5)	(90.2)
Net cash outflow from investing activities		**(53.2)**	**(185.5)**
Purchase of own shares		(9.0)	(0.7)
Dividends paid to shareholders		(37.7)	(38.0)
Payment of bank facility arrangement fees		(0.4)	(0.3)
Capital element of finance lease payments		(8.5)	(9.7)
Net cash outflow from financing activities		**(55.6)**	**(48.7)**
Increase/(decrease) in cash and cash equivalents		**72.8**	**(78.2)**
Effect of foreign exchange changes on cash and cash equivalents		11.5	(6.8)
Cash and cash equivalents at beginning of year		105.8	190.8
Cash and cash equivalents at end of year		**190.1**	**105.8**

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

All figures in £ million	Note	2021	2020
Increase/(decrease) in cash and cash equivalents in the year		**72.8**	**(78.2)**
Add back net cash flows not impacting net cash		8.9	10.0
Change in net cash resulting from cash flows		81.7	(68.2)
Lease liabilities derecognised on disposal of subsidiaries		1.9	-
Lease liabilities recognised on acquisition of subsidiaries		(1.3)	(2.7)
Increase in lease obligation		(9.1)	(4.0)
Other movements including foreign exchange		6.2	(0.9)
Increase/(decrease) in net cash as defined by the Group		79.4	(75.8)
Net cash as defined by the Group at beginning of the year		84.7	160.5
Net cash as defined by the Group at end of the year	11	**164.1**	**84.7**
Less: non-cash net financial liabilities	11	26.0	21.1
Total cash and cash equivalents	11	**190.1**	**105.8**

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 in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the EU. 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 2020 which is available on the Group's website, www.QinetiQ.com.

The preliminary announcement was approved by the Board of Directors on 20 May 2021. 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 2021 were approved by the Board of Directors on 20 May 2021 and will be delivered to the Registrar of Companies following the Company's Annual General Meeting on 21 July 2021. The financial information for 2020 is derived from the statutory accounts for 2020 which have been delivered to the Registrar of Companies. The auditors have reported on the 2021 and 2020 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		✓	✓
Gains/losses on disposal of property and investments	✓	✓	✓
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).

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	**2021**	2020
Service contracts with customers	1,189.4	945.6
Sale of goods contracts with customers	83.0	116.8
Royalties and licences	5.8	10.5
Total revenue	**1,278.2**	**1,072.9**
Less: adjust current year for acquired businesses[1]	(117.2)	-
Less: adjust prior year for disposed businesses[1]	-	(17.2)
Adjust to constant prior year exchange rates	2.2	-
Total revenue on an organic, constant currency basis[2]	**1,163.2**	**1,055.7**
Organic revenue growth at constant currency[2]	*10%*	*10%*

[1] For the period of which there was no contribution in the equivalent period in the comparator year which was pre-ownership (for acquisitions) or post-ownership (for disposals) by the Group.
[2] Alternative performance measures are used to supplement the statutory figures. See Glossary.

Other income	**2021**	2020
Share of joint ventures' and associates' profit/(loss) after tax	0.7	(0.7)
Other income	9.2	9.9
Other income – underlying	**9.9**	**9.2**
Specific adjusting item: gain on sale of property	0.1	14.0
Total other income	**10.0**	**23.2**

Revenue by customer geographical location

for the year ended 31 March

All figures in £ million	**2021**	2020
US	215.6	136.0
Australia	77.9	60.7
Europe	88.2	75.9
Middle East	9.8	16.3
Rest of World	28.9	44.5
International	**420.4**	**333.4**
United Kingdom	857.8	739.5
Total revenue	**1,278.2**	**1,072.9**
International revenue %	*33%*	*31%*
Revenue from 'home countries' (UK, US and Australia)	1,151.3	936.2
Home countries revenue %	*90%*	*87%*

Revenue by major customer type

for the year ended 31 March

All figures in £ million	**2021**	2020
UK Government	794.6	667.2
US Government	140.8	116.2
Other	342.8	289.5
Total revenue	**1,278.2**	**1,072.9**

'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	2021 Revenue from external customers	2021 Underlying operating profit*	2020 Revenue from external customers	2020 Underlying operating profit*
EMEA Services	939.9	118.6	797.4	100.6
Global Products	338.3	33.2	275.5	32.6
Total operating segments	**1,278.2**	**151.8**	**1,072.9**	**133.2**
*Underlying operating margin**		*11.9%*		*12.4%*

* 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

All figures in £ million	Note	2021	2020
Underlying operating profit		151.8	133.2
Specific adjusting items loss	3	(39.5)	(15.6)
Operating profit		**112.3**	**117.6**
Gain on business divestments		28.4	-
Gain on sale of investment		0.3	-
Net finance income		5.2	5.5
Profit before tax		**146.2**	**123.1**
Taxation expense		(21.5)	(16.6)
Profit for the year		**124.7**	**106.5**

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	2021	2020
Gain on sale of property		0.1	14.0
Acquisition transaction costs		(1.0)	(7.4)
Acquisition integration costs		-	(0.1)
Acquisition related remuneration costs		(1.8)	(0.5)
Specific adjusting items (loss)/profit before interest, tax, depreciation and amortisation		**(2.7)**	**6.0**
Impairment of goodwill	14	(25.4)	(14.1)
Impairment of property		(0.5)	-
Amortisation of intangible assets arising from acquisitions		(10.9)	(7.5)
Specific adjusting items operating loss		**(39.5)**	**(15.6)**
Gain on business divestments	6	28.4	-
Gain on sale of investment		0.3	-
Defined benefit pension scheme net finance income		7.1	6.5
Specific adjusting items loss before tax		**(3.7)**	**(9.1)**
Specific adjusting items - tax	8	2.3	1.9
Total specific adjusting items loss after tax		**(1.4)**	**(7.2)**

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

all figures in £ million	2021	2020
Underlying profit after tax - total Group	126.1	113.7
Total specific adjusting items loss after tax	(1.4)	(7.2)
Total profit for the year	**124.7**	**106.5**

4. Profit before tax

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

All figures in £ million	2021	2020
Cost of inventories expensed	10.2	32.6
Owned assets: depreciation	37.2	31.7
Leases assets: depreciation	8.4	9.7
Foreign exchange loss	0.5	1.4
Research and development expenditure - customer funded contracts	281.9	270.8
Research and development expenditure - Group funded	18.5	21.5

5. Business combinations

Acquisitions in the year to 31 March 2021

all figures in £ million					Contribution post-acquisition	
Company acquired	**Date acquired**	**Cash consideration**	**Goodwill**	**Fair value of net assets acquired**	**Revenue**	**Operating profit**
Naimuri Limited	13 July 2020	28.4	(14.8)	13.6	7.6	1.8
Inzpire Group Limited[1]		3.9				
Less: cash acquired within Naimuri Limited		(4.0)				
Total current year acquisitions		**28.3**	**(14.8)**	**13.6**	**7.6**	**1.8**
Prior year acquisitions:						
Newmann & Spurr Consulting Limited[2]		0.2				
Net cash outflow in the period[3]		**28.5**				

[1] Acquisition of remaining 15% of Inzpire Group Limited. An 85% shareholding was obtained in a prior year.
[2] Additional consideration paid, due to final working capital adjustments, in respect of the prior year acquisition of Newman & Spurr Consultancy Limited
[3] Acquisition costs incurred in the year of £1.0m are reported separately within operating cash flow and operating profit (note 3).

Naimuri Limited ('Naimuri')

On 13 July 2020 the Group acquired 100% of the issued share capital of Naimuri for £28.4m (£24.4m net of cash acquired). Naimuri is a leading software development and data analytics company, providing agile cloud-based services and technology to the UK Intelligence and Law Enforcement communities. QinetiQ partners with Naimuri on several critical programmes and delivering mission-led innovation around data-intensive challenges and will invest and build upon Naimuri's strong capabilities in data analytics, data intelligence and agile software development to meet customer needs and drive growth in both the security and defence sectors. Naimuri will be reported in EMEA Services, managed within the Cyber & Information business. If the acquisition had occurred on the first day of the financial year, Group revenue for the period would have been £1,281.1m and the Group profit before tax would have been £146.8m.

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		-	11.2	11.2
Property, plant and equipment		1.6	-	1.6
Trade and other receivables		2.0	-	2.0
Cash and cash equivalents		4.0	-	4.0
Trade and other payables		(1.3)	-	(1.3)
Lease liabilities		(1.3)	-	(1.3)
Corporation tax		(0.5)	-	(0.5)
Deferred tax liabilities		-	(2.1)	(2.1)
Net assets acquired		**4.5**	**9.1**	**13.6**
Goodwill	14			14.8
Consideration				**28.4**

The consideration of £28.4m was satisfied entirely in cash in the financial period, with no deferred consideration. The fair value adjustments include £11.2m in relation to the recognition of acquired intangible assets of which £9.3m relates to customer relationships and £1.9m relates to existing technology. The goodwill is attributable mainly to the skills and technical talent of the Naimuri workforce and the synergies expected to be achieved from integrating the company into the Group's existing business.

6. Gain on business divestments

All figures in £ million	**2021**	2020
Boldon James	19.3	-
Commerce Decisions	1.6	-
OptaSense	7.5	-
Gain on business divestments	**28.4**	-

The gain on business divestments relates to the sale of the Boldon James, Commerce Decisions and OptaSense businesses for an aggregate consideration of £60.5m. Proceeds received in the period, net of transaction costs and £14.7m cash divested with the businesses, were £54.4m. Deferred consideration of £1.5m, contingent on performance of the disposed business in the year to 31 March 2022, is receivable as at 31 March 2021 in respect of the Commerce Decisions disposal, the fair value of which has been estimated at £0.9m. All consideration is settled entirely in cash.

7. Finance income and expense

All figures in £ million	**2021**	2020
Receivable on bank deposits	0.3	1.1
Finance income before specific adjusting items	**0.3**	**1.1**
Amortisation of deferred financing costs	(0.4)	(0.4)
Bank interest and commitment fees	(0.6)	(0.6)
Lease expense	(1.0)	(1.0)
Unwinding of discount on financial liabilities	(0.2)	(0.1)
Finance expense before specific adjusting items	**(2.2)**	**(2.1)**
Net finance expense - underlying	**(1.9)**	**(1.0)**
Specific adjusting items:		
Defined benefit pension scheme net finance income	7.1	6.5
Net finance income	**5.2**	**5.5**

8. Taxation

All figures in £ million	**2021**			2020		
	Underlying	**Specific adjusting items**	**Total**	Underlying	Specific adjusting items	Total
Profit/(loss) before tax	**149.9**	**(3.7)**	**146.2**	**132.2**	**(9.1)**	**123.1**
Taxation (expense)/income	(23.8)	2.3	(21.5)	(18.5)	1.9	(16.6)
Profit for the year	**126.1**	**(1.4)**	**124.7**	**113.7**	**(7.2)**	**106.5**
Effective tax rate	15.9%			14.0%		

The total tax charge was £21.5m (2020: £16.6m). Deferred tax has been calculated at the rate at which the timing difference is expected to reverse. The underlying tax charge was £23.8m (2020: £18.5m) with an underlying effective tax rate of 15.9% for the year ending 31 March 2021 (2020: 14.0%). 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 IAS 12 within the tax line. An adjusted effective tax rate before the impact of RDEC would be 19.4%. The impact of RDEC is shown net of £10.6m (2020: £9.8m) appropriated by the MOD. 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

The tax in respect of the pre-tax specific adjusting items of £3.7m (note 3) was a £2.3m net income. The prior year tax in respect of the pre-tax specific adjusting items of £9.1m was a £1.4m net expense. Together with a £3.3m credit in respect of recognition of tax losses in the US the total specific adjusting items tax income in the prior year was £1.9m.

At 31 March 2021 the Group had unused tax losses and surplus interest costs of £73.2m (2020: £90.3m) which are available for offset against future taxable profits. Deferred tax assets are recognised on the balance sheet of £8.4m in respect of £35.9m of US net operating losses, £0.1m in respect of £0.5m of Canadian net operating losses and £1.4m in respect of £5.2m of US net interest expense. No deferred tax asset is recognised in respect of the remaining £31.6m 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 £8.4m. The Group has £29.1m of time-limited US net operating losses of which £20.5m will expire in 2035 and £8.6m in 2036. Deferred tax has been calculated using the enacted future statutory tax rates.

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.

9. 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		**2021**	2020
Weighted average number of shares	**Million**	**569.7**	**567.0**
Effect of dilutive securities	Million	6.1	5.4
Diluted number of shares	**Million**	**575.8**	**572.4**

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		**2021**	2020
Profit attributable to the owners of the Company	£ million	124.5	106.3
Remove loss after tax in respect of specific adjusting items	£ million	1.4	7.2
Underlying profit after taxation	**£ million**	**125.9**	**113.5**
Weighted average number of shares	Million	569.7	567.0
Underlying basic EPS	**Pence**	**22.1**	**20.0**
Diluted number of shares	Million	575.8	572.4
Underlying diluted EPS	**Pence**	**21.9**	**19.8**

Basic and diluted EPS

for the year ended 31 March		**2021**	2020
Profit attributable to the owners of the Company	£ million	124.5	106.3
Weighted average number of shares	Million	569.7	567.0
Basic EPS – total Group	**Pence**	**21.9**	**18.7**
Diluted number of shares	Million	575.8	572.4
Diluted EPS – total Group	**Pence**	**21.6**	**18.6**

10. Cash flows from operations

All figures in £ million	**2021**	2020
Profit after tax for the year	124.7	106.5
Adjustments for:		
Taxation expense	21.5	16.6
Net finance income	(5.2)	(5.5)
Gain on disposal of businesses	(28.4)	-
Gain on disposal of investment	(0.3)	-
Gain on sale of property	(0.1)	(14.0)
Impairment of property	0.5	(0.4)
Impairment of goodwill	25.4	14.1
Acquisition related remuneration costs unpaid as at year end	1.8	0.5
Amortisation of purchased or internally developed intangible assets	4.7	4.3
Amortisation of intangible assets arising from acquisitions	10.9	7.5
Depreciation of property, plant and equipment	45.6	41.4
Loss/(profit) on disposal of plant and equipment	1.0	(1.6)
Share of post-tax (profit)/loss of equity accounted entities	(0.7)	0.7
Share-based payments charge	10.6	7.4
Retirement benefit contributions in excess of income statement expense	(1.6)	(4.3)
Net movement in provisions	0.3	(5.4)
	210.7	167.8
Increase in inventories	(4.6)	(11.3)
Increase in receivables	(97.3)	(25.5)
Increase in payables	89.2	35.5
Changes in working capital	(12.7)	(1.3)
Net cash flow from operations	**198.0**	**166.5**

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

All figures in £ million	**2021**	2020
Net cash flow from operations	198.0	166.5
Add back specific adjusting item: acquisition integration costs	-	3.8
Add back specific adjusting item: acquisition transaction costs	1.0	7.5
Underlying net cash flow from operations	**199.0**	**177.8**
Add: proceeds from disposal of plant and equipment	-	1.6
Less: tax and net interest payments	(16.4)	(10.5)
Less: purchases of intangible assets and property, plant & equipment	(79.5)	(109.4)
Free cash flow	**103.1**	**59.5**

Underlying cash conversion ratio

	2021	2020
Underlying operating profit - £ million	151.8	133.2
Underlying net cash flow from operations - £ million	199.0	177.8
Underlying cash conversion ratio - %	**131%**	**133%**

11. Net cash

All figures in £ million	2021	2020
Current financial assets/(liabilities)		
Deferred financing costs	0.4	0.4
Derivative financial assets	0.5	6.3
Lease liabilities	(6.9)	(8.6)
Derivative financial liabilities	(0.1)	(0.3)
Total current net financial liabilities	(6.1)	(2.2)
Non-current financial assets/(liabilities)		
Deferred financing costs	0.8	0.9
Derivative financial assets	-	0.1
Lease liabilities	(19.8)	(19.3)
Derivative financial liabilities	(0.9)	(0.6)
Total non-current net financial liabilities	(19.9)	(18.9)
Total net financial liabilities	**(26.0)**	**(21.1)**
Cash and cash equivalents	190.1	105.8
Total net cash as defined by the Group	**164.1**	**84.7**

12. 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 2021, are as follows:

All figures in £ million	Level 1	Level 2	Level 3	Total
Assets:				
Current derivative financial instruments	-	0.5	-	0.5
Non-current derivative financial instruments	-	-	-	-
Financial instruments at fair value through profit or loss	-	-	0.9	0.9
Liabilities:				
Current derivative financial instruments	-	(0.1)	-	(0.1)
Non-current derivative financial instruments	-	(0.9)	-	(0.9)
Total	-	**(0.5)**	**0.9**	**0.4**

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2020:

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
Financial instruments at fair value through profit or loss	-	-	-	-
Liabilities:				
Current derivative financial instruments	-	(0.3)	-	(0.3)
Non-current derivative financial instruments	-	(0.6)	-	(0.6)
Total	-	5.5	-	5.5

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.

13. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2021 and 31 March 2020 is provided below:

	Pence per ordinary share	£m	Date paid/payable
Interim 2021	2.2	12.6	Feb 2021
Final 2021 (proposed)	4.7	26.8	Aug 2021
Total for the year ended 31 March 2021	**6.9**	**39.4**	
Interim 2020	2.2	12.5	Feb 2020
Final 2020	4.4	25.1	Nov 2020
Total for the year ended 31 March 2020	**6.6**	**37.6**	

The proposed final dividend in respect of the year ending 31 March 2021 will be paid on 26 August 2021. The ex-dividend date is 29 July 2021 and the record date is 30 July 2021.

14. Goodwill

All figures in £ million	**2021**	2020
Cost		
At 1 April	307.9	257.4
Acquisitions	15.0	42.7
Disposals	(17.2)	-
Foreign exchange	(18.1)	7.8
At 31 March	**287.6**	**307.9**
Impairment		
At 1 April	(127.1)	(108.8)
Disposals	0.2	-
Impairment in the year	(25.4)	(14.1)
Foreign exchange	10.2	(4.2)
At 31 March	**(142.1)**	**(127.1)**
Net book value at 31 March	**145.5**	**180.8**

The goodwill acquired of £15.0m arises from the acquisition of Naimuri in the year, generating goodwill of £14.8m, and a final working capital adjustment of £0.2m in respect of prior year acquisition of Newman & Spurr Consultancy Limited. The impairment of £25.4m in the year relates to the Germany business unit.

Cash-generating units (CGU)

Goodwill is allocated across five cash generating units ('CGUs') within the EMEA Services segment and four 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**	**2021**	**2020**
QinetiQ North America	Global Products	39.6	43.9
MTEQ	Global Products	33.0	36.6
Target Systems	Global Products	24.3	24.2
Boldon James (divested in year, see note 6)	Global Products	-	10.7
Commerce Decisions (divested in year, see note 6)	Global Products	-	6.4
Space Products	Global Products	5.7	5.8
QinetiQ Germany	EMEA services	2.7	28.7
Inzpire	EMEA services	11.7	11.7
NSC	EMEA services	7.8	7.6
Naimuri Limited (acquired in year, see note 5)	EMEA services	14.8	-
Australia	EMEA Services	5.9	5.2
Net book value at 31 March		**145.5**	**180.8**

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 % 2021: (2020)	QNA	Target Systems	Space NV	MTEQ	Inzpire	Australia	QinetiQ Germany	NSC	Naimuri
Terminal growth rate	2.1 (2.1)	1.7 (1.8)	1.7 (1.8)	2.1 (2.1)	1.7 (1.8)	2.3 (2.3)	1.5 (1.5)	1.7 (1.8)	1.7 (N/A)
Pre-tax discount rate	11.3 (11.3)	12.2 (10.2)	11.9 (9.8)	11.3 (11.3)	12.8 (11.3)	10.0 (10.0)	9.3 (8.7)	12.3 (10.3)	12.2 (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 the QNA CGU was £39.6m as at 31 March 2021 (2020: £43.9m). The recoverable amount of this CGU as at 31 March 2021, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £94.3m). 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 2021 was £33.0m (2020: £36.6m). The recoverable amount of this CGU as at 31 March 2021, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £92.7m). 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.

Target Systems
The carrying value of the goodwill for the Target Systems CGU as at 31 March 2021 was £24.3m (2020: £24.2m). The recoverable amount of this CGU as at 31 March 2021, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £100.2m). 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.

Germany
The carrying value of the goodwill for the Germany CGU as at 31 March 2021 was £2.7m (2020: £28.7m). The reduction results from an impairment of £25.4m in the year following a reduction in the value in use, calculated using the assumptions noted above. Our German operations performed below expectations for orders, revenue, profit and cash flow in the year with some key contract losses during the year. These contract losses have a knock-on impact for future years' profitability and cash flow and hence a further impairment (following on from a £4.3m impairment in the prior year) is required. Following a detailed review of the business's current pipeline and assessing numerous other variables, an impairment of £25.4m has been recognised in the current year. 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 (all of which are plausible outcomes) would have increased the impairment charge by £5.1m, £3.9m and £20.4m respectively. Such a level of impairment would fully erode the residual carrying value of goodwill and require impairment of an element of the Germany CGU's £29.5m carrying value of acquisition-related intangible assets.

Inzpire

The carrying value of the goodwill for the Inzpire CGU as at 31 March 2021 was £11.7m (2020: £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 £1.0m would not cause the net operating assets to exceed their recoverable amount.

Naimuri

The carrying value of the goodwill for the Naimuri CGU as at 31 March 2021 was £14.8m (2020: nil). 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.

15. 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	**2021**	2020
Total market value of assets – see following table for analysis by category of asset	2,071.8	1,912.3
Present value of Scheme liabilities	(1,857.5)	(1,602.6)
Net pension asset before deferred tax	**214.3**	**309.7**
Deferred tax liability	(45.5)	(63.8)
Net pension asset after deferred tax	**168.8**	**245.9**

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	**2021**	2020
Net finance income	7.1	6.5
Administrative expenses	(1.3)	(1.2)
Total net income recognised in the income statement (gross of deferred tax)	**5.8**	**5.3**

Movement in the net pension asset

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

All figures in £ million	**2021**	2020
Opening net pension asset	309.7	259.1
Net finance income	7.1	6.5
Net actuarial (loss)/gain	(104.1)	39.8
Administration expenses	(1.3)	(1.2)
Past service cost	-	-
Contributions by the employer	2.9	5.5
Closing net pension asset	**214.3**	**309.7**

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	**2021**			2020		
	Quoted	**Not quoted in an active market**	**Total**	Quoted	Not quoted in an active market	Total
Equities	140.2	47.4	187.6	113.5	47.3	160.8
Liability Driven Investment	362.3	-	362.3	347.5	-	347.5
Asset backed securities	455.6	-	455.6	465.0	-	465.0
Alternative bonds	254.8	-	254.8	215.3	-	215.3
Corporate bonds	-	98.0	98.0	-	40.5	40.5
Property fund	-	76.6	76.6	-	126.5	126.5
Cash and cash equivalents	-	49.3	49.3	-	15.8	15.8
Insurance buy-in policy	-	588.0	588.0	-	546.0	546.0
Derivatives	-	(0.4)	(0.4)	-	(5.1)	(5.1)
Total market value of scheme assets	**1,212.9**	**858.9**	**2,071.8**	**1,141.3**	**771.0**	**1,912.3**

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:

	2021	2020
Discount rate applied to Scheme liabilities	2.10%	2.30%
CPI inflation assumption	2.60%	1.90%
Assumed life expectancies in years:		
Future male pensioners (currently aged 60)	86.7	87.4
Future female pensioners (currently aged 60)	88.6	89.5
Future male pensioners (currently aged 40)	88.4	88.9
Future female pensioners (currently aged 40)	90.7	91.0

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, because of the timescale covered, may not necessarily be borne out in practice. It is important to note that these assumptions are long term and, in the case of the discount rate and the inflation rate, are measured by reference to external market indicators. The discount rate is based on observable yields on corporate bonds but there is no direct, observable market rate for CPI. A 'market approach' to deriving CPI involves adjusting a market-based RPI rate downward by an 'inflation risk premium' and an RPI-CPI adjustment factor (determined from relevant market yield curves). This market-based approach is required by IAS 19 and results in a CPI inflation rate significantly in excess of the Bank of England long term target and also in excess of a consensus view of CPI (based on surveys of economists). However, adopting an economic consensus approach to setting CPI inflation is not acceptable under accounting standards. Noting that an economic consensus view may be a more likely outcome than a market-based approach (which is currently impacted by significant uncertainty in respect of the UK Government's RPI reform) the table below sets out what the Scheme liability and net surplus would be if calculated using CPI inflation rates of 2.0% and 2.2%

Present value of Scheme liabilities and net pension asset if calculated using different CPI inflation assumptions

All figures in £ million	**CPI 2.0%**	CPI 2.2%
Total market value of assets	2,071.8	2,071.8
Present value of Scheme liabilities	(1,662.6)	(1,726.6)
Net pension asset (before deferred tax)	**409.2**	**345.2**

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 £33m	Decrease/increase by £11m
Rate of inflation	Increase/decrease by 0.1%	Increase/decrease by £32m	Increase/decrease by £8m
Life expectancy	Increase by one year	Increase by £62m	Decrease by £42m

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 2021 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 £76.6m, the unquoted corporate bonds of £98.0m and the unquoted equities of £47.4m are the assets with most uncertainty as to valuation as at 31 March 2021.

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.

16. 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 2021 are 5,020,832 shares (2020: 6,123,406 shares). In the year ended 31 March 2021 the Group granted/awarded 7.7m new share-based awards to employees (2020: 1.0m).

17. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £31.6m at 31 March 2021 (2020: £40.4m) 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.

18. Related party transactions with equity accounted investments
During the year there were sales to associates and joint ventures of £6.0m (2020: £5.7m). At the year end there were outstanding receivables from associates and joint ventures of £1.4m (2020: £2.1m).

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

All figures in £ million	**2021**	2020
Total contracted	33.0	32.0

Capital commitments at 31 March 2021 include £25.3m (2020: £19.1m) 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 7
Underlying profit before/after tax	Profit before/after tax as adjusted to exclude 'specific adjusting items'	Note 3
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 8
Underlying basic and diluted EPS	Basic and diluted earnings per share as adjusted to exclude 'specific adjusting items'	Note 9
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 10
Underlying operating cash conversion or cash conversion ratio	The ratio of underlying net cash flow from operations to underlying operating profit	Note 10
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 10
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, derivative financial instruments and finance lease assets/liabilities	Note 11
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; transaction and integration costs in respect of business acquisitions; tax impact of the preceding items and significant non-recurring deferred tax movements	Note 3