QinetiQ

QinetiQ Group plc
Annual Report and Accounts 2009

Delivering customer-focused solutions

QINETIQ GROUP PLC

ANNUAL
REPORT AND ACCOUNTS

31 MARCH 2009

COMPANY N°: 4586941

GRAHAM LOVE
CEO

[redacted].

A year of progress and delivery

QinetiQ is a leading international provider of technology-based services and solutions to the defence, security and related markets.

We develop and deliver services and solutions for government organisations, predominantly in the UK and US, including defence departments, intelligence services and security agencies. In addition, we provide technology insertion and consultancy services to commercial and industrial customers around the world.

We operate principally in the UK and North America and have recently entered the Australian defence consulting market.

2009 Highlights including statutory results

- **Group revenue up 18% to £1,617.3m (2008: £1,366.0m) driven by organic growth[1] of 7%**
- **Underlying operating profit up 22% to £155.0m (2008: £127.0m)**
- **Operating profit up to £131.5m (2008: £76.4m)**
- **Underlying operating margin increased by 30bps to 9.6% (2008: 9.3%)**
- **Profit before tax up to £114.0m (2008: £51.4m)**
- **Strong underlying operating cash conversion of 105% (2008: 77%)**
- **Underlying earnings per share up 18.7% to 15.9p (2008: 13.4p)**
- **Proposed final dividend per share up by 11.3% to 3.25p per share (2008: 2.92p per share)**
- **Order intake in the period up 25% to £1,596.0m (2008: £1,277.1m) providing enhanced backlog.**

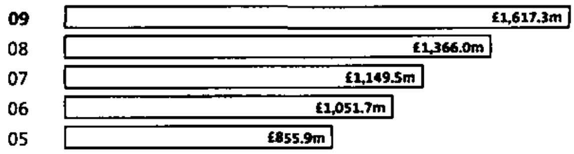
(1) Organic growth is calculated at constant foreign exchange rates, adjusting the comparatives to incorporate the results of acquired entities for the same duration of ownership as the current period. See Glossary section on page 111 for definitions of Non GAAP terms used throughout this report. Underlying financial measures are presented as the Board believes these provide a better representation of the Group's long-term performance trends.

On the cover

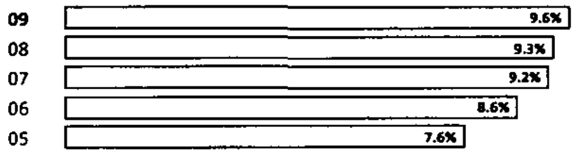
QinetiQ colleagues within the Consulting sector involved in the Government e-Borders programme.

This report is available online at www.QinetiQ.com

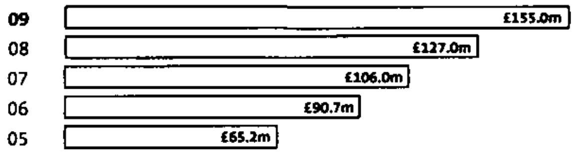
Revenue £1,617.3m



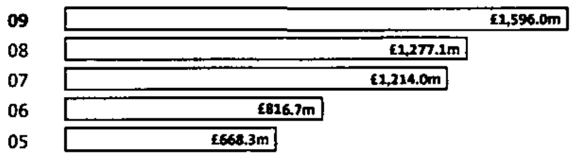
Underlying operating profit margin 9.6%



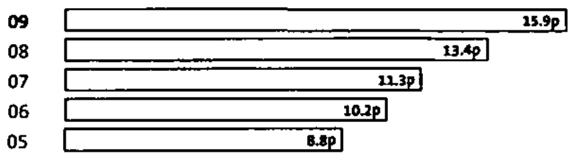
Underlying operating profit £155.0m



Orders £1,596.0m



Underlying EPS 15.9p



Directors' Report – Business Review

See pages 26-42

Directors' Report – Governance

Financial Statements

Cautionary statement

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

A leading technology-based services and solutions business

Our markets

Defence

QNA/EMEA

Our long-standing involvement with the defence industry has given us a deep understanding of defence requirements and operations. We work with defence organisations across the world delivering technology and innovation to meet the challenges of a changing world.

We provide technology, solutions, services and consultancy to governments and industrial partners.

Our businesses support the military around the world working across land, sea and air environments.

QNA operates in the world's largest defence market with an annual spend of $600bn.

Our UK business has a wealth of understanding and expertise generated from working with the UK MOD. We provide customers with tailored or off-the-shelf advice, technology solutions and services to enable the acquisition and through-life management of military capabilities.

Long-term customer relationships with defence customers worldwide underpin the business.

Highlights during the year included:

- EMEA won a £150m maritime contract, Maritime Strategic Capability Agreement (MSCA)
- Award of £24m contract for Harrier Through-Life Support
- Award of £26m Distributed Synthetic Air Land Training (DSALT) contract by the UK Ministry of Defence
- Enhancement of the three-year $62m contract to train Iraqi pilots with a recent extension to in excess of $100m.

EMEA awarded a £150m Maritime Strategic Capability Agreement by UK MOD to sustain critical capabilities in support of maritime platform programmes

The new £26m Distributed Synthetic Air Land Training contract was awarded in the second half of the year

£24m contract win for Harrier Through-Life support ensuring long-term availability and capability of the fleet

Our focus

We are focused on supporting our customers with technology-based services and solutions, which solve important and complex problems. We use the in-depth technical and domain knowledge of our people to understand and help reduce some of the most complex technical challenges faced by our customers. We seek growth opportunities in our core defence, security and intelligence markets. Our business is organised into two: EMEA, covering activity in Europe, Middle East and Australasia; and QNA, covering North America.

Security and Intelligence

QNA/EMEA

We provide independent security consulting services, managed services and technology solutions to meet the challenges of keeping our customers secure now and in the future.

In North America the business is well-positioned with the largest homeland security agencies including the US Customs Service and Customs & Border Protection and the US Department of Homeland Security. The intelligence and cyber security markets are priorities of the new US Administration.

In the UK the operational requirements of the UK National Security Strategy and counter-terrorism are top Government priorities. We work in close support of governmental organisations responsible for countering terrorism, providing law enforcement and ensuring the integrity of the UK's critical national infrastructure, including the global transportation and logistic supply chain and crucial security requirements.

Highlights during the year included:

- In October 2008 following Government approval, we acquired DTRI, a leading provider of services to the North American defence and security communities.
- US Defense Advanced Research Projects Agency's (DARPA) award of follow-on research contract for the Large Area Coverage Optical Search While Track and Engage (LACOSTE) programme, using a new sensor system to provide tactical surveillance and precision tracking capability.

Energy and Environment

EMEA

We provide innovative technology services and solutions to customers in a range of markets that we collectively refer to as Energy and Environment. Our customers are either organisations involved in the generation and supply of energy or those trying to manage their energy demand and the environmental impact of their business.

The UK Government has recently committed to an 80% reduction in CO_2 emissions by 2050 and introduced the Carbon Reduction Commitment that will incentivise or penalise many medium and large companies depending on how they manage their energy and carbon emissions. In addition, the UK Government is facilitating a new-build programme for nuclear power and is committed to generating 15% of all energy from renewable sources by 2020 and funding research into commercialised Carbon Capture and Storage systems. These political and legislative drivers, coupled with our breadth and depth of technical expertise and our track record in a number of these markets, support our belief that the Energy and Environment markets provide us with a growth opportunity.

Highlights during the year included:

- EMEA secured participation in the European Union's smart fixed wing aircraft joint technology initiative
- Award of a contract from the Energy Technologies Institute to apply aerodynamics expertise to the wind power industry
- QinetiQ's pyrolysis waste processing technology installed on HMS Ocean for trials.

DTRI®
MISSION INTEGRATED SOLUTIONS

NASA is a key customer of QNA's Mission Solutions business

Acquisition of DTRI brings new customer relationships from within the US defence and security communities

EMEA provides aerodynamics expertise to the wind power industry

More on pages 26-31

Building a leading global business

QinetiQ North America
Strengthening our presence

QinetiQ North America has established itself as a major provider of technology-based services and solutions across the United States.

See pages 26-28

Europe, Middle East and Australasia
Building valuable new market positions

EMEA is focused on providing technology services and solutions to the defence, security and energy & environment markets.

Managed Services provides long-term, technology-rich outsourced services to Government and independent accreditation and technical services to Government and industry.

Consulting offers technical advice to customers in the areas of defence, security, transportation, aerospace, energy, environment and safety.

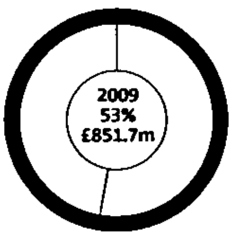
Technology Solutions EMEA delivers capability to customers through integrated solutions, niche sub-systems, products and services. Its business covers manned platforms, autonomous systems and command and information systems.

Ventures is the pipeline through which we manage our portfolio of emerging technologies.

Principal Customers

- UK Ministry of Defence (MOD)
- US Department of Defense (DoD)
- UK National Security Agencies
- Other UK Government agencies
- Australian Department of Defence.

Share of Group revenue*



* including Ventures

Number of employees*

* including Ventures and Corporate

We are a leader in defence and security technology-based services and solutions with over 14,000 employees operating across the world.

Mission Solutions delivers solutions, services and products based on specialised mission knowledge to defence, space, intelligence and homeland security agencies.

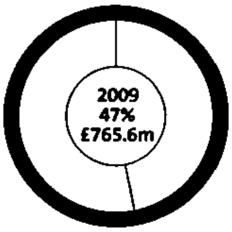
Systems Engineering offers engineering, software development, integration, logistics information management and test and evaluation support for the development, modification, fielding and sustainment of military equipment and systems.

Technology Solutions QNA provides high technology research services and development of defence and security related products to the US Defence, government and the commercial market.

Principal Customers

- US Department of Defense (DoD)
- US Department of Homeland Security (DHS)
- US National Aeronautics and Space Administration (NASA)
- US intelligence and security community.

Share of Group revenue



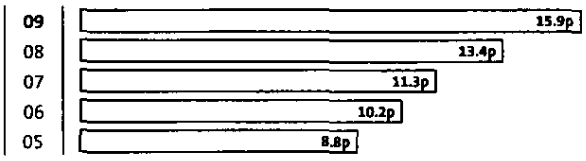
Number of employees

See pages 29-31

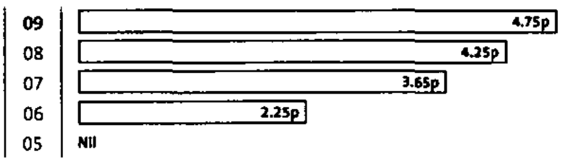
A year of strong performance

"Despite this year being one of the most difficult years for the world economy in living memory, QinetiQ has continued its trajectory of revenue and profit growth and delivered a solid performance. Underlying* profit before tax is up 19%, revenues up 18%, and underlying* earnings per share has increased by 18.7%. To reflect this continued progress in our business the Board is recommending a final dividend of 3.25p per share, giving a total dividend of 4.75p (2008: 4.25p per share)."

Underlying* earnings per share 15.9p



Dividend per share 4.75p



* Underlying financial measures are presented as the Board believes these provide a better representation of the Group's long-term performance trends. See Glossary section on page 111 for definitions of Non GAAP terms used throughout this statement.

The collapse in world banking and credit systems has had a devastating effect on markets everywhere. Yet governments cannot ignore their obligations to protect their people and ensure their citizens are as well provided for as possible in terms of security and the basic necessities of life. Governments must also look to the future and how to position their societies in the relentlessly globalised world in which we now live. Whether they are discharging their fundamental objectives, or investing for the future, technology is the key lever governments reach for. This explains why QinetiQ's business continues to prosper despite the global downturn.

Our progress

Over the past few years QinetiQ has been investing in those segments of our business where we see the strongest demand growing well into the future. Our US business has grown in five years from next to nothing to be on the verge of overtaking our UK business in revenue and profit. This has been achieved by building a first-class US management team and conducting a targeted and disciplined investment campaign aimed at specific hot spots in the enormous US defence and security market. Previous acquisitions in vehicle robotics, mission systems and systems engineering have delivered handsome results in the year just concluded. Our most recent investments have targeted intelligence systems and cyber defences where we foresee very substantial increases in demand as governments' attention switches to more domestic concerns.

The election of President Obama has enabled the reprioritisation of policy in many areas of the US Administration. His Defense Secretary, Robert Gates, has already indicated that major platform programmes such as the F22 fighter and the VH-71 helicopter programmes will be scaled back or cut as expenditure is concentrated instead on "wars we are in today and scenarios for the years ahead." Conversely, President Obama's stimulus package contains $21.5bn additional funding for federal R&D on top of the increases already proposed which themselves had an 11% increase in funds for DARPA, one of QinetiQ's biggest customers for research in the US.

Our markets

In the UK, QinetiQ is the second largest contractor to the MOD, and as such, is more exposed to the overall economic circumstances of the MOD despite our strong position in several sub-sectors of that market. MOD's difficulties in matching its funding to its commitments have been well documented and have led to cutbacks in investment for the future such as research. It is a testament to the strength of QinetiQ's franchise in the more urgent parts of MOD's operations and its portfolio of long-term contracts that EMEA's revenues for the year were sustained with increased underlying profits. The Consulting and Managed Services sectors of EMEA are well placed in their markets and our management team is energetically engaged in reshaping our Technology business to narrow its focus to those product areas for which we have a strong and sustainable route to market in the future.

Since its inception in 2001, QinetiQ has enjoyed consistent growth in revenue, profit and earnings per share. Sustained profits over the longer term is not just a matter of fortunate decision-making but depends on fundamental characteristics that have deep roots within the organisation. QinetiQ is a technology services company whose core modus operandi is to bridge the gap between what a customer needs to achieve and the technology required to deliver that goal. It is the knowledge our people have of customer needs and the underpinning technology that is our discriminator. Our people and the values that unite them are the core of our offering. That is also why our educational outreach programmes with schools, through the STEMNET national Science and Engineering Ambassadors Scheme and other commitments in the corporate responsibility arena, have such ready resonance. It is the special quality and talent of our people that makes QinetiQ a special place to work and enables us to deliver outstanding results for our customers.

The Board

The Board is committed to good and effective governance and to ensuring responsible management in all the Company's operations. This is integral to the trust our customers and shareholders put in us as a business.

Employees worldwide

Over 14,000

A key role of the Board is to look to the future and part of my function is to ensure we have the right balance of skills and expertise around the Board table to face the challenges and opportunities of the world ahead. The Board has also developed comprehensive succession plans designed to equip the Company with the leadership to realise the potential that has now been created. I shall be retiring from the Group at the 2010 AGM and we have recruited Mark Elliott to join the Board from June 2009 with the intention that he shall succeed me as Chairman when I step down. Mark brings a successful record of leadership in technology-based services, particularly IBM, as well as senior non-executive experience in substantial plcs. Peter Fellner, who has been a member of the Board since 2004 and is Chairman of the Remuneration Committee, will be stepping down from the Board at this year's AGM. Peter has been a source of great wisdom during his tenure and I am very grateful for the time and energy he has given the Company. During the year, Doug Webb, who as Chief Financial Officer helped to take QinetiQ through its privatisation and who has been a member of the Board since 2005, resigned to take a similar position with the London Stock Exchange. In August, the Board welcomed David Mellors as a Director and Chief Financial Officer.

In September 2008, the UK Government sold its remaining ordinary equity position in the Company. This completed the disposal process it had first declared eight years earlier, which has resulted in not only the creation of a very successful international company but also the delivery of around £1bn of value for the Government. With this disposal of the final tranche of its equity, the Government's right to nominate a Director expired. Colin Balmer has fulfilled that role and has been a member of the Board since 2003. Given the special understanding that Colin brings of the working of Government and the MOD, the Board has asked Colin to continue serving as a Director until such time as a replacement with equivalent capability can be identified.

Our people

In a very difficult year for the world economy, QinetiQ has turned in another good performance. This is not a happy accident but it is a product of thoughtful positioning, intelligent investment, strong leadership and most importantly, the skill and commitment of our people. I would like to offer a special thanks to them for their efforts in delivering the results presented in this report.

Future outlook

Despite the difficult circumstances, this has been another good year of all-round progress for the Group. We have achieved good organic growth, have continued to transition our UK business and strengthened our offering through targeted acquisitions made during the year. We have improved operating margins, generated strong cash flow and won new contracts in growth markets. These results demonstrate the strength of our operations.

We have started the new financial year with a further strengthening of the Group's presence in North America through the acquisition of Cyveillance, Inc, a provider of online monitoring technology to identify and track data in cyberspace. This acquisition should complete in June 2009, following regulatory approval. The reshaping of the Group for the future also includes a programme of disposals from amongst our large inventory of technologies where others have the market reach to capture more value than we readily can. As part of this, we have completed the part disposal of our investment in Cody Gate Ventures and recently signed a disposal contract for our Underwater Systems Business, together generating £37m of proceeds.

Our confidence in the future prospects of the Group is reflected in today's announced 11.3% increase in the final dividend for the year, subject to the approval of shareholders.

Sir John Chisholm, Chairman

21 May 2009

Actively transforming our business

"This has been another good year of all-round progress for the Group. We have delivered good organic growth, enhanced by targeted acquisitions, improved operating margins and very strong cash generation, and have reorganised our business to focus on technology services and solutions."

Graham Love, Chief Executive Officer
21 May 2009

Our performance

I am delighted to announce a good set of results for the year ended 31 March 2009. This has been another good year of all-round progress for the Group. Our strategy is focused on developing high-end provision of services and solutions in growth areas within the important defence, security and intelligence markets. We have delivered good organic growth, enhanced by targeted acquisitions, improved operating margins and delivered very strong cash generation. These results demonstrate the strength of the Group's operations.

We have continued to deliver against our strategy. We have further strengthened our North American presence through our recent acquisitions and increased our profile in the defence, security and intelligence communities.

We continue to grow the business through quality relationships with our customers in the Government, the military and commercial worlds. This year our results have benefited from the strength of these relationships, resulting in additional, and in some cases new, larger contracts being awarded, building on earlier smaller scale contracts. This reflects our ability to work as a trusted partner and supplier alongside customers including Governments and agencies on large and important projects where delivery is critical.

Now that our US business has reached a critical mass, we can develop synergies between our US and UK operations. There are early examples of technologies and know-how being transferred both ways across the

A year of progress and delivery

Our strategy

Strengthen our North American presence

Maintain and build existing relationships

Further penetrate established defence markets

Apply technologies to commercial markets

Atlantic. Our SPO-7™ and Dragon Runner™ products illustrate our ability to transfer products and services between markets. We intend to focus on four capabilities that we can exploit globally: Autonomy and Robotics; Sensors and Spectrum; Cyber Security and Resilience; and Training and Simulation.

Our Australian businesses are making good progress as they establish the QinetiQ brand in the Asia Pacific region. Our profile within the Australian defence market has increased during the year as we look to broaden our presence into new areas.

Overview of operations

QinetiQ North America (QNA) once again delivered significant organic growth of 15% at constant currency and 42% in reported terms. This performance was supplemented by the DTRI acquisition which enhances our security and defence offerings. Over two thirds of our US business is now focused on the provision of services to a variety of Government customers. The deep domain knowledge of our people, coupled with an understanding of our customers' priorities, enables us to deliver real value, which in turn leads to further opportunities for us. Our Mission Solutions business had an excellent year driven by further new work in the US Department of Homeland Security (DHS) and NASA. Systems Engineering grew strongly and won some important, scalable contracts which position the business well for the future. Technology Solutions has had another year of good organic growth, in addition to last year's exceptional performance. This was fuelled by sales of LAST® Armor but, importantly, making the first shipments of EARS®, the sniper detection system, and Dragon Runner™, our latest Unmanned Ground Vehicle (UGV). The increased use of this technology has been supported by the ongoing campaigns in Iraq and Afghanistan. We expect these products to form a key part of the operations in Afghanistan in the future. QNA achieved a very creditable 10.8% (2008: 11.5%) underlying operating margin, enhanced by the higher margin products, which is at the top end of our US peer group.

EMEA revenue for the year was up 3% in reported terms, although it grew only marginally on an organic basis. This overall result is the consequence of two opposing forces: the contraction in MOD research revenues of some £38m (c.23%) from last year; and the growth in services and solutions. This has been the first complete year that open competition has taken place for MOD research contracts, but the principal effect has been not so much the loss of contracts to competition as the new emphasis on partnerships which result in sharing available income. In addition, the MOD's budgetary pressures have been well publicised resulting in delays in the letting of new supply contracts. Nevertheless, we continue to retain our position as the leading independent provider of research services to MOD and given the decline in this part of the business, we are pleased with the overall performance of the EMEA business which withstood this significant change. The Consulting arm of our business, which focuses on provision of platform-independent advice, grew strongly in the year and has an increasing amount of work outside the traditional MOD customer base, including in the security sector. The transformation of our EMEA business will ensure we are positioned to respond to the change in market dynamics. The Managed Services business has a number of long-term, underpinning, service-based contracts. EMEA importantly secured its first overseas Unmanned Aerial Vehicle (UAV) managed service contract during the period.

As the MOD continues to focus on value for money offerings and current operational requirements, so we continue to evolve our business to meet their demands. We are continuing to keep careful control of the cost base of the EMEA business and have improved the operating margin from 9.8% in the prior period to 10.4%.

We have an ongoing focus in the EMEA business to develop our core offerings to address customer requirements and dispose of a small number of non-core assets. We continue to transform our EMEA business, particularly the technology sectors, Integrated Systems and Applied Technologies, which were merged at the beginning of the new financial year to form Technology Solutions EMEA, ensuring the ongoing transition of this business from research to the provision of technology services and solutions.

In March 2009, an agreement was reached with Coller Capital to dispose of part of QinetiQ's interest in Cody Gate Ventures (CGV) Fund for £13.7m and the release of QinetiQ's prior commitment to contribute a further £3.2m. As a result of this transaction, QinetiQ's allocation of distributions from CGV is now set at an initial level of 25%, with the potential to increase to a maximum of 50%.

What we achieved

We grew organically through the award of new contracts such as those from NASA and the Iraqi flight training contract. In addition, the acquisitions of Spectro in July 2008 and DTRI in October 2008 have augmented existing operations, and are supported by increased brand awareness activity.

Our ability to work as a reliable partner and supplier alongside Government customers and agencies on large and important projects reflects our focus on long-term delivery of mission-critical projects. This was demonstrated through the award of the MSCA and DSALT contracts in the UK and in the US the award of additional contracts by NASA and the DHS.

We continued to build on our position in the defence market internationally, providing further growth opportunities. In addition, we increased revenues by growing in new international markets, including the Australian defence market.

We have taken selected defence technologies into new and developing markets, with particular emphasis on security and intelligence through direct exploitation, venturing and licensing.

Chief Executive Officer's review (continued)

Our future priorities

Our vision remains clear and constant but now more sharply focused for the next stage in our growth. Our strategy also remains consistent but is regularly reviewed and refreshed in the light of both our experience and market developments. We have selected a number of global capability areas for focus. So, how will our strategy evolve for the future?

Our vision

To be recognised internationally as a leading provider of technology-based services and solutions to customers in defence, security and related markets

Our strategy

Build and maintain existing relationships

Build on our powerful defence franchises through increased customer focus, growing our market share in technology insertion, advice and managed services whilst also expanding our presence into related markets where we already have a good footprint such as security and intelligence.

Develop selected global capabilities

Develop global capabilities in selected fields of service and technology.

Provide integrated solutions and service offerings across geographies.

Increase synergies across our business.

Strengthen and develop our international reach and presence

Continue building our business in our home markets of UK, North America and Australia delivering good organic growth supplemented by targeted acquisitions.

Build valuable new market positions in selected additional international markets including the Middle East and the Far East.

Maintain a leading position in key areas of defence and continue expansion into other adjacent markets

Expand relevant international routes to market for defence technology applications.

Further develop security market potential, our energy and environmental offerings and applications to other relevant markets through direct exploitation, venturing and licensing.

Selected global capabilities

Autonomy and Robotics

Technology providing control of unmanned platforms across any domain

Sensors and Spectrum

Capabilities that detect, monitor and track in real-time, making best use of the electro-magnetic spectrum

Training and Simulation

Enhanced training covering technical training and mission rehearsal including experimentation and requirements capture

The Story so far

QinetiQ has made dramatic strides since it was formed and subsequently listed on the London Stock Exchange in 2006. Since then we have transformed a solely UK-based research and development establishment into an international market leader in technology-based solutions primarily for the defence, security and related sectors.

But this is just the beginning.

Financial Years

2005 QinetiQ first enters North American market through acquisition

2006 QinetiQ is listed on the London Stock Exchange and joins the FTSE 250 in February 2006

QinetiQ Group achieves revenues of £1bn

Our KPIs

See page 38-39

The Group delivers its strategy against the high level objectives set out on these pages. We then use a range of financial and non-financial performance indicators to measure the growth and performance of the Group over time.

- **Organic revenue growth**
  Sustainable organic growth, supplemented by growth from major opportunities
- **Proportion of revenue generated by QNA**
  Total revenues in the medium term from QNA, through a combination of organic growth and acquisitions
- **Underlying operating profit margin**
  The percentage return on sales achieved based on underlying operating profit
- **Book to bill ratio**
  The ratio of orders to revenue to identify the rate of prospective growth in the business
- **Funded backlog**
  The value of contractually funded orders providing visibility over future revenues
- **Underlying basic EPS growth**
  The rate at which underlying earnings per share increased over the prior year expressed as a percentage
- **Operating cash conversion**
  The percentage of underlying operating profit converted into underlying operating cash flow (after capital expenditure)
- **Health and safety of employees**
  The number of reported injuries and incidents measured as the number of events in any period per 1,000 people
- **Employee turnover rate**
  Measuring our managers' ability to retain key talent in a competitive market place

Develop, enhance and maintain our people skills and resources

Recruit and retain people with outstanding intellectual capacity, technical skills and personal qualities.

Motivate and recognise innovation in technology and problem solving and excellence in customer service and delivery.

Recognise and promote talent.

Further embed a customer-focused culture throughout our businesses.

Cyber Security and Resilience

Capabilities that assure the integrity and inter-operability of communications, ensuring the secure and resilient exploitation of IT systems

See pages 17-25

Risks

The Group operates primarily in the UK and US defence and security markets and manages the inherent risks of its activities. The Group reviews both the commercial and market risks that it faces in order to protect its financial integrity and reputation.

See pages 40-42

2007 New EMEA region established

Metrix, a joint venture led by QinetiQ, selected as preferred bidder for the UK Government's Defence Training Review (DTR)

2008 QinetiQ enters the Australian defence market

QNA reaches $1bn of revenue

2009 The MOD completes the sale of its shareholding in QinetiQ

QinetiQ acquires Dominion Technology Resources Inc. and Spectro Inc.

Chief Executive Officer's review (continued)

Overview of operations (continued)

In North America, QNA is very focused on resilient markets. Our services businesses can capitalise further on the positions we have and see defence, security, intelligence and cyber security as particularly attractive markets. Our recent acquisitions put us in a good position to establish ourselves as a leading provider in these fields. We believe we are well placed to respond to the priorities of the new US Administration and position our QNA business for sustainable double-digit revenue growth and double-digit operating margin.

In EMEA, we continue to face a declining MOD research budget and expect this to continue into 2010, albeit research only represents 15% of EMEA revenues. The increasing trend towards partnering will help us defend our market share although this results in the passing through of some value to partners. We expect the MOD's budget pressures will continue to affect the awarding of business in general. However, through our proven ability to insert and integrate technology, we are well positioned to respond to new and existing customer needs, particularly where flexibility and value for money are at a premium. We believe that MOD budget pressures will actually play to our core strengths of extending the life and capability of existing equipment as a more cost-effective alternative to buying new equipment and outsourcing services which can be more efficiently carried out in the private sector. As we broaden our exposure in certain security markets and internationally, we see the opportunity to grow EMEA in mid single digits in the medium term, once the research income has stabilised. Meanwhile, we are carefully controlling our cost base to protect margins. Having reorganised the EMEA business into market-facing sectors last year, we plan further increases in efficiency during the coming year by optimising utilisation and reducing duplication. As a result, we expect to reduce our head-count by approximately 400 during the course of the year, generating annualised savings of approximately £14m, resulting in an estimated exceptional cost of c£40m. This programme should complete early in the fourth quarter.

The Defence Training Rationalisation (DTR) programme continued to proceed with our new partner in the Metrix consortium, Sodexo, coming on board at the beginning of January 2009. Planning applications for the new facility have been submitted. The MOD expects to submit DTR to its Main Gate 2 approval process after the summer in 2009. We, and the customer, are still working for a 2010 financial close. During the year, we incurred a further £10.0m of bid costs (2008: £7.1m).

We have started the new financial year with a further strengthening of the Group's presence in North America through the acquisition of Cyveillance, Inc, a provider of online monitoring technology to identify and track data in cyberspace. This acquisition should complete, following regulatory approval, in June 2009. This reshaping of the Group for the future includes a programme of disposals from amongst our inventory of technologies where others have the market reach to capture more value than we readily can. As part of this, we have signed a disposal contract for our Underwater Systems Business, subject to regulatory approval, which will generate £23.5m of proceeds.

Our strategic vision

As we move into the next phase of growth we will continue to develop the key strands of our strategy driving a further round of internationally-based development.

We anticipate further collaboration between our businesses, extending our geographical reach, deepening our penetration of selected target markets and building the QinetiQ brand internationally in services, products and solutions.

As a result of the successful execution of these strategies and the delivery of substantial, real growth over the past five years, the time has come for us to 'raise the bar' in certain areas and move to the next stage of development. Accordingly, where appropriate, we have expanded our horizons to take advantage of new emerging opportunities in an international context and, consequently, we have refreshed and refined our Group strategies.

Our principal Group strategies for the next stage of our development are to:

Build and maintain existing relationships

Our focus for the future is on addressing real problems which are critical to our customers' success and which need innovative, value for money solutions. Our intimate understanding of the challenges faced by our customers and the environment in which we operate, together with the strength of our relationships with them, are key to our successful growth in the future.

As a Group we have a long established position in the UK market serving the UK MOD and over the past five years have also built a substantial market position in the US as a supplier of solutions and services to the US Department of Defense and the Department of Homeland Security as well as other government agencies. We also work closely with other major industrial companies, sometimes as a subcontractor and sometimes as a prime, to deliver tangible solutions to our end customers.

Our ability to work as a reliable partner and supplier alongside Government customers and agencies on a wide variety of key projects reflects the strength of these long-term relationships.

Develop selected global capabilities

We will continue to develop global capabilities which can exploit synergies in different countries to address selected world markets.

Our robotics business in QNA has illustrated the potential of this approach with early research contracts leading to the creation of a successful product range which meets real customer needs across a range of geographies and applications.

Historically, we have developed expertise across a broad spectrum but, as we move forward, we will also build a series of closely integrated capabilities in which we have world-leading skills and market potential.

The initial priorities include:

- Autonomy and Robotics – We are pioneers in the development of unmanned air systems and a world leader in military robotics. This is a growing market for the future as the demand for both products and services is likely to increase in this field.
- Sensors and Spectrum – We can help customers determine whether incorporating or improving sensor technology is the right solution for them. With advances in technology, the role which both electromagnetic and acoustic sensors can play in their spectra is key.
- Training and Simulation – We can harness the power of simulation to support decision-making and training at all levels, from concept development to in-service support. The cost of live exercises and training can be significant for customers – finding effective ways to train and provide a mission-ready team is crucial.
- Cyber Security and Resilience – Our experience in the security field enables us to develop products and services that address the challenges posed by the need for improved digital security.

In each of these areas we will use our international reach to build global capabilities focusing on the delivery of high value added solutions.

To facilitate these developments we are making some changes in our organisational structure. We are aligning our capability and sector structures, enabling greater cross-working of teams to develop opportunities within these capability areas. We are setting up working groups to exploit the market opportunities and strengthen our international capability and reach. This will drive international, Group-wide collaboration on bigger programmes. The key is to give the organisation the flexibility and agility to allow it to continuously adapt to market developments. The merger of our UK Integrated Systems and Applied Technologies businesses to form Technology Solutions EMEA will help in this, giving greater critical mass and putting a flatter, more responsive and cost effective, customer-facing structure in place.

Strengthen and develop our international reach and presence

We have successfully built QNA into a major US player which now represents some 47% of our worldwide revenues. Most recently, we have also built QinetiQ Australia into a business of around 300 employees. We will continue to build our business in these geographies and also across other international markets where we believe opportunities exist.

We will further develop our Mission Solutions business organically and through selected acquisitions, building on existing customer relationships and by moving progressively to meet the growing requirements of the cyber security market, as illustrated by the recent announcement of our acquisition of Cyveillance, Inc. We plan to grow our Systems Engineering business with an emphasis on organic development of established customer relationships. In QNA we will build on the strong organic growth achieved in Technology Solutions and our market-leading positions especially in robotics. QNA also provides an additional channel to market for selected UK capabilities which extend our international reach. We will continue to seek out markets which we can provide fit for purpose technology-based offerings which exploit market trends and are the focus of Government budgetary investment. We are extracting greater synergies across these businesses as we seek to integrate our offering internationally.

In EMEA we will continue to build our successful managed services and consultancy businesses in the UK and other existing markets not only with DTR, currently the largest single contract opportunity in the defence market, but also in the growing security and energy and environment markets and other adjacent markets. With an increasing focus on the development of our technology businesses in the provision not only of research but further added value exploitation opportunities, we are focused on establishing leading positions in key sectors where the Group has or can develop good routes to market.

The merger of our Integrated Systems and Applied Technologies businesses in EMEA forming the Technology Solutions business creates greater critical mass and will assist in the development of large-scale Group-wide collaborative programmes.

Outside our home markets in the UK, US and Australia, we will seek to exploit opportunities to develop our business selectively in other international markets.

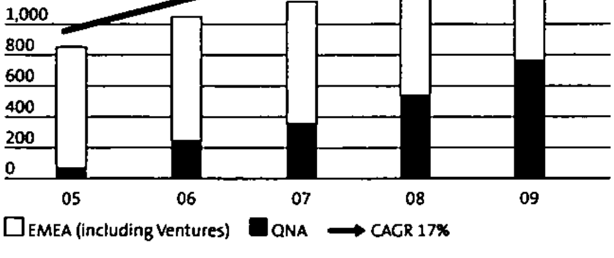
Maintain a leading position in key areas of defence and continue expansion into other adjacent markets

Through the Long Term Partnering Agreement (LTPA) managed services contract we benefit from in-depth knowledge of a diverse customer and contract base, comprising multiple MOD customers in the UK, as well as a broad range of commercial customers. Our expansion in Australia has been a key part of the EMEA strategy to build valuable new market positions and our business is focused on leveraging its existing relationships with the Australian Department of Defence. In North America, QNA has an important position within the world's largest defence and security market.

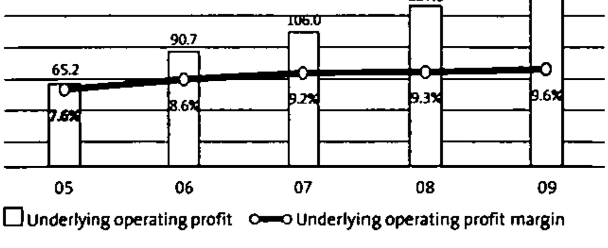
Our agility and flexibility are key attributes which are highly valued by our customers. In the Global War on Terror we position ourselves to assist our customers in the armed forces and Government agencies to deploy rapidly, where required, to be mobile, inter-operable with allies and to equip them with the most modern technological systems.

In the UK we have a market-leading position in the MOD research programme. We also align ourselves closely with our defence customers' needs and are well positioned to respond to the growing emphasis on the rapid application and insertion of technology to adapt and upgrade existing equipment. The Harrier Through-Life Support contract illustrates the benefit that technology insertion can provide. Under this contract we provide independent technical services and deliver a multi-functional support programme that underpins through-life management of the platform and provides flexibility and value for money to MOD.

Group revenue (£m) five-year trend



Group underlying operating profit (£m) five-year trend



Chief Executive Officer's review (continued)

We have taken selected defence technologies into new and developing markets, with particular emphasis on security and intelligence, through direct exploitation, venturing and licensing. As a technology company which is platform independent, we are able to select the best technology or technologies to address the challenge, relevant to the customer need.

Develop, enhance and maintain our people skills and resources

Our people are at the heart of our business and our future success depends on their creativity, motivation and commitment, their ability to identify customer needs and to exceed expectations in delivering competitive advantage.

We have an outstanding and highly qualified team across a broad spectrum of disciplines including many internationally acknowledged specialists. As a Group we are also one of the best accredited in the defence and security sector with some 95% of UK employees carrying MOD and national security clearances and over 75% of our US employees having security clearance within the DoD, DHS, US NASA and the US intelligence agencies.

We will continue to retain and recruit those with the intellectual capacity, technical and sector knowledge and the personal and professional qualities to maintain our competitive edge in a global context.

We encourage innovation and invest in the development of technical and management skills as well as recognising and promoting talent. Apart from technical excellence which plays to our traditional strengths, we are developing an increasingly customer-focused culture which is vital to our international competitiveness and which we intend to embed with equal rigour across our businesses.

Our markets

QinetiQ offers a broad portfolio of products, services and solutions which improves our competitive position and provides resilience against market changes. We offer solutions across a wide range of platforms and through our technology insertion capability are flexible and responsive to changes within the marketplace.

The majority of the Group's revenue arises from military, government and national security customers worldwide including the UK Ministry of Defence (MOD), US Department of Defense (DoD), Department of Homeland Security (DHS), National Aeronautics and Space Administration (NASA), Australian Department of Defence, UK National Security Agencies, the US security intelligence community and other UK Government agencies.

Historically, these customers have been largely resilient to the economic cycle and provide the Group with a long-term growth model with defensive characteristics. In addition, the nature of our long-term contracts provides strong visibility.

We believe we are well positioned with a quality and broad customer base across the markets in which we operate.

QNA

QNA's key markets are defence, security and intelligence.

With macro-economic forces impacting on the business climate, the US Government's discretionary share of the national budget is likely to remain flat with only a minimal increase over its five-year budgeting cycle.

However, QNA's targeted defence, security and intelligence market sectors and its focus on high priority, critical areas means our available market is in the most robust segments. QNA is well positioned to compete successfully in this dynamic marketplace and capture increased market share.

Our main lines of current business are relatively unaffected by the major federal and national issues. A portion of our clients are likely to be positively impacted by shifting budget priorities. Most are not expected to be impacted by programme deletions and revised schedules. QNA is structured to succeed in many of the priority sectors such as: Irregular Warfare, Cyber Security, Unmanned Vehicles and Special Operations support.

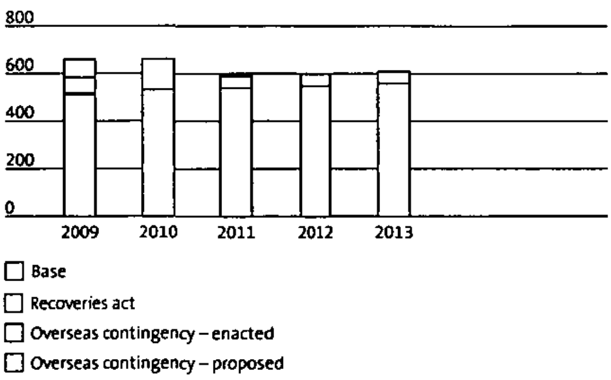
Key components of the QNA growth strategy are strong performance on existing contracts and continuing to build the QNA brand as a technology leader and agile, responsive partner. QNA is primarily a services company that has significant technology advantages. These include the ability to develop, integrate and support technologies demanded by our customers. This ability also enables us to seek opportunities in new and adjacent customer domains.

QNA seeks to leverage both the QNA and EMEA developed technologies for accelerated growth and capitalise on new products which advance our reputation and service offerings. We invest to augment QNA's skills and build contract vehicles and qualifications to allow for continued success in targeted defence and security markets. We also strive to remain a market leader in the recruitment and retention of personnel in the highly competitive US marketplace. We plan to continue our strategic communications campaigns and branding efforts to further strengthen our customer awareness.

QNA organic growth will be supplemented by carefully targeted acquisitions where these align with our strategy.

Because QNA has been built as a result of strategically targeted acquisitions, it is structured for continued growth and is located in some of the best performing portions of the US federal defence and security markets. It has a strong backlog of clients, an extensive portfolio of contracts and continues to grow market share.

National defence spending (budget authority – current $bn)



Source: US Government Budget 2010

Our service businesses typically see c75% of the next year's revenue in funded backlog or 'nearly assured' funding from other contract backlogs. We have demonstrated success in converting additional unfunded backlog as well as utilising our General Services Administration (GSA) schedules and Indefinite Delivery Indefinite Quantity (IDIQ) contract ceiling into leading 12-month funded task orders. We have a high degree of success in recompeting our current contracts.

QNA has developed market penetration plans for expanding presence in existing markets and in some cases entering new markets. Its focus remains on key technologies and mission priorities that fulfil the demands of clients in the defence and security markets. Areas of focus are our global capabilities and specifically for QNA: Unmanned Systems, Logistics, Contract R&D, Armour, IT and Mission Software Solutions and Energy/Environment.

US Defence

The US defence market is by far the world's largest accessible market for QinetiQ. At the macro level, the Global War on Terror funding is expected to continue to decline over the coming years and there are also likely to be some delays and in some instances cancellations of programmes. However, the sectors of the discretionary budget that QNA targets (~$275bn) are expected to see continued growth. Also in our addressable market for DoD (~$200bn) we project growth of 3-5% per year. Within this, the Operations and Maintenance (O&M) portion of the defence budget is expected to continue growth. This is a key source of QNA revenue.

As Iraq is stabilised and the US withdraws, it is anticipated that there will be a build up in Afghanistan. This may affect QNA's DoD business as a result of potential reductions or alterations in Unmanned Ground Vehicle (UGV) demand. However, we expect this to be offset by increases in demand in Afghanistan, force recapitalisation and international sales. The ongoing military operations will also drive demand for logistics, and other restocking activities that continue to be important revenue sources for QNA.

US Security and Intelligence

QNA is well placed to drive growth in adjacent non-defence markets such as security and counter-terrorism.

Over the next few years, intelligence community budgets are expected to increase, albeit at a slower rate than previously. Our DHS contracts should continue to see robust funding. The NASA programmes QNA supports all have projected budget growth.

QNA provides services in the federal IT market which have been subject to significant budget pressures but QNA's offerings in this market are highly technical, built on a strong foundation of excellent customer relationships and a strong cadre of security cleared employees, ensuring that this business is well placed within the more robust, high-end sector of this marketplace.

An important new market initiative for QNA is the cyber security market. The funding in this area is substantial ($6bn per year) and growing. QNA is positioned to compete successfully in this emerging market due to its focused acquisition strategy and established positions in key customer organisations.

EMEA

EMEA's primary markets are defence, security and intelligence, and energy and environment. A key part of our strategy over the last few years has been to reposition the business to benefit from MOD's need for support as they reshape major programmes.

In particular, our Technology Solutions business, formed by the merger of Integrated Systems and Applied Technologies, has increasingly focused on opportunities to combine our deep domain knowledge with our ability to identify and integrate technologies into optimised, value for money solutions and services. Whilst technologies originating from within the business very often form part of these solutions, our platform independence allows us to draw in the appropriate components from wherever they sit in the supply chain, utilising our extensive network of partnerships with universities and SMEs, and integrating these into the most appropriate solution to meet our customers' requirements. Whilst the results of our technology business continue to be affected in the short term by the sharp decline in MOD research revenues, we are confident that in the medium term our strategy will give us a strong competitive position because of our ability to extend the life and improve the capability of existing equipment when new equipment programmes become unaffordable. We also expect to see increasing international collaboration leading to a growth in export sales from our technology business, particularly into the US through QNA.

The Consulting business grew strongly during the year thanks, in part, to a successful diversification out of its core defence markets by growing new revenue in the security, energy and environment domains. We expect this strategy to continue to deliver growth in the future.

Managed Services focuses on strategic opportunities, mainly in the defence domain, where the application of technology and deep domain knowledge allows us to offer a superior, value for money service to our customers. This business revolves around the winning and delivering of a relatively small number of large contracts. We remain confident this business can grow in the current climate, where knowledgeable responsive and affordable support services are increasingly key elements in maintaining our defence customers' operational capabilities.

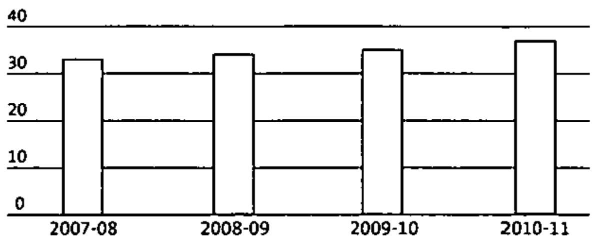
UK Defence

The UK Government completed its latest Comprehensive Spending Review in late 2007 covering the next three years. It concluded that the defence budget would grow at an average of 1.5% per annum in real terms over three years. However, with significant current campaigns MOD has confirmed that budgets are under pressure and there have been delays in letting contracts. With budgets under pressure, MOD is looking for opportunities to deliver existing programmes more cost effectively and QinetiQ is well placed for such opportunities.

Urgent Operational Requirements (UORs) for current operations have continued at a high level with the focus now firmly on Afghanistan. EMEA has played an active role in fulfilling the need to be responsive to the UOR programme and the needs of MOD's technology insertion programme as well as providing advice to enhance existing military capabilities.

In December, MOD announced the conclusions of its Equipment Examination resulting in a delay to several main programmes, none of which significantly impact upon us. In addition, it announced further enhancements to helicopter programmes with confirmation of the Future Lynx and engine upgrades to in-service Lynx helicopters. This has increased opportunities for provision of advice into MOD on how to cope with emerging capability gaps and technology insertion as a solution to some of those gaps.

UK actual and projected defence spending (£bn)



Source: UK Ministry of Defence – Defence plan published in June 2008

Chief Executive Officer's review (continued)

MOD's research budget fell in the current year and this trend is likely to continue this year. We are adjusting our business model to reflect these changes. For example, we are undertaking more partnering and looking at other routes to market which will position us well in the medium to long term. The MOD has instituted a number of reforms to its delivery of research, specifically the establishment of the Centre for Defence Enterprise, the launch of the updated Defence Technology Plan and the formation of Centres of Excellence for Defence Technology (CDT). These CDTs bring together the best from academia, industry and the MOD. One of the first of these is the Weapons Technology Centre, led by QinetiQ as an integral part of the Team Complex Weapons consortium. In February this year, MOD announced five Capability Visions to demonstrate how technology can be harnessed to solve current problems. We are well placed to play a part in all five of these. MOD is continuing to reform the Defence Equipment and Support organisation through implementation of the PACE (Performance, Agility, Confidence, Efficiency) programme. PACE includes both up-skilling and outsourcing, both being activities where we can play a part.

MOD continues to utilise partnering and outsourcing. MOD's award to EMEA of the Maritime Strategic Capability Agreement illustrates the partnering role that we can play. The Long Term Partnering Agreement between the MOD and ourselves is now into its second five-year term and the Defence Training Rationalisation is expected to reach financial close in 2010.

In responding to the changing challenges of the UK defence market, we continue to pay close attention to our costs and our skills base, ensuring that both are appropriate for the environment in which we work and that profitability and productivity can be sustained and improved wherever possible.

Australian Defence

As set out in the Australian White Paper issued in May 2009, the Australian defence budget is anticipated to grow at an average of 3% per year until 2017/18. The size of the 2009/10 budget is AUS$26.6bn, which is 2% of Australia's GDP, up from 1.8% in 2008/09.

The QinetiQ Australia group provides solutions advice and engineering services into the Australian defence market where the military demands are very similar to those of the US and the UK.

Other Defence Markets

We provide services across a range of international defence markets. As these markets develop, demand is becoming more focused on procuring bespoke technology solutions to retain the life of a platform or capability. Our services are becoming increasingly relevant, for example, to customers in India and the Middle East.

UK Security and Intelligence

Events in recent years have highlighted the requirement for sophisticated security planning, well-rehearsed operational arrangements and vital equipment capability. The interconnected world increasingly requires an agile, highly responsive and integrated approach to security that is optimised for both national and international requirements. This comprehensive approach must be capable of dealing with a wide range of potential threats.

Our contribution to national and international security is focused on strategic advice and the delivery of technology-based services and solutions to enhance national and global stability. The requirements of the UK National Security Strategy, issued in March 2008, are our focus. We work in close support with all of the governmental organisations responsible for countering terrorism, providing law enforcement and ensuring the integrity of the UK's critical national infrastructure, especially the global transportation and logistic supply chains and crucial energy security requirements. We also provide security capability and services in support of major events and facilities.

Our objective is to provide our customers with leading-edge security capability. With decades of experience in solving security problems for both Government and commercial customers, our expertise and products range across all aspects of the sophisticated and integrated security response that is required by our operational customers.

Energy & Environment

Fears over the risks and impact of climate change coupled with concerns over the availability of reliable energy supplies and the cost of energy have all led to energy and environmental issues being at the top of Government and company agendas. Economic development is dependent on energy and, despite the current economic downturn, the longer-term forecasts are for a significant increase in global energy consumption over the next two decades. Governments worldwide, including the UK, are grappling with how to provide more energy that is reliable and affordable whilst being mindful of the risks created by climate change.

Whilst nearly every organisation has a potential need for solutions to its energy or environmental challenges, our primary focus is in four key market sectors:

Oil and Gas – where by applying our breadth and depth of technical expertise in areas such as materials, sensors and communications, we are able to provide oil companies with the means of enhancing the recovery of hydrocarbons from increasingly difficult and inaccessible locations. The global spend on Exploration and Production sensors and systems was estimated at $1bn in 2008.

Renewables – where our skills in key disciplines such as hydrodynamics, aerodynamics, radar and materials help our customers deploy renewable energy systems and maximise their efficiency. In the UK alone, it is estimated that in order to reach the Government's target of 15% of energy generated from renewable sources by 2020, somewhere in the region of 6,000 new offshore wind turbines will be required.

Lower Carbon Vehicles – where our defence experience in batteries, fuel cells, vehicle drive trains and power management systems enables us to work with customers in the automotive sector as they adapt to meet legislative requirements for vehicle emissions. Transport is responsible for 22% of the UK's CO_2 emissions and is a sector where faster technological developments are required in order to offset the emissions from the forecast rise in traffic volumes.

Civil Aerospace – where our knowledge in materials, structures, aerodynamics, fuels and gas turbines enables us to work with aircraft manufacturers and their supply chains to make aviation more sustainable. The ongoing debate on the third runway at Heathrow highlights the environmental pressures that the industry is under at the moment and we are well placed to help introduce new and radically green technologies into the next generation of aircraft.

Graham Love, Chief Executive Officer

21 May 2009

Our global capabilities in action

The following pages illustrate some of our global capabilities on which we will focus moving forward. We believe these are areas for potential future growth.

Autonomy and Robotics

Sensors and Spectrum

Training and Simulation

Cyber Security and Resilience

Autonomy and Robotics
Responsive solutions to challenging problems

Business Review

Governance

Financial Statements

The Opportunity

Autonomous or unmanned tools such as robots perform dangerous missions previously undertaken by people.

QinetiQ plays an important role in many research, solution development and operational programmes for future unmanned systems across land, air and sea domains. Specifically, we are involved in the UK MOD's research projects in unmanned aerial vehicles (UAV) and unmanned ground vehicles (UGV). We are also a partner with BAE Systems in the Mantis programme where we have provided semi-automatic sea vehicles to the Royal Navy. In addition to developing our own unmanned platforms including the Zephyr high altitude long endurance UAV and the TALON® family of ground robots, we also provide managed UAV services.

The TALON® robot has an impressive track record in the military but the application for robots is also growing outside of the military context. In the UK, civil agencies such as Network Rail, the Highways Agency and Transport for London, in collaboration with the London Fire Brigade, are using our robots to help fight fires and support other major incidents such as chemical contamination where there is considerable danger to the rescue services.

While the use of unmanned systems for defence and security is expanding rapidly worldwide, the civil market has not yet been exploited. Independent studies estimate that the civil and commercial UAV market in Europe alone is estimated to be worth about €1.2bn over the next ten years. The future uses for unmanned systems are extensive. In partnership with Aberystwyth University, we have recently completed the UK's first flight of a UAV for agricultural monitoring. We are building on programmes such as this to broaden the routine application of UAVs to provide civil aerial services to the security, energy and environment markets.

A QinetiQ Solution

The latest generation of military robots – Dragon Runner™

The provision of portable, adaptable and robust equipment is vital in supporting military operations. With threats becoming more changeable and serious, adaptability of equipment is essential.

QNA is one of the world's leading suppliers of military robots. Dragon Runner™, its latest model, is small enough to fit in a small rucksack and weighs less than 20lbs. The unit can be carried by one person in a standard-issue pack. It can be used in urban, mountainous or rural environments, operating in sewers, drainpipes, caves and courtyards. Dragon Runner™ can climb stairs, open doors, provide critical reconnaissance information and disarm improvised electronic devices – all while protecting troops who control the robot from a safe distance.

Sensors and Spectrum
Protecting our communities and assets

The Opportunity

A key requirement of any Government is to protect its people against threats. Sensors are increasingly playing a role to detect and deter potential threats. Two areas of focus within the physical security area are: the screening of mass transit locations where significant numbers of people are present; and the protection of critical national infrastructure which is often geographically distributed eg oil and gas pipelines.

The key technical challenge is to obtain covert information about a potential threat and pass this in real-time to the appropriate security personnel who can effect a suitable response.

In mass transit locations, Government authorities are seeking to obtain real-time information about what people may have in their possession. The challenge is to gain this information without having to physically search a person.

Protecting geographically distributed infrastructure is both technically and financially challenging with critical oil and gas pipelines typically extending over kilometres, often buried below open countryside. These assets are subject to both intentional and unintentional threats. The challenge is to provide sufficient advance warning to enable a timely response to an impending threat which may be some distance away from the nearest response team. Conventional sensors are expensive to install which is why the industry is turning to advanced optical sensors. QinetiQ's OptaSense™ System is able to accurately locate and classify potential threats before any damage is done to the pipeline. It is one of the market-leading solutions.

QinetiQ's recent contract with Defence Advanced Research Projects Agency (DARPA) in support of its Large Area Coverage Optical Search While Track and Engage (LACOSTE) programme involves the use of advanced sensors to provide tactical surveillance and precision tracking capabilities.

A QinetiQ Solution

Keeping us safe – SPO-7™

Just one security breach can cost lives. Human-borne explosives are one of the most significant threats for society particularly in locations where large numbers of people pass through each day.

UK and North American authorities wanted real-time stand-off information about what people have in their possession when moving around public places. QinetiQ delivered SPO-7™, the latest in a generation of millimetre wave technology products, providing remote real-time threat detection.

SPO-7™ provides safe stand-off detection for operator safety, fast decision-making and effective crisis management, rapid deployment capability, privacy protection and covert surveillance capability. Public safety and privacy is protected while scanning rates, up to 45 times faster than competing technologies, can occur. The system can be rapidly deployed in a wide range of both permanent and semi-permanent installations, such as mobile checkpoints and building entrances. With increased concern relating to public safety, SPO-7™ has applications in a wide range of markets including the aviation and surface transportation markets.

During the 2008 Presidential elections, the North American Transportation Security Administration used SPO-7™ technology at their national conventions.

Training and Simulation
Preparing for the unknown

The Opportunity

Simulation-enhanced training is emerging as a significant growth area across all defence forces. Current operations are changing rapidly in terms of threats, deployment and coalition partners and the ability to provide targeted training and mission rehearsals is seen as a vital component in achieving success.

QinetiQ harnesses the power of simulation to support decision-making and training at all levels. Being at the forefront of the development of networked simulation, QinetiQ undertakes concept development to in-service support through a range of synthetic environment tools and techniques. These tailored products can be used across all domains including fast jets, helicopters and unmanned air vehicles, maritime and land forces. They encompass specific sensor and weapon systems.

QinetiQ manages a number of state-of-the-art facilities to help customers explore their options and evaluate alternative solutions in a collaborative, real-time, dynamic environment. One such facility is the Portal, an important experimental facility in Farnborough, Hampshire, operated through an alliance with Boeing.

A QinetiQ Solution

Investing in the safety of our armed forces – The Distributed Synthetic Air Land Training (DSALT) contract

Making sure that troops are prepared for combat and ready to take on the challenges of the different terrains and threats that they face is critical.

It is vital that ground and air personnel are able to communicate effectively with each other, especially in fast-moving scenarios. QinetiQ has delivered a synthetic training facility to provide such potentially life-saving pre-deployment training for UK forces before they leave for Afghanistan. This training was recently put on an enhanced footing when QinetiQ was awarded a £26m contract to deliver DSALT for the next four years.

DSALT provides invaluable training for front-line soldiers who act as the eyes and ears for artillery and combat aircraft. In addition, RAF pilots benefit as ground forces get to understand the pilot's perspective of a mission and vice versa. This means that communications between all parties are improved, operations run more smoothly and there is less chance of error.

Cyber Security and Resilience Advanced solutions for the future

The Opportunity

The demands of modern government and the operational imperatives of national, regional and commercial organisations have placed a critical requirement on the extensive use of information technology, including the internet, to enable vital and timely direction, services and support.

QinetiQ applies the science and technologies that are central to the needs of both the wider national security market and the emerging demands of effective cyber security and information assurance. With close relationships with UK and US national security agencies, we are uniquely positioned to provide trusted advice, services and solutions. Our highly qualified and vetted information assurance experts are nationally regarded. They routinely work with customers in public and commercial sectors to establish the most effective security for their operations, information, people and physical assets.

With a range of proven and trusted digital security services, including network guards, penetration testing and digital forensics, QinetiQ provides both virtual and on-site security assessments to the most sensitive security agencies and largest law enforcement organisations. We also provide the UK's most secure hosting environment with 24/7 monitoring and alerting, using managed intrusion detection systems combined with strict access control. Further cyber security capability is offered through our leading expertise in cryptography, to ensure the secure transmission of messages and vital data for protecting the confidentiality of information in a secure end-to-end information infrastructure.

Aligned with the UK's National Security Strategy, QinetiQ has developed a range of capabilities from training to influencing human behaviour to the prevention of intelligence activities through the collation and analysis of large and complex data sources.

QinetiQ North America's Mission Solutions Group specialises in providing intelligence, systems engineering and security services in support of the US Department of Homeland Security. It is focused on developing innovative, technical approaches for the intelligence community, analysing and supporting defence systems; designing, developing and testing aerospace systems and providing a full range of security support services to the US Government.

A QinetiQ Solution

Secure systems for Government – e-Borders

As part of the Trusted Borders consortium led by Raytheon, we are participating in the UK Government's £1bn e-Borders programme, an advanced border transformation programme working to strengthen and modernise border controls. The programme will improve the ability of the UK Border Agency to count passengers into and out of the UK. The e-Borders programme will collect and analyse passenger, service and crew data provided by carriers (air, sea and rail), in respect of all journeys to and from the United Kingdom in advance of their travel, supporting an intelligence-led approach to operating border controls.

Within the programme, QinetiQ is the advisor for security accreditation and human factors. e-Borders is set to be implemented by 2014, when the maintenance phase will commence and will deliver increased security at strategic border sites in the UK – ports, harbours, stations and airports.

An agile and responsive partner

QNA

QNA has established itself as a significant provider of technology-based services and solutions to US defence, security and intelligence communities

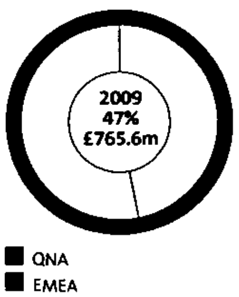
Highlights

- **15% organic revenue growth at constant currency**
- **Services now constitute over two-thirds of QNA's revenue**
- **Strengthening of our position through targeted acquisitions in high growth markets**
- **QinetiQ brand continues to result in larger orders and multi-year awards**
- **Well placed in areas expected to be key priorities of the new US Administration**

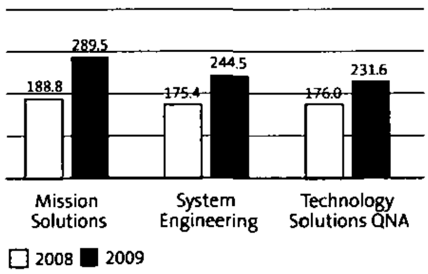
Financial summary*

	2009	2008
Revenue	**£765.6m**	£540.2m
Underlying operating profit	**£83.0m**	£62.1m
Underlying operating profit margin	**10.8%**	11.5%
Orders	**£738.6m**	£607.1m
Book to bill	**1.0:1**	1.1:1
Funded backlog	**£415.0m**	£300.5m

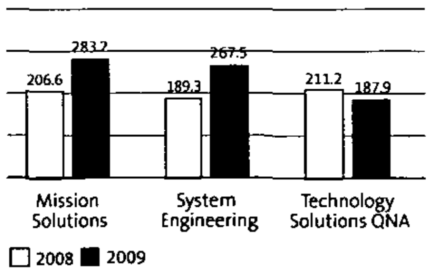
Share of Group revenue



QNA revenues by stream (£m)



QNA orders by stream (£m)



* 2009 average exchange rate was $1.68:£1 (2008: $2.01:£1)

Performance

During the period we experienced particularly strong growth in our North American business, QNA, which reported a 42% increase in reported revenue to £765.6m (2008: £540.2m); 15% of this increase came from organic growth (at constant currency). Organic growth was driven from a variety of new contract wins. These include a contract with NASA, the Iraqi pilot training programme with the US Department of State and a significant increase in customer demand for QNA's armour-related defence products. As QNA has reached critical mass, it is now able to bid and win bigger contracts than its legacy businesses could successfully compete for. Furthermore, focusing on customer priorities and meeting or exceeding customer expectations on delivery leads to further opportunities with existing customers.

Underlying operating profit grew 34% to £83.0m (2008: £62.1m), £12.0m of which was the translational impact of the strengthening US dollar. QNA's margin was 10.8% (2008: 11.5%). The prior year revenue mix included an exceptionally high level of high margin TALON® spares sales associated with the US military's increased 'surge' in Iraq.

Funded orders in the Mission Solutions and Systems Engineering businesses grew strongly in the year. This offset a decrease in Technology Solutions. Coupled with a significant amount of new unfunded orders, Mission Solutions and Systems Engineering carry a healthy level of forward visibility into the new year. The Group does not recognise such unfunded orders into the reported backlog until funding is confirmed but they do provide further visibility of future revenues. QNA's unfunded backlog is $1.5bn (2008: $0.7bn). We would normally expect that the majority of such awards will be converted to funded orders over time.

Acquisitions

In October 2008, the Group completed the acquisition of DTRI. The initial consideration, including transaction costs of $129.8m (£74.2m), will be followed by two further payments on the first and second anniversaries of completion totalling $42.0m (£24.0m). The transaction generated income tax deductions that will be utilisable against the taxable income of QNA providing cash tax benefits to QNA of approximately $60m. DTRI is a leading provider of high-end products and services to the US defence and security communities and became part of the Mission Solutions business.

In July 2008, the Group acquired Spectro Inc. for an initial consideration, including transaction costs, of $12.2m (£6.2m). In addition, there is $1.0m (£0.5m) of deferred consideration payable dependent on future financial performance. Spectro provides instruments and systems for machine condition monitoring by the analysis of fuels and lubricants. The acquisition enhances the Technology Solutions business, providing opportunities to transition certain technologies into products.

Following the year end, we announced the signing of an acquisition agreement with Cyveillance, Inc, a provider of online monitoring technology to identify and track data in cyberspace. The transaction will close upon receipt of appropriate US Government regulatory approval, anticipated in June 2009. The acquisition will be settled for an initial cash consideration of $40m (£27.9m), with a potential deferred consideration of up to $40m (£27.9m) depending on the company's financial performance during the two-year period ended 31 December 2010. This acquisition will become part of the Missions Solutions business.

Mission Solutions – 38% of QNA revenues

The Mission Solutions business delivers services and solutions in a number of key areas requiring specialised customer mission knowledge. Principal customers of this business stream include NASA, the US Department of Defense and Department of Homeland Security, the US General Services Administration (GSA) and a number of agencies in the classified US defence, intelligence and security communities. The multi-year contracts this business competes for are generally unfunded, receiving funding on a periodic (eg annual) basis.

The Mission Solutions business grew organically by 20% this year, driven by its focus on high growth areas within the defence and security communities, homeland security and NASA markets. A key contract win was the five-year $190m NASA Environmental Test and Integration Services (ETIS) which provides engineering and testing support to the Goddard Space Flight Center. In addition, we were awarded a contract by NASA for information management and communication support services at the Kennedy Space Center. This contract is valued at $145m and has a nine-year duration. In addition to its NASA contract wins, Mission Solutions was awarded a number of IT-related task orders by the US Department of Homeland Security and expanded its business to a new customer, the US Department of Agriculture, with a contract valued at $37m over three years for software development services. The business continues to pursue a large number of opportunities and sees a continuing healthy pipeline of business.

The acoustic EARS® family of wearable, sniper detection and gunshot localisation solutions is based on a miniature single integrated acoustic sensor

Performance review – QNA continued

Systems Engineering – 32% of QNA revenues

The Systems Engineering business offers independent support for the procurement, development, modification and fielding of key military and missile defence equipment to US Government agencies, of which the US Department of Defense (DoD) is the prime customer. As with Mission Solutions, multi-year contracts won by this business are generally unfunded, receiving funding on a periodic basis.

Revenue grew organically in the year by 16%. The growth was largely driven by logistics services and software engineering work for US Army customers and from an expansion of training and simulation work for a variety of US Government customers. The Iraqi flight training contract was initially awarded for a three-year period at $62m but has been expanded to in excess of $100m. Other contracts won during the year included technical support to the US Army's fleet of more than 5,000 rotary and fixed wing aircraft, a $65m contract for new work from the US Army for data collection and analysis services in support of military air and ground systems worldwide, and a $27m award for logistics support for the US Marine Corps.

Technology Solutions QNA – 30% of QNA revenues

Technology Solutions provides funded technology research and development services for US defence and security organisations and develops products from its pool of intellectual property.

Organic growth of 7% against a very strong comparator period in 2008 reflects an increased demand for products including LAST® Armor, the EARS® gunshot localisation system, the PADS® precision airdrop system and a continued demand for Unmanned Ground Vehicle (UGV) robots.

Over 2,600 TALON® robots are now deployed around the world making QinetiQ the world's leading provider of military robots. The evolution of the robot product family continues with the first sales of our latest safety certified armed robotic land vehicle, Modular Advanced Armed Robotic System (MAARS). A smaller variant of TALON®, the Dragon Runner™, has also been marketed during the year and the first shipment was sold to the UK MOD. UGV revenue in the year totalled $160m (2008: $176m). Towards the end of the year, there was a slowing of orders as the new Administration confirms its plans for Afghanistan.

The business benefited from a significant increase in demand for LAST® Armor products, which contributed revenue of $90m (2008: $41m) during the fiscal year.

QNA provide engineering support to the US Army's Apache helicopter fleet

Well placed to respond to changing priorities

EMEA

Transformation under way of pure research business into a technology-based services and solutions organisation

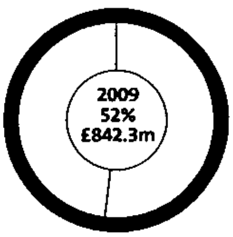
Highlights

- **Business restructured with lower cost base**
- **Despite the contraction of MOD research revenues, continued growth of services and solutions**
- **Strong growth from consulting arm**
- **Increased work from the security sector**
- **Business underpinned by long-term service-based contracts**

Financial summary (excluding Ventures)

	2009	2008
Revenue	**£842.3m**	£820.1m
Underlying operating profit	**£87.6m**	£80.0m
Underlying operating profit margin	**10.4%**	9.8%
Orders	**£851.2m**	£662.5m
Book to bill*	**1.3:1**	1.1:1
Funded backlog	**£802.0m**	£640.8m

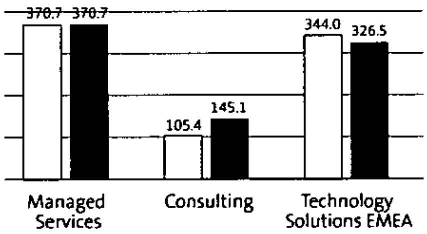
Share of Group revenue (excluding Ventures)



■ EMEA ■ QNA

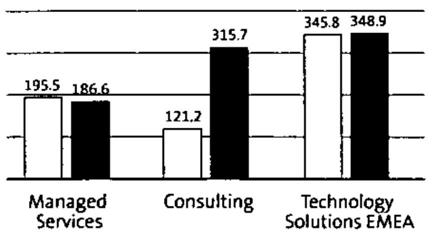
* Excluding LTPA

EMEA revenues by stream (£m)



□ 2008 ■ 2009

EMEA orders by stream (£m)



□ 2008 ■ 2009

Performance review – EMEA continued

Performance

Following its reorganisation in 2008, our EMEA business is better focused with a lower cost base. Reported revenue increased by 3% to £842.3m (2008: £820.1m) with some marginal organic growth, notwithstanding the budget challenges of the MOD, our largest customer. In particular, the reduced level of MOD research work acted as a brake on the growth of the business as a whole. Good growth in the Consulting business helped EMEA make up this shortfall.

Underlying operating profit increased to £87.6m (2008: £80.0m), reflecting the continued focus on improving the efficiency of the business and controlling costs. The reorganisation programme announced last financial year was completed ahead of plan and to the budgeted cost of £32.6m, yielding the targeted savings of £12m on an annualised basis. This programme had completed by the half year stage. These impacts, coupled with tight discretionary cost control and the changes to the terms of the defined benefit pension scheme agreed in June 2008, enabled EMEA to deliver a higher margin of 10.4% during the period (2008: 9.8%).

The book to bill ratio was 1.3:1 and the resulting backlog totalled £802.0m (2008: £640.8m) excluding £4.5bn in respect of the LTPA contract. A number of important contract wins underpinned this, such as the 15-year £150m maritime facilities contract awarded by the MOD and the £26m Distributed Synthetic Air Land Training (DSALT) contract.

The merger of our technology-focused businesses, Integrated Systems and Applied Technologies, to create the Technology Solutions EMEA business, from 1 April 2009, provides a clearer relationship between the advice and supply sides of our UK business.

Acquisitions and disposals

On 13 October 2008, the Group acquired Commerce Decisions Limited for a consideration, including transaction costs, of £12.5m. Commerce Decisions provides tender evaluation software and consulting to UK central government departments. This acquisition has performed well during the period and its unique product offering has greater sales potential across QinetiQ's customer base.

On 14 May 2009, the EMEA business announced the disposal of the Underwater Systems business based in Winfrith, Dorset to Atlas Elektronic UK for a cash consideration of £23.5m. The agreement is subject to regulatory approval and is expected to complete in Summer 2009.

Managed Services – 44% of EMEA revenues

The Managed Services business provides long-term, technology-rich outsourced services to Government customers and independent accreditation and technical services to Government and industry. It has a number of long-term service-based contracts that underpin the business and provide visibility to a wide number of MOD programmes.

Revenue for the period was £370.7m (2008: £370.7m) in line with the prior year which benefited by £9m from the catch up of revenue on closing out the first LTPA five-year pricing period. At the start of the year, the second five-year period of the 25-year Long Term Partnering Agreement (LTPA) with MOD commenced.

The LTPA satisfaction score achieved in the year was 99% compared to a minimum target level of 80%. We also brought into service important elements of the Combined Aerial Targets Services (CATS) contract for the UK's armed services, ensuring that the MOD's unmanned sub-sonic aerial targets requirements are delivered worldwide. In June 2008, the business was awarded a ten-year £24m contract for Harrier Through-Life Support and towards the end of the year, won a contract to manage unmanned aerial vehicles (UAV) for an overseas government. This was an important win, proving that we can export our expertise and offer repeatable solutions outside of the UK.

Consulting – 17% of EMEA revenues

The Consulting business draws upon QinetiQ's unique combination of technical and process insight to provide advice including decision and project support for both civil and defence customers. Areas of expertise include security, transportation, aerospace, energy, environment and safety.

Consulting delivered a strong performance with organic growth of 17%. Revenue benefited from the first full year's contribution of the Home Office's e-Borders programme and a continued focus on deepening and extending customer relationships, illustrated through the award of contracts such as the 15-year Maritime Strategic Capability Agreement (MSCA) with MOD worth £150m. This award extends QinetiQ's existing contracts with MOD for maritime services and expertise, providing the business with increased visibility of future earnings. The contract has positioned us well to secure future additional business in this field, for example, through a contract on the MOD Future Submarine programme where we are leading a consortium to provide impartial specialist technical client advice to reduce programme risk.

QinetiQ Australia has made solid progress in growing its defence and security footprint in the region, following three acquisitions undertaken in February 2008. The Australian businesses have been integrated and the QinetiQ brand is successfully positioned in the marketplace. The business has leveraged its position with key Government and industry clients resulting in new opportunities in the areas of complex weapons management, simulation and modelling and aircraft structural integrity.

Technology Solutions EMEA – 39% of EMEA revenues

Technology Solutions EMEA supplies technology and services and integrates systems for defence, security and intelligence customers. Its business covers manned platforms, autonomous systems, command and information systems, simulation and synthetic training, force protection, physical and digital security and intelligence.

The merger on 1 April 2009 of our technology-focused businesses, Integrated Systems and Applied Technologies, creates Technology Solutions EMEA and provides a clearer definition between the advice and supply sides of our UK business.

Revenue for Technology Solutions EMEA was £326.5m (2008: £344.0m), representing a decline of 5% on a reported basis. This reflects the well-publicised MOD budget pressures and the significant delay in the letting of new supply contracts. This has been the first complete year that open competition has taken place for MOD research contracts, and whilst we have still achieved a good market share, this work is often now performed by consortia, which leads to us sharing the benefits with our partners.

QinetiQ's entry into the Australian marketplace has given a platform from which to seek further opportunities in the Asia-Pacific region

The business won a three-year $22m follow on research contract from the US Defense Advanced Research Projects Agency (DARPA) to develop a new high altitude sensor for its Large Area Coverage Optical Search While Track and Engage (LACOSTE) programme. Another significant win during the year was the £26m Distributed Synthetic Air Land Training (DSALT) programme which builds on an earlier contract to provide synthetic training facilities to deliver pre-deployment training. It is an important example of QinetiQ acting as a prime contractor on a service delivery contract.

Other important contracts awarded were a £16m contract on the high performance electronic warfare systems, surveillance and tracking systems for operational forces and work on the next generation radar technology for the current Royal Navy fleet and future aircraft carriers.

We continue to seek new channels to market for our technology solutions, for example, the passive millimetre wave SPO technology, developed by the EMEA business, is being tested by the Transportation Security Administration (TSA) in the US. A total of 22 systems have now been sold in the past 12 months and we believe this technology has further global sales potential.

During the period we have continued to extend our presence in the oil and gas industry by enhancing recovery and production from existing reservoirs. We have entered a new phase of an existing contract with a major oil company to build and test bespoke systems and equipment for wireless transfer of electrical power and communication to down-hole devices.

We provide independent support, resource and assurance for the concept phase of the MOD's future submarine programme

Ventures

QinetiQ Ventures strategy is to realise long-term value in sectors outside the Group's traditional markets, through the exploitation of intellectual property sourced from QinetiQ's core defence and security technology businesses.

	2009 £m	2008 £m
Revenue	**9.4**	5.7
Operating loss	**(15.6)**	(15.1)
Orders	**6.2**	7.5
Funded backlog	**3.2**	6.4

Performance

In the last year, the principal focus of the Ventures business has been to develop QinetiQ's existing pipeline of commercial opportunities at limited cost and to target investment expenditure on those assets presenting the maximum potential return on investment.

Venture Fund

Cody Gate Ventures I LP (CGV, formerly QinetiQ Ventures LP), the technology venture fund created with Coller Capital in August 2007 to accelerate the development and value realisation of seven of QinetiQ's contributed investments, continued to develop positively in the year. Highlights include Omni-ID, the RFID tagging business for high-value IT assets, which has grown its order pipeline in the last year by developing a solid customer base including Mitsubishi, IBM and Johnson & Johnson. Quintel, the antenna solutions business which facilitates the sharing of base station sites across multiple telecom operators, has achieved US sales in the year in collaboration with AT&T, with trials in India and Brazil expected in the coming year.

Cash funding of £6.4m was contributed to the fund this financial year (2008: £3.5m). In March 2009, an agreement was reached with Coller Capital to sell part of QinetiQ's interest in CGV in return for a payment of £13.7m and the release of QinetiQ's prior commitment to contribute a further £3.2m. As a result of this transaction, QinetiQ's allocation of distributions from CGV is now set at an initial level of 25%, with the potential to increase to a maximum of 50%. The Group's share of CGV's losses during the year was £7.2m (2008: £4.2m). Following our part disposal, we now hold a passive investment in CGV and therefore will no longer be equity accounting for our share of CGV results in the income statement.

Retained Ventures

The remainder of the Ventures portfolio is characterised by two established businesses, namely Tarsier, the Foreign Object Detection (FOD) system, which provides real-time monitoring of operating runways to improve safety standards and GPS Enabled Telematics, a high sensitivity GPS business, which delivers tracking solutions in difficult operational environments.

The Tarsier business continues to progress positively, as demonstrated by the successful delivery of installations in Dubai, Doha and Heathrow in the year, together with the upgrade of the Vancouver installation to include QinetiQ's newly developed proprietary long range day/night cameras. The Tarsier business delivered an increase in revenue of £4.8m in the year, and was recognised as a market leader in its field at the recent Jane's Air Traffic Control Awards ceremony by winning the Innovation Award for 2009.

Delivering solid results

"2009 was a successful year for QinetiQ with strong revenue growth in North America, operating margin improvement in EMEA and excellent cash generation across the Group."

David Mellors, Chief Financial Officer
21 May 2009

Orders and backlog

	2009 £m	2008 £m
Orders		
QinetiQ North America	**738.6**	607.1
EMEA	**851.2**	662.5
Ventures	**6.2**	7.5
Total	**1,596.0**	1,277.1
Funded backlog		
QinetiQ North America	**415.0**	300.5
EMEA[a]	**802.0**	640.8
Ventures	**3.2**	6.4
Total	**1,220.2**	947.7

[a] Excluding remaining £4.5bn (2008: £4.7bn) in respect of LTPA contract.

Order intake at the Group level increased by 25% to £1,596.0m (2008: £1,277.1m), 15% up on last year excluding the impacts of foreign currency translation. EMEA won a number of important contracts such as the 15-year £150m maritime facilities contract and the £26m Distributed Synthetic Air Land Training which boosted the EMEA book to bill ratio to 1.3:1 (2008: 1.1:1) excluding the effect of the LTPA.

Group summary

	2009	2008
Orders (£m)	**1,596.0**	1,277.1
Revenue (£m)	**1,617.3**	1,366.0
Underlying operating profit[1]	**155.0**	127.0
Underlying operating margin[1]	**9.6%**	9.3%
Net finance expense (£m)	**24.8**	18.0
Underlying effective tax rate[1]	**20.5%**	19.3%
Basic earnings per share (pence)	**14.3p**	7.2p
Underlying basic earnings per share[1] (pence)	**15.9p**	13.4p
Underlying cash conversion ratio[1]	**105%**	77%
Net debt (£m)	**537.9**	379.9
Net debt: EBITDA[2]	**2.2x**	2.3x
Average US$/£ exchange rate	**1.68**	2.01
Closing US$/£ exchange rate	**1.44**	1.99

[1] Underlying financial measures are presented as the Board believes these provide a better representation of the Group's long-term performance trends. Definitions of underlying measures of performance can be found in the glossary on page 111.

[2] Annualised and calculated in accordance with the Group's credit facility ratios.

QNA recognised new funded orders of £738.6m (2008: £607.1m) during the year. At constant currency, this is a 3% increase on the prior year which included very high product orders. In addition, both Mission Solutions and Systems Engineering delivered a significant amount of new unfunded orders, which is typical of the way multi-year contracts are let in these markets. Funding is then received periodically. The Group does not recognise such awards into reported backlog until funding is confirmed but these awards do provide further visibility of future revenues. We would normally expect to convert the majority of such awards to funded orders, and therefore revenue, over time. The total of QNA's unfunded backlog at the year end was $1.5bn (2008: $0.7bn).

Revenue

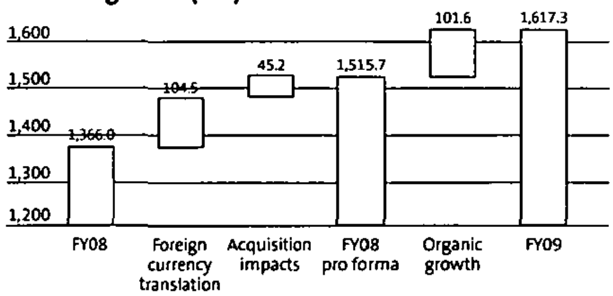
	2009 £m	2008 £m
Revenue		
QinetiQ North America	**765.6**	540.2
EMEA	**842.3**	820.1
Ventures	**9.4**	5.7
Total	**1,617.3**	1,366.0

Group revenue increased by 18% to £1,617.3m (2008: £1,366.0m) primarily reflecting organic growth in QNA supplemented by targeted acquisitions and the translational impact of a strengthening US dollar.

The overall level of organic revenue growth (at constant currency) was 7%.

QNA reported a 42% increase in revenue to £765.6m (2008: £540.2m). Of this increase, the organic growth (at constant currency) was 15%, driven by new contract wins with NASA, the Iraqi pilot training programme and an increase in our work with the Department of Homeland Security. The DTRI and Spectro acquisitions were completed in the year, augmenting the organic growth.

Revenue growth (£m)

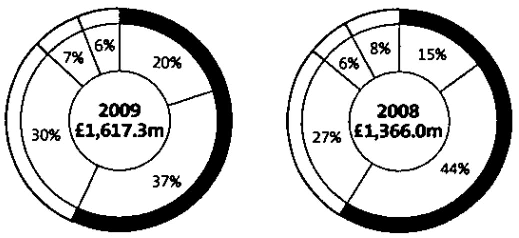


Chief Financial Officer's review

In EMEA, reported revenue increased by 3% to £842.3m (2008: £820.1m) including organic growth of 0.1% notwithstanding the budget challenges of the UK MOD, our largest customer. In particular, the reduced level of MOD research work to £128.5m (2008: £166.7m) acted as a brake on the growth of the business as a whole. Good growth in the Consulting business helped EMEA make up this shortfall.

EMEA acquired Commerce Decisions part way through the year and had the first full year contribution from the Australian business, acquired in the prior period.

Revenue by customer (%)



Civil/Other Govt Agencies
MOD
DoD
DHS
Commercial Defence

Underlying operating profit

	2009 £m	2008 £m
Underlying operating profit		
QinetiQ North America	**83.0**	62.1
EMEA	**87.6**	80.0
Ventures	**(15.6)**	(15.1)
Total	**155.0**	127.0
Underlying operating profit margin	**9.6%**	9.3%

Underlying operating profit increased 22% as a result of the growth of the business, coupled with a lower cost base in EMEA and the translational impact of the strengthening US dollar of £12m compared to the prior year.

The QNA underlying operating margin was 10.8% (2008: 11.5%) due to the change in revenue mix, which had an extremely high level of higher margin product spares sales in the previous year.

In EMEA, the reorganisation plan announced last year completed mid-year and has yielded the planned savings. This, coupled with tight discretionary cost control and the changes to the terms of the defined benefit pension scheme with effect from June 2009, enabled EMEA to increase its underlying operating margin to 10.4% (2008: 9.8%).

Having reorganised the EMEA business into market-facing sectors last year, we plan further increases in efficiency during the current year by optimising utilisation and reducing duplication. As a result, we expect to reduce our headcount by approximately 400 during the course of this year, generating annualised savings of approximately £14m and resulting in an exceptional cost of c£40m. This programme should complete early in the fourth quarter.

Our investment in Ventures continued during the year. Our equity accounted share of the Cody Gate Ventures Fund losses was £7.2m (2008: £4.2m). Following our part disposal of this investment in March 2009, the Group now holds a passive investment and therefore will no longer be equity accounting its share of losses in the income statement. The remaining Ventures portfolio continued to make operational progress in the period.

Finance costs

Net finance costs increased to £24.8m (£18.0m) reflecting the higher level of average borrowings during the year.

Taxation

The Group's underlying effective tax rate in the year was 20.5% (2008: 19.3%). The Group has benefited from the increase in research and development relief rates in the UK and, in future years, will benefit from enacted tax law changes impacting US State taxes. Overall, the Group effective tax rate is not anticipated to rise significantly in the medium term, subject to any unannounced future tax legislation changes.

Due to the availability of research and development relief and deductions for past service pension contributions made in prior years, the Group has not paid corporation tax on UK profits in the year and does not anticipate paying cash tax in the UK in the short term. The total tax charge for the year was £20.4m (2008: £4.0m).

Profit for the year

The underlying performance of the Group after allowing for non-recurring events and amortisation of acquired intangible assets is shown below:

	2009 £m	2008 £m
Profit for the year attributable to equity shareholders of the parent company	**93.6**	47.4
EMEA reorganisation	**–**	32.6
Loss/(gain) on business divestments	**(13.0)**	1.8
Unrealised impairment of investments	**5.7**	5.2
Amortisation of intangible assets arising from acquisitions	**23.5**	18.0
Tax impact of items above	**(6.3)**	(17.0)
Underlying profit for the year attributable to equity shareholders of the parent company	**103.5**	88.0

Non-recurring items that have been excluded from underlying profit relate to gains on business divestments, investment impairment, profits on disposal of non-current assets and 2008 EMEA reorganisation costs.

The gain on business divestments of £13.0m (2008: loss £1.8m) relates to a £9.5m profit on the disposal of part of the Cody Gate Ventures Fund and £3.5m profit on disposal of a customer contract in QNA.

Earnings per share

Underlying earnings per share increased by 18.7% to 15.9p compared to 13.4p in the prior year. Basic earnings per share increased to 14.3p compared to 7.2p in the prior year.

Dividend

The Board is recommending a final dividend of 3.25p per share (2008: 2.92p) bringing the total dividend for the year to 4.75p per share (2008: 4.25p). The Group recognises the current economic uncertainties and believes it is well placed to face the challenges of the current global economic environment. As a result, the full year dividend represents an 11.8% increase on the prior year.

The record date for the final dividend will be 7 August 2009. Subject to approval at the Annual General Meeting, the final dividend will be paid on 4 September 2009.

Other Financials

Cash flow

The Group's underlying operating cash conversion, post capital expenditure, was 105%, well above the Group's long-term target of 80% as a result of a keen focus on cash generation.

The EMEA reorganisation programme announced in FY08, completed with a cash outflow of £27.0m in the year (2008: £5.6m).

The Group paid £2.5m (2008: £17.7m) of US corporation tax in the year. This is lower than in previous years due to the benefit of tax losses arising on US acquisitions. There will be further cash flow benefits in the current year arising from these acquisitions. In subsequent years US taxes paid will revert closer to statutory levels.

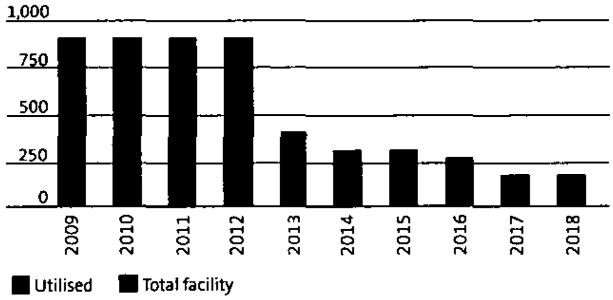
Net cash inflow from operating activities (after reorganisation costs, interest and tax) increased to £152.4m (2008: £102.3m).

Capital expenditure on intangible assets and property, plant and equipment totalled £32.4m (2008: £43.6m) including £12.3m (2008: £13.7m) related to assets which are funded as part of the LTPA contract.

The acquisitions of DTRI, Commerce Decisions and Spectro led to cash consideration paid in the period of £92.9m (2008: £106.7m).

The translational impact of a weaker sterling on the Group's US dollar denominated debt, including associated derivative contracts, was an increase of £163.9m (2008: decrease of £2.6m). Closing net debt at 31 March 2009 was £537.9m (31 March 2008: £379.9m). Net debt to adjusted EBITDA at 31 March 2009 was 2.2x (2008: 2.3x), as calculated in accordance with the terms of the Group's credit facilities, comfortably within our banking covenant limit of 3.5x.

Committed facilities maturity profile (£m)



In February 2009, the Group further diversified and extended its debt maturity profile and increased the level of facility headroom with the completion of a private placement with US financial institutions totalling $300m. The placement comprises a $62m debt with a seven-year maturity profile at a coupon of 7.13% and a $238m debt over ten years at a coupon of 7.62%.

The total committed facilities available to the Group at 31 March 2009 was £893.0m (31 March 2008: £632.8m). The earliest maturity date of the Group's committed facilities is August 2012.

Pensions

The 31 March 2009 net pension liability under IAS 19, after deferred tax, was £75.8m (31 March 2008: £16.9m). Before tax, the deficit was £105.2m at 31 March 2009 (£23.4m at 31 March 2008). The increase in the net pension liability is principally driven by the reduction in asset prices following the decline in equity markets in the period, partly offset by a reduction in inflation assumptions used in the valuation of scheme liabilities.

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

Assumption	**31 March 2009**	31 March 2008
Discount rate	**6.5%**	6.6%
Inflation	**3.1%**	3.5%
Salary increase	**4.1%**	5.0%
Life expectancy male (currently aged 40)	**89**	88
Life expectancy female (currently aged 40)	**90**	91

Chief Financial Officer's report

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

Assumption	Change in assumption	Indicative effect on scheme liabilities
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £14m
Inflation and salary increase	Increase/decrease by 0.1%	Increase/decrease by £15m
Life expectancy	Increase by one year	Increase by £15m

The market value of the assets at 31 March 2009 was £647.4m (2008: £784.2m) and the value of scheme liabilities was £752.6m (2008: £807.6m).

With effect from June 2008, the Group changed the terms of the defined benefit section of the pension scheme for future accrual of pension benefits. The changes do not affect past service obligations. Core changes included raising the normal pension age from 60 to 65, moving to career average earnings and offering a range of contribution options that allowed employees to maintain future benefit accrual at rates similar to their current levels, based on a higher rate of employee contribution, or to retain current employee contribution levels by accepting a reduction in the rate of future benefit accrual. During the year, the net pension cost charged to the income statement for the defined benefit scheme was £23.4m (2008: £30.5m).

The funding of the defined benefit pension scheme is decided by the Group in conjunction with the trustees of the scheme and the advice of external actuaries. The most recent full actuarial valuation, with an effective date of 30 June 2008, is now complete. The recorded deficit is £111.3m and the Company and trustees have agreed a ten-year recovery period with annual payments of £13m. Also as a result of this valuation, the current service contributions have been reset at 11.5% of pensionable payroll, previously 17.5%. This will lead to a c. £9m reduction in annual current service contributions from the present level.

Treasury policy

The Group treasury department works within a framework of policies and procedures approved by the Audit Committee. As part of these policies and procedures, there is strict control on the use of financial instruments. Speculative trading in financial instruments is not permitted. The policies are established to manage and control risk in the treasury environment and to align the treasury goals, objectives and philosophy to those of the Group.

Funding and debt portfolio management

The Group seeks to obtain certainty of access to funding in the amounts and maturities required to support the Group's medium to long-term forecast financing requirements. Group borrowings are arranged by the central treasury function.

Interest risk management

The Group seeks to reduce the volatility in its interest charge caused by rate fluctuations.

A significant portion of the Group's borrowings are fixed or capped through a combination of interest rate swaps, collars and fixed rate debt.

Foreign exchange risk management

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

	2009	2008
£/US$ – average	**1.68**	2.01
£/US$ – closing rate	**1.44**	1.99
£/US$ – opening rate	**1.99**	1.96

The Group's income and expenditure is largely settled in the functional currency of the relevant Group entity, mainly sterling or US dollar. The Group has a policy in place to hedge all material transaction exposure at the point of commitment to the underlying transaction. Uncommitted future transactions are not routinely hedged by the Group. The Group continues its practice of not hedging income statement translation exposure.

To minimise the impact of currency depreciation of the net assets on the Group's overseas subsidiaries, the Group seeks to borrow in the currencies of those subsidiaries but only to the extent that the Group's gearing covenant within its loan documentation, as well as its facility headroom, are likely to remain comfortably within limits.

Tax risk management

The central principle of QinetiQ's tax strategy is to manage effective and cash tax rates whilst fully complying with relevant legislation. Tax is managed in alignment with the corporate strategy and with regard to QinetiQ's core value of integrity in all business dealings. These principles are applied in a responsible and transparent manner in pursuing the Group's tax strategy and in all dealings with tax authorities around the world.

Credit risk

Credit risk arises when a counterparty fails to perform its obligations. The Group is exposed to credit risk on financial instruments such as liquid assets, derivative assets and trade receivables. Credit risk is managed by investing liquid assets and acquiring derivatives from high-credit quality financial institutions. Trade receivables are subject to credit limits, control and approval procedures across the Group. The nature of the Group's operations leads to concentrations of credit risk on its trade receivables. The majority of the Group's credit risk is with the UK and US Governments and is therefore considered minimal.

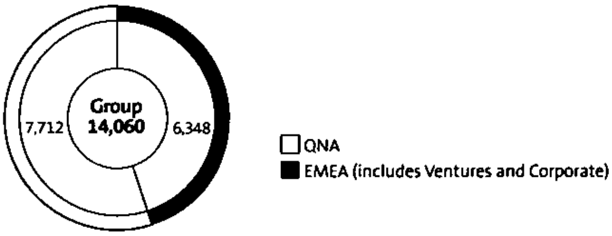
Insurance

The Group continually assesses the balance of risk arising from the operations undertaken against the insurance cover available for such activities and associated premiums payable for such cover. A consistent approach to risk retention and scope of cover is applied across the Group. The Group has a policy of self-insurance through its captive insurance company on the first layer of specific risks with insurance cover above these levels placed in the external market with third-party insurers.

Employees

Year-end employee numbers have risen by 2.6% to 14,060 as at 31 March 2009. The decline of 299 in EMEA (including Ventures & Corporate) reflects normal in-year attrition and departures under the reorganisation programme partially offset by the acquisition of Commerce Decisions. The organic growth coupled with the acquisitions in North America increased staff numbers by 649.

Employees by sector



Source: Company financials at 31 March 2009

Accounting standards

There have been no significant changes to financial reporting standards in the year and no impact on Group profit for the year. As required by IFRS 3 (Business Combinations) the formal valuation of goodwill and intangibles relating to acquisitions made in the prior year was completed in the year.

Critical accounting estimates and judgements in applying accounting policies

A description and consideration of the critical accounting estimates and judgement made in preparing these financial statements is set out in Note 1 to the Group financial statements.

David Mellors, Chief Financial Officer
21 May 2009

Measuring our performance

To assess Group performance, the Board uses a range of key performance indicators (KPIs) comprising both financial and non-financial metrics.

Financial

KPI	DESCRIPTION	COMMENT
Organic revenue growth **09** 7% 08 9% 07 2%	The Group's organic revenue growth is calculated by taking the increase in 2009 revenue over 2008 pro forma revenue, at constant exchange rates. The pro forma revenue assumes that any acquisitions were owned and any discontinued operations or disposals excluded, for the comparable period in the prior year.	Organic revenue growth demonstrates the Group's capability to expand its core operations within its chosen markets before the effect of acquisitions.
Proportion of revenue generated by QNA **09** 47% 08 40% 07 31%	The percentage of the Group's total revenues generated by QinetiQ North America.	The Group aims to generate 50% of its total revenues in the medium term from QNA, through a combination of organic growth and acquisitions, as North America is the largest defence and security market available to the Group.
Underlying operating profit margin **09** 9.6% 08 9.3% 07 9.2%	The Group's calculation of underlying operating profit margin is consistent with prior years. Underlying operating profit margin is calculated by taking the earnings before tax and interest, gains on business realisations, major restructuring costs, impairment of investments, profit on disposal of non-current assets and amortisation of intangible assets arising from acquisitions as a percentage of revenue.	Underlying operating profit margin can be used to show the underlying profitability of the revenues delivered by the Group. It can also be used to compare the Group's performance with that of our peers, providing the definition of underlying operating profit is consistent.
Book to bill ratio (excl LTPA) **09** 1.1:1 08 1.1:1 07 1.2:1	The ratio of contracted orders compared to revenue in the period. The calculation is consistent with that published in previous years and specifically excludes the MOD Long Term Partnership Agreement (LTPA) revenue as no annual order is associated with this revenue.	The measure provides an indication of the Group's visibility of its future revenue and therefore its rate of prospective growth. A book to bill ratio in excess of 1.0 demonstrates that the Group is continuing to build its backlog of future revenues.
Funded backlog **09** £1,220.2m 08 £947.7m 07 £850.9m	The value of contractually-funded orders (excluding the LTPA) at a point in time. The measure does not include any unfunded orders, which are more common for multi-year contracts in the North American Defence market.	This provides visibility over the level of future revenues which have already been contractually secured.

KPI	DESCRIPTION	COMMENT
Underlying basic EPS growth 09 18.7% 08 18.8% 07 10.4%	The rate at which underlying basic earnings per share (EPS) has increased over the prior year expressed as a percentage.	EPS provides shareholders with a measure of the earnings generated by the business after deducting tax and interest. EPS performance also determines the level of payout for the Group's long-term incentive plans.
Operating cash conversion 09 105% 08 77% 07 56%	The ratio of our net cash flow from operations (excluding reorganisations), less outflows on the purchase of intangible assets, and property plant and equipment to underlying operating profit, excluding the share of post-tax results of equity accounted joint ventures and associates.	Provides a measure of the Group's ability to generate cash from normal operations and gives an indication of its ability to pay dividends, service its debt and to make discretionary investments.

Non-financial

KPI	DESCRIPTION	COMMENT
Health & Safety of employees in EMEA **UK RIDDOR** (per 1,000 employees) 09 2.82 08 2.28 07 3.47	In the UK, the Group tracks the number of Reported Injuries, Diseases & Dangerous Occurrences Regulations (RIDDOR) incidents measured as the number of events in any period per 1,000 people. The HSE RIDDOR rate is 5.19 for the 'all industries' category.	Health and Safety records are monitored to drive continual improvement in minimising the risk to employees.
Health and safety of employees in QNA (lost days per 1,000 employees) 09 0.78 08 1.57 07 2.14	In North America, QNA tracks the number of Occupational Safety & Health Administration (OSHA) reported accidents and the number of work days lost per 1,000 employees occurring as a result of these accidents.	Health and Safety records are monitored to drive continual improvement in minimising the risk to employees.
Employee turnover rate 09 9.7% 08 10.3% 07 7.1%	Employee turnover (excluding redundancies) measured as the annualised number of resignations in a period expressed as a percentage of average headcount in the period.	Key employee retention is a priority for the Group. Employee turnover provides a measure of our managers' ability to retain key talent in a competitive marketplace.

See pages 43-47

Principal risk and uncertainties

RISK	POTENTIAL IMPACT	MITIGATION
A change in demand from reduced military operations in Iraq and Afghanistan	A significant shift in policy by either the new Administration in the United States of America or Government in the United Kingdom which results in a material reduction in the number of forces personnel present in Iraq and Afghanistan may have a materially adverse impact on the Group's financial performance.	The Group is focused on a range of markets in defence, security and intelligence, providing a degree of portfolio diversification. While certain areas of the Group's operations, such as QNA's Technology Solutions Group, have experienced strong demand for their TALON® robots or LAST® Armor for deployment in both Iraq and Afghanistan, other areas of Government spend have been held back, for example, such as services to improve the efficiency of Government processes. The expectation is that any reduction in the level of spend in Iraq and Afghanistan may result in the resumption of such discretionary spend to which the Group could benefit from.
A change in either US or UK Government spending on defence and security	The forthcoming election in the UK and the change in Administration in the US combined with the financial burden on both UK and US Government budgets from the recent economic downturn, may lead to reduced spending in the markets in which the Group operates. Any reduction in Government defence and security spending in either the UK or the US, for example, in the area of research in the UK, could adversely impact the Group's financial performance.	The Group is focused on a range of markets in defence, security and intelligence, providing a degree of portfolio diversification. Current UK and US defence and security spending forecasts do not indicate material budget reductions but the focus of the spending will change to meet emerging needs. The asymmetric nature of modern warfare and the threat from terrorism have resulted in increased expenditure on many capabilities that QinetiQ offers and we believe that many of our markets (eg security, intelligence and cyber security) are growth markets. The Group will continue to review trends in defence and security expenditure in order to align the business with those trends. As an independent technology specialist, QinetiQ is well placed to benefit from any delay or cancellation of major procurement projects as this will often lead to the requirement for technology insertion and upgrades to an existing platform's operational lifespan.
Defence Training Rationalisation (DTR) Package 1 may not reach financial close	In 2007, Metrix, the Group's joint venture with Land Securities Trillium, was confirmed as the preferred bidder for Package 1 of the proposed 30-year DTR contract to outsource the training for UK armed forces. The Group is responsible for the design and provision of training to Metrix. In January 2009, Sodexo replaced Land Securities Trillium as the joint venture partner. Metrix and the partners continue to work with the MOD to finalise the scope of the programme as the next stage in moving to a financial close. There is a risk that the DTR programme may either suffer material change to the final scope, delay, inability to be financed or even cancellation. This would have a significant impact on the expected future growth of the Group. Additionally, if financial close were not reached, the bid costs incurred since preferred bidder status was achieved would have to be written off and expensed through the income statement.	QinetiQ maintains a close contact with Metrix, Sodexo and the MOD in relation to the DTR, including with regard to the potential timing of obtaining a financial close on the contract. In addition, the MOD has signed some Pre-Contract Award Letters (PCAL) which effectively underwrite a portion, but not all, of the external costs incurred by the joint venture partners to date. A funded early works contract may be let before financial close which will study the proposed technical design and delivery of the training programmes.
Changing in the timing of contracts	The amounts payable under some of the Government contracts can be significant and the timing of receiving orders could materially impact the Group's performance in a given reporting period.	The contract and orders pipeline is regularly reviewed by senior operational management and the Executive Committee.

RISK	POTENTIAL IMPACT	MITIGATION
Funding of a defined benefit pension scheme	The Group operates a defined benefit pension scheme in the UK. Presently there is a deficit between the projected liability of the scheme and the value of the assets held by the scheme. The size of the deficit may be materially impacted by a number of factors including inflation, investment returns, changes in interest rates and improvements in life expectancy. An increase in the deficit may require the Group to increase the cash contributions to the scheme which would reduce the Group's available cash for other purposes.	The performance of the pension scheme is reviewed regularly by Group management in conjunction with the scheme's independent trustees. External actuarial and investment advice is also taken on a regular basis to ensure that the scheme is managed in the best interests of both the Company and the scheme's members. In June 2008, the Group and the trustees, acting on behalf of the scheme members agreed in principle to four key changes to the terms of the pension scheme aimed at reducing the cost to the Group of maintaining the pension scheme: an increase in the normal retirement age; to cap the level of pensionable earnings; paying pension contributions via salary sacrifice; and removing the ability to purchase 'additional years'. The most recent funding valuation of the scheme as at 30 June 2008 has resulted in a deficit of £111.3m. The Company and trustees have agreed a ten-year recovery period to make up this deficit.
Policies or attitudes may change towards Organisational Conflicts of Interest (OCI)	The Group provides services to defence customers that meet their needs as part of the defence supply chain and also as technical advisor through its consultancy services. The future growth of the business could be compromised should the current attitudes to policies adopted by our key customers, especially in the UK, change.	The Group takes proactive steps to manage any potential OCI and to maintain its ability to provide independent advice through its consulting and systems engineering activities. In the UK, a formal compliance regime operates with the MOD to monitor and assess potential OCI as part of the sales acceptance process.
Tax liabilities may change as a result of changes in tax legislation	QinetiQ is liable to pay tax in the countries in which it operates, principally in the UK and the US. Changes in the tax legislation in these countries could have an adverse impact on the level of tax paid on the profits generated by the Group.	External advice and consultation is sought on potential changes in tax legislation in both the United Kingdom and United States of America.
A material element of the Group's revenue and operating profit is derived from one contract	The Long Term Partnering Agreement (LTPA) is a 25-year contract to provide a variety of evaluation and testing services to the MOD. The original contract was signed in 2003. In the current year, the LTPA directly contributed 11% of the Group's revenue and supported a further 7% through tasking services using LTPA managed facilities. These percentages are expected to decrease proportionally over time as the Group grows in other areas. The loss, cancellation or termination of this contract would have a material, adverse impact on the Group's future reported performance.	The Group continues to achieve high customer performance and satisfaction ratings, maintain excellent relationships with key customers and anticipates that the contract will run for the full duration of its 25-year term through to 2028. The first break point in the contract is 2013. QinetiQ achieved a weighted performance rating of 99% for the year ended 31 March 2009 against an agreed minimum rating of 80%. The LTPA operates under five-year periods with specific programmes, targets and performance measures set for each period. On 3 March 2008, the Group signed up to a second period of the LTPA with the MOD.
Failure to comply with laws and regulations, particularly trading restrictions and export controls	The majority of the Group's revenues are generated from sales within the UK and the US. The Group is subject to numerous domestic and international laws including import and export controls, financial and fiscal laws, health and safety, money laundering etc. Failure to comply with particular regulations could result in a combination of fines, penalties, and civil or criminal prosecution. Any one of these could have a material impact on the Group's financial performance.	The Group has procedures in place to ensure that it meets all current export regulations. Local management continuously monitor local laws and regulations. Professional advice is sought when engaging in new territories to ensure that the Group is in compliance with local and international regulations and requirements. In the US, the Group undertakes work that is deemed to be of importance to US national security, and arrangements are in place to insulate these activities from undue foreign influence as a result of foreign ownership. The Group has procedures in place to ensure that these arrangements remain effective and to respond to any changes that might occur in US attitudes to foreign ownership of such activities.

Principal risks and uncertainties continued

RISK	POTENTIAL IMPACT	MITIGATION
Exchange rate movement	The Group is exposed to volatility in exchange rates due to the international nature of its operations; this includes a translational impact on the key financial statements as a result of the Group reporting its financial results in sterling. The Group has limited transaction exposure as its revenues and related costs are often borne in the same currency, principally either US dollar or sterling. QinetiQ North America represents 47% of the Group's consolidated revenues. These operations are funded by US dollar denominated debt. Any significant movement in the foreign exchange markets could have a material impact on the Group's reported financial performance in a given period.	The Group actively hedges all significant transactional foreign exchange exposure as described on pages 90 to 94 of the notes to the financial statements. Acquisitions in North America have been funded by US dollar denominated bank borrowings, partially mitigating the risk as US dollar earnings are used to service and repay US dollar denominated facilities.
Raising external funding and volatility in interest rates	The Group is exposed to fluctuations in the credit markets which could impact both the availability and associated costs of financing. A substantial expansion of the Group's operations could not be financed through debt financing if sufficient liquidity were not available in the external market on commercially acceptable terms.	The Group manages this risk by maintaining a sufficient level of committed funding facilities, with a phased maturity profile from both commercial banks and private placement investors. The Group also uses fixed rate debt instruments and interest rate swap derivatives to provide some certainty in the future cost of maintaining these facilities.
Fixed price contracts	Some of the Group's revenue is derived from contracts which have a fixed price. There is a risk that the costs required for delivery of a contract could be higher than those agreed in the contract. Any significant increase in costs which cannot be passed on to a customer may either reduce the profitability of a contract or even result in a contract becoming loss-making.	The nature of much of the services provided under such fixed price arrangements is often for a defined amount of effort or resource rather than firm product deliverables and, as such, the risk of cost escalation in such contracts is substantially mitigated. The Group ensures that its fixed price bids and projects are reviewed for early detection of issues which may result in cost overrun.
Acquisition of businesses	The Group is an active acquirer of other businesses and companies. These acquisitions may not perform in line with expectations thereby having a detrimental impact on the Group's financial performance.	The risks are mitigated through the due diligence and internal approvals process. Additionally, the usual contractual protections are included in the purchase agreements signed with the vendors.
Inherent risks from trading in a global marketplace	QinetiQ operates internationally. The risks associated with having a large geographical footprint may include: regulation and administration changes, changes in taxation policy, political instability and civil unrest. Any such events could disrupt some of the Group's operations and have a material impact on the Group's future financial performance.	While the core activities of the Group are confined to the UK and the US, the Group continues to explore potential client relationships across the globe. These new relationships are assessed for their inherent risks before being formally entered into.
Highly competitive marketplace	The defence and security markets are highly competitive. The Group's financial performance may be adversely affected should it not be able to compete in the markets in which it aims to operate.	QinetiQ's domain knowledge, expertise, platform independence and capabilities within its selected markets provide a compelling proposition for customers, which is a significant advantage for the Group in competitive bidding.
Realisation of value from intellectual property may be delayed	The funded research and development work that the Group undertakes for defence and other customers creates intellectual property that the Group retains and can utilise for commercial applications. The uncertainty that exists over new technologies and markets may result in delays or failure to realise value from intellectual property or in a higher level of investment required for the opportunity to be realised. The additional investment requirements may have to be funded from the Group's own capital resources which may have an adverse impact on the Group's financial performance.	The Group only invests in the development of intellectual property where it believes there is a substantial and realistic market opportunity for the technology and it undertakes a portfolio approach, recognising that not all investments will be successful. The performance of intellectual property realisation programmes is actively monitored to increase support for successful prospects and reduce expenditure where realisation appears less likely. The Group uses external experts and financial backers as partners in a variety of structures to enhance the performance of certain intellectual property realisation projects.

Delivering a responsible and sustainable business

Highlights

- Successful extension of ISO14001 certification
- 200 STEM Ambassadors within the business
- RoSPA Gold awards for health and safety practice in the UK
- AUS$35,000 raised by QinetiQ Australia for the bush fire appeal.

CR performance overview

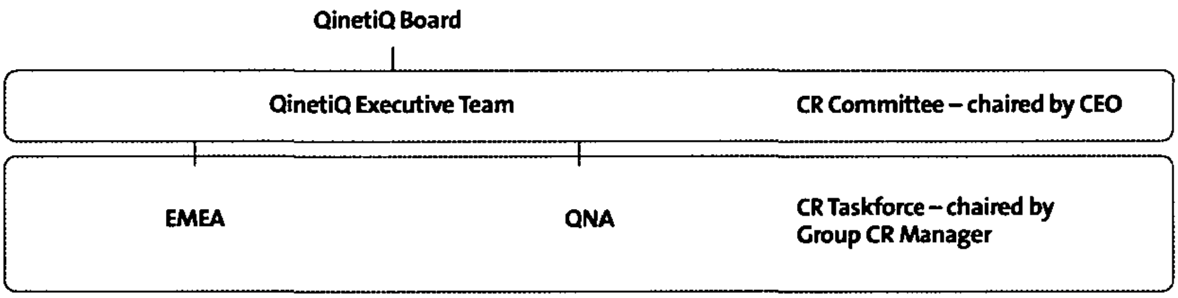
What we said	What we did	Where to next
Marketplace		
Introduce responsible purchasing criteria into our key procurement activities	We worked with our supply chain to make improvements in environmental and social issues	Achieve Level 3 of the Government's Flexible Framework for Sustainable Procurement by 2010
Our people		
Retain our status as top-quartile investor in employee learning and development	Over the last three years we provided on average five days training per UK person per year	Investigate Learning and Development effectiveness measures for future years
Continue to maintain UK RIDDOR rates at better than the HSE benchmark rate	RIDDOR rates were 2.82 per 1,000 employees compared with the HSE benchmark of 5.19 per 1,000 (See page 39)	Continue to drive performance in health and safety. Maintain UK RIDDOR rates better than the HSE benchmark rate
Environment		
Extend ISO14001 certification to all significant sites	Successful extension of ISO14001 certification	Maintain our ISO14001 certification
Introduce an enhanced carbon footprint management programme	Carbon footprint programme introduced in the UK with plans for further data gathering in 2010	Achieve certification to the Carbon Trust Standard
Increase our recycling rates by 3% in 2009	Target exceeded, with recycling for our major UK sites at 49%, up by 19%	Extend data capture to all minor sites and continue to increase recycling (target is 70% by 2014)
		Contribution to biodiversity through the effective maintenance of our conservation sites
Community		
9,000 students to experience Lab in a Lorry by the end of 2009	Over 9,000 students have been visited by Lab in a Lorry to date	A further tour of Lab in a Lorry planned for 2009/10
Focus and deliver our Science, Technology, Engineering and Mathematics (STEM) educational outreach programmes	Management and data capture improved	Continue to focus and deliver our STEM outreach programmes

Our approach

Our vision is to be a successful and responsible company that is fully accountable for our performance and open in our reporting. This overview updates where we are with progress against our goals and our plans for the future. It can be read in conjunction with our CR website, which provides more detail.

Following a review by the QinetiQ Board, a CR Committee has been established to address strategy and delivery of CR across the QinetiQ Group. The Committee is chaired by the CEO with membership from the Executive Team and the Group CR Manager. Underpinning the committee is the CR Taskforce, with experts from key business functions, including heath and safety, environment, human resources (HR), learning and development and procurement.

In 2008, we benchmarked our CR activity against the Business in the Community (BITC) CR Index, the leading CR index in the UK. We received a score of 58.5% which BITC said was "a strong performance for a company doing the index for the first time... the responses showed a sophisticated level of activity and good understanding of Corporate Responsibility". We will be using the results to feed into our strategic planning and to inform our priorities. Going forward we are looking to increase our reporting on activities in QNA.



Marketplace

Mission Statement: To be a responsible and sustainable business

What is important for us in the Marketplace?

We are looking at areas that are important for our success, including business ethics, responsible purchasing and listening to our customers as well as the positive contribution we can make to solving global issues such as climate change, through our developing environmental business.

Progress

Our code of conduct underpins how we do business and this year we published our revised Group Code of Business Ethics on our Group website. We recognise the need for continual improvement and will provide ongoing training and guidance for employees (see page 51 for more details).

Our UK purchasing team have put CR at the heart of the supplier selection and service replacement process for key contracts. Following consultation with internal stakeholders and our preferred travel service providers, we have introduced a new employee travel policy to reduce CO_2 emissions by using more fuel-efficient hire cars where possible.

As a business we continue to look at environmental issues and our scientists have developed a new approach for waste management at sea. The system uses a thermal degradation technique called pyrolysis, which is a highly energy-efficient method of waste destruction, with the potential to generate reusable heat and electrical power in the future. This technology is currently being trialled on HMS Ocean and is also being developed for the future aircraft carrier (CVF) but has wider military and commercial applications.

MOD Sustainable Procurement

Customers increasingly expect their suppliers to be integrating sustainability into their business practices. The MOD has introduced its Sustainable Procurement Charter and is using the UK Government Flexible Framework which requires reporting and improvements across the areas of people, policy, strategy, communication, procurement process, engaging suppliers, measurement and results. We signed the Charter in June 2008 and subsequently identified a Sustainable Procurement Champion who has put together a cross-disciplinary forum to capture the expertise of environmental management, community, purchasing and customer requirements. Members of the Forum are part of industry working groups to share best practice.

We have already been applying sustainability principles to MOD projects, for example, developing a sustainable fuels roadmap to look at how petroleum-based fuels can be replaced by sustainable options, within the framework of international legislation and government protocols on emissions.

Our people

Mission Statement: To create the environment which attracts great people and enables them to deliver high levels of performance

How do we attract and develop our people?

We believe in attracting, recruiting and retaining talented people to continually enhance our expertise. We offer opportunities for both personal and professional development.

Progress

We continue to be one of the leading recruiters of graduates and have in recent years strengthened our presence at key universities and improved our position in the Times Top 100 Graduate Recruiters. Our graduate campaigns have won a number of national awards from the advertising industry and professional bodies such as the CIPD. We have successfully been re-accredited as an Investor in People, an important external assessment of our commitment to good practice in people management and development. We continue to invest significantly in training and development aligned to our business objectives. We have an Accredited Initial Professional Development Scheme, a Graduate Development Programme, enhanced leadership assessment and development and have introduced a talent programme which identifies exceptional individuals across the business with the potential to reach senior technical and managerial positions.

Over 60% of our employees responded to this year's annual employee engagement survey and we have seen an increase in engagement across the business. A significant number of employees are shareholders. In EMEA, 6,219 UK employees participate in the Share Incentive Plan, and 232 employees in Australia took up shares. In QNA, 2,458 employees have received shares.

We are dedicated to providing a safe environment for our employees. In the UK we have increased training for all appropriate managers and undertook an employee survey to understand their view on safety in order to inform future programmes. We also introduced new programmes to support safer driving at work. In 2009, the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) rate for QinetiQ's UK employees was 2.82 accidents per 1,000 employees, compared with the Health and Safety Executive (HSE) RIDDOR rate of 5.19 for the "all industries" category.

UK Accidents per 1,000 employees

Work at QNA is generally low-risk and so there is no formal requirement to report accidents according to the Occupational Safety and Health Administration (OSHA) code. Our North American business monitors accidents and recorded 0.78 lost days per 1,000 employees in 2009 (see page 39).

Initial Professional Development

Meera Galoria receiving her Chartered Engineer Award

Attracting, engaging, and developing the cream of graduate talent is key to our success and one of our strategic goals. National surveys of UK graduate opinions consistently show that they place learning and development opportunities high on their agenda when it comes to choosing their first employer. We address this through our Accredited Initial Professional Development (IPD) Scheme, which offers a framework for graduate entrants to work towards chartered status with the professional body of their choice. The scheme is the largest of its type in the UK and is accredited or recognised by 12 professional bodies; offering a route to chartership for accountants, chemists, engineers, HR professionals, mathematicians, physicists and scientists. We have 360 trainees and 320 mentors on the scheme. The scheme produces 70% of all QinetiQ's chartered employees each year and is held in high regard externally by stakeholders. We are also able to demonstrate that our chartered employees attract additional income for the Company.

Meera Galoria is a Systems Engineer: *"Professional Development is actively supported by QinetiQ as an organisation and is strongly encouraged by its Technical Managers and Capability Team Leads. The IPD scheme enabled me to find a suitable mentor and also provides an excellent Chartership and Mentoring course. To date, my development as an engineer has been a true team effort. I owe thanks to my mentor, my managers and all of the other engineers I have worked with."*

Environment

Mission Statement: To be an excellent environmental steward

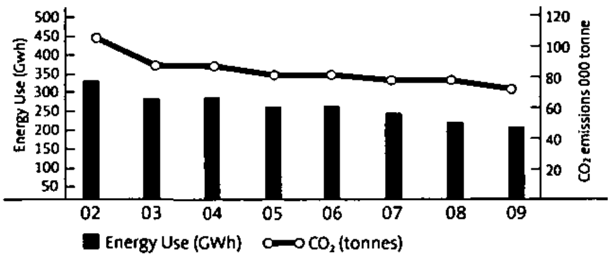
How do we demonstrate our commitment to the environment?

We recognise that, in operating our business, we generate an environmental footprint but we also know we can reduce it by improving our energy efficiency, decreasing our waste and delivering our conservation programmes.

Progress

We have made progress on our waste management programmes and recycled 49% on major UK sites, compared to 30% last year. Our UK energy use this year was equivalent to 71.8 ktonnes of CO_2, a reduction of 5.9 ktonnes of CO_2 compared with last year. This is underpinned by our recent successfully extended ISO14001:2004 certification covering the provision of activities associated with aircraft test and evaluation, weapons and system testing, test and evaluation ranges, knowledge and technology-based research and services, including small scale and prototype production, whole life support and asset management. In QNA, selected employees are preparing to move to new offices, designed specifically to include a range of energy and environmental solutions.

UK Energy use



Notes:
- CO_2 for 2002 to 2007 calculated with conversion factor for electric of 0.43kgCO_2/kWh
- CO_2 for 2008 and 2009 calculated with conversion factor for electric of 0.523kgCO_2/kWh

	2006	2007	2008	**2009**
UK Energy use (GWh)	247.3	229.1	203.6	**191.2**
UK GHG (ktonnes CO_2 equivalent)	81.4	77.7	77.8	**71.8**
UK Waste (tonnes) from major sites	3,131	2,330	1,551	**1,140.0**
UK Recycled waste (tonnes) from major sites	680	761	932*	**1,094.0***

* Excludes Green Waste – composted

Carbon Footprinting

We need to know where our carbon emissions originate so we can formulate an effective reduction strategy. A carbon footprint is a recognised measure of the amount of greenhouse gases (GHGs) for which an organisation is responsible (expressed in tonnes of equivalent CO_2). This can encompass a wide range of emissions sources, from direct use of fuels to indirect impacts such as employee travel, waste disposal or emissions from the supply chain. This year we launched our UK Carbon Footprinting Project to determine our approach. We are working towards attaining ISO14064, an internationally recognised standard and we will use 2009 as a baseline, based on use of electricity, gas and oil, refrigerant gas losses and vehicle usage. Next year we will put processes in place to capture data from air travel and further sources can be added later, when our GHG accounting methods mature. The Project Team is currently developing the necessary business processes and data collection tools for accurate GHG reporting. Realistic carbon reduction targets for applicable areas of the business will follow.

Community

Mission Statement: To make a positive contribution to the community

What are we doing to make sure we are contributing to the community?

A core part of our strategy is education outreach and we also see local community engagement, our science for society programme and supporting our employees in their charitable giving, as important.

Progress

In 2009 we had almost 200 employee volunteers across the UK working with local schools through the STEMNET STEM Ambassador Scheme (previously Science and Engineering Ambassador Scheme). Our STEM Ambassadors were involved in science clubs, careers events and manned tours of Lab in a Lorry in Wales and Portsmouth. This year our STEM Outreach Manager coordinated programmes and supported our Ambassadors. In addition, an online resource has been developed for them to network and share tips and ideas. QNA employees undertook a range of volunteering activities in the community. Total charitable giving from the business across the Group was £133,500 (see page 62). In addition our UK employees raised £50,500 for our priority charities through a range of events attracting matched funding. They also raised £58,000, through our payroll giving scheme. In Australia, employees raised AUS$8,000 for the Victoria bush fire appeal: including a donation from the business. The total raised for this cause was AUS$35,000.

Team QinetiQ race to the South Pole

Ben Fogle with the winning team from Hagley Catholic High School

A core part of QinetiQ's Community Strategy is working with secondary education – specifically inspiring the next generation of scientists and engineers. This strategy was an integral part of the sponsorship of Ben Fogle, Ed Coats and James Cracknell in their race to the South Pole in January 2009. QinetiQ used its scientific expertise to prepare the team for the race and worked with teachers and experts from national bodies to design a package of online teaching resources, bringing the excitement of the race to the classroom. By accessing QinetiQ's 'Learning Zone' online, teachers could find stimulating resources and a suite of six downloadable teaching packs to deliver lessons on nutrition, teamwork, physical fitness, sleep, communication and portable power. The aim was for teachers and pupils to explore the science behind the race (e.g. developing ration packs or working in teams) that was relevant to the curriculum. As many teachers also deliver careers advice, we also developed profiles of key support personnel to illustrate career paths and what they enjoy about life as a scientist. The initiative attracted nearly 400 teachers from all over the UK and as far away as Australia. We partnered with the British Science Association through their well established CREST (CREativity in Science and Technology) award scheme, to design the 'Wrap up Warm' project for 11-14 year old students to design a jacket suitable for Antarctica. Over 600 pupils completed the project and the winning team were from Hagley Catholic High School.

This project has reinforced our strategy to partner with national bodies, ensuring our programmes are specifically targeted, and demonstrating that our community programmes can be embedded within our business projects to the mutual enhancement of both.

Board of Directors

Clear and experienced direction

1. Sir John Chisholm

Non-executive Chairman – 62

Appointed Non-executive Chairman in October 2006, Executive Chairman between September 2005 and October 2006, QinetiQ Chief Executive Officer between July 2001 and September 2005 (Chief Executive of DERA from 1991)

Member of the Compliance Committee and Nominations Committee

Sir John was previously UK Managing Director of Sema Group plc, prior to which he was a Director of CAP Group plc. In 1979, he founded and became Managing Director of CAP Scientific Ltd, following periods of time spent at General Motors and Scicon Ltd, part of BP. Sir John was formerly President of the Institution of Engineering and Technology and is currently Chairman of the Medical Research Council. He is also a Fellow of the Royal Academy of Engineering, the Royal Aeronautical Society and the Institute of Physics. The Board considers Sir John's extensive knowledge of Defence and Security Technology markets, and his unrivalled experience of QinetiQ's business gained whilst Chief Executive Officer, to be a valuable asset to the Board in terms of decision-making and understanding the strategic issues affecting the Group.

2. Graham Love

Chief Executive Officer – 55

Appointed Chief Executive Officer in September 2005, QinetiQ Chief Financial Officer between July 2001 and September 2005

Member of the Compliance Committee

Graham was formerly Chief Executive of Comax Secure Business Services Ltd, leading the company through its privatisation in 1997 before its sale to Amey plc in 1999. Graham joined DERA in 1991 and was its Finance Director from 1992 to 1996, and again between 1999 and 2001. His career has also included management roles with Ernst & Young, KPMG and Shandwick plc, as well as several years in international consulting. Graham is a Fellow of the Institute of Chartered Accountants in England and Wales.

3. David Mellors

Chief Financial Officer – 40

Appointed Chief Financial Officer in August 2008

David was previously deputy Chief Financial Officer of Logica plc. David has also held the position of Chief Financial Officer of Logica's international division covering operations in North America, Australia, Middle East and Asia and prior to that he was the Group Financial Controller. Earlier experience included various roles with CMG Plc, Rio Tinto plc and Price Waterhouse. David is a member of the Institute of Chartered Accountants in England and Wales.

4. Sir David Lees

Deputy Chairman and Senior Independent Non-executive Director – 72

Appointed Deputy Chairman and SID in August 2005

Chairman of the Compliance Committee and Nominations Committee; Member of the Remuneration Committee

Sir David is currently Chairman of Tate & Lyle plc; he has also been a member of the UK Panel on Takeovers and Mergers since June 2001 and in April 2009 was appointed Chairman of the Court of the Bank of England. Sir David joined GKN plc in 1970 and has held the position of Group Finance Director, Chief Executive and Executive Chairman before becoming Non-executive

Chairman in 1997 until his retirement in May 2004. Other notable roles include being a member of the National Defence Industries Council between 1995 and 2004, Chairman of Courtaulds plc from 1996 to 1998 and a Non-executive Director of the Bank of England between 1991 and 1999. From 2001 to 2006, he was Non-executive Joint Deputy Chairman of Brambles Industries plc and Brambles Industries Limited. Sir David is a Fellow of the Institute of Chartered Accountants in England and Wales. The Board considers that Sir David's detailed understanding of the Defence sector, coupled with his extensive experience of corporate governance and the City and its institutions, significantly enhances the operation of the Board, particularly in the context of Sir David's dual role of Deputy Chairman and Senior Independent Non-executive Director.

5. Colin Balmer

Non-executive Director – 62

Appointed Non-executive Director in February 2003

Member of the Compliance Committee and Nominations Committee

Colin served as Managing Director of the Cabinet Office from 2003 until his retirement in 2006. Previously, he was Finance Director of the MOD, with responsibility for QinetiQ's privatisation and the subsequent investment by Carlyle as part of the PPP Transaction. Colin has extensive experience across the MOD and is currently a member of the Foreign and Commonwealth Office's Audit and Risk Committee and is on the Board of the Royal Mint, chairing their Audit Committee. The Board considers that Colin's extensive knowledge of the development of QinetiQ throughout its public-private partnership, and his in-depth understanding of the working of Government, particularly the UK MOD, provides the Board with a unique insight into the issues facing Government in delivering its procurement objectives and partnering with industry suppliers.

6. Noreen Doyle

Non-executive Director – 60

Appointed Non-executive Director in October 2005

Member of the Audit Committee, Nominations Committee and Remuneration Committee

Noreen sits on the Board of Credit Suisse Group (Zurich) and is a Non-executive Director of Newmont Mining Corporation (Denver) and Rexam plc. Prior to her appointment in 2001 as First Vice President of the European Bank for Reconstruction and Development (EBRD), Noreen was head of Risk Management. Previously Noreen had a distinguished career at Bankers Trust Company (now Deutsche Bank) in corporate finance and leveraged financing with a concentration in oil, gas and mining. The Board considers that Noreen's extensive international business experience, particularly in the areas of corporate finance, risk management and banking, to be of significant benefit to the Board as QinetiQ continues its strategy of developing new business opportunities outside its traditional UK market, particularly in North America.

7. Dr Peter Fellner

Non-executive Director – 65

Appointed Non-executive Director in September 2004

Chairman of the Remuneration Committee, Member of the Nominations Committee and Audit Committee

Peter is Chairman of Vernalis plc, Consort Medical plc, and Astex Therapeutics Limited. He is also a Director of the global biotechnology company UCB SA, and of Evotec AG. He was previously Chairman of Celltech Group plc from 2003 until its acquisition in July 2004, having served as its Chief Executive Officer from 1990. Before joining Celltech, he was Chief Executive of Roche UK from 1986 to 1990, having been Director of the Roche UK Research Centre from 1984.

8. Admiral Edmund P. Giambastiani Jr., US Navy (retired)

Non-executive Director – 61

Appointed Non-executive Director in February 2008

Member of the Nominations Committee

Between 2005 and 2007, Ed was the second highest ranking military officer in the United States, having served as the seventh Vice Chairman of the Joint Chiefs of Staff. Ed's distinguished career has also included assignments as Special Assistant to the CIA's Deputy Director for Intelligence, Senior Military Assistant to the US Defense Secretary and Commander, US Joint Forces Command. He also served as NATO's first Supreme Allied Commander Transformation. Ed currently serves as the Non-executive Chairman of the Board of Directors for Alenia North America, Inc and is a Non-executive Director of SRA International, Inc and Monster Worldwide Inc. The Board considers that Ed's extensive knowledge of the US Defence and Security domain significantly enhances the operation of the Board, as QinetiQ continues to pursue its strategy of growing its US platform in the defence and security technology sector.

9. Nick Luff

Non-executive Director – 42

Appointed Non-executive Director in June 2004

Chairman of the Audit Committee, Member of the Nominations Committee

Nick was appointed Finance Director of Centrica plc in March 2007, having previously served as CFO of the P&O Group. He trained as a chartered accountant with KPMG and is a member of the Institute of Chartered Accountants in England and Wales. Nick joined the P&O Board as Finance Director in 1999. In October 2000, he became Chief Financial Officer of P&O Princess Cruises plc on its demerger from the P&O Group and returned as Chief Financial Officer of P&O in May 2003. Nick has also served as a Non-executive Director on the board of Royal P&O Nedlloyd NV, the Dutch-listed international container shipping company. The Board considers that Nick's experience of operating as Chief Financial Officer/ Finance Director with P&O and Centrica, coupled with his extensive exposure to a variety of industrial sectors, provides the rigorous financial and commercial scrutiny required of a FTSE-listed company at the Board level, particularly in the context of his role as Chairman of the Audit Committee.

Corporate Governance report

This part of the Annual Report, together with the Report of the Remuneration Committee on pages 56 to 61, describes how QinetiQ has applied the principles contained in the revised Combined Code on Corporate Governance published in June 2006 ('the Combined Code').

Combined Code

Subject to the exception noted below, QinetiQ has complied with the provisions of the Combined Code throughout the last financial year.

On appointment as Chairman in 2005, Sir John Chisholm was not regarded as independent under the Combined Code as he was formerly QinetiQ's Chief Executive Officer (CEO). The Combined Code recommends that a company's chairman should be independent on appointment and that its Chief Executive Officer should not become chairman of the same company. The Board considers that departure from the Combined Code in this area is appropriate and gave its reasons for non-compliance both in the prospectus published as part of the Company's Initial Public Offering in 2006 and in subsequent Annual Reports.

The Board – governance, processes and systems

Composition of the Board

Sir John Chisholm is the Non-executive Chairman of QinetiQ. The roles of Chairman and Chief Executive Officer are separate, with their responsibilities having been clearly articulated by the Board in writing. The Chairman is responsible for the effective operation of the Board and ensures that all Directors are enabled and encouraged to play their full part in Board activities. The Chief Executive Officer, Graham Love, is responsible to the Board for directing and promoting the profitable operation and development of the Group consistent with enhancing long-term shareholder value, which includes the day-to-day management of the Group, formulating, communicating and executing Group strategy, and the implementation of Board policies.

The Board comprises a Non-executive Chairman, six Non-executive Directors and two Executive Directors, namely the Chief Executive Officer and the Chief Financial Officer (CFO), with the objective of achieving a balance of Executive and Non-executive Directors. The Board considers its overall size and composition to be appropriate, having regard in particular to the independence of character and integrity of all the Directors and the experience and skills which they bring to their duties, which prevents any individual or small group from dominating the Board's decision-making.

The Senior Independent Non-executive Director is Sir David Lees. Sir David is also Deputy Chairman of the Board and serves as an additional point of contact for shareholders should they feel that their concerns are not being addressed through the normal channels. Sir David is, furthermore, available to fellow Non-executive Directors, either individually or collectively, should they wish to discuss matters of concern in a forum that does not include the Chairman, the Executive Directors or the senior management of QinetiQ.

The Shareholder Relationship Agreement entered into between QinetiQ and MOD at IPO entitled the MOD to nominate one Non-executive Director to the Board, for so long as the MOD continued to hold at least 10% of QinetiQ's issued ordinary share capital. The MOD sold its entire ordinary shareholding in the Company on 9 September 2008, at which point its right to nominate a Non-executive Director came to an end. Colin Balmer has been the MOD's nominated director since IPO, and notwithstanding the fact he ceased to act in such capacity on 9 September 2008 for the reasons set out above, he has continued as a member of the Board throughout the financial year ended 31 March 2009.

On 30 May 2008, Doug Webb resigned as Chief Financial Officer to join The London Stock Exchange Group plc and was replaced by David Mellors, who joined the Board as an Executive Director on 20 August 2008.

The Directors are responsible for the management of the business of the Group and their powers are subject to the Memorandum and Articles of Association and any applicable legislation and regulation.

Rules concerning the appointment and replacement of Directors of the Company are contained in the Articles of Association and changes to these articles must be submitted to shareholders for approval.

Directors' independence

Of the current Directors of the Company, the Board considers Sir David Lees, Nick Luff, Dr Peter Fellner, Noreen Doyle and Admiral Edmund P. Giambastiani to be independent of QinetiQ's executive management and free from any business or other relationships that could materially interfere with the exercise of their independent judgement. Of the remaining Non-executive Directors, the Board considers that both Sir John Chisholm and Colin Balmer are not independent for Combined Code purposes, Sir John on the basis that he was formerly QinetiQ's Chief Executive Officer and exercised certain executive responsibilities until 1 October 2006, and Mr Balmer as he was (until MOD sold its entire ordinary shareholding in the Company on 9 September 2008) the MOD's nominated director.

Based on the above, the Board considers that over half of its members were independent Non-executive Directors throughout the last financial year.

Board structure

The Board considers that the skills and experience of its individual members, particularly in the areas of UK/US defence and security, the commercialisation of innovative technologies, corporate finance and mergers and acquisitions, have been fundamental in the pursuit of QinetiQ's growth strategies (as described in the Chief Executive Officer's Review section of this Annual Report) in the past year. In addition, the quoted company experience available to members of the Board in a variety of industry sectors and international markets has also been invaluable to the Group as it seeks to penetrate new markets and geographic territories.

Operation of the Board

The Board is responsible for managing the Group's operations and, in this capacity, determines the Group's strategic and investment policies. The Board also monitors the performance of the Group's senior management team (which is known as the QinetiQ Executive Team) and organises its business to have regular interaction with key members of the Group, including those based in North America. The following is a summary of the approach taken by the Board to corporate governance in the financial year ended 31 March 2009:

- The Board has agreed a schedule which contemplates eight Board meetings being held in each financial year. Members of the Board are also invited to attend a dinner on the occasion of each Board meeting, which assists in the process of relationship building and ensuring that key strategic initiatives are thoroughly discussed. The Board intends to hold two of its scheduled meetings in the US in each financial year, to give members of the Board an opportunity to meet with senior management in the QinetiQ North America region. It is proposed that a further two Board meetings will be held at QinetiQ UK sites each year to provide members of the Board with greater opportunity to understand the operational dynamics of the EMEA business at first hand.
- The Board receives written reports from the CEO and CFO each month, together with a separate report on investor relations (which is prepared in consultation with QinetiQ's brokers) and a report produced by the Company Secretary on key legal and regulatory issues affecting the Group. The Board also considers reports from the respective Chairmen of the Committees of the Board at the next scheduled Board meeting following the date on which each Committee Meeting was held.
- The CEO's monthly report addresses the key strategic initiatives impacting the Group since the previous meeting of the Board, and focuses in particular on the progress of each of the QNA, EMEA and Ventures businesses. Other key areas of focus include health, safety and environmental matters, employee and organisational issues, corporate responsibility, the status of key account management/customer relationship initiatives, the pipeline of potential bids, acquisitions, disposals and investments, and post-acquisition performance of recently acquired businesses. Of particular significance on the transactional front in the last financial year was the consideration given by the Board to the acquisitions of Dominion Technology Resources, Inc and Spectro Inc in QNA and Commerce Decisions Limited in EMEA, as well as the integration of recently completed US acquisitions into the newly created Technology Solutions/System Engineering/Mission Solutions structure in QNA and the Australian Consulting business in EMEA. The Board also oversaw the conclusion of the £150m Maritime Strategic Capabilities Agreement in partnership with the MOD in the last financial year, and the programme of work to progress the contractual arrangements for the Defence Training Rationalisation programme (conducted through Metrix). Significant attention was also focused on setting the strategic direction for both the EMEA and Ventures businesses, with the key emphasis in EMEA being on the alignment of investment opportunities with high value growth propositions, whereas cost containment, investment prioritisation and accelerating realisation opportunities represented the strategic focus for Ventures. Any proposed acquisitions, disposals and investments which exceed the CEO's delegated authority are considered by the Board in the context of the CEO's report.
- The CFO's monthly report addresses the financial performance and outlook of the Group and each of the sectors, both on a monthly and year-to-date basis, with the key performance indicators analysed by the Board being those identified on pages 38 and 39. The Group Risk Register also forms part of the CFO's report on a quarterly basis and tracks the 'Principal risks and uncertainties' identified on pages 40 to 42 of the Business Review; the Risk Register (which underwent significant review and modification in the year) includes an analysis of the potential severity of each risk (as a function of the likelihood of impact), the assumptions underlying each risk, the actions required to manage the risk and the relevant key performance indicators for each headline risk. The risk owners present an update of mitigating actions and a status update to the Board by rotation. An important feature of QinetiQ's financial management activities in the last financial year related to the Private Placement transaction, which completed in February 2009, and is described in more detail in the Chief Financial Officer's Review. The CFO also reports on a monthly basis, as part of his investor relations report, on the key issues raised by shareholders, potential investors and other important stakeholders on QinetiQ's performance and key strategic initiatives.
- On at least two occasions each year, one of the sector heads will give a presentation to the Board on the key strategic, operational and performance issues impacting their business. The Board also receives updates from the CEO's key functional reports on an 'as needed' basis, on issues such as Human Resources, Treasury, Corporate Responsibility, Real Estate and Pensions, throughout the financial year. The Board devotes one entire meeting each year to consider strategy and planning issues impacting the Group, from which the five-year corporate plan is generated. A key part of this process involves the Board having the opportunity to question the sector heads and the Executive Directors in relation to the formulation of the corporate plan at sector level and the impact of these plans on the Group strategy as a whole. The Non-executive Directors also have an opportunity to meet with other members of staff within the QinetiQ Group (including, but not limited to, other members of the senior management team) at lunchtime/evening events, which are scheduled to coincide with Board meetings. During the last financial year, two such events were held at QNA facilities in Waltham, Massachusetts and the Kennedy Space Center, Florida and the Board also had the opportunity to review QinetiQ's technology capabilities at its Farnborough site.
- The Board operates through a comprehensive set of processes, which define the schedule of matters to be considered by the Board and its Committees during the annual business cycle, the level of delegated authorities (both financial and non-financial) available to both Executive Directors and other layers of management within the business, and QinetiQ's Business Ethics, Risk Management and Health, Safety and Environmental processes. The Board also has a clearly articulated set of matters which are specifically reserved to it for consideration, which include reviewing the annual budgets, raising indebtedness, granting security over Group assets, approving Group strategy and the corporate plan, approval of the annual and interim report and accounts, approval of significant investment, bid, acquisition and divestment transactions, approval of Human Resources policies (including pension arrangements), reviewing material litigation and monitoring the overall system of internal controls, including risk management.
- During the last financial year, the Board approved a new Group Ethics policy, and oversaw the introduction of a new UK Code of Conduct and "hotline" whistleblower programme (to mirror the whistleblower programme already in place within QNA). This activity resulted in a decision to extend the remit of the Compliance Committee to cover Group Ethics and the Proxy Regime, as well as the operation of the Compliance Regime (as described in more detail below). QinetiQ has been a member of the UK Defence Industry Anti-corruption Forum since 2006, the primary objective of which is to promote 'the prevention of corruption in the international defence markets'. In furtherance of this objective, QinetiQ has put in place internal procedures which are designed not only to comply with, but to exceed, international best practice in this area. This is facilitated by the engagement of an independent, internationally recognised organisation known as TRACE (Transparent Agents and Contracting Entities) which conducts anti-bribery due diligence reviews and compliance training on behalf of the Group, particularly in circumstances in which QinetiQ is planning to engage third-party agents overseas.

Corporate Governance report

Performance of the Board

During the financial year ended 31 March 2009, QinetiQ conducted its third evaluation of the performance of the Board and its Committees since IPO, which was the first such exercise to be conducted by external facilitators. The external facilitators engaged on this programme used the core conclusions arising out of the prior year's self assessment exercise as a reference point for creating a detailed Board questionnaire, which was supplemented by additional questions focused on best practice areas of corporate governance. Each member of the Board (together with members of the QinetiQ Executive Team) responded to the questionnaire, and also participated in a face-to-face interview with the external facilitators, at which the performance of the Board as a whole, as well as its Committees, was discussed in detail. In addition to the external evaluation exercise, the Chairman held meetings individually with each of the Directors at which the performance of the Board, its Committees and individual Board members was discussed; Sir David Lees, in his capacity as the Senior Independent Non-executive Director, also met with individual members of the Board to evaluate the performance of the Chairman. The evaluation process revealed that, in virtually all areas, the operation of the Board and its Committees had improved in the last 12 months, with the Board concluding that its business was conducted in a positive manner, with the Board possessing both a strong sense of openness and good levels of challenge, and having devoted increased attention to strategic planning and the delivery of continuous improvement in the year. As a result of the evaluation exercise, the Board agreed to maintain its focus on succession planning in the coming year, as well as increasing the level of attention given to people and cultural issues at the Board level.

As a separate exercise, the Chairman has held various meetings with the Non-executive Directors in the last financial year, without the Executive Directors present, in order to review both the operation of the Board and the performance of the Executive Directors. In addition, the Executive Directors were appraised as part of the annual salary review process, which was overseen by the Remuneration Committee.

Directors' induction, training and information

All newly appointed Directors participate in an induction programme, which is tailored to meet their specific needs in relation to information on the Group. This induction programme includes an induction pack, which is refreshed to ensure it contains the most up-to-date information available on the Group.

All Directors are encouraged to visit QinetiQ's principal sites and to meet a wide cross-section of the employee base. During the last financial year, the Board held two of its meetings at QinetiQ facilities located in Waltham, Massachusetts and the Kennedy Space Center, Florida, which allowed members of the Board to better appreciate the operational dynamics and technical offerings of QNA's Technology Solutions business (in particular, the Talon® and Last® Armor programmes) and the Mission Solutions division. The Board also held one of its meetings at QinetiQ's Farnborough site, in advance of which a tour was arranged to provide members of the Board with exposure to a number of QinetiQ's technologies (in the area of robotics, acoustics and UAVs) and corporate responsibility initiatives (including QinetiQ's STEM outreach programme).

Training is also available to the Board on key business issues or developments in policy, regulation or legislation on an 'as needed' basis. In the last year, specific training was provided on the law relating to the management of conflicts of interest contained in the recently introduced Companies Act 2006 and guidance was provided on the policies to be adopted by the Board in that regard. Members of the Board addressed this issue by responding to a detailed questionnaire, designed to identify actual or potential conflict of interest situations; the outputs of this exercise (which principally concerned the potential for conflicts arising from other directorships held by members of the Board, both within the QinetiQ Group and externally) were subsequently reviewed by the Board, it being noted that in each situation, the potential conflict had either been avoided or declared in advance.

Each of the Directors has access to the services of the Company Secretary, and there is also an agreed procedure for the Directors to seek independent advice at the Company's expense.

Directors' responsibilities

Statements explaining the Directors' responsibilities for preparing the Group's financial statements and the auditors' responsibilities for reporting on those statements are set out on pages 64 and 65.

Other Directors' information

Details of Executive Directors' service contracts and the Non-executive Directors' letters of appointment are set out in the Report of the Remuneration Committee. Copies of Directors' service contracts and letters of appointment will be available for inspection at the Company's Annual General Meeting.

In October 2006, Sir John Chisholm, was appointed Chairman of the Medical Research Council, a role for which he does not take a fee. Each serving member of the Board will be put forward for re-election at the Annual General Meeting of the Company in 2009.

Other Management Committees

Responsibility for the day-to-day management of the Group's activities, with the exception of QinetiQ's North American operations (which are managed through the Proxy Board, as described in the section below headed 'Management and control of US subsidiaries'), is conducted through the QinetiQ Executive Team (QET). The QET is comprised of the Group CEO, Group CFO, CEO QNA, General Counsel/Company Secretary, Group Head of Compliance, Chief Technology Officer, Group Head of HR and Communications Director. The QET meets on a monthly basis, and receives weekly updates on key operational issues by way of pre-scheduled conference calls. The activities of the QET are supplemented by the Proxy Board and Executive Management Team in QNA, the EMEA Executive Management Team and the Ventures Board. Separate committees have also been established to review Group strategy in the areas of Technology, Communications and Corporate Responsibility, each of which meet on a periodic basis.

Committees of Directors

The Board has established four principal committees, being the Audit Committee, the Remuneration Committee, the Nominations Committee and the Compliance Committee, each of which operates within written terms of reference approved by the Board, details of which are set out in the Investor Relations section of QinetiQ's website (www.QinetiQ.com). Each Chairman of the Board Committee reports on the key issues discussed, and decisions taken, at the next meeting of the Board following the Committee meeting in question.

Details of each of these Committees are summarised below.

Audit Committee

Chairman: Nick Luff
Members: Noreen Doyle, Dr Peter Fellner

Each member of the Audit Committee is an independent Non-executive Director. The Committee is chaired by Nick Luff, who has been a member of the Institute of Chartered Accountants in England and Wales since 1991. The Board considers him to have recent and relevant financial experience given his former roles as CFO of P&O and P&O Princess Cruises and his current position as Finance Director of Centrica. The other members of the Committee are Dr Peter Fellner and Noreen Doyle. The Audit Committee meets as necessary and at least four times a year. During the financial year ended 31 March 2009, the Committee met on six occasions. The external auditors have the right to request that a meeting of the Audit Committee be convened. During the past financial year, the Committee met with QinetiQ's external auditors on two separate occasions without Executive Directors present to discuss the audit process, and the Committee Chairman also met with the Group Head of Internal Audit on the same basis.

The Chief Executive Officer, Chief Financial Officer, Group Financial Controller, Group Head of Internal Audit, the Internal Audit Manager, and a representative of the external auditors, normally attend Audit Committee meetings except where not permitted.

QinetiQ Group plc

Audit Committee	Remuneration Committee	Nominations Committe	Compliance Committee
Chairman: Nick Luff Monitors the Group's integrity in financial reporting and reviews the effectiveness of the risk management framework.	**Chairman: Dr Peter Fellner** Sets remuneration and incentives for Executive Directors; approves and monitors remuneration and incentives for the Group.	**Chairman: Sir David Lees** Ensures that the Board and Committee composition has the optimum balance of skills, knowledge and experience.	**Chairman: Sir David Lees** Monitors the Group's adherence to the MoD Compliance Regime, as well as Group Ethics and the DoD Proxy Regime.

During the last financial year, consideration of the audit process for the full year and interim results represented the principal areas of focus for the Audit Committee, which included detailed reviews of potential write-downs and impairment provisions, such as goodwill impairment testing on recently completed acquisitions. The Committee also assessed the effectiveness of the Internal Audit function, through a balanced scorecard review process designed to measure the achievement of Internal Audit objectives, which resulted in the approval of a detailed 12-month work programme for the function. In the context of the Group's North American business, the Committee undertook an in-depth review of the internal controls environment across the QNA sector, which included an assessment of the operation of the proxy regime, as well as the integration of newly acquired US businesses, KPI target setting and the QNA Code of Conduct. As part of its review of internal controls, the Committee focused in particular on those matters which had failed to achieve at least a 'satisfactory' audit rating in the year, and the management plans to address the issues raised by the Internal Audit function. The controls environment relating to QinetiQ's treasury activities was a particular area of focus in the year, with the Group's risk management strategies in areas such as foreign exchange, cash management and debt exposure justifying particular Committee attention. The Committee also reviewed the activities of the pensions, tax and insurance functions in detail, as well as overseeing the level of KPMG's audit fees. The Committee was also involved in the process of appointing a new Group Head of Internal Audit, which resulted in Peter Morling taking on this position in September 2008. The Committee confirms its view that it has received sufficient reliable and timely information from management in the last financial year to enable it to fulfil its responsibilities.

In order to safeguard auditor independence and objectivity, the Committee ensures that any other advisory/consulting services provided by the auditors do not conflict with their statutory audit responsibilities and are conducted through entirely separate working teams; such advisory and/or consulting services only generally cover regulatory reporting, tax and mergers and acquisitions work. Any non-audit services conducted by the auditors require the consent of the Chief Financial Officer or the Chairman of the Audit Committee before being initiated, with any such services exceeding £50,000 in value requiring the consent of the Audit Committee as a whole. In the last financial year, the only non-audit activity conducted by KPMG on behalf of QinetiQ which exceeded this £50,000 threshold, related to the provision of Taxation advisory services to the Group, which the Committee concluded did not create any conflict of interest issues which might compromise the independence of KPMG audit work. It is also QinetiQ's policy that no KPMG employee may be appointed into a senior position within the QinetiQ Group without the prior approval of the Chief Financial Officer. The cost of non-audit work undertaken by the auditors was reviewed by the Committee on several occasions during the last financial year; this process allows the Committee to take corrective action if it believes that there is a risk of the auditors' independence being undermined through the award of such work.

KPMG has been the Company's auditors since 2003. The members of the Audit Committee have declared themselves satisfied with the performance of KPMG as the Company's auditors in the last financial year. A rotation of KPMG's lead audit partner was undertaken during the previous financial year; it is anticipated that he will continue in this role for a maximum term of five years.

Remuneration Committee

Chairman: Dr Peter Fellner
Members: Noreen Doyle, Sir David Lees

Each member of the Remuneration Committee is an independent Non-executive Director. The Committee meets as necessary although normally not less than three times a year. During the financial year ended 31 March 2009, the Remuneration Committee met on five occasions. Although not members of the Committee, the Group Chairman, the Chief Executive Officer, the Group Head of Human Resources and the Head of Performance and Reward normally attend Committee meetings, together with representatives of QinetiQ's external consultants, Deloitte & Touche LLP, as necessary. Executive Directors are not present when their own remuneration is being discussed. Further information on the activities of the Remuneration Committee during the last financial year are set out in the Report of the Remuneration Committee on pages 56 to 61.

Nominations Committee

Chairman: Sir David Lees
Members: Colin Balmer, Sir John Chisholm, Noreen Doyle, Dr Peter Fellner, Admiral Edmund Giambastiani, Nick Luff

In October 2008, the Board resolved that all of the Non-executive Directors would be appointed to the Nominations Committee. Prior to this date, the membership of the Committee comprised the Committee Chairman, Sir David Lees, together with Dr Peter Fellner and Sir John Chisholm. A majority of members of the Committee throughout the year were independent Non-executive Directors. The Committee meets as necessary and when called by its Chair. During the financial year ended 31 March 2009, the Committee met formally on three occasions and consulted informally on several other occasions.

The principal focus of the Committee's activities during the financial year ended 31 March 2009 was to review QinetiQ's succession planning processes at both the Executive and Non-executive Director levels, and for other key management positions within the Group, which the Committee considered in terms of the need to plan for immediate cover in respect of key roles, as well as succession planning to cover vacancies arising over a two to five-year timeframe. The Committee also reviewed talent and leadership development initiatives to be introduced across the business, which included the training programme being developed with Henley School of Management which is targeted at high potential employees considered to be of senior executive calibre in the future. The Committee also oversaw the recruitment process for a new Chief Financial Officer following Doug Webb's move to The London Stock Exchange Group plc, which culminated in the appointment of David Mellors in August 2008.

Corporate Governance report

Compliance Committee

Chairman: Sir David Lees
Members: Colin Balmer, Sir John Chisholm, Graham Love
QinetiQ's breadth of technical knowledge and its depth of understanding of the defence operating environment allows it to serve the interests of the MOD in two distinct ways. It is able to partner with other manufacturers in the defence supply chain to develop and deliver capabilities that give an operational advantage to the armed forces and also to provide advice to the MOD during the entire procurement cycle.

However, these distinct offerings may lead to a conflict of interest, which, if unmanaged, could bring into question the MOD's ability to be able to rely on impartial advice during any competitive evaluation of a procurement where QinetiQ wishes to operate on both the 'buy' and the 'supply' sides. To give MOD customers confidence that QinetiQ is able to perform these activities, QinetiQ is required by its Articles of Association to implement a Compliance Regime, which was established on its creation out of DERA. Central to this Regime is the requirement for QinetiQ to seek permission from the MOD prior to providing commercial defence services to others where there is potential for a conflict of interest with the services that QinetiQ provides to the MOD.

In designing the Compliance Regime, the MOD and QinetiQ sought to achieve a balance between meeting the needs of the procurement customers within the MOD (principally Defence Equipment and Support) and the need to allow QinetiQ flexibility to exploit research into the supply chain and pursue its planned commercial activities, without compromising the defence or security interests of the UK. The Compliance Regime is largely self-policing, in that it is applied by QinetiQ in respect of its activities without extensive intervention or oversight by the MOD. Since the inception of the Compliance Regime, over 97% of the requests to the MOD to allow QinetiQ to operate on the supply side of the commercial defence market have been approved. Oversight of the operation of the Regime is provided by the Compliance Committee, chaired by Sir David Lees. Colin Balmer, a Non-executive Director, is a member of the Committee, as are the Group Chairman and Chief Executive Officer. The Board nominates two senior executives to act as Compliance Implementation Director and Compliance Audit Director.

QinetiQ's Compliance Committee meets on four occasions each year to monitor the operation of the Regime. It receives a report from the Company's Compliance Implementation Director which describes the permissions which have been sought and granted since the last meeting of the Committee, and the status of projects where the potential conflicts of interest are being managed. The Committee also receives, from the Compliance Audit Director, a report on the effectiveness of the controls that are in place to ensure that the Regime is operated correctly. The Committee is the forum that would address any issues arising out of QinetiQ's failure to comply with the requirements of the Regime. The Committee reviews the systems that support the Compliance Regime and those that may impact it, directing changes if appropriate. A computer-based training package continues to be used to ensure that all relevant employees have a satisfactory knowledge of the operation of the Regime. For key roles, competence is demonstrated by passing a mandatory test annually.

The MOD reviews the operation and effectiveness of the Compliance Regime, through its right to have an observer at the Compliance Committee meetings.

During the year, a total of seven new permissions were sought from the MOD under the Compliance Regime, where potential conflicts of interest were identified by QinetiQ, with three permission requests being outstanding from the previous year. Of these ten requests, eight were approved, one was not pursued and one remained outstanding at the end of March 2009. At the end of the year, 24 firewalls were in place, with seven being established and ten being closed down during the year. Since vesting in 2001, a total of 117 firewalls have operated with 93 now closed. No breaches of the MOD Compliance Regime have been noted during the year. A firewall is a series of rules and procedures governing written and oral communication between staff contributing to products in an MOD competition with industry (outside the wall) and staff assessing those products for MOD (inside the wall).

The Compliance Committee also provides oversight of other significant compliance issues, particularly: the activities that fall within the scope of the Helsinki Protocol covering trials involving human volunteers; the Group's Business Ethics policy; and the requirements of the Proxy Regime as described below.

Going concern

The Group's activities, combined with the factors that are likely to affect its future development and performance, are set out in the Chief Executive's review on pages 8 to 16 and in the Performance Review on pages 17 to 31. The Chief Financial Officer's report on pages 32 to 37 sets out the financial position of the Group along with a description of its cash flows, borrowing facilities and liquidity. Additionally, note 27 to the financial statements includes the Group's policies and processes for managing both its capital and financial risks. Note 27 also provides details of the Group's hedging activities, details of its financial instruments and its exposure to liquidity and credit risk.

The Group has several long-term contracts with a number of customers and suppliers spread across different geographies and industries and, as a result, the Directors believe that the Group is well positioned to manage its overall business risks successfully despite the current economic outlook.

After making the appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Consequently, the Annual Report and Accounts have been prepared on a going concern basis.

Communication with shareholders

The Company attaches significant importance to the effectiveness of its communications with shareholders. During the last financial year, the Company has maintained regular dialogue with institutional shareholders and the financial community, which has included presentations of the full-year and interim results (including investor 'road shows' held in the UK, Europe and US), regular meetings with major shareholders and industry analysts, participation in stockbrokers' seminars and investor site visits. In addition, each member of the Board attended the Company's Annual General Meeting in July 2008 and a number of Non-executive Directors attended key shareholder events in the last financial year, including the full-year and interim results presentations, at which they were available to take questions from shareholders. All shareholders and potential shareholders can gain access to the Annual Report, presentations to investors and other significant information about the QinetiQ Group on the Company's website at www.QinetiQ.com.

Holders of ordinary shares may attend the Company's AGM at which the Company highlights key business developments during the year and at which shareholders have an opportunity to ask questions. The chairmen of the Audit, Remuneration, Nominations and Compliance Committees will be available to answer any questions on the work of the Committees. The Company confirms that it will send the AGM Notice and relevant documentation to all shareholders at least 20 working days before the date of the AGM. For those shareholders who have elected to receive communications electronically, notice is given of the availability of documents on the Investor Relations Section of the Group's website.

All shareholders will be entitled to vote on the resolutions put to the AGM and, to ensure that all votes are counted, a poll will be taken on all the resolutions in the Notice of Meeting. The results of the votes on the resolutions will be published on the Company's website.

Responsibility for maintaining regular communications with shareholders rests with the Executive Team, led by the Chief Executive Officer, assisted by an investor relations function which reports to the Chief Financial Officer. The Board is informed on a regular basis of key shareholder issues, including share price performance, the composition

Attendance at Board and Committee meetings April 2008 – March 2009

	Board	Remuneration Committee	Audit Committee	Compliance Committee	Nominations Committee
Colin Balmer	10/10	–	–	4/4	–
Sir John Chisholm	10/10	–	–	4/4	3/3
Noreen Doyle	10/10	5/5	6/6	–	–
Dr Peter Fellner	10/10	5/5	6/6	–	2/3
Admiral Edmund P. Giambastiani	9/10	–	–	–	–
Sir David Lees	10/10	5/5	–	4/4	3/3
Graham Love	10/10	–	–	4/4	–
Nick Luff	10/10	–	6/6	–	–
David Mellors[1]	6/6	–	–	–	–
Doug Webb[2]	3/3	–	–	–	–

[1] David Mellors was appointed to the Board on 20 August 2008.
[2] Doug Webb resigned from the Board on 30 May 2008.

of the shareholder register and City expectations. The Chairman, the Senior Independent Director and Non-executive Directors make themselves available to meet with shareholders as required.

Management and control of US subsidiaries

QinetiQ's principal US subsidiaries are currently required by the US National Industrial Security Program to maintain facility security clearances and to be insulated from foreign ownership, control or influence. To comply with these requirements, QinetiQ North America Operations, LLC (a wholly-owned subsidiary of QinetiQ in the US and the holding company for the substantive part of QinetiQ's North American operations) and the US DoD have entered into a proxy agreement that regulates the ownership, management and operation of these companies. Pursuant to this proxy arrangement, QinetiQ has appointed four US citizens (an additional proxy holder having been appointed in the last financial year) holding requisite US security clearances as proxy holders to exercise the voting rights of QinetiQ North America Operations, LLC's shares in the US subsidiaries. The proxy holders are also appointed as directors of the relevant US subsidiaries and, in addition to their powers as directors, have power under the proxy arrangements to exercise all prerogatives of share ownership of QinetiQ North America Operations, LLC. The proxy holders agree to perform their role in the best interests of QinetiQ North America Operations, LLC and consistent with the national security concerns of the US. QinetiQ does not have any representation on the boards of the subsidiaries covered by the proxy agreement and does not have the right to attend board meetings. QinetiQ may not remove the proxy holders except for acts of gross negligence or wilful misconduct or for breach of the proxy agreements (with the consent of the US Defense Security Service).

Internal controls

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness in safeguarding the shareholders' interests and the Company's assets. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. QinetiQ managers are responsible for the identification and evaluation of significant risks applicable to their areas of business, together with the design and operation of suitable internal controls to ensure effective mitigation. These risks, which are related to achievement of business objectives, are assessed on a continual basis and may be associated with a variety of internal and external events, including control breakdowns, competition, disruption, regulatory requirements and natural and other catastrophes.

A process of hierarchical self-certification has been established within the organisation which provides a documented and auditable trail of accountability for the operation of the system of internal control.

This process is informed by a rigorous and structured self-assessment that addresses all of the guidance cited in the Combined Code. The process provides for successive assurances to be given at increasingly higher levels of management and, finally, to the Board. The process is informed by the Internal Audit function, which also provides a degree of assurance as to the operation and validity of the system of internal control. Planned corrective actions are independently monitored for their timely completion. Managers report on risks (which are recorded at corporate, sector and divisional level of profit and loss, as well as within all customer-facing projects) and how these are managed on a monthly basis to the QinetiQ Executive Team and the Board, formally, on a quarterly basis.

The QinetiQ Executive Team reviews on a monthly basis the risk management and control process and considers:

- the authority, resources and coordination of those involved in the identification, assessment and management of significant risks faced by the organisation;
- the response to the significant risks which have been identified by management and others; the monitoring of reports from Group management; and
- the maintenance of a control environment directed towards the proper management of risk.

The centrally provided internal audit programme is prioritised according to risks identified by the Company and is integrated across all business and functional dimensions, thereby reducing issues of overlap or gaps in coverage. These risks are identified dynamically and the Board is involved in this process as well as the QinetiQ Executive Team.

The Chief Financial Officer provides to the Board monthly information that includes key performance and risk indicators. Where areas for improvement in the system of internal control are identified, the Board considers the recommendations made by the QinetiQ Executive Team, the Audit Committee and the Compliance Committee. The Audit Committee reviews, on behalf of the Board, the key risks inherent in the business and the system of internal control necessary to manage such risks and presents its findings to the Board. Internal Audit independently reviews the risk identification and control processes implemented by management and reports to the Audit Committee.

The Audit Committee also reviews the assurance process, ensuring that an appropriate mix of techniques is used to obtain the level of assurance required by the Board. It presents its findings to the Board on a regular basis. The Board has reviewed the effectiveness of the system of internal control that has been in operation during the financial year ended 31 March 2009. The Board also routinely challenges the management to ensure that the systems of internal control are constantly improving to maintain their continuing effectiveness.

Driving business performance and shareholder value

"The key purpose of the Committee is to ensure that the remuneration structure supports the Company's strategy and that we are able to attract, retain and motivate the very best calibre executives while aligning their interests with shareholders."

Dr Peter Fellner
Chairman of the Remuneration Committee

Introduction

The current economic environment has brought executive remuneration into the spotlight to a degree rarely seen before. However, I am pleased to report that QinetiQ's remuneration policies continue to meet the three tests that we impose upon them:

- Incentivising key executives and managers
- Driving superior performance in both the short and long term
- Alignment with the interests of shareholders.

The Group performed strongly during the past year, but this was partly assisted by a significant shift in exchange rates. The Company therefore fell just short of the target threshold for paying out under its short-term incentive arrangements, since the performance criteria for Annual Bonus grants are assessed on a constant currency basis.

Nevertheless, we continue to value excellence and, where appropriate, to reward it. Therefore targeted incentive payments will be made to a small number of employees across a range of levels within the business.

Looking forward, we are keen to ensure that performance-related earnings remain just that, and we will take into account the level of the share price when determining the levels of long-term incentive awards granted this year. The Committee will be balancing a desire to incentivise employees appropriately with a need to ensure that any value delivered by these awards is proportionate to the underlying performance.

Dr Peter Fellner, Chairman of the Remuneration Committee

21 May 2009

Report of the Remuneration Committee

The following Report of the Remuneration Committee has been approved by the Board for submission to shareholders.

It covers the remuneration of Directors and includes specific disclosures relating to their emoluments, shares and other interests. The report also describes the share-based incentive plans available to Executive Directors and to other employees. This report has been prepared and, where appropriate audited, in accordance with the requirements of the Directors' Remuneration Report Regulations 2002, and the FSA Listing Rules.

Membership

The Committee is composed of the following independent Non-executive Directors:

- Dr Peter Fellner
- Sir David Lees
- Noreen Doyle

The full Terms of Reference of the Committee can be found on the QinetiQ website (www.QinetiQ.com). Copies are also available on request.

Governance

The Committee is chaired by Dr Peter Fellner and all of its members are independent Non-executive Directors. In the financial year 2008/09, the Committee met five times.

During the year, the Committee received advice from its appointed independent advisors, Deloitte LLP ('Deloitte'). Deloitte provided other consulting services during the year to QinetiQ, but did not provide advice on executive remuneration matters other than to the Committee. Towers Perrin and PwC Monks provide market information.

The Group Chairman, Group Chief Executive, Group HR Director and Group Head of Reward also provided advice to the Committee. No employee of QinetiQ is permitted to participate in discussions about their own remuneration.

Activities

During 2008/09 the Committee meetings covered a number of topics including:

April	• Approval of Executive Directors FY08 bonuses • FY09 performance targets
May	• Approval of Executive Directors salary reviews • Directors' Remuneration report • Approval of Executive team salary reviews and FY08 bonuses
July	• Approval of Performance Share Plan, Restricted Stock Unit and Share Option awards
September	• Review of Executive team total compensation • Update on pay trends • Review of Executive team Shareholdings
January	• Review of Remuneration Committee Remit • Vesting of 2006 options • Review of comparator group

Directors' remuneration policy

The Committee aims to maintain a remuneration policy, consistent with the Company's business objectives, which:

- Attracts, retains and motivates individuals of high calibre; and
- Is responsive to both Company and personal performance.

The remuneration policy is built on the following philosophy:

- Remuneration packages are structured in order to support business strategy whilst conforming to current best practice.
- Total rewards are achieved through the attainment of stretching performance targets based on measures which are consistent with the interests of shareholders.
- Transparent disclosure of remuneration will be provided to the Company's shareholders.

The total remuneration levels of the Executive Directors are reviewed annually by the Committee, taking into account:

- Performance of the executive;
- Competitive market practice and remuneration levels; and
- The general economic environment.

Base salary

Executive Directors' base salaries are reviewed annually on the same basis as all other employees. Salary changes in June 2008 reflected market pay levels, together with Company and personal performance.

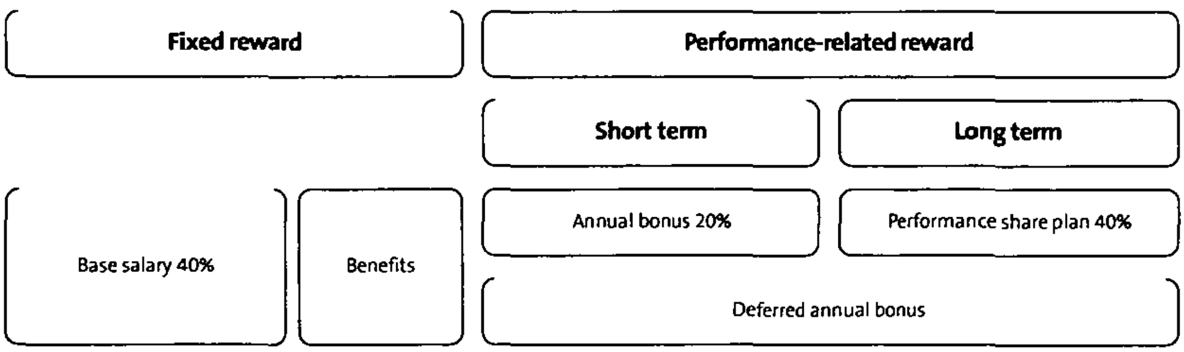
External remuneration consultants provide data about market salary levels. For market comparison purposes, account is taken of company type, sector and measures of company size in terms of both market capitalisation and turnover.

No salary increase is proposed for Executive Directors in respect of 2009/10.

Benefits

Benefits may include a pension or contribution in lieu, car allowance, health insurance, life insurance and membership of the Group's employee Share Incentive Plan which is open to all UK employees.

The current structure of remuneration (excluding pension) for Executive Directors under this policy is illustrated below:



Each element of an Executive Director's remuneration package aligns and supports the achievement of different Company objectives. This alignment is illustrated below:

Component of remuneration	Objective	Performance metrics
Annual Salary	• Recognise skills, experience and responsibility	Not subject to performance, but increases are based on individual performance and market data
Annual Bonus and Deferred Annual Bonus	• Drive achievement of annual business goals • Provide linkage between short-term and long-term incentives • Provide a co-investment opportunity • Provide increased alignment with shareholders	• Operating profit • Underlying EPS • Operating cash flow • Turnover
Performance Share Plan	• Drive earnings growth, share price and dividend growth • Align with shareholders interests	• EPS growth • Total shareholder return

Executive Directors are also eligible to participate in All-Employee Share plans.

Remuneration report

Annual bonus

Executive Directors participate in an annual cash bonus plan which is non-pensionable. Bonuses are linked to Group performance targets and modified for performance against personal objectives. The bonus potential (and bonus earned in 2008/09) is laid out below, expressed as a percentage of salary.

The plan is measured, on a constant exchange rate basis, against four elements:

- Operating Profit
- Underlying EPS
- Operating cash flow
- Turnover

In the event that the key measure of operating profit is less than 95% target, on a constant exchange rate basis, any bonus payable is subject to the judgement and evaluation of the Committee, even if other elements of the targets are met or exceeded. Provided the profit threshold is met, for each measure the minimum level of performance is 95% of target. Thereafter, the bonus increases proportionately between 95% of the target and 110% of target (120% for operating cash flow).

The corporate bonus may then be adjusted based on the achievement of personal objectives.

During 2008/09, target operating profit was not achieved when calculated on a constant exchange rate basis, and therefore Annual Bonuses have not been awarded to the large majority of potentially eligible executives and managers.

% of Salary	On Target payment	Maximum payment	2008/09 Actual payment
Graham Love	50%	100%	0%
David Mellors	50%	100%	11%

The payment to David Mellors is in accordance with our policy of making targeted payments to a small number of employees across the Group, to recognise exceptional individual performance.

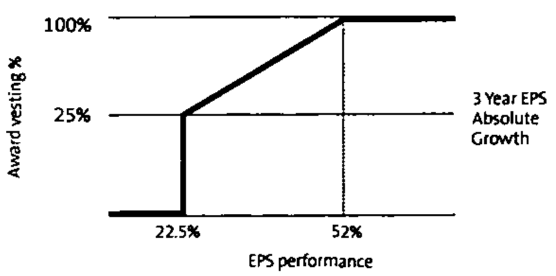
Deferred Annual Bonus (DAB) Plan

The Deferred Annual Bonus (DAB) Plan aligns the interests of executives with shareholders and aids retention of key individuals by ensuring that executives are incentivised to take part of their annual bonus awards in shares rather than cash.

Under this arrangement executives may voluntarily defer up to 50% of their bonus into QinetiQ shares. Executive Directors typically have a mandatory deferral of 30% of any bonus payable. Any deferred bonus will be matched based on EPS performance up to a maximum match of 100% of the deferred element.

The EPS element is earned only if EPS growth, measured over three years, exceeds defined targets. EPS must grow by at least 22.5% to trigger any vesting, at which point 25% of the award will vest. Vesting increases pro rata to EPS growth up to a maximum of 100% of the award vesting at 52% EPS growth as illustrated below.

Awards are in the form of matching shares delivered after three years, subject to the achievement of EPS-based performance conditions.



Where an individual participates in the DAB and also receives an award under the Performance Share Plan (PSP), they will not receive share awards which, in aggregate, exceed 150% of their base salary in any one year.

Long-term incentives for Executive Directors

The objective is to align the rewards of executives with returns to shareholders by focusing on increasing the share price over the medium to long term. Executive Directors are eligible to participate in both the PSP and the DAB Plan.

These arrangements are the principal means for long-term incentivisation of the Executive Directors and the direct reports of the CEO. The Committee considered potential performance conditions and determined that the conditions set out below were appropriate to incentivise the long-term creation of shareholder value.

Performance Share Plan (PSP)

Awards of performance shares were made to Executive Directors and a limited number of other senior executives in July 2008 or on joining. Share awards are contingent on meeting pre-determined performance criteria. Individual participants' award levels are determined by the Committee annually, with due regard to business and personal performance.

Executive Directors are eligible to receive awards with a face value of up to 100% of base salary and other executives up to 75% of base salary.

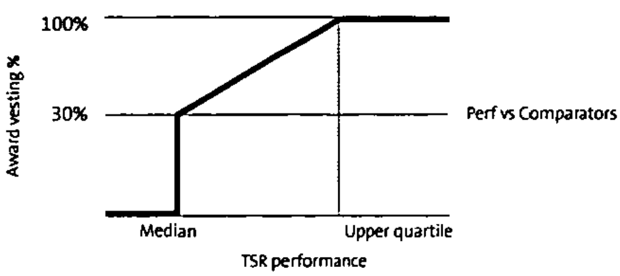
Awards are earned based on an equal weighting of relative total shareholder return (TSR) performance and absolute underlying earnings per share (EPS) growth.

The EPS performance criteria for PSP is the same as that applied to the DAB (outlined above).

The TSR part of the award is measured against the constituents of a comparator group of companies:

Babcock International plc	IMI plc
BAE Systems plc	Invensys plc
BBA Aviation plc	Logica plc
Bodycote International plc	Meggitt plc
Capita Group plc	The Morgan Crucible Company plc
Chemring Group plc	Rolls-Royce plc
Cobham plc	Serco plc
Cookson Group plc	Tomkins plc
Detica plc	Ultra Electronics plc
Enodis plc	VT Group plc
FKI plc	Victrex Group plc
GKN plc	WS Atkins plc
Halma plc	

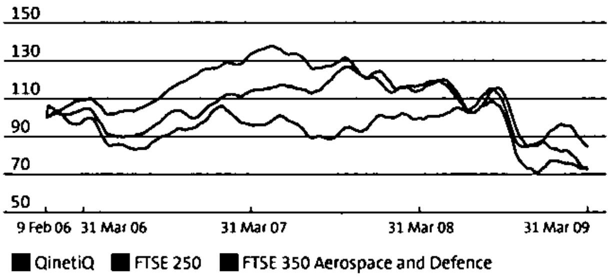
The TSR element is earned only if relative performance is at least at median against this comparator group over a three-year performance period, calculated by an independent third party. The graph below illustrates the TSR performance condition:



Performance graph

The graph below compares the Company's TSR over the period from flotation to 31 March 2009 compared to the FTSE 250 and FTSE 350 Aerospace & Defence indices over the same period. These were chosen for comparison as QinetiQ is a constituent of both indices.

Relative total shareholder return



Pensions

The Group's policy is to offer all UK employees membership of the QinetiQ Pension Scheme, as described in note 39 to the financial statements. Executives whose benefits are likely to exceed the Lifetime Allowance may opt out of the QinetiQ Pension Plan. In such cases, the individual will be paid a salary supplement in lieu of pension contributions.

Contributions to the Defined Contribution section of the QinetiQ Pension Scheme were as follows:

	2009	2008
Executive Directors		
David Mellors	£36,846	–
Former Directors		
Doug Webb	£10,500	£59,545
	£47,346	**£59,545**

Graham Love receives contributions in lieu of a pension.

Directors' remuneration

The information about Directors' remuneration and Directors' interests on pages 59 to 61 has been audited. Where Executive Directors were appointed or resigned during the year, but have been employees of QinetiQ for the whole year, the sums shown reflect the elements of their remuneration over the period of their directorship.

The table below shows the aggregate remuneration of the Directors for the year ended 31 March 2009.

	Salary/fees[a]	Bonus	Other[b] benefits	Total 2009	Total 2008
Executives					
Graham Love	£391,667	–	£96,342	£488,009	£640,045
David Mellors[c]	£184,231	£20,000	£11,766	£215,997	–
Non-Executives					
Sir John Chisholm	£215,000	–	£15,100	£230,100	£220,765
Sir David Lees	£64,000	–	–	£64,000	£57,000
Nick Luff	£47,000	–	–	£47,000	£43,500
Peter Fellner	£47,000	–	–	£47,000	£43,500
Noreen Doyle	£40,000	–	–	£40,000	£37,500
Colin Balmer	£40,000	–	–	£40,000	£37,500
Admiral Ed Giambastiani	£61,700	–	–	£61,700	£29,128
Former Directors					
Doug Webb[d]	£59,163	–	£2,604	£61,767	£515,342
George Tenet	–	–	–	–	£50,464
Total	**£1,149,761**	**£20,000**	**£125,812**	**£1,295,573**	**£1,674,744**

Notes:
(a) Before adjustments to basic pay for SMART pensions.
(b) Includes car allowance, health insurance benefits and payments in lieu of pension.
(c) David Mellors was appointed as a Director on 20 August 2008.
(d) Doug Webb resigned as a Director with effect from 30 May 2008.

Personal shareholding policy

The Committee believes that a powerful way to align Executives' interests with those of shareholders is for the Executives to build up and retain a personal holding in QinetiQ shares.

The CEO and CFO are required to hold the equivalent of one times their base salary in QinetiQ shares. David Mellors, having joined on 20 August 2008, has been given four years to build up such a shareholding. The Chief Executive meets the Committee's guideline on minimum shareholding requirement.

Direct reports of the CEO should hold the equivalent of 50% of their base salary in shares. These can be accumulated over a four-year period following appointment.

External appointments

QinetiQ allows its Executive Directors to broaden their knowledge and experience by becoming Non-executive directors of other companies. Appointments are approved by the Board or the Committee on the basis that there is no conflict of interest or deterioration in the Executives Directors' performance. Fees are normally retained by the individual. During the year ended 31 March 2009, none of the Executive Directors held such an appointment at a public company.

Remuneration report

Directors' terms and conditions

The information in this section has been audited. Service agreements for the Executive and the Non-executive Directors are reviewed annually and amended as appropriate.

	Notice to be given by the Company	Date of most recent Service Agreement	Date of appointment
Executives			
Graham Love	12 months	1 December 2005	February 2003
David Mellors[a]	12 months	20 May 2008	August 2008
Non-executives			
Sir John Chisholm	–	1 October 2006	February 2003
Sir David Lees	–	16 February 2006	August 2005
Nick Luff	–	16 February 2006	June 2004
Peter Fellner	–	16 February 2006	September 2004
Noreen Doyle	–	16 February 2006	October 2005
Colin Balmer	–	16 February 2006	February 2003
Admiral Ed Giambastiani	–	1 February 2008	February 2008
Former Directors			
Doug Webb	12 months	1 October 2005	September 2005

Notes
(a) David Mellors was appointed on 20 August 2008.

QinetiQ's policy is that Executive Directors should have contracts with a rolling term providing for a maximum of one year's notice. Consequently, no Executive Director has a contractual notice period in excess of 12 months. In the event of early termination, this ensures that compensation is restricted to a maximum of 12 months' basic salary and benefits. The Committee will generally require mitigation to reduce the compensation payable to a departing Executive Director.

Non-executive Directors' terms, conditions and fees

The Chairman reviews the fees of the Non-executive Directors and makes recommendations to the Board. Non-executive Directors receive additional fees as agreed by the Board for the chairmanship of Board committees to take account of the additional responsibilities of the role. The Chairman's fees are reviewed by the Senior Independent Non-executive Director who makes recommendations to the Board.

The level of fees paid in UK organisations of a similar size and complexity to QinetiQ is considered in setting remuneration policy for Non-executive Directors. The fees are neither performance related nor pensionable. Non-executive Directors are not eligible to participate in bonus, profit sharing or employee share schemes.

Current fee structures for Non-executive Directors are shown below.

	2008/09 Fees
Non-executive Chairman	£215,000
Basic fee for UK Non-executive Director	£40,000
Basic fee for US resident Non-executive Director	$100,000
Additional fee for chairing a Committee	£7,000
Additional fee to Deputy Chairman/Senior Independent Non-executive Director	£10,000

An additional fee of $4,000 is payable to US resident Non-executive Directors when they attend Board Meetings in the UK.

The next bi-annual review of fees will take place in October 2009.

Non-executive Directors' contracts are renewed on a rolling twelve-month basis subject to reappointment at the Annual General Meeting. There are no provisions in their contracts for compensation on early termination.

Share awards for executives and employees

The Committee also oversees arrangements for share-based reward arrangements in respect of managers and the wider workforce. In addition to PSP, the Company also operates the following executive share plans, although Executive Directors do not participate in either plan:

- QinetiQ Share Option Scheme
- Restricted Stock Units

The Company also operates a Share Incentive Plan for all employees in the UK and Australia.

QinetiQ Share Option Scheme (QSOS)

Awards were made during the year under QSOS. The plan is used in EMEA and QNA to align the interests of senior managers who are not eligible for PSP with the interests of shareholders, by focusing on share price growth over a 3 to 3.5 year period. Awards are principally subject to meeting growth targets on an underlying Earnings Per Share basis.

Annual awards up to a face value of 300% of salary can be granted.

Restricted Stock Units (RSU)

RSU awards are used in QinetiQ North America in conjunction with QSOS. The RSU awards vest evenly over a four-year period. Half of the award is subject to time-based vesting criteria and half to organic profit growth of QNA. Organic profit is required to grow by a minimum of 5% for the performance-linked awards to vest. Maximum vesting of 12.5% of the award occurs at 15% organic profit growth.

The granting of awards is subject to business performance, balanced with the need to attract, retain and motivate high calibre employees.

Dilution limits

The Committee has determined that with regard to new issue or treasury shares, no more than 10% of the Company's issued share capital will be used under all of the Company's share schemes in accordance with ABI guidelines. The dilution as at 31 March 2009 was significantly below this 10% level, and below 5% in respect of executive schemes. In addition, the Board intends to continue to satisfy a proportion of awards with purchased shares held in the employee benefit trust.

Directors' interests

The interests of the Directors in office at 31 March 2009 in the shares of QinetiQ Group plc at that date were as follows:

Interests of Directors in office as at 31 March 2009 (including shares held under SIP and DAB)

	Number 1p Ord Shares held at 1 April 2008	Number 1p Ord Shares held at 31 March 2009	Number 1p Ord Shares held at 21 May 2009
Executives			
Graham Love	4,930,627	5,085,568	5,085,819
David Mellors[(a)]	–	–	249
Non-executives			
Sir John Chisholm[(b)]	3,731,808	11,501,016	11,501,016
Sir David Lees	63,000	73,000	73,000
Nick Luff	27,000	50,000	50,000
Dr Peter Fellner	17,000	17,000	17,000
Noreen Doyle	17,000	17,000	17,000
Colin Balmer	–	–	–
Admiral Ed Giambastiani	–	–	–

(a) David Mellors shares reflect his participation in the SIP plan in April and May 2009.
(b) The increase in the interest of Sir John Chisholm reflects the reacquisition of shares following a Capital Gains Tax planning exercise in 2008.

Interests of Directors under long-term incentives

Executive Directors	Grant date	Number at 1 April 2008	Granted in year	Exercised in year	Lapsed in year	Number at 31 March 2009	Market price on date of grant[(c)]	Earliest vest date	Latest vest date
Graham Love									
PSP TSR	26/07/07	50,288	–	–	–	50,288	174p	26/07/10	26/07/10
PSP EPS	26/07/07	50,287	–	–	–	50,287	174p	26/07/10	26/07/10
DAB Match	01/07/08	–	53,756	–	–	53,756	195.8p	01/07/11	01/07/11
PSP TSR	07/08/08	–	100,756	–	–	100,756	198.5p	07/08/11	07/08/11
PSP EPS	07/08/08	–	100,755	–	–	100,755	198.5p	07/08/11	07/08/11
David Mellors									
PSP TSR	21/08/08	–	75,567	–	–	75,567	217.8p[(d)]	21/08/11	21/08/11
PSP EPS	21/08/08	–	75,567	–	–	75,567	217.8p[(d)]	21/08/11	21/08/11
		100,575	406,401	–	–	506,976			
Former Executive Directors									
Doug Webb									
QSOS (Approved)	22/02/06	14,403	–	–	14,403	–	208p	Lapsed	Lapsed
QSOS (Unapproved)	22/02/06	230,789	–	–	230,789	–	208p	Lapsed	Lapsed
PSP TSR	26/07/07	45,259	–	–	45,259	–	174p	Lapsed	Lapsed
PSP EPS	26/07/07	45,258	–	–	45,258	–	174p	Lapsed	Lapsed
TOTAL		**436,284**	**406,401**	**–**	**335,709**	**506,976**			

(c) Exercise price is quoted for QSOS options.
(d) Awards to David Mellors were based on a market price of 198.5p, as at 7 August 2008.

The interests in the table above are subject to the performance conditions described in note 34. The price of a QinetiQ share at 31 March 2009 was 132.25p. The highest and lowest prices of a QinetiQ share during the year ended 31 March 2009 were 228.25p and 128.50p respectively.

Directors' interest in the All-Employee Share Incentive Plan

	Interest as at 1 April 2008	Partnership shares acquired during year	Matching shares appropriated during year	Dividend shares allocated during year	Interest as at 31 March 2009
Sir John Chisholm	260*	–	–	6	266
Graham Love	2,377	834	278	73	3,562
David Mellors	–	–	–	–	–

* Acquired as an Executive Director

Other statutory information

Principal activity
QinetiQ Group plc is a pubic limited company, listed on the London Stock Exchange and incorporated in England and Wales with registered number 4586941.

QinetiQ Group plc is the parent company of a Group whose principal activities during the year were the supply of technology-based solutions and products and provision of technology-rich support services for government defence and security organisations, such as the UK MOD and the US DoD, and for commercial customers around the world.

Research and development
One of the Group's principal business streams is the provision of funded research and development for customers. The Group also invests in the commercialisation of promising technologies across all areas of business.

The majority of R&D-related expenditure is incurred on behalf of customers as part of specific funded research contracts. R&D costs are included in the income statement and R&D income is reflected within revenue. In the financial year, the Group recorded £468.5m (2008: £465.9m) of total R&D-related expenditure, of which £457.0m was customer-funded work (2008: £453.1m).

In the year to 31 March 2009, £11.5m (2008: £12.8m) of internally funded R&D, was charged to the income statement. £0.2m (2008: £1.4m) of late-stage development costs were capitalised and £2.4m (2008: £1.5m) of capitalised development costs were amortised in the year. Further description of the Group's research and development activity is contained in the Performance Review on pages 17-31.

Policy and practice on payment of suppliers
The policy of the Group is to agree terms of payment prior to commencing trade with a supplier and to abide by those terms based on the timely submission of satisfactory invoices. At 31 March 2009, the trade creditors of the Group represented 42 days of annual purchases (2008: 35 days).

Political and charitable contributions
The Group made no political donations in the year. Charitable donations during the year across the Group amounted to £133,500 (2008: £184,000).

Share capital
As at 31 March 2009 the Company had:

(1) Authorised share capital of 1,400,000,000 ordinary 1p shares with aggregate nominal value of £14,000,000 and one Special Share with an aggregate nominal value of £1.

(2) Allotted and fully paid share capital of 660,476,373 ordinary shares of 1p each with an aggregate nominal value of £6.6 million (including shares held by employee share trusts).

Details of the shares issued during the financial year are shown in note 32 on page 97.

The rights of ordinary shareholders are set out in the Articles of Association. The holders of ordinary shares are entitled to receive the Company's reports and accounts, to attend and speak at General Meetings of the Company, to exercise voting rights in person or by appointing a proxy and to receive a dividend where declared or paid out of profits available for such a purpose.

The Special Share is held by HM Government and it confers certain rights under the Articles of Association which are detailed in note 32 on page 97. These include the right to require certain persons with a material interest in QinetiQ to dispose of some or all of their ordinary shares. The Special Share may only be held by and transferred to HM Government. At any time the Special Shareholder may require QinetiQ to redeem the share at par and if wound up the Special Shareholder would be entitled to be repaid capital before other shareholders. Any variation of the rights attaching to the Special Share requires the written approval of the MOD.

Change of control – significant agreements
The following significant agreements contain provisions entitling the counter parties to require prior approval, exercise termination, alteration or other similar rights in the event of a change of control of the Company or if the Company no longer remains a UK company.

The Combined Aerial Target Service contract is a 20-year contract awarded to QinetiQ by MOD on 14 December 2006. The terms of this contract require QinetiQ Limited to remain a UK company which is incorporated under the laws of any part of the UK or an overseas company registered in the UK and that at least 50% of the Board of Directors are UK nationals. The terms also contain change of control conditions and restricted share transfer conditions which require prior approval from HM Government if there is a material change in the ownership of QinetiQ Limited's share capital, unless the change relates to shares listed on a regulated market, with material defined as being 10% or more of the share capital. Additionally, there are restrictions on transfers of shares to persons from countries appearing on the restricted list as issued by HM Government.

The Long Term Partnering Agreement is a 25-year contract which QinetiQ Limited signed on 28 February 2003 to provide test, evaluation and training services to the MOD. This contract contains conditions where the prior approval of HM Government is required if the contractor, QinetiQ Limited, ceases to be a subsidiary of the QinetiQ Group, except where such change in control is permitted under the Shareholders Agreement to which MOD is a party.

The Company is party to a £500m Revolving Credit Facility with Lloyds TSB Bank plc (as agent) expiring 19 August 2012. Under the terms of the Facility, if either (1) the MOD ceases to retain in its capacity as Special Shareholder its Special Shareholders Rights; or (2) there is a change of control of the Company, any Lender may request by not less than 90 days' notice to the Company, that its commitment be cancelled and all outstanding amounts be repaid to that lender at the expiry of such notice period.

On 6 December 2006, QinetiQ North America, Inc (as Borrower) and the Company (as Guarantor) entered into a Note Purchase Agreement to issue $135m 5.44% Senior Notes due 6 December 2013 and $125m 5.50% Senior Notes due 6 December 2016. Under the terms of the agreement, if either (1) the MOD ceases to retain its capacity as Special Shareholder its Special Shareholders Rights; or (2) there is a change of control of the Company, and (3) in either case where there has been a rating downgrade, or where there are no rated securities (unless a rating of at least investment grade is not obtained within 90 days of the change of control), the Notes must be offered for prepayment by the Company within 21 days of the change of control. The prepayment date would be no later than 45 days after the offer of prepayment by the Company.

On 5 February 2009, QinetiQ North America, Inc (as Borrower) and the Company (as Guarantor) entered into a Note Purchase Agreement to issue $62m 7.13% Senior Notes due 5 February 2016 and $238m 7.62% Senior Notes due 5 February 2019. Under the terms of the agreement, if either (1) the MOD ceases to retain in its capacity as Special Shareholder its Special Shareholders Rights; or (2) there is a change of control of the Company, the Notes must be offered for prepayment within 21 days of the change of control. The prepayment date would be no later than 45 days after the offer of prepayment by the Company.

Major shareholders

At 12 May 2009, being the latest practicable date prior to the issuance of this report, the Group had been notified of the following shareholdings of at least 3% in the ordinary share capital of the Group:

Lansdowne Partners Ltd	9.05%
Black Rock Investment Management Ltd	5.24%
Prudential plc	5.19%
Standard Life Investments Ltd	5.15%
Fidelity International Ltd (UK)	4.97%
MAG	5.02%
Legal & General	3.98%
Credit Suisse	3.16%
Deutsche Bank AG	3.01%

Allotment/purchase of own shares

At the Company's AGM held in July 2008, the shareholders passed resolutions which authorised the Directors to allot relevant securities up to an aggregate nominal value of £2,388,112, to disapply pre-emption rights (up to 5% of the issued ordinary share capital) and for the Company to purchase ordinary shares (up to 10% of its ordinary share capital). Equivalent resolutions will be laid before the 2009 AGM.

During the year, the Company provided funding to the trustees of its employee share schemes to make market purchases of the Company's ordinary shares to cover future obligations under outstanding share option and other share-based awards. Further details are disclosed in note 33 on page 98.

Restrictions on transfer of shares

As outlined on page 97, the Special Share confers certain rights under the Company's Articles of Association to require certain persons with an interest in QinetiQ's shares which exceed certain prescribed thresholds to dispose of some or all of their ordinary shares on grounds of national security or conflict of interest.

In addition, at IPO, certain members of the senior management team (which included the Chairman and the Chief Executive Officer) entered into a Lock Up agreement, which prohibited the disposal of ordinary shares in the Company (save in certain limited circumstances) for a period of three years ending on 15 February 2009. The restrictions set out in the Lock Up Agreements terminated on such date.

Articles of Association

Save in the respect of any variation to the rights attaching to the Special Share, the Company has not adopted any special rules relating to the amendment of the Company's Articles of Association other than as provided under UK corporate law.

Employees

The Group is an equal opportunities employer, upholds the principles of the UK Employment Service's 'Two Ticks' symbol and is accredited by Investors in People. Every possible consideration is given to applications for employment, regardless of gender, religion, disability or ethnic origin, having regard only to skills and competencies. This policy is extended to existing employees and any change which may affect their personal circumstances. The policy is supported by strategies for professional and career development.

QinetiQ seeks to utilise a range of communication channels to employees in order to involve them in the running of the organisation. This is done using various media including in-house magazines, intranet, regular newsletters, bulletins, management briefings, trade union consultation and widespread training programmes.

Employee Share Scheme

Equiniti Share Plan Trustees Limited acts as trustee in respect of all ordinary shares held by employees under the QinetiQ Group plc Share Incentive Plan ('the Plan'). Equiniti Share Plan Trustees Limited will send a Form of Direction to all employees holding shares under the Plan, and will vote on all resolutions proposed at general meetings in accordance with the instructions received. In circumstances where ordinary shares are held by the corporate sponsored nominee service, Equiniti Corporate Nominees Limited will send a Proxy Form to all shareholders utilising such corporate nominee service, and will vote on all resolutions proposed at general meetings in accordance with the instructions received.

Auditors

KPMG Audit Plc has expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the Annual General Meeting.

Statement of disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report have confirmed that, so far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and the Directors have taken all the steps they reasonably ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Annual General Meeting

The Company's Annual General Meeting will be held on Tuesday 4 August 2009 at 2.00 pm at the Institution of Mechanical Engineers, 1 Birdcage Walk, Westminster, London SW1H 9JJ. Details of the business to be proposed and voted upon at the meeting is contained in the Notice of the Annual General Meeting which is sent to all shareholders and also published on the website www.QinetiQ.com

By order of the Board

Lynton Boardman

Company Secretary

85 Buckingham Gate
London SW1E 6PD
21 May 2009

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements, in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and performance of the Group; the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

The parent company financial statements are required by law to give a true and fair view of the state of affairs of the parent company. In preparing each of the Group and parent company financial statements, the Directors are required:

- to select suitable accounting policies and then apply them consistently;
- to make judgements and estimates that are reasonable and prudent;
- to state for the Group financial statements, whether they have been prepared in accordance with IFRS as adopted by the EU;
- to state for the parent company financial statements, whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- to prepare the financial statements on a going concern basis unless it is inappropriate to presume the Group and the parent company will continue in operational business for the foreseeable future.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with the law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the Annual Report

We, the Directors of the Company, confirm that to the best of our knowledge:

- the financial statements of the Group have been prepared in accordance with IFRSs as adopted by the EU, and for the Company under UK GAAP, in accordance with applicable United Kingdom law and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that face the Group.

By order of the Board

Graham Love
Chief Executive Officer

David Mellors
Chief Financial Officer

Independent Auditors' Report to the Members of QinetiQ Group plc

We have audited the Group and parent company financial statements (the "financial statements") of QinetiQ Group plc for the year ending 31 March 2009 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the parent company financial statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 64.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the reports of the Chairman, Chief Executive Officer and the Business Review that is cross-referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 March 2009 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the parent company financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 March 2009;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London

21 May 2009

Consolidated income statement

For the year ended 31 March

all figures in £ million	note	2009 Before acquisition amortisation and specific non-recurring items	2009 Acquisition amortisation and specific non-recurring items*	2009 Total	2008 (restated**) Before acquisition amortisation and specific non-recurring items	2008 (restated**) Acquisition amortisation and specific non-recurring items*	2008 (restated**) Total
Revenue	2, 3	**1,617.3**	**–**	**1,617.3**	**1,366.0**	**–**	**1,366.0**
Other operating costs excluding depreciation and amortisation		(1,420.6)	–	(1,420.6)	(1,206.0)	(32.6)	(1,238.6)
Share of post-tax loss of equity accounted joint ventures and associates	16	(7.2)	–	(7.2)	(4.0)	–	(4.0)
Other income	2	7.9	–	7.9	9.0	–	9.0
EBITDA (earnings before interest, tax, depreciation and amortisation)		**197.4**	**–**	**197.4**	**165.0**	**(32.6)**	**132.4**
Depreciation of property, plant and equipment	14	(33.5)	–	(33.5)	(33.0)	–	(33.0)
Amortisation of intangible assets	12	(8.9)	(23.5)	(32.4)	(5.0)	(18.0)	(23.0)
Group operating profit	3	**155.0**	**(23.5)**	**131.5**	**127.0**	**(50.6)**	**76.4**
Gain/(loss) on business divestments and unrealised impairment of investments	5	–	7.3	7.3	–	(7.0)	(7.0)
Finance income	6	2.6	–	2.6	3.6	–	3.6
Finance expense	6	(27.4)	–	(27.4)	(21.6)	–	(21.6)
Profit before tax	4	**130.2**	**(16.2)**	**114.0**	**109.0**	**(57.6)**	**51.4**
Taxation expense	7	(26.7)	6.3	(20.4)	(21.0)	17.0	(4.0)
Profit for the year attributable to equity shareholders	33	**103.5**	**(9.9)**	**93.6**	**88.0**	**(40.6)**	**47.4**
Earnings per share							
Basic	10			14.3p			7.2p
Diluted	10			14.3p			7.2p
Underlying basic	10	15.9p			13.4p		

* Specific non-recurring items include amounts relating to gain/(loss) on business divestments and unrealised impairments of investments and in 2008 the EMEA reorganisation costs.

** In 2008, the loss on business divestments and unrealised impairment of investments of £7.0m and the related tax was not disclosed as a specific non-recurring item on the face of the income statement. The 2008 comparative has been reclassified to be consistent with the presentation of this item in 2009.

Consolidated balance sheet

As at 31 March

all figures in £ million	note	2009	2008
Non-current assets			
Goodwill	11	638.5	437.4
Intangible assets	12	164.2	109.1
Property, plant and equipment	14	332.4	332.4
Financial assets	15	11.6	15.3
Equity accounted investments	16	0.7	9.3
Other investments	17	15.7	14.7
		1,163.1	**918.2**
Current assets			
Inventories	18	68.3	56.9
Financial assets	15	3.1	7.4
Trade and other receivables	19	532.9	469.0
Current tax		8.6	3.0
Investments	20	0.6	1.3
Non-current assets classified as held for sale		1.8	1.8
Cash and cash equivalents	21	262.1	24.5
		877.4	**563.9**
Total assets		**2,040.5**	**1,482.1**
Current liabilities			
Trade and other payables	22	(447.2)	(374.4)
Provisions	23	(4.3)	(31.8)
Financial liabilities	25	(22.1)	(11.8)
		(473.6)	**(418.0)**
Non-current liabilities			
Retirement benefit obligation	39	(105.2)	(23.4)
Deferred tax liability	24	(8.9)	(30.8)
Provisions	23	(8.8)	(13.9)
Financial liabilities	26	(792.6)	(415.3)
Other payables	22	(48.7)	(47.7)
		(964.2)	**(531.1)**
Total liabilities		**(1,437.8)**	**(949.1)**
Net assets		**602.7**	**533.0**
Capital and reserves			
Ordinary shares	32	6.6	6.6
Capital redemption reserve	33	39.9	39.9
Share premium account	33	147.6	147.6
Hedging and translation reserve	33	39.8	(21.3)
Retained earnings	33	368.7	360.1
Capital and reserves attributable to shareholders of the parent company		**602.6**	**532.9**
Minority interest	33	0.1	0.1
Total shareholders' funds		**602.7**	**533.0**

The financial statements were approved by the Board of Directors and authorised for issue on 21 May 2009 and were signed on its behalf by:

Graham Love Chief Executive Officer

David Mellors Chief Financial Officer

Consolidated cash flow statement

for the year ended 31 March

all figures in £ million	note	2009	2008
Net cash inflow from operations before 2008 EMEA reorganisation cost	28	**202.2**	**143.9**
Net cash outflow relating to 2008 EMEA reorganisation		(27.0)	(5.6)
Cash inflow from operations		**175.2**	**138.3**
Tax paid		(2.5)	(17.7)
Interest received		1.0	1.7
Interest paid		(21.3)	(20.0)
Net cash inflow from operating activities		**152.4**	**102.3**
Purchases of intangible assets		(3.3)	(19.9)
Purchases of property, plant and equipment		(29.1)	(23.7)
(Costs)/proceeds from sale of property, plant and equipment		(1.2)	14.9
Equity accounted investments and other investment funding		(5.8)	(7.3)
Purchase of subsidiary undertakings		(92.9)	(106.7)
Net cash/(debt) acquired with subsidiary undertakings		3.7	(2.0)
Proceeds from sale of equity accounted investment		13.7	–
Proceeds from sale of interests in subsidiary undertakings		7.2	–
Net cash outflow from investing activities		**(107.7)**	**(144.7)**
Cash outflow from repayment of loan notes		(0.5)	(0.1)
Proceeds from bank borrowings		13.3	87.6
Proceeds from loan notes		–	0.5
Proceeds from US Private Placement		210.4	–
Payment of deferred finance costs		(1.5)	(0.5)
Purchase of own shares		(0.8)	(12.8)
Dividends paid to shareholders		(28.9)	(24.9)
Capital element of finance lease rental payments		(2.8)	(3.2)
Capital element of finance lease rental receipts		3.0	3.0
Net cash inflow from financing activities		**192.2**	**49.6**
Increase in cash and cash equivalents	29	**236.9**	**7.2**
Effect of foreign exchange changes on cash and cash equivalents		5.7	(0.3)
Cash and cash equivalents at beginning of year		19.5	12.6
Cash and cash equivalents at end of year		**262.1**	**19.5**
Cash and cash equivalents	21	262.1	24.5
Overdrafts	30	–	(5.0)
Cash and cash equivalents at end of year	21	**262.1**	**19.5**

Reconciliation of movement in net debt

for the year ended 31 March

all figures in £ million	note	2009	2008
Increase in cash and cash equivalents in the year	29	236.9	7.2
Cash flows from (drawdown)/repayment of loans, private placement and other financial instruments		(226.1)	(87.3)
Change in net debt resulting from cash flows	30	**10.8**	**(80.1)**
Other non-cash movements including foreign exchange	30	(168.8)	1.0
Movement in net debt in the year		**(158.0)**	**(79.1)**
Net debt at beginning of year	30	(379.9)	(300.8)
Net debt at end of the year	30	**(537.9)**	**(379.9)**

Consolidated statement of recognised income and expense

for the year ended 31 March

all figures in £ million	note	**2009**	2008
Currency translation differences	33	74.0	(3.3)
Decrease in fair value of hedging derivatives	33	(17.6)	(6.8)
Movement in deferred tax on hedging derivatives	33	4.7	1.9
Fair value gains on available for sale investments	33	0.9	3.2
Impairment of available for sale investments	33	–	(2.9)
Release of unrealised gain on disposal of businesses	33	–	(3.5)
Actuarial (loss)/gain recognised in the defined benefit pension schemes	33	(95.8)	65.5
Increase/(decrease) in deferred tax asset due to actuarial movement in pension deficit	33	34.1	(12.2)
Net income recognised directly in equity		**0.3**	**41.9**
Profit for the year		93.6	47.4
Total recognised income and expense for the year		**93.9**	**89.3**
Attributable to:			
Equity shareholders of the parent company		93.9	89.3
Minority interest		–	–
		93.9	**89.3**

Business Review

Governance

Financial Statements

Notes to the financial statements

1. Significant accounting policies

Accounting policies
The following accounting policies have been applied consistently to all periods presented in dealing with items which are considered material in relation to the Group's financial statements.

The Group separately presents acquisition amortisation and specific non-recurring items in the income statement which, in the judgement of the Directors, need to be disclosed separately by virtue of their size and incidence in order for the reader to obtain a proper understanding of the financial information. Specific non-recurring items include amounts relating to gains and losses on business divestments and unrealised impairments of investments and in 2008 the EMEA reorganisation costs.

Basis of preparation
The Group's financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ('Adopted IFRS') and the Companies Act 1985 applicable to companies reporting under IFRS. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP; these are presented on pages 107 to 109.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and other relevant financial assets and liabilities. Non-current assets held for sale are held at the lower of carrying amount and fair value less costs to sell. The Group's functional currency is sterling and unless otherwise stated the financial statements are rounded to the nearest hundred thousand.

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings up to 31 March 2009. The purchase method of accounting has been adopted. For those subsidiary undertakings acquired or disposed in the period are included in the consolidated income statement from the date control is obtained to the date that control is lost (usually on acquisition and disposal respectively).

A subsidiary is an entity over which the Group has the power to govern financial and operating policies in order to obtain benefits. Potential voting rights that are currently exercisable or convertible are considered when determining control.

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

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

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

Revenue
Revenue represents the value of work performed for customers, and is measured net of value added and other sales taxes on the following bases:

Long-term contracts
The majority of the Group's long-term contract arrangements are accounted for under IAS 11 Construction Contracts. Sales are recognised once the Group has obtained the right to consideration in exchange for its performance. This is typically when title passes or contractually agreed-upon milestones are reached and accepted by the customer. No profit is recognised on contracts until the outcome of the contract can be reliably estimated. Profit is calculated by reference to reliable estimates of contract revenue and forecast costs after making suitable allowances for technical and other risks related to performance milestones yet to be achieved. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Goods sold and services rendered
Sales of goods and the provision of services not under long-term contract are recognised in the income statement when the significant risks and rewards of ownership have been transferred to the customer and revenue and costs can be reliably measured.

Cost-plus contracts
Revenue on cost-plus and time-and-materials contracts is recognised as work is performed.

Royalties and Intellectual property
Royalty revenue is recognised on the earlier of the date on which the income is earned and measurable with reasonable certainty or cash is received. Intellectual property revenue can be attributed to either perpetual licences or limited licences. Limited licences are granted for a specified time period or geographic region or specific application and revenue is recognised over the period of the licence. Perpetual licences are granted for unspecified applications, unlimited geographic regions or unlimited time frames and are recognised when the risks and rewards of ownership are transferred to the customer.

Segmental information
Segmental information is presented in two formats: the primary format reflects the Group's management structure and markets in which the Group operates, whereas the secondary format is based on geography (i.e. location of customers). The principal activities of the Group are managed through three sectors organised according to the distinct markets in which the Group operates:

- EMEA (Europe, Middle East and Australasia) which mainly delivers technology solutions, consultancy and managed services to the Ministry of Defence in the UK, and civil and other government customers in the UK and Australia;
- QinetiQ North America which mainly provides technology and services to the US Government; and
- Ventures which mainly comprise commercial product businesses and business venturing activities.

Segmental results represent the contribution of the different segments to the profit of the Group. Corporate expenses are allocated to the corresponding segments. Unallocated items comprise mainly profit on disposal of non-current assets, business divestments and unrealised impairment of investments, financing costs and taxation. Eliminations represent inter-company trading between the different segments.

Segmental assets comprise property, plant and equipment, goodwill and other intangible assets, trade and other receivables, inventories and prepayments and accrued income. Unallocated assets represent mainly corporate assets, including cash and cash equivalents and deferred tax asset balances. Segmental liabilities comprise trade and other payables, accruals and deferred income and retirement benefit obligations. Unallocated liabilities represent mainly corporate liabilities, current and deferred tax liabilities and bank and other borrowings. Segmental assets and liabilities are as at the end of the year.

Research and development expenditure

Research and development costs incurred on behalf of a customer as part of a specific project are directly chargeable to the customer on whose behalf the work is undertaken.

Internally funded development expenditure is capitalised in the balance sheet where there is a clearly defined project, the expenditures are separately identifiable, the project is technically and commercially feasible, all costs are recoverable by future revenue and the resources are committed to complete the project. Such capitalised costs are amortised over the forecast period of sales resulting from the development. All other research and development costs are expensed to the income statement in the period in which they are incurred. If the research phase cannot be clearly distinguished from the development phase, the respective project-related costs are treated as if they were incurred in the research phase only and expensed.

Financing

Financing represents the financial expense on borrowings accounted for using the effective rate method and the financial income earned on funds invested. Exchange differences on financial assets and liabilities and the income or expense from interest hedging instruments that are recognised in the income statement are included within interest income and expense in financing.

Taxation

The taxation charge is based on the taxable profit for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes. Current tax and deferred tax are charged or credited to the income statement, except where they relate to items charged or credited to equity in which case the relevant tax is charged or credited to equity.

Deferred taxation is the tax attributable to the temporary differences that appear when taxation authorities recognise and measure assets and liabilities with rules that differ from those of the consolidated financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using rates enacted or substantively enacted at the balance sheet date.

Any change in the tax rates are recognised in the income statement unless related to items directly recognised in equity. Deferred tax liabilities are recognised on all taxable temporary differences excluding non-deductible goodwill. Deferred tax assets are recognised on all deductible temporary differences provided that it is probable that future taxable income will be available against which the asset can be utilised. Deferred tax assets and liabilities are only offset where there is a legally enforceable right to offset and there is an intention to settle balances on a net basis.

Goodwill

Business combinations are accounted for under the purchase accounting method. All identifiable assets acquired and liabilities and contingent liabilities incurred or assumed are recorded at fair value at the date control is transferred to QinetiQ, irrespective of the extent of any minority interest. The cost of a business combination is measured at the fair value of assets received, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised is capitalised as goodwill. Goodwill is subject to annual impairment reviews (see below). If the cost of an acquisition is less than the fair value of the net assets acquired, the difference is immediately recognised in the Consolidated income statement as an impairment.

Intangible assets

Intangible assets arising from business combinations are recognised at fair value and are amortised over their expected useful lives, typically between 0 and 9 years.

Internally generated intangible assets are recorded at cost, including labour, directly attributable costs and any third-party expenses. Purchased intangible assets are recognised at cost less amortisation.

Intangible assets are amortised over their respective useful lives on a straight line basis as follows:

Intellectual property rights	2–8 years
Development costs	Useful economic life or unit of production method subject to a minimum amortisation of no less than straight line method over economic life of 1–4 years
Other	1–9 years

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. Freehold land is not depreciated. Other tangible non-current assets are depreciated on a straight line basis over their useful economic lives to their estimated residual value as follows:

Freehold buildings	20–25 years
Leasehold land and buildings	Shorter of useful economic life and the period of the lease
Plant and machinery	3–10 years
Fixtures and fittings	5–10 years
Computers	3–5 years
Motor vehicles	3–5 years

Assets under construction are included in property, plant and equipment on the basis of expenditure incurred at the balance sheet date. In the case of assets constructed by the Group, the value includes the cost of own work completed, including directly attributable costs but excluding interest.

The useful lives, depreciation methods and residual values applied to property, plant and equipment are reviewed annually and if appropriate adjusted accordingly.

Impairment of tangible, goodwill, intangible and held for sale assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If the carrying amount of any asset exceeds its recoverable amount an impairment loss is recognised immediately in the income statement. In addition, goodwill is tested for impairment annually irrespective of any indication of impairment. If the carrying amount exceeds the recoverable amount, the respective asset or the assets in the cash generating unit are written down to their recoverable amounts. The recoverable amount of an asset or a cash generating unit is the higher of its fair value less costs to sell and its value in use. The value in use is the present value of the future cash flows expected to be derived from an asset or cash generating unit calculated using an appropriate pre-tax discount rate. Impairment losses are expensed to the income statement.

Notes to the financial statements
continued

1. Significant accounting policies continued

Investments in debt and equity securities
Investments held by the Group are classified as either a current asset or as a non-current asset and being classified as available for sale are stated at fair value, with any resultant gain or loss being recognised directly in equity, except for impairment losses. When these investments are de-recognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

The fair value of quoted financial instruments is their bid price at the balance sheet date.

The fair value of unquoted equity investments are held at fair value based upon the price of the most recent investment by the Group or a third party if available or derived from the present value of forecast future cash flows.

Inventories
Inventory and work-in-progress (including contract costs) are stated at the lower of cost and net realisable value. Work-in-progress and manufactured finished goods are valued at production cost. Production cost includes direct production costs and an appropriate proportion of production overheads. A provision is established when the net realisable value of any inventory item is lower than its cost.

Bid costs
Costs incurred in bidding for work are normally expensed as incurred. In the case of large multi-year government contracts the bidding process typically involves a competitive bid process to determine a preferred bidder and then a further period to reach financial close with the customer. In these cases, the costs incurred after announcement of the Group achieving preferred bidder status are deferred to the balance sheet within work-in-progress. From the point financial close is reached, the costs are amortised over the life of the contract. If an opportunity for which the Group was awarded preferred bidder status fails to reach financial close, the costs deferred to that point will be expensed in the income statement immediately, when it becomes likely that financial close will not be achieved.

Trade and other receivables
Trade and other receivables are stated net of provisions for doubtful debts. Amounts recoverable on contracts are included in trade and other receivables and represent revenue recognised in excess of amounts invoiced. Payments received on account are included in trade and other payables and represent amounts invoiced in excess of revenue recognised.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and short-term deposits that are readily convertible into cash. In the cash flow statement overdraft balances are included in cash and equivalents.

Current and non-current liabilities
Current liabilities include amounts due within the normal operating cycle of the Group.

Interest-bearing current and non-current liabilities are recognised at fair value and then stated at amortised cost with any difference between the cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

Costs associated with the arrangement of bank facilities or the issue of loans are held net of the associated liability presented in the balance sheet. Capitalised issue costs are released over the estimated life of the facility or instrument to which they relate using the effective interest rate method. If it becomes clear that the facility or instrument will be redeemed early, the amortisation of the issue costs will be accelerated.

Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event which can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where appropriate, provisions are determined by discounting the expected cash flows at the Group's weighted average cost of capital.

Financial instruments
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The derecognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, when the instrument expires or is sold, terminated or exercised.

Derivative financial instruments
Derivative financial instruments are initially recognised and thereafter held at fair value, being the market value for quoted instruments or valuation based on models and discounted cash flow calculations for unlisted instruments.

Fair value hedging
Changes in the fair value of fair value hedges of currency risk or interest rate risk are recognised in the income statement. The hedged item is held at fair value with respect to the hedged risk with any gain or loss recognised in the income statement.

Cash flow hedging
Changes in the fair value of derivatives designated as a cash flow hedge that are regarded as highly effective are recognised in equity. The ineffective portion is recognised immediately in the income statement. Where a hedged item results in an asset or a liability, gains and losses previously recognised in equity are included in the cost of the asset or liability. Gains and losses previously recognised in equity are removed and recognised in the income statement at the same time as the hedged transaction.

Hedging of net investment in foreign operations
The changes in fair value of derivatives used to hedge the net investment in a foreign entity are recognised in equity until the net investment is sold or disposed. Any ineffective portion is recognised directly in the income statement.

Leased assets
Leases are classified as finance leases when substantially all of the risks and rewards of ownership are held by the lessee.

Assets held under finance leases are capitalised and included in property, plant and equipment at the lower of the present value of minimum lease payments and fair value at the inception of the lease. Assets are then depreciated over the shorter of their useful economic lives or the lease term. Obligations relating to finance leases, net of finance charges arising in future periods, are included under financial liabilities. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at period-end rates. Any resulting exchange differences are taken to the income statement. Gains and losses on designated forward foreign exchange hedging contracts are matched against the foreign exchange movements on the underlying transaction.

The individual financial statements of each group company are presented in its functional currency. On consolidation, assets and liabilities of overseas subsidiaries' associated undertakings and joint ventures, including any related goodwill, are translated to sterling at the rate of exchange at the balance sheet date. The results and cash flows of overseas subsidiaries, associated undertakings and joint ventures are translated to sterling using the average rates of exchange during the period. Exchange adjustments arising from the re-translation of the opening net investment and the results for the period to the period-end rate are taken directly to equity and reported in the Statement of Recognised Income and Expense.

Post-retirement benefits

The Group provides both defined contribution and defined benefit pension arrangements. The liabilities of the Group arising from defined benefit obligations, and the related current service cost, are determined using the projected unit credit method. Valuations for accounting purposes are carried out half yearly for the largest plans and on a regular basis for other plans. Actuarial advice is provided by external consultants. For the funded defined benefit plans, the excess or deficit of the fair value of plan assets less the present value of the defined benefit obligation are recognised as an asset or a liability respectively.

For defined benefit plans, the actuarial cost charged to the income statement consists of current service cost, interest cost, expected return on plan assets and past service cost. All of these elements are charged as a component of employee costs in the income statement. Actuarial gains and losses are recognised in full immediately through the Statement of Recognised Income and Expense.

Contributions to defined contribution plans are charged to the income statement as incurred.

Share-based payments

The Group operates share-based payment arrangements with employees. The fair value of equity-settled options for share-based payments is determined on grant and expensed straight line over the period from grant to the date of earliest unconditional exercise. The fair value of cash-settled options for share-based payments is determined each period end until they are exercised or lapse. The value is expensed straight line over the period from grant to the date of earliest unconditional exercise. The fair value of both equity-settled and cash-settled share options is calculated using a binomial option pricing models. The charges for both equity and cash-settled share-based payments are updated annually for non-market-based vesting conditions.

Share capital

Ordinary share capital of the Company is recorded as the proceeds received less issue costs.

Company shares held by the employee benefit trusts are held at the consideration paid. They are classified as own shares within equity. Any gain or loss on the purchase, sale or issue of Company shares is recorded in equity.

Restatement of prior periods for finalisation of fair values arising on acquisitions

The fair values of the net assets of acquired business are finalised within 12 months of the acquisition date, with the exception of certain deferred tax balances. All fair value adjustments are recorded with effect from the date of acquisition and consequently may result in the restatement of previously reported financial results.

Recent accounting developments

The following EU endorsed amendments and interpretations to published standards are effective for accounting periods beginning on or after 1 April 2008:

IFRIC 14, IAS 19, The Limit on Defined Benefit Asset, Minimum Funding Requirements and their Interaction. This aims to clarify the circumstances in which there is a limit on the asset that an employer's balance sheet may recognise in respect of its defined benefit pension plans and where there may be additional liabilities that may be required to be recognised. This did not have any impact on the Group's financial statements.

IFRIC 12, Service Concession Arrangements. This did not have any impact on the Group's financial statements.

The following EU endorsed new standards or interpretations to existing standards have been published and are mandatory for the Group's future accounting periods from the year ended 31 March 2010. They have not been early adopted in these financial statements:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. The Group will apply IFRS 8 from 1 April 2009 but it is not expected to have any significant impact on the Group's financial statements.

Amendment to IAS 1, Presentation of Financial Statements: A Revised Presentation (effective for annual periods beginning on or after 1 January 2009). This revision is intended to improve users' ability to analyse and compare information given in financial statements and included within the changes is the introduction of a statement of comprehensive income. This is not expected to have any significant impact on the Group's financial statements.

Amendment to IAS 23, Borrowing Costs
(effective for qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009). The amendment to IAS 23 requires borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale to be capitalised as part of the cost of such assets. The Group has reviewed the potential impact of this amendment and does not consider it would have any material impact on the Group's financial statements based on its current operations.

Amendment to IFRS 2, Share based payment, Vesting conditions and cancellations (effective for annual periods beginning on or after 1 January 2009). This amendment clarifies that vesting conditions are only service conditions and performance conditions and that other features of share based payments are non vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This is expected to accelerate the recognition of share based payment charges in respect of leavers which would not have any significant impact on the Group's financial statements given current employee attrition rates.

IAS 32, Financial Instruments and related amendments to IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009). These amendments deal with the balance sheet classification of puttable financial instruments and obligations arising only on liquidation. This is not expected to have any significant impact on the Group's financial statements.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 addresses accounting for loyalty award credits to customers who buy other goods and services. This is not expected to have any impact on the Group's financial statements.

Notes to the financial statements
continued

1. Significant accounting policies continued

Amendments to IFRS1, First time adoption of IFRS and IAS27, Consolidation and separate financial statements: Cost of an investment in a subsidiary, Jointly controlled Entity or Associate (effective for annual periods beginning on or after 1 January 2009). This amendment will allow first time adopters to use a deemed cost of either fair value or carrying value under previous accounting practice to measure the initial cost of an investment in separate financial statements. QinetiQ has no plans to transition its subsidiaries to IFRS so no impact is expected.

Improvements to IFRSs 2008 (effective from various period beginning dates the first being on or after 1 January 2009). The improvements include changes in presentation, recognition and measurement requirements. They are not expected to have any material impact.

The following standards and interpretations to existing standards have not yet been endorsed by the EU:

IFRS 3, Business Combinations (Revised) and related revisions to IAS 27 Consolidated and Separate Financial Statements (Revised) (both effective for annual periods beginning on or after 1 July 2009). These revisions introduce some changes to the application of the acquisition method of accounting for business combinations. For example, all transaction costs will be expensed, all payments to purchase a business will be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through the income statement, and goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. These revisions will impact the way in which the Group reports business combinations in future periods, in particular the expensing of transaction costs through the income statement.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). IFRIC 15 aims to eliminate divergence in practice in respect of the identification of the applicable accounting standards for the construction of real estate. This is not expected to have any significant impact on the Group's financial statements.

IFRIC 16, Hedges of a Net investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). This interpretation clarifies the specific hedge accounting requirements for net investment hedges. This is not expected to have any significant impact on the Group's financial statements.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged items (effective for annual periods beginning on or after 1 July 2009). This amendment provides additional application guidance to clarify the existing principles in relation to items that can qualify for hedge accounting, assessing hedge effectiveness and designating financial items as hedged items. This is not expected to have any significant impact on the Group's financial statements.

Critical accounting estimates and judgements in applying accounting policies
The following commentary is intended to highlight those policies that are critical to the business based on the level of management judgement required in their application, their complexity and their potential impact on the results and financial position reported for the Group. The level of management judgement required includes assumptions and estimates about future events which are uncertain, the actual outcome of which may result in a materially different outcome from that anticipated.

Revenue and profit recognition
The estimation process required to evaluate the potential outcome of contracts and projects requires skill, knowledge and experience from a variety of sources within the business to assess the status of the contract, costs to complete, internal and external labour resources required and other factors. This process is carried out continuously throughout the business to ensure that project and contract assessments reflect the latest status of such work. No profit is recognised on a contract until the outcome can be reliably estimated.

Business combinations
Intangible assets recognised on business combinations have been valued using established methods and models to determine estimated value and useful economic life, with input, where appropriate, from external valuation consultants. Such methods require the use of estimates which may produce results that are different from actual future outcomes.

The Group tests annually whether goodwill has suffered any impairment. This process is reliant on the use of estimates of the future profitability and cash flows of its cash-generating units which may differ from the actual results delivered. The Group additionally reviews whether identified intangible assets have suffered any impairment.

Post-retirement benefits
The Group's defined benefit pension obligations and net income statement costs are based on key assumptions including return on plan assets, discount rates, mortality, inflation and future salary and pension increases. Management exercise their best judgement, in consultation with actuarial advisors, in selecting the values for these assumptions that are the most appropriate to the Group. Small changes in these assumptions at the balance sheet date, individually or collectively, may result in significant changes in the size of the deficit or the net income statement costs.

Research and development expenditure
Internally-funded development expenditure is capitalised when criteria are met and is written off over the forecast period of sales resulting from the development. Management decides upon the adequacy of future demand and potential market for such new products in order to justify capitalisation of internally-funded development expenditure. These can be difficult to determine when dealing with innovative technologies. Actual product sales may differ from these estimates.

Tax
In determining the Group's provisions for income tax and deferred tax it is necessary to assess the likelihood and timing of recovery of tax losses created, and to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain. To the extent that the final outcome differs from the tax that has been provided, adjustments will be made to income tax and deferred tax provisions held in the period the determination is made.

Unquoted equity investments
The Group usually judges the fair value of unquoted equity investments using the valuation ascribed to the investment by a third-party funding round or similar valuation event for that investment. In determining the value of an investment the Group may use information from funding rounds, business plans and forecasts, market projections and other estimation techniques, including management estimates, as a guide. These valuation techniques require estimates of the business's future performance. The actual business' performance of investments may differ from these estimates.

2. Revenue

Revenue and other income is analysed as follows:

Year ended 31 March

all figures in £ million	2009	2008
Sales of goods	216.3	148.6
Services	1,401.0	1,217.4
Revenue	**1,617.3**	**1,366.0**
Property rental income	**7.9**	**9.0**

3. Segmental analysis

Business segments

Year ended 31 March 2009

all figures in £ million	QinetiQ North America	Europe, Middle East & Australasia	Ventures	Eliminations	Total
Revenue					
External sales	765.6	842.3	9.4	–	1,617.3
Internal sales[1]	4.0	–	–	(4.0)	–
	769.6	**842.3**	**9.4**	**(4.0)**	**1,617.3**
Other information					
EBITDA before share of equity accounted joint ventures and associates	89.5	121.5	(6.4)	–	204.6
Share of equity accounted joint ventures and associates	–	–	(7.2)	–	(7.2)
EBITDA	**89.5**	**121.5**	**(13.6)**		**197.4**
Depreciation of property, plant and equipment	(6.5)	(26.7)	(0.3)	–	(33.5)
Amortisation of purchased or internally developed intangible assets	–	(7.2)	(1.7)	–	(8.9)
Group operating profit/(loss) before amortisation of intangible assets arising from acquisitions	**83.0**	**87.6**	**(15.6)**	–	**155.0**
Amortisation of intangible assets arising from acquisitions	(18.0)	(5.5)	–	–	(23.5)
Group operating profit/(loss)	**65.0**	**82.1**	**(15.6)**	–	**131.5**
Gain on business divestments and unrealised impairment of investments					7.3
Net finance expense					(24.8)
Profit before tax					**114.0**
Taxation expense					(20.4)
Profit for the year					**93.6**

(1) Inter-segment sales are priced at fair value and treated as an arm's length transaction.

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3. Segmental analysis continued

Business segments

Year ended 31 March 2008

all figures in £ million	QinetiQ North America	Europe, Middle East & Australasia	Ventures	Eliminations	Total
Revenue					
External sales	540.2	820.1	5.7	–	1,366.0
Internal sales[1]	0.3	0.5	–	(0.8)	–
	540.5	**820.6**	**5.7**	**(0.8)**	**1,366.0**
Other information					
EBITDA before restructuring costs and share of equity accounted joint ventures and associates	66.2	112.1	(9.3)	–	169.0
Share of equity accounted joint ventures and associates	0.1	0.1	(4.2)	–	(4.0)
EBITDA before restructuring costs	**66.3**	**112.2**	**(13.5)**	**–**	**165.0**
Depreciation of property, plant and equipment	(4.1)	(28.2)	(0.7)	–	(33.0)
Amortisation of purchased or internally developed intangible assets	(0.1)	(4.0)	(0.9)	–	(5.0)
Group operating profit/(loss) before EMEA reorganisation and amortisation of intangible assets arising from acquisitions	**62.1**	**80.0**	**(15.1)**	**–**	**127.0**
Amortisation of intangible assets arising from acquisitions	(16.2)	(1.8)	–	–	(18.0)
EMEA reorganisation	–	(32.0)	(0.6)	–	(32.6)
Group operating profit/(loss)	**45.9**	**46.2**	**(15.7)**	**–**	**76.4**
Loss on business divestments and unrealised impairment of investments					(7.0)
Net finance expense					(18.0)
Profit before tax					**51.4**
Taxation expense					(4.0)
Profit for the year					**47.4**

(1) Inter-segment sales are priced at fair value and treated as an arm's length transaction.

Year ended 31 March 2009

all figures in £ million	QinetiQ North America	Europe, Middle East & Australasia	Ventures	Unallocated	Consolidated
Segment assets+	983.8	748.8	31.1	–	1,763.7
Segment liabilities+	(160.8)	(459.4)	(2.9)	–	(623.1)
Unallocated net debt (note 30)	–	–	–	(537.9)	(537.9)
Net assets	**823.0**	**289.4**	**28.2**	**(537.9)**	**602.7**
Other information					
Capital expenditure – own equipment*	9.1	10.8	0.2	–	20.1
Capital expenditure – LTPA funded*	–	12.3	–	–	12.3
Total capital expenditure	**9.1**	**23.1**	**0.2**		**32.4**

Year ended 31 March 2008 (restated)

all figures in £ million	QinetiQ North America	Europe, Middle East & Australasia	Ventures	Unallocated	Consolidated
Segment assets	638.5	755.0	41.4	–	1,434.9
Segment liabilities	(88.5)	(426.2)	(7.3)	–	(522.0)
Unallocated net debt (note 30)				(379.9)	(379.9)
Net assets	**550.0**	**328.8**	**34.1**	**(379.9)**	**533.0**
Other information					
Capital expenditure – own equipment*	6.8	22.7	0.4	–	29.9
Capital expenditure – LTPA funded*	–	13.7	–	–	13.7

The restatement relates to a re-allocation of unallocated assets and liabilities so that this category now only represents unallocated net debt.

+ Segment assets and liabilities exclude unallocated net debt.

* Capital expenditure is defined as cash paid for property, plant and equipment additions and purchased and internally developed intangible assets.

Geographical segments
Revenue by customer location

all figures in £ million	2009	2008
North America	787.5	566.1
United Kingdom	772.9	760.0
Other	56.9	39.9
Total	**1,617.3**	**1,366.0**

Assets/liabilities by location

	Gross assets		Gross liabilities	
all figures in £ million	2009	2008	2009	2008
North America	992.4	638.7	(553.4)	(225.3)
United Kingdom	1,023.9	813.4	(860.7)	(699.0)
Other	24.2	30.0	(23.7)	(24.8)
Total	**2,040.5**	**1,482.1**	**(1,437.8)**	**(949.1)**

Capital expenditure by location

all figures in £ million	2009	2008
North America	9.1	6.8
United Kingdom	23.3	36.8
Total	**32.4**	**43.6**

Notes to the financial statements
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4. Profit before tax

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

For the year ended 31 March

all figures in £ million	2009	2008
Fees payable to the auditor		
– Statutory audit	1.1	0.7
– Audit of the Company's subsidiaries pursuant to legislation	0.1	–
– Other services supplied pursuant to legislation	0.1	0.2
– Other services relating to taxation	0.1	0.1
– Other services	–	0.5
Total auditor's remuneration	**1.4**	**1.5**
Inventories recognised as an expense	91.8	66.0
Depreciation of property, plant and equipment:		
– Owned assets	33.5	32.5
– Under finance lease	–	0.5
Foreign exchange gains	0.5	0.2
Research and development expenditure – customer funded contracts	457.0	453.1
Research and development expenditure – Group funded	11.5	12.8

5. Gain/(loss) on business divestments and unrealised impairment of available for sale investments

For the year ended 31 March

all figures in £ million	2009	2008
Gain/(loss) on business divestments	13.0	(1.8)
Unrealised impairment of available for sale investments	(5.7)	(5.2)
	7.3	**(7.0)**

The gain on business divestments of £13.0m relates to £3.5m of profit on the disposal of a sales contract by QNA's Mission Solutions business and a £9.5m profit on the disposal of part of the Cody Gate Ventures I LP (formerly QinetiQ Ventures LP) which was held as an equity investment (see note 16 for further details). The disposal of QNA's sales contract resulted from a requirement to dispose of this contract following the change of ownership of Analex Corporation in March 2007.

The current year unrealised impairment of investments relates to a £0.7m (2008: £2.9m) charge in respect of the impairment in the carrying value of pSivida, the quoted investment (see note 20 for further details) and a £5.0m (2008: £2.3m) charge in relation to the carrying value of other investments held for sale.

6. Finance income and expense

For the year ended 31 March

all figures in £ million	2009	2008
Receivable on bank deposits	1.0	1.7
Finance lease income	1.6	1.9
Finance income	**2.6**	**3.6**
Amortisation of recapitalisation fee	(0.3)	(0.2)
Payable on bank loans and overdrafts	(13.8)	(11.9)
Payable on US dollar private placement debt	(10.7)	(7.1)
Finance lease expense	(1.4)	(1.6)
Unwinding of discount on financial liabilities	(1.2)	(0.8)
Finance expense	**(27.4)**	**(21.6)**
Net finance expense	**(24.8)**	**(18.0)**

7. Taxation expense

For the year ended 31 March

all figures in £ million	2009	2008
Analysis of charge		
UK corporation tax	–	–
Overseas corporation tax	(2.9)	10.1
Total corporation tax	**(2.9)**	**10.1**
Deferred tax	22.6	(4.6)
Deferred tax in respect of prior years	0.7	(1.5)
Taxation expense	**20.4**	**4.0**

Factors affecting the tax charge in year		
The principal factors reducing the Group's current year tax charge below the UK statutory rate are explained below:		
Profit before tax	114.0	51.4
Tax on profit before tax at 28% (2008: 30%)	**31.9**	**15.4**
Effect of:		
Expenses not deductible for tax purposes, research and development relief and non-taxable items	(17.9)	(13.4)
Unprovided tax losses of overseas subsidiaries, joint ventures and associates	1.4	2.3
Movements in unrecognised deferred tax assets in respect of tax losses	0.7	–
Effect of change in deferred tax rate	–	(1.5)
Deferred tax in respect of prior years	0.9	(1.5)
Effect of different rates in overseas jurisdictions	3.4	2.7
Taxation expense	**20.4**	**4.0**

The total tax expense in the year to 31 March 2009 includes a credit of £6.3m (2008: £17.0m) for tax on acquisition amortisation and specific non-recurring items. The rate on this credit exceeds the overall Group tax rate as it primarily relates to tax on items subject to the higher US tax rate.

Factors affecting future tax charges

The effective tax rate continues to be below the statutory rate in the UK primarily as a result of the benefit of research and development relief in the UK. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any future tax legislation changes.

8. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2009 and 2008 are provided below:

	Pence per share	£m	Date paid/payable
Interim 2009	1.50	9.8	Feb 2009
Final 2009 (proposed)	3.25	21.2*	Sep 2009
Total for the year ended 31 March 2009	**4.75**	**31.0**	
Interim 2008	1.33	8.7	Feb 2008
Final 2008	2.92	19.1	Sep 2008
Total for the year ended 31 March 2008	**4.25**	**27.8**	

* Estimated cost for final proposed dividend in respect of the year ended 31 March 2009. The record date for this dividend will be 7 August 2009.

Notes to the financial statements
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9. Analysis of employee costs and numbers

The largest component of operating expenses is employee costs. The year-end and average monthly number of persons employed by the Group including Directors analysed by business segment, was:

	Year end 31 March		Monthly average	
	2009 Number	2008 Number	**2009 Number**	2008 Number
QinetiQ North America	6,348	5,699	6,167	5,479
Europe, Middle East & Australasia	7,565	7,854	7,570	7,836
Ventures	68	77	66	75
Corporate	79	80	79	80
Total	**14,060**	**13,710**	**13,882**	**13,470**

The aggregate payroll costs of these persons were as follows:

all figures in £ million	note	**2009**	2008
Wages and salaries		625.3	518.5
Social security costs		47.7	41.4
Other pension costs		41.9	45.1
Cost of share based payments	34	5.6	3.8
Employee costs before EMEA reorganisation costs		**720.5**	**608.8**
EMEA reorganisation costs		–	32.6
Total employee costs		**720.5**	**641.4**

The 2008 EMEA reorganisation costs principally comprise redundancy costs resulting from the restructuring of EMEA into four capability focused businesses.

10. 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 (see note 33). For diluted earnings per share the weighted average number of shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares arising from unvested share-based awards including share options. Underlying basic earnings per share figures are presented below in addition to the basic and diluted earnings per share as the Directors consider this gives a more relevant indication of underlying business performance and reflects the adjustments to basic earnings per share for the impact of specific non-recurring items, amortisation of acquired intangible assets and tax thereon.

For the year ended 31 March		**2009**	2008
Basic EPS			
Profit attributable to equity shareholders	£m	93.6	47.4
Weighted average number of shares	million	652.7	656.2
Basic EPS	pence	**14.3**	**7.2**
Diluted EPS			
Profit attributable to equity shareholders	£m	93.6	47.4
Weighted average number of shares	million	652.7	656.2
Effect of dilutive securities	million	2.8	3.5
Diluted number of shares	million	655.5	659.7
Diluted EPS	pence	**14.3**	**7.2**
Underlying basic EPS			
Profit attributable to equity shareholders	£m	93.6	47.4
Reorganisation costs	£m	-	32.6
(Gain)/loss on business divestments, disposals and unrealised impairment of investments	£m	(7.3)	7.0
Amortisation of intangible assets arising from acquisitions	£m	23.5	18.0
Tax impact of items above	£m	(6.3)	(15.5)
Tax rate change	£m	-	(1.5)
Underlying profit after taxation	£m	103.5	88.0
Weighted average number of shares	million	652.7	656.2
Underlying basic EPS	pence	**15.9**	**13.4**

11. Goodwill

all figures in £ million	note	2009	2008
Cost			
At 1 April		437.9	372.4
Acquisitions	13	37.9	72.3
Disposals		–	(2.2)
Foreign exchange		163.2	(4.6)
At 31 March		**639.0**	**437.9**
Impairment			
At 1 April and 31 March		(0.5)	(0.5)
Net book value at 31 March		**638.5**	**437.4**

Goodwill at 31 March 2009 was allocated across eight cash generating units (CGUs) in QNA and EMEA. In the year the CGUs were re-aligned to reflect the way in which the Group's businesses are managed and operated.

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

For each CGU the Group has determined its recoverable amount on a value in use basis using discounted future cash flows. The discounted future cash flows are based on forecasts from the five-year corporate plan. Cash flows for periods beyond this period are extrapolated based on the final year of the corporate plan, with a terminal growth rate assumption applied.

Key assumptions are as follows:

- Growth rates

The specific plans for each of the CGUs have been extrapolated using a terminal growth rate of between 2.5% and 3.0%. Growth rates are formed based on management's estimates which take into consideration the long term nature of the industry in which the CGUs operate and external forecasts as to the likely growth of the industry in the longer-term.

- Discount rates

The Group's weighted average cost of capital (WACC) was used as a basis in determining the discount rate to be applied adjusted for risks specific to the geographical location of CGUs as appropriate on a pre-tax basis. The discount rate applied for QNA CGUs was 10.3% and a range from 10.4%-12.9% for EMEA CGUs.

The goodwill allocated to the Technology Solutions business, Systems Engineering business and Mission Solutions business are considered significant as, on an individual basis, they represent more than 10% of the Group's total goodwill carrying value. After translation, using year-end foreign exchange rates, these CGUs have £119.2m, £188.2m and £289.8m of goodwill respectively. When aggregated, these three CGUs represent 93.4% of the total balance; no other amounts are considered individually significant.

Sensitivity analysis shows that both the discount rate and growth rate assumptions are key components on the outcome of the recoverable amount. The following table shows, for each of the three individually significant CGUs, the movement in assumptions which could trigger an impairment:

CGU	Goodwill carrying value £m	Recoverable amount headroom with current assumptions £m	Discount rate at which goodwill carrying value exceeds recoverable amount	Terminal growth rate at which goodwill carrying value exceeds recoverable amount
Technology Solutions	119.2	398.4	24.6%	-57.2%
Systems Engineering	188.2	159.0	15.2%	-6.3%
Mission Solutions	289.8	184.7	13.6%	-3.0%

The Directors have not identified any other likely changes in other significant assumptions since the 31 March 2009 and the signing of the financial statements that would cause the carrying value of the recognised goodwill to exceed its recoverable amount.

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12. Intangible assets

Year ended 31 March 2009

all figures in £ million	note	Acquired intangible assets*	Development costs	Other intangible assets	Total
Cost					
At 1 April 2008		119.4	10.7	31.8	161.9
Additions – internally developed		–	0.2	0.1	0.3
Additions – purchased		–	–	2.2	2.2
Additions – recognised on acquisitions	13	53.4	–	–	53.4
Disposals		(0.3)	–	(0.1)	(0.4)
Foreign exchange		49.0	–	0.4	49.4
At 31 March 2009		221.5	10.9	34.4	266.8
Amortisation and impairment					
At 1 April 2008		45.2	2.1	5.5	52.8
Amortisation charge for the year		23.5	2.4	6.5	32.4
Disposals		–	–	(0.1)	(0.1)
Foreign exchange		17.3	–	0.2	17.5
At 31 March 2009		86.0	4.5	12.1	102.6
Net book value at 31 March 2009		**135.5**	**6.4**	**22.3**	**164.2**

Year ended 31 March 2008

all figures in £ million	Acquired intangible assets*	Development costs	Other intangible assets	Total
Cost				
At 1 April 2007	74.8	10.1	11.1	96.0
Additions – internally developed	–	1.4	0.2	1.6
Additions – purchased	–	–	20.6	20.6
Additions – recognised on acquisitions	45.6	–	–	45.6
Disposals	–	(0.8)	(0.1)	(0.9)
Foreign exchange	(1.0)	–	–	(1.0)
At 31 March 2008	**119.4**	**10.7**	**31.8**	**161.9**
Amortisation and impairment				
At 1 April 2007	27.2	0.7	2.0	29.9
Amortisation charge for the year	18.0	1.5	3.5	23.0
Disposals	–	(0.1)	–	(0.1)
Foreign exchange	–	–	–	–
At 31 March 2008	**45.2**	**2.1**	**5.5**	**52.8**
Net book value at 31 March 2008	**74.2**	**8.6**	**26.3**	**109.1**
Net book value at 31 March 2007	47.6	9.4	9.1	66.1

* Acquired intangible assets principally consist of the value of orders, backlog and certain customer relationships, technology and patents/licences. No value is attributed to customer relationships where short-term contracts are held that are subject to regular re-competition.

13. Business combinations

In the year to 31 March 2009 the Group made three acquisitions involving the acquisition of 100% of the issued share capital of each company. If these acquisitions had been completed as at 1 April 2008 Group revenue for the year ended 31 March 2009 would have increased by £24.7m to £1,642.0m and Group profit before tax would have increased by £3.5m to £117.5m. The Group acquired two businesses based in North America and one in the UK.

Acquisitions in the year to 31 March 2009

all figures in £ million						Contribution post-acquisition	
Company acquired	Date acquired	Initial cash consideration(1)	Deferred consideration	Goodwill	Fair value of assets acquired(2)	Revenue	Operating profit
QNA acquisitions							
Spectro, Inc.	23 July 08	6.2	0.5	2.2	4.5	5.9	0.9
Dominion Technology Resources, Inc.	17 Oct 08	74.2	22.6	33.6	63.2	16.0	1.6
EMEA acquisitions							
Commerce Decisions Ltd	13 Oct 08	12.5	–	6.4	6.1	2.4	1.0
Current year acquisitions		**92.9**	**23.1**	**42.2**	**73.8**	**24.3**	**3.5**
Update in respect of acquisitions made in the year to 31 March 2008(3)		–	(4.3)	(4.3)	–	–	–
Total		**92.9**	**18.8**	**37.9**	**73.8**	**24.3**	**3.5**

(1) Initial cash consideration includes acquisition costs and price adjustments for working capital and net debt.
(2) Fair value of assets acquired are provisional.
(3) Deferred consideration in relation to a prior year acquisition which is updated for an accrued payment which was no longer required as a target was not met.

Set out below are the allocations of purchase consideration, assets and liabilities of the acquisitions made in the year 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. These allocations and adjustments are provisional.

Acquisitions in the year to 31 March 2009

all figures in £ million	note	Book value	Fair value adjustment	Fair value at acquisition
Intangible assets	12	–	53.4	53.4
Property, plant and equipment	14	0.7	0.2	0.9
Deferred tax asset	24	–	34.6	34.6
Trade and other receivables		8.1	–	8.1
Other current assets		1.7	–	1.7
Trade and other payables		(7.3)	(2.0)	(9.3)
Cash and cash equivalents		3.7	–	3.7
Debt and other borrowings		–	–	–
Deferred tax liability	24	–	(19.3)	(19.3)
Net assets acquired		**6.9**	**66.9**	**73.8**
Goodwill				42.2
				116.0
Consideration satisfied by:				
Cash				89.6
Deferred consideration				23.1
Total consideration before costs				**112.7**
Related costs of acquisition				3.3
				116.0

The fair value adjustments include £53.4m in relation to the recognition of acquired intangible assets less the recognition of a deferred tax liability of £19.3m in relation to these intangible assets. A deferred tax asset of £34.6m was recognised as a result of the acquisition of Dominion Technology Resources, Inc.

Notes to the financial statements
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13. Business combinations continued

Acquisitions in the year to 31 March 2008

all figures in £ million						Contribution post acquisition	
Company acquired	Date acquired	Initial cash consideration[1]	Deferred consideration	Goodwill	Fair value of assets acquired	Revenue	Operating profit
QNA acquisitions							
ITS Corporation	16 Apr 07	43.1	5.3	29.9	18.5	35.0	3.2
Automatika, Inc.	5 June 07	4.2	0.6	1.8	3.0	1.4	0.2
Applied Perception, Inc.	5 June 07	4.4	0.6	1.8	3.2	1.7	0.0
3H Technology LLC	26 June 07	26.2	1.0	14.6	12.6	16.0	1.4
Pinnacle CSI	21 Jan 08	3.0	–	0.7	2.3	1.2	0.1
EMEA acquisitions							
Boldon James Holdings Ltd	24 Oct 07	13.2	4.3	15.1	2.4	3.4	0.2
Ball Solutions Group Pty Ltd	15 Feb 08	3.5	–	3.4	0.1	0.9	0.0
AeroStructures Group	15 Feb 08	5.5	–	1.9	3.6	0.8	0.1
Novare Services Pty Ltd	15 Feb 08	3.6	0.4	2.7	1.3	0.3	0.1
Current year acquisitions		**106.7**	**12.2**	**71.9**	**47.0**	**60.7**	**5.3**
Update in respect of acquisitions made in the year to 31 March 2007[2]		–	0.4	0.4	–	–	–
Total		**106.7**	**12.6**	**72.3**	**47.0**	**60.7**	**5.3**

(1) Initial cash consideration includes acquisition costs and price adjustments for working capital and net debt.
(2) Goodwill in relation to the OSEC and Analex acquisitions completed in the prior year increased by £0.4m ($0.8m) due to additional payments being accrued to the vendors.

Set out below are the allocations of purchase consideration, assets and liabilities of the acquisitions made in the year 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.

Acquisitions in the year to 31 March 2008

all figures in £ million	note	Book value	Fair value adjustment	Fair value at acquisition
Intangible assets	12	1.4	44.2	45.6
Property, plant and equipment	14	2.5	–	2.5
Trade and other receivables		16.6	(0.1)	16.5
Other current assets		3.9	–	3.9
Trade and other payables		(10.3)	(0.5)	(10.8)
Cash and cash equivalents		4.5	–	4.5
Debt and other borrowings		(6.5)	–	(6.5)
Deferred taxation	24	(0.5)	(8.2)	(8.7)
Net assets acquired		**11.6**	**35.4**	**47.0**
Goodwill				71.9
				118.9
Consideration satisfied by:				
Cash				105.8
Deferred consideration				12.2
Total consideration before costs				**118.0**
Related costs of acquisition				0.9
				118.9

14. Property, plant and equipment

Year ended 31 March 2009

all figures in £ million	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Assets under construction	Total
Cost					
At 1 April 2008	306.8	115.5	42.0	22.0	486.3
Additions	0.9	5.5	4.5	18.2	29.1
Acquisition of subsidiaries	0.3	0.3	0.3	–	0.9
Disposals	(1.8)	(0.8)	(2.0)	–	(4.6)
Transfers	(6.2)	13.1	9.2	(16.1)	–
Foreign exchange	2.2	3.0	8.5	0.3	14.0
At 31 March 2009	**302.2**	**136.6**	**62.5**	**24.4**	**525.7**
Depreciation					
At 1 April 2008	54.6	73.9	25.4	–	153.9
Charge for the year	11.6	14.7	7.2	–	33.5
Disposals	(1.7)	(0.6)	(2.0)	–	(4.3)
Transfers	(1.7)	(0.3)	1.9	–	(0.1)
Foreign exchange	1.7	2.4	6.2	–	10.3
At 31 March 2009	**64.5**	**90.1**	**38.7**	**–**	**193.3**
Net book value at 31 March 2009	**237.7**	**46.5**	**23.8**	**24.4**	**332.4**

Year ended 31 March 2008

all figures in £ million	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Assets under construction	Total
Cost					
At 1 April 2007	304.0	104.9	31.9	25.2	466.0
Additions	1.3	3.5	3.7	15.2	23.7
Acquisition of subsidiaries	0.3	0.6	1.6	–	2.5
Disposals	–	(2.1)	(0.2)	(0.2)	(2.5)
Disposal of businesses	–	(1.7)	(0.8)	(0.5)	(3.0)
Transfers from development costs	–	–	–	–	–
Transfers	1.2	10.4	6.1	(17.7)	–
Foreign exchange	–	(0.1)	(0.3)	–	(0.4)
At 31 March 2008	**306.8**	**115.5**	**42.0**	**22.0**	**486.3**
Depreciation					
At 1 April 2007	43.3	61.6	19.6	–	124.5
Charge for the year	11.3	15.0	6.7	–	33.0
Disposals	–	(2.0)	(0.2)	–	(2.2)
Disposal of businesses	–	(0.6)	(0.5)	–	(1.1)
Foreign exchange	–	(0.1)	(0.2)	–	(0.3)
At 31 March 2008	**54.6**	**73.9**	**25.4**	**–**	**153.9**
Net book value at 31 March 2008	**252.2**	**41.6**	**16.6**	**22.0**	**332.4**

Assets held under finance leases, capitalised and included in computers and equipment, have:

- a cost of £5.2m (31 March 2008: £5.2m);
- aggregate depreciation of £5.2m (31 March 2008: £5.2m); and
- a net book value of £nil (31 March 2008: £nil).

Under the terms of the Business Transfer Agreement with the MOD, certain restrictions have been placed on freehold land and buildings, and certain plant and machinery related to them. These restrictions are detailed in note 36.

Notes to the financial statements
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15. Financial assets

As at 31 March

all figures in £ million	2009	2008
Derivative financial instruments	0.1	1.4
Escrow financial assets	–	3.0
Net investment in finance lease	3.0	3.0
Total current financial assets	**3.1**	**7.4**
Net investment in finance lease	11.6	13.0
Derivative financial instruments	–	2.3
Total non-current financial assets	**11.6**	**15.3**
Total financial assets	**14.7**	**22.7**

16. Equity accounted investments

Year ended 31 March 2009

all figures in £ million	Joint venture and associates financial results	Group net share of joint ventures and associates
Revenue	14.2	5.2
Loss after tax	**(14.7)**	**(7.2)**
Non-current assets	0.7	0.2
Current assets	6.4	2.2
	7.1	**2.4**
Current liabilities	(3.5)	(1.3)
Non-current liabilities	(1.5)	(0.4)
	(5.0)	**(1.7)**
Net assets	**2.1**	**0.7**

Year ended 31 March 2008

all figures in £ million	Joint venture and associates financial results	Group net share of joint venture and associates
Revenue	9.0	2.9
Loss after tax	**(8.0)**	**(4.0)**
Non-current assets	21.1	10.4
Current assets	9.1	4.1
	30.2	**14.5**
Current liabilities	(5.8)	(2.6)
Non-current liabilities	(5.2)	(2.6)
	(11.0)	**(5.2)**
Net assets	**19.2**	**9.3**

During the year the 50% owned technology venture with Coller Capital was renamed the Cody Gate Ventures I LP (formerly named QinetiQ Ventures LP). The fund was accounted for as a joint venture with a 50% economic interest held by the Group but with the potential for an increase to 75% dependent on the future financial results of the fund. The Group invested cash of £6.4m (2008: £3.5m) into the fund during the year and there were losses of £7.2m (2008: £4.2m) recorded in the income statement.

On 27 March 2009 the Group disposed of part of its interest in Cody Gate Ventures I LP to Coller Capital resulting in the Group receiving cash consideration of £13.7m and reducing its interest to 25% (formerly 50% economic interest). The Group has also relinquished its voting powers over the fund and forgone its rights to vote to remove the General Partner and in light of these changes it is no longer considered that the Group has any significant influence over the fund and therefore the remaining investment is now disclosed as an available for sale investment. The changes permit QinetiQ to be entitled to take an increased economic interest of up to 50% above certain thresholds of realisation. The Group reported a profit on the disposal of £9.5m (see note 5 for further details) and disclosed its remaining 25% interest in the fund at a fair value of £4.7m as an available for sale investment in other non current investments (see note 17).

The unrecognised share of losses of equity accounted investments at 31 March 2009 was £nil (31 March 2008: £nil). During the year ended 31 March 2009 there were sales to joint ventures of £2.6m (2008: £1.3m) and to associates of £nil (2008: £1.4m). At year end, there were outstanding receivables from joint ventures of £nil (2008: £0.4m) and £nil (2008: £nil) from associates. There were no other related party transactions between the Group and its joint ventures and associates in the year.

17. Other non-current investments

all figures in £ million	2009	2008
Available for sale investments at 1 April	14.7	28.5
Cash (repaid)/invested in year	(0.6)	4.1
Non cash additions in year	5.6	–
Impairment charged to income statement in year	(5.0)	(2.3)
Unwinding of discount credited to income statement	–	0.2
Impairment of a previously revalued investment charged to equity	–	(2.9)
Increase in fair value in the year credited to equity	–	3.2
Disposals	–	(16.1)
Foreign exchange	1.0	–
Available for sale investments at 31 March	**15.7**	**14.7**

The non cash additions consisted of £0.9m for an additional shareholding issued to QinetiQ in respect of the Sciemus Limited investment and £4.7m in respect of the recognition at fair value for the remaining 25% share of investment in the Cody Gate Ventures I LP (formerly QinetiQ Ventures LP) following the part disposal of the equity investment, see note 16 for further details. In addition, there were repayments of loan notes during the year of £0.6m.

18. Inventories

As at 31 March

all figures in £ million	2009	2008
Raw materials	3.4	6.1
Work in progress	26.4	19.9
Finished goods	38.5	30.9
	68.3	**56.9**

Included in work in progress is an amount of £19.6m (2008: £9.6m) relating to deferred contract bid costs which are recoverable in more than one year.

19. Trade and other receivables

As at 31 March

all figures in £ million	2009	2008
Trade debtors	331.2	300.1
Amounts recoverable under contracts	169.1	134.2
Other debtors	14.8	9.4
Prepayments	17.8	25.3
	532.9	**469.0**

In determining the recoverability of trade receivables, the Group considers any changes in the credit quality of the trade receivable from the date credit was granted up to the reporting date. Credit risk is limited due to the high percentage of turnover being derived from UK and US defence and other government agencies. Accordingly, the Directors believe there is no further credit provision required in excess of the allowance for doubtful debts. As at 31 March 2009, the Group carried a provision for doubtful debts of £5.9m (2008: £6.2m).

Ageing of past due but not impaired receivables

all figures in £ million	2009	2008
Up to 3 months	83.6	80.2
Over 3 months	9.1	4.4
	92.7	**84.6**

Movements on the Group doubtful debt provision

all figures in £ million	2009	2008
At 1 April	6.2	2.5
Created	3.7	4.5
Released	(4.0)	(0.5)
Utilised	–	(0.3)
At 31 March	**5.9**	**6.2**

The maximum exposure to credit risk in relation to trade receivables at the reporting date is the fair value of trade receivables. The Group does not hold any collateral as security.

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20. Current asset investments

As at 31 March

all figures in £ million	2009	2008
Available for sale investment	**0.6**	1.3

At 31 March 2009 the Group held a 4.9% shareholding in pSivida Limited (31 March 2008: 4.9%) a company listed on NASDAQ and the Australian and Frankfurt Stock Exchanges. On 12 June 2008 pSivida Limited undertook a share restructuring which involved 40 shares being converted into one new share in pSivida Corp. The investment is held at fair value of £0.6m (2008: £1.3m) using the closing share price at 31 March 2009 of A$1.30 per share (31 March 2008 equivalent price based upon the new share structure was:A$3.20). During the year, the reduction in value of £0.7m (2008: £2.9m) has been recognised in the income statement as an impairment (see note 5).

21. Cash and cash equivalents

As at 31 March

all figures in £ million	2009	2008
Cash	128.2	24.5
Cash equivalents	133.9	–
Total cash and cash equivalents	**262.1**	**24.5**

At 31 March 2009, £4.5m (31 March 2008: £14.7m) of cash is held by the Group's captive insurance subsidiary and includes £3.5m (2008: £6.5m) which is restricted in its use.

22. Trade and other payables

As at 31 March

all figures in £ million	2009	2008
Payments received on account	82.8	77.0
Trade creditors	71.3	51.3
Other tax and social security	36.9	47.2
Other creditors	66.4	31.4
Accruals and deferred income	189.8	167.5
Total current trade and other payables	**447.2**	**374.4**
Payments received on account	29.3	36.1
Other payables	19.4	11.6
Total non-current trade and other payables	**48.7**	**47.7**
Total trade and other payables	**495.9**	**422.1**

23. Provisions

Year ended 31 March 2009

all figures in £ million	Reorganisation	Other	Total
At 1 April 2008	29.3	16.4	45.7
Created in year	–	6.3	6.3
Released in year	(1.1)	(4.0)	(5.1)
Utilised in year	(27.3)	(6.5)	(33.8)
At 31 March 2009	**0.9**	**12.2**	**13.1**
Current liability	0.9	3.4	4.3
Non-current liability	–	8.8	8.8
At 31 March 2009	**0.9**	**12.2**	**13.1**

Other provisions comprise legal, environmental, property and other liabilities.

Year ended 31 March 2008

all figures in £ million	Reorganisation	Other	Total
At 1 April 2007	0.9	13.3	14.2
Created in year	36.6	5.4	42.0
Released in year	(0.4)	(0.3)	(0.7)
Utilised in year	(7.8)	(2.0)	(9.8)
At 31 March 2008	**29.3**	**16.4**	**45.7**
Current liability	29.3	2.5	31.8
Non-current liability	–	13.9	13.9
At 31 March 2008	**29.3**	**16.4**	**45.7**

24. Deferred tax

Deferred tax assets and liabilities are only offset where there is a legally enforceable right to offset and there is an intention to settle the balances net.

Movements on the deferred tax assets and liabilities are shown below:

Year ended 31 March 2009
Deferred tax asset

all figures in £ million	Pension liability	Hedging	Other	Total
At 1 April 2008	6.5	1.2	11.8	19.5
Created	22.9	4.7	15.4	43.0
Prior year adjustment	–	0.7	(5.2)	(4.5)
Gross deferred tax asset at 31 March 2009	**29.4**	**6.6**	**22.0**	**58.0**
Less liability available for offset				(58.0)
Net deferred tax asset at 31 March 2009				**–**

The net deferred tax asset created in the year relating to the pension liability includes £34.1m released to equity (2008: £12.2m charged to equity).

Deferred tax liability

all figures in £ million	Accelerated tax depreciation and amortisation
At 1 April 2008	(50.3)
Acquisitions	15.3
Created	(26.2)
Foreign exchange	(5.7)
Gross deferred tax liability at 31 March 2009	**(66.9)**
Less asset available for offset	58.0
Net deferred tax liability at 31 March 2009	**(8.9)**

Deferred tax movements on hedging have been recognised in equity. At the balance sheet date, the Group had unused tax losses of £77.5m (2008: £53.8m) potentially available for offset against future profits. No deferred tax asset has been recognised in respect of this amount due to uncertainty over the timing of their utilisation. These losses can be carried forward indefinitely.

Year ended 31 March 2008
Deferred tax asset

all figures in £ million	Pension liability	Hedging	Other	Total
At 1 April 2007 – restated	27.1	–	0.7	27.8
Created	–	1.9	11.1	13.0
Transfer from deferred tax liability	–	(0.7)	–	(0.7)
Released	(20.6)	–	–	(20.6)
Gross deferred tax asset at 31 March 2008	**6.5**	**1.2**	**11.8**	**19.5**
Less liability available for offset				(19.5)
Net deferred tax asset at 31 March 2008				**–**

Deferred tax liability

all figures in £ million	Accelerated tax depreciation and amortisation
At 1 April 2007 – restated	(47.0)
Acquisitions	(8.7)
Created	4.4
Transfer to deferred tax asset	0.7
Foreign exchange	0.3
Gross deferred tax liability at 31 March 2008	**(50.3)**
Less asset available for offset	19.5
Net deferred tax liability at 31 March 2008	**(30.8)**

Notes to the financial statements
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25. Financial liabilities – current

As at 31 March

all figures in £ million	**2009**	2008
Bank overdraft	–	5.0
Loan notes	–	0.5
Deferred financing costs	(0.7)	(0.2)
Finance lease creditor	2.8	2.8
Derivative financial instruments	20.0	3.7
	22.1	**11.8**

Further analysis of the terms and maturity dates for financial liabilities are set out in note 27.

26. Financial liabilities – non-current

As at 31 March

all figures in £ million	**2009**	2008
Bank loan	386.2	266.7
Deferred financing costs	(1.6)	(0.9)
	384.6	**265.8**
US dollar 135m loan, repayable December 2013	95.5	68.8
US dollar 62m loan, repayable February 2016	43.3	–
US dollar 125m loan, repayable December 2016	88.0	63.5
US dollar 238m loan, repayable February 2019	166.2	–
Finance lease creditor	11.4	12.8
Derivative financial instruments	3.6	4.4
	792.6	**415.3**

Further analysis of the terms and maturity dates for financial liabilities are set out in note 27.

27. Financial risk management

Financial assets and liabilities comprise:

As at 31 March

	2009		2008	
all figures in £ million	**Financial assets**	**Financial liabilities**	Financial assets	Financial liabilities
Trade and other receivables/(payables)	532.9	(495.9)	469.0	(422.1)
Cash and cash equivalents	262.1	–	24.5	–
Bank borrowings, loans and loan notes	–	(776.9)	–	(403.4)
Finance leases	14.6	(14.2)	16.0	(15.6)
Investments	17.0	–	16.0	–
Derivative financial instruments	0.1	(23.6)	3.7	(8.1)
Other	–	–	3.0	–
	826.7	**(1,310.6)**	532.2	(849.2)

A) Fair values of financial instruments

All financial assets and liabilities have a fair value identical to book value at 31 March 2009 and 31 March 2008 except the following:

	2009		2008	
all figures in £ million	**Fair value**	**Book value**	Fair value	Book value
Primary financial instruments held or issued to finance the Group's operations:				
Bank borrowings, loans and loan notes	(755.7)	(776.9)	(403.7)	(403.4)
Finance lease assets	15.3	14.6	19.2	16.0
Finance lease liabilities	(14.4)	(14.2)	(17.7)	(15.6)

Market values, where available, have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting cash flows to net present values using prevailing market-based interest rates translated at year-end exchange rates, except for unlisted fixed asset investments where a fair value equals book value.

B) Interest rate risk

Financial assets/(liabilities)
As at 31 March 2009

	Financial asset			Financial liability		
all figures in £ million	Fixed or capped	Floating	Non-interest bearing	Fixed or capped	Floating	Non-interest bearing
Sterling	14.6	216.1	16.5	(14.2)	(97.7)	(18.5)
US dollar	–	42.6	–	(581.1)	(69.6)	(5.1)
Euro	–	1.4	–	–	(11.6)	–
Australian dollar	–	2.0	0.6	–	(16.9)	–
	14.6	262.1	17.1	(595.3)	(195.8)	(23.6)

As at 31 March 2008

	Financial asset			Financial liability		
all figures in £ million	Fixed or capped	Floating	Non-interest bearing	Fixed or capped	Floating	Non-interest bearing
Sterling	16.0	10.2	18.4	(15.6)	(19.4)	(6.1)
US dollar	–	16.7	–	(268.0)	(90.4)	(2.0)
Euro	–	0.6	–	–	(10.0)	–
Australian dollar	–	–	1.3	–	(15.6)	–
	16.0	27.5	19.7	(283.6)	(135.4)	(8.1)

Floating rate financial assets attract interest based on the relevant national LIBID equivalent. Floating rate financial liabilities bear interest at the relevant national LIBOR equivalent. Trade and other receivables/(payables) are excluded from this analysis.

For the fixed or capped rate financial assets and liabilities, the average interest rates (including the relevant marginal cost of borrowing) and the average period for which the rates are fixed are:

	2009			2008		
	Fixed or capped £m	**Weighted average interest rate %**	**Weighted average years to maturity**	Fixed or capped £m	Weighted average interest rate %	Weighted average years to maturity
Financial assets:						
Sterling	**14.6**	**13.4%**	**5.9**	**16.0**	**13.4%**	**6.9**
Financial liabilities:						
Sterling	(14.2)	12.1%	6.4	(15.6)	12.1%	7.4
US dollar	(581.1)	5.8%	9.0	(268.0)	4.8%	5.2
	(595.3)	**5.9%**	**8.9**	**(283.6)**	**5.2%**	**5.3**

Sterling assets and liabilities consist primarily of finance leases with the weighted average interest rate reflecting the internal rate of return of those leases.

Interest rate risk management

The majority of the Group's bank and private placement borrowings were fixed or capped through a combination of interest rate swaps, collars and fixed rate debt.

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2009 was £188.1m or $270m (31 March 2008: £135.7m or $270m). The swaps have the economic effect of converting floating rate US dollar borrowings into fixed rate US dollar borrowings and are accounted for as cash flow hedges.

C) Currency risk

The table below shows the Group's currency exposures, being exposures on currency transactions that give rise to net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating company involved, other than certain non-sterling borrowings treated as hedges of net investments in overseas entities.

Functional currency of the operating company:

	Net foreign currency monetary assets/(liabilities)				
all figures in £ millions	US dollar	Euro	Australian dollar	Other	Total
31 March 2009 – sterling	**5.6**	**1.4**	**0.6**	**0.9**	**8.5**
31 March 2008 – sterling	12.3	0.8	(0.1)	(0.3)	12.7

The amounts shown in the table take into account the effect of the forward contracts entered into to manage these currency exposures.

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27. Financial risk management continued

The Group enters into forward foreign currency contracts to hedge the currency exposures that arise on sales and purchases denominated in foreign currencies, as the transaction occurs. The principal contract amounts of the outstanding forward currency contracts as at 31 March 2009 against sterling are net US dollars sold £13.3m ($19.1m) and net Euros purchased of £2.7m (€2.9m).

D) Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments. The cash flows associated with derivatives that are cash flow hedges are expected to impact profit or loss in the periods shown.

As at 31 March 2009

all figures in £ million	Book value	Contractual cash flows	1 year or less	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Trade and other payables	(495.9)	(495.9)	(447.2)	(15.5)	(33.2)	–
Bank overdrafts	–	–	–	–	–	–
US private placement debt	(393.0)	(601.7)	(20.7)	(25.6)	(76.8)	(478.6)
Multi-currency revolving facility	(383.9)	(389.7)	(6.2)	–	(383.5)	–
Loan notes	–	–	–	–	–	–
Finance leases	(14.2)	(18.3)	(2.8)	(2.8)	(8.4)	(4.3)
Derivative financial liabilities						
Interest rate swaps – cash flow hedges	(8.0)	(8.0)	(5.0)	(2.2)	(0.8)	–
Forward foreign currency contracts – cash flow hedges	(1.3)	(1.3)	(0.6)	–	–	–
Forward foreign currency contracts – net investment hedges	(14.3)	(14.3)	(14.3)	(0.7)	–	–
	(1,310.6)	**(1,529.2)**	**(496.8)**	**(46.8)**	**(502.7)**	**(482.9)**

As at 31 March 2008

all figures in £ million	Book value	Contractual cash flows	1 year or less	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Trade and other payables	(422.1)	(422.1)	(374.4)	(7.8)	(39.9)	–
Bank overdrafts	(5.0)	(5.0)	(5.0)	–	–	–
US private placement debt	(132.3)	(159.1)	(7.1)	(7.1)	(21.4)	(123.5)
Multi-currency revolving facility	(265.6)	(267.4)	(1.8)	–	(265.6)	–
Loan notes	(0.5)	(0.5)	(0.5)	–	–	–
Finance leases	(15.6)	(21.1)	(2.8)	(2.8)	(8.5)	(7.0)
Derivative financial liabilities						
Interest rate swaps – cash flow hedges	(4.8)	(4.8)	(2.0)	(2.0)	(0.8)	–
Forward foreign currency contracts – cash flow hedges	(3.3)	(3.3)	(1.7)	(1.1)	(0.5)	–
	(849.2)	**(883.3)**	**(395.3)**	**(20.8)**	**(336.7)**	**(130.5)**

E) Derivative financial instruments

As at 31 March

	2009			2008		
all figures in £ million	**Asset gains**	**Liability losses**	**Net**	Asset gains	Liability losses	Net
Interest rate swaps	–	(8.0)	(8.0)	–	(4.8)	(4.8)
Forward foreign currency contracts – cash flow hedges	0.1	(2.0)	(1.9)	3.7	(3.3)	0.4
Forward foreign currency contracts – net investment hedges	–	(13.6)	(13.6)	–	–	–
Derivative assets/(liabilities) at the end of the year	**0.1**	**(23.6)**	**(23.5)**	**3.7**	**(8.1)**	**(4.4)**

As at 31 March

	2009			2008		
all figures in £ million	**Asset gains**	**Liability losses**	**Net**	Asset gains	Liability losses	Net
Expected to be recognised						
In one year or less	0.1	(19.9)	(19.8)	1.4	(3.7)	(2.3)
Between one and two years	–	(2.9)	(2.9)	1.6	(3.1)	(1.5)
Between two and five years	–	(0.8)	(0.8)	0.7	(1.3)	(0.6)
	0.1	**(23.6)**	**(23.5)**	**3.7**	**(8.1)**	**(4.4)**

F) Maturity of financial liabilities

As at 31 March 2009

all figures in £ million	Trade and other payables	Bank borrowings and loan notes	Finance leases and derivative financial instruments	Total
Due in one year or less	447.2	(0.7)	22.8	469.3
Due in more than one year but not more than two years	15.5	(0.7)	4.9	19.7
Due in more than two years but not more than five years	33.2	385.3	7.4	425.9
Due in more than five years	–	393.0	2.7	395.7
	495.9	**776.9**	**37.8**	**1,310.6**

As at 31 March 2008

all figures in £ million	Trade and other payables	Bank borrowings and loan notes	Finance leases and derivative financial instruments	Total
Due in one year or less	374.4	5.3	6.5	386.2
Due in more than one year but not more than two years	7.8	–	3.3	11.1
Due in more than two years but not more than five years	39.9	265.8	10.0	315.7
Due in more than five years	–	132.3	3.9	136.2
	422.1	**403.4**	**23.7**	**849.2**

G) Borrowing facilities

As at 31 March 2009, the following committed facilities were available to the Group:

	Interest rate %	Total £m	Drawn £m	Undrawn £m
Multi-currency revolving facility	LIBOR plus 0.30%	500.0	386.2	113.8
US Private Placement repayable December 2013	5.44%	95.5	95.5	–
US Private Placement repayable February 2016	7.13%	43.3	43.3	–
US Private Placement repayable December 2016	5.50%	88.0	88.0	–
US Private Placement repayable February 2019	7.62%	166.2	166.2	–
Committed facilities 31 March 2009		**893.0**	**779.2**	**113.8**
Freely available cash and cash equivalents				258.6
Available funds 31 March 2009				**372.4**

Committed facilities 31 March 2008		632.8	399.5	233.3
Freely available cash and cash equivalents				18.0
Available funds 31 March 2008				251.3

Loans drawn under the £500m multi-currency revolving facility are repayable within twelve months, but have been classified as due in more than two years as the relevant committed facilities are available until 19 August 2012. The loans bear interest at a variable margin over LIBOR of between 0.30% and 0.50% dependent on the ratio of EBITDA to net debt and the level of utilisation.

H) Sensitivity and analysis

The Group's sensitivity to changes in market rates on financial assets and liabilities as at 31 March 2009 is set out in the table overleaf. The impact of a weakening in sterling on the Group's financial assets and liabilities would be more than offset in equity and income by its impact on the Group's overseas net assets and earnings respectively. Sensitivity on Group assets other than financial assets and liabilities is not included in this analysis.

The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming certain adverse market conditions occur. Actual results in the future may differ materially from those projected results due to developments in the global financial markets which may cause fluctuations in interest and exchange rates to vary from the hypothetical amounts disclosed in the table below, which therefore should not be considered a projection of likely future events and losses.

The estimated changes for interest rate movements are based on an instantaneous decrease or increase of 1 per cent (100 basis points) in the specific rate of interest applicable to each class of financial instruments from the levels effective at 31 March 2009, with all other variables remaining constant. The estimated changes for foreign exchange rates are based on an instantaneous 10 per cent weakening or strengthening in sterling against all other currencies from the levels applicable at 31 March 2009, with all other variables remaining constant. Such analysis is for illustrative purposes only – in practice market rates rarely change in isolation.

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27. Financial risk management continued

As at 31 March 2009

all figures in £ million	1% decrease in interest rates Equity	1% decrease in interest rates Profit before tax	10% weakening in sterling Equity	10% weakening in sterling Profit before tax
Sterling	–	(1.1)	–	–
US dollar	(0.1)	0.6	(68.5)	(3.9)
Other	(0.1)	0.2	(2.7)	(0.1)

all figures in £ million	1% increase in interest rates Equity	1% increase in interest rates Profit before tax	10% strengthening in sterling Equity	10% strengthening in sterling Profit before tax
Sterling	–	2.2	–	–
US dollar	0.1	(0.1)	68.5	3.9
Other	0.1	(0.3)	2.7	0.1

As at 31 March 2008

all figures in £ million	1% decrease in interest rates Equity	1% decrease in interest rates Profit before tax	10% weakening in sterling Equity	10% weakening in sterling Profit before tax
Sterling	–	0.1	–	–
US dollar	(4.0)	0.7	(38.5)	(1.7)
Other	–	0.1	(2.7)	(0.2)

28. Cash flows from operations

all figures in £ million	**Year ended 31 March 2009**	Year ended 31 March 2008
Profit after tax for the period	**93.6**	**47.4**
Adjustments for:		
Taxation expense	20.4	4.0
Net finance costs	24.8	18.0
(Gain)/loss on business divestments	(13.0)	1.8
Unrealised impairment of investment	5.7	5.2
Depreciation of property, plant and equipment	33.5	33.0
Amortisation of purchased or internally developed intangible assets	8.9	5.0
Amortisation of intangible assets arising from acquisitions	23.5	18.0
Share of post tax loss of equity accounted entities	7.2	4.0
Net movement in provisions	(32.6)	31.5
	78.4	**120.5**
Increase in inventories	(2.9)	(17.3)
Decrease/(increase) in receivables	4.4	(49.0)
Increase in payables	1.7	36.7
Changes in working capital	**3.2**	**(29.6)**
Cash generated from operations	**175.2**	**138.3**
Add back: cash outflow relating to 2008 EMEA reorganisation	27.0	5.6
Net cash flow from operations before 2008 EMEA reorganisation costs	**202.2**	**143.9**

29. Reconciliation of net cash flow to movement in net debt

all figures in £ million	note	Year ended 31 March 2009	Year ended 31 March 2008
Increase in cash in the year		236.9	7.2
New bank loans		(13.3)	(87.6)
New loan notes		–	(0.5)
New US private placement		(210.4)	–
Loan note repayments		0.5	0.1
Payment of deferred financing costs		1.5	0.5
Escrow cash receipt		(4.2)	–
Capital element of finance lease payments		2.8	3.2
Capital element of finance lease receipts		(3.0)	(3.0)
Change in net debt resulting from cash flows		**10.8**	**(80.1)**
Amortisation of deferred financing costs		(0.3)	(0.2)
Loan note disposed as part of business disposal		–	5.1
Finance lease receivables		1.6	1.9
Finance lease payables		(1.4)	(1.7)
Foreign exchange movements		(163.9)	2.6
Movement on cash flow and net investment derivatives before foreign exchange movements		(4.8)	(6.7)
Movement in net debt in the year		**(158.0)**	**(79.1)**
Net debt at the start of the year		(379.9)	(300.8)
Net debt at the end of the year	30	**(537.9)**	**(379.9)**

30. Analysis of net debt

all figures in £ million	Year ended 31 March 2008	Cash flow	Non cash movement	Year ended 31 March 2009
Due within one year				
Bank and cash	24.5	231.9	5.7	262.1
Bank overdraft	(5.0)	5.0	–	–
Recapitalisation fee	0.2	0.8	(0.3)	0.7
Loan notes	(0.5)	0.5	–	–
Finance lease receivables	3.0	(3.0)	3.0	3.0
Finance lease payables	(2.8)	2.8	(2.8)	(2.8)
Escrow cash receivables	3.0	(4.2)	1.2	–
Derivative financial assets	1.4	–	(1.3)	0.1
Derivative financial liabilities	(3.7)	–	(16.3)	(20.0)
	20.1	**233.8**	**(10.8)**	**243.1**
Due after one year				
Bank loan	(266.7)	(13.3)	(106.2)	(386.2)
Recapitalisation fee	0.9	0.7	–	1.6
US private placement	(132.3)	(210.4)	(50.3)	(393.0)
Finance lease receivables	13.0	–	(1.4)	11.6
Finance lease payables	(12.8)	–	1.4	(11.4)
Derivative financial assets	2.3	–	(2.3)	–
Derivative financial liabilities	(4.4)	–	0.8	(3.6)
	(400.0)	**(223.0)**	**(158.0)**	**(781.0)**
Total net debt as defined by the Group	**(379.9)**	**10.8**	**(168.8)**	**(537.9)**

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31. Finance leases

Group as a lessor
The minimum lease receivables under finance leases fall as follows:

	Minimum lease payments		Present value of minimum lease payments	
all figures in £ million	**2009**	2008	**2009**	2008
Amounts receivable under finance leases				
Within one year	3.0	3.0	3.0	3.0
In the second to fifth years inclusive	12.0	12.0	8.9	8.9
Greater than five years	4.5	7.5	2.7	4.1
	19.5	**22.5**		
Less unearned finance income	(4.9)	(6.5)		
Present value of minimum lease payments	**14.6**	**16.0**	**14.6**	**16.0**
Classified as follows:				
Financial asset – current			3.0	3.0
Financial asset – non-current			11.6	13.0
			14.6	**16.0**

The Group leases out certain buildings under finance leases over a 12-year term expiring in 2015.

Group as a lessee
The minimum lease payments under finance leases fall due as follows:

	Minimum lease payments		Present value of minimum lease payments	
all figures in £ million	**2009**	2008	**2009**	2008
Amounts payable under finance leases				
Within one year	2.8	2.8	2.8	2.8
In the second to fifth years inclusive	11.3	11.3	8.9	8.9
Greater than five years	4.2	7.0	2.5	3.9
	18.3	**21.1**		
Less future finance charges	(4.1)	(5.5)		
Present value of minimum lease payments	**14.2**	**15.6**	**14.2**	**15.6**
Classified as follows:				
Financial liability – current			2.8	2.8
Financial liability – non-current			11.4	12.8
			14.2	**15.6**

The Group utilises certain buildings and computer equipment under finance leases. Average lease terms are typically between two and ten years (31 March 2008: between two and ten years).

32. Share capital

Authorised share capital at 31 March 2009 and 2008:

	£	Number
Attributable to equity interests:		
Ordinary shares of 1p each	14,000,000	1,400,000,000
Attributable to non-equity interests:		
Special share of £1	1	1
Total authorised share capital	**14,000,001**	**1,400,000,001**

Shares allotted, called up and fully paid:

	Ordinary shares of 1p each (equity)		Special share of £1 (non-equity)		Total	
	£	Number	£	Number	£	Number
At 1 April 2007	6,601,150	660,115,056	1	1	6,601,151	660,115,057
Issued in year	3,614	361,317	–	–	3,614	361,317
At 31 March 2008	6,604,764	660,476,373	1	1	6,604,765	660,476,374
Issued in year	–	–	–	–	–	–
At 31 March 2009	**6,604,764**	**660,476,373**	**1**	**1**	**6,604,765**	**660,476,374**

Except as noted below all shares at 31 March 2009 rank pari passu in all respects.

Rights attaching to the Special Share

QinetiQ carries out activities which are important to UK defence and security interests. To protect these interests in the context of the ongoing commercial relationship between the MOD and QinetiQ, and to promote and reinforce the Compliance Principles, the MOD holds a Special Share in QinetiQ. The Special Share confers certain rights on the holder:

a) to require the Group to implement and maintain the Compliance System (as defined in the Articles of Association) so as to make at all times effective its and each member of QinetiQ Controlled Group's application of the Compliance Principles, in a manner acceptable to the Special Shareholder;
b) to refer matters to the Board or the Compliance Committee for its consideration in relation to the application of the Compliance Principles;
c) to veto any contract, transaction, arrangement or activity which the Special Shareholder considers:
   i) may result in circumstances which constitute unacceptable ownership, influence or control over QinetiQ or any other member of the QinetiQ consolidated Group contrary to the defence or security interests of the United Kingdom; or
   ii) would not, or does not, ensure the effective application of the Compliance Principles to and/or by all members of the QinetiQ Controlled Group or would be or is otherwise contrary to the defence or security interests of the United Kingdom;
d) to require the Board to take any action (including but not limited to amending the Compliance Principles), or rectify any omission in the application of the Compliance Principles, if the Special Shareholder is of the opinion that such steps are necessary to protect the defence or security interest of the United Kingdom;
e) to exercise any of the powers contained in the articles in relation to the Compliance Committee; and
f) to demand a poll at any of QinetiQ's meetings (even though it may have no voting rights except those specifically set out in the Articles).

The Special Shareholder has an option to purchase defined Strategic Assets of the Group in certain circumstances. The Special Shareholder has, inter alia, the right to purchase any Strategic Assets which the Group wishes to sell. Strategic Assets are normally testing and research facilities (see note 36 for further details).

The Special Share may only be issued to, held by and transferred to H.M. Government (or as it directs). At any time the Special Shareholder may require QinetiQ to redeem the Special Share at par. If QinetiQ is wound up the Special Shareholder will be entitled to be repaid the capital paid up on the Special Share before other shareholders receive any payment. The Special Shareholder has no other right to share in the capital or profits of QinetiQ.

The Special Shareholder must give consent to a general meeting held on short notice.

The Special Share entitles the Special Shareholder to require certain persons who hold (together with any person acting in concert with them) a material interest in QinetiQ to dispose of some or all of their Ordinary Shares in certain prescribed circumstances on the grounds of national security or conflict of interest.

The Directors must register any transfer of the Special Share within seven days.

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33. Changes in equity

all figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total	Minority interest	Total equity
At 1 April 2007	**6.6**	**39.9**	**147.6**	**1.1**	**(14.2)**	**296.3**	**477.3**	**0.1**	**477.4**
Effective portion of change in fair value of net investment hedges	–	–	–	–	1.0	–	1.0	–	1.0
Foreign currency translation differences for foreign operations	–	–	–	–	(4.3)	–	(4.3)	–	(4.3)
Profit for the year	–	–	–	–	–	47.4	47.4	–	47.4
Dividends paid	–	–	–	–	–	(24.9)	(24.9)	–	(24.9)
Purchase of own shares	–	–	–	–	–	(12.8)	(12.8)	–	(12.8)
Share-based payments	–	–	–	–	–	3.8	3.8	–	3.8
Deferred tax on share based payments	–	–	–	–	–	0.2	0.2	–	0.2
Impairment of a previously revalued available for sale investment	–	–	–	–	–	(2.9)	(2.9)	–	(2.9)
Increase in fair value of available for sale investments	–	–	–	–	–	3.2	3.2	–	3.2
Decrease in fair value of hedging derivatives	–	–	–	(6.8)	–	–	(6.8)	–	(6.8)
Deferred tax on hedging derivatives	–	–	–	1.9	–	–	1.9	–	1.9
Release unrealised gain on disposal of businesses	–	–	–	–	–	(3.5)	(3.5)	–	(3.5)
Actuarial gain recognised in the defined benefit pension schemes	–	–	–	–	–	65.5	65.5	–	65.5
Deferred tax asset on actuarial movement on pension deficit	–	–	–	–	–	(12.2)	(12.2)	–	(12.2)
At 31 March 2008	**6.6**	**39.9**	**147.6**	**(3.8)**	**(17.5)**	**360.1**	**532.9**	**0.1**	**533.0**
Effective portion of change in fair value of net investment hedges	–	–	–	–	(107.6)	–	(107.6)	–	(107.6)
Foreign currency translation differences for foreign operations	–	–	–	–	181.6	–	181.6	–	181.6
Profit for the year	–	–	–	–	–	93.6	93.6	–	93.6
Dividends paid	–	–	–	–	–	(28.9)	(28.9)	–	(28.9)
Purchase of own shares	–	–	–	–	–	(0.8)	(0.8)	–	(0.8)
Share-based payments	–	–	–	–	–	5.6	5.6	–	5.6
Deferred tax on share-based payments	–	–	–	–	–	(0.1)	(0.1)	–	(0.1)
Increase in fair value of available for sale investments	–	–	–	–	–	0.9	0.9	–	0.9
Decrease in fair value of hedging derivatives	–	–	–	(17.6)	–	–	(17.6)	–	(17.6)
Deferred tax on hedging derivatives	–	–	–	4.7	–	–	4.7	–	4.7
Actuarial loss recognised in the defined benefit pension schemes	–	–	–	–	–	(95.8)	(95.8)	–	(95.8)
Deferred tax on actuarial movement on pension deficit	–	–	–	–	–	34.1	34.1	–	34.1
At 31 March 2009	**6.6**	**39.9**	**147.6**	**(16.7)**	**56.5**	**368.7**	**602.6**	**0.1**	**602.7**

The translation reserve includes the cumulative foreign exchange difference arising on translation since the Group transitioned to IFRS. Movements on hedge instruments, where the hedge is effective, are recorded in the hedge reserve until the hedge ceases.

The capital redemption reserve is not distributable and was created following redemption of preference share capital and the bonus issue of shares.

Own shares

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 2009 are 7,911,191 shares (2008: 7,698,029 shares).

34. Share-based payments

The Group operates a number of share-based payment plans for employees. The total share-based payment expense in the year was £5.6m (year to 31 March 2008: £3.8m).

2003 Employee share option scheme (2003 ESOS)

Under the employee share option scheme all employees as at 25 July 2003 received share options which vested when the Group completed its IPO and which must be exercised within ten years of grant. The options are settled by shares.

	2009		2008	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at start of year	1,210,122	2.3p	1,725,828	2.3p
Exercised during the year	(207,644)	2.3p	(420,394)	2.3p
Forfeited during the year	(78,292)	2.3p	(95,312)	2.3p
Outstanding and exercisable at end of year	**924,186**	**2.3p**	**1,210,122**	**2.3p**

The 2003 ESOS are equity settled awards and those outstanding at 31 March 2009 had an average remaining life of 4.3 years (31 March 2008: 5.3 years). In respect of the share options exercised during the year, the average share price on the date of exercise was 180p. The exercise price of the outstanding options was 2.3p.

QinetiQ Share Option Scheme (QSOS)

In the year the Group granted options to certain senior employees under the QSOS. The exercise price of the options is equal to the average market price of the Group's shares on the date of the grant. The options vest after three years. For 17,930,229 (2008: 13,631,708) of the options outstanding at the end of the year the number that will vest is dependent upon the growth of earnings per share ('EPS') over the measurement period. 25% of options will vest if EPS growth is 22.5% for the period and 100% will vest if growth is at least 52%. No options will vest if EPS growth is below 22.5%. Options will vest on a straight line basis if EPS growth is between 22.5% and 52%. For the remaining 173,071 (2008: 411,876) options the EPS growth target is replaced by a performance target based on QinetiQ's ranking by reference to total shareholder return ('TSR') against a comparator group of FTSE listed companies over a three-year performance period such that a below median ranking will result in nil shares vesting, at the median level 30% of the options would vest and the amount vested will increase on a straight line basis such that 100% would vest if TSR reaches the upper quartile of the ranking over a three-year period.

	2009		2008	
	Number	**Weighted average exercise price**	Number	Weighted average exercise price
Outstanding at the start of the year	14,043,584	187.0p	10,542,697	195p
Granted during the year	4,723,464	198.5p	5,356,392	174p
Forfeited during the year	(663,748)	187.0p	(1,855,505)	195p
Outstanding at end of the year	**18,103,300**	**190.0p**	**14,043,584**	**187p**

QSOS grants are equity-settled awards and those outstanding at 31 March 2009 had an average remaining life of 1.0 years (2008: 1.5 years). QSOS option awards in the year were made at an average exercise price of 199p (2008: exercise price 174p).

Performance Share Plan (PSP)

In the year the Group made awards of conditional shares to certain UK senior executives under the Performance Share Plan. The awards vest after three years with 50% of the awards subject to total shareholder return conditions and 50% subject to EPS conditions as detailed in the QSOS TSR and EPS conditions above.

	2009 Number of shares	2008 Number of shares
Outstanding at the start of the year	700,804	–
Granted during the year	956,249	700,804
Forfeited during the year	(338,840)	–
Outstanding at end of the year	**1,318,213**	**700,804**

PSP are equity settled awards and those outstanding at 31 March 2009 had an average remaining life of 1.9 years (2008: 2.7 years). There is no exercise price for these PSP awards.

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34. Share-based payments continued

Restricted Stock Units (RSU)
In the year the Group granted RSU awards to certain senior US employees under the RSU Plan. The awards vest over 1 year, 2 years, 3 years and 4 years. Half of the awards are dependent on achieving QNA organic profit growth targets and half on a time based criteria. The time based criteria requires the employee to have been in continued service up to the date of vesting. QNA organic profit growth is measured over the most recent financial year compared to the previous financial year, with 125% of this element awarded at QNA organic profit growth rate above 15%, 100% awarded at 12.5%, 75% awarded at 10% and 25% awarded at 5%.

	2009 Number of shares	2008 Number of shares
Outstanding at the start of the year	1,657,330	–
Granted during the year	2,358,130	1,739,869
Vested during the year	(94,482)	–
Forfeited during the year	(226,701)	(82,539)
Outstanding at end of the year	**3,694,277**	**1,657,330**

RSU are equity settled awards and those outstanding at 31 March 2009 had an average remaining life of 1.7 years (2008: 2.3 years). There is no exercise price for these RSU awards.

Group Share Incentive Plan (SIP)
Under the QinetiQ Share Incentive Plan the Group offers UK employees the opportunity of purchasing up to £125 worth of shares a month at the prevailing market rate. The Group will make a matching share award of a third of the employee's payment. The Group's matching shares may be forfeited if the employee ceases to be employed by QinetiQ within three years of the award of the shares. There is no exercise price for these SIP awards.

	2009 Number of matching shares	2008 Number of matching shares
Outstanding at the start of the year	871,331	428,878
Granted during the year	420,907	489,850
Forfeited during the year	(39,508)	(47,397)
Outstanding at end of year	**1,252,730**	**871,331**

SIP matching shares are equity settled awards and those outstanding at 31 March 2009 had an average remaining life of 1.5 years (2008: 2.0 years). There is no exercise price for these SIP awards.

Group Deferred Annual Bonus Plan (DAB)
Under the QinetiQ Deferred Annual Bonus Plan the Group requires certain senior executives to defer part of their annual bonus as shares and be entitled to matching awards to a maximum of 1:1 based upon EPS performance. The number that will vest is dependent upon the growth of EPS over the measurement period of 3 years as detailed in the QSOS EPS conditions above. No awards will vest if EPS growth in the vesting period is below 22.5%.

	2009 Number of matching shares	2008 Number of matching shares
Outstanding at the start of the year	–	–
Granted during the year	94,137	–
Forfeited during the year	(10,598)	–
Outstanding at end of the year	**83,539**	–

DAB matching shares are equity settled awards and those outstanding at 31 March 2009 had an average remaining life of 2.3 years. There is no exercise price for these DAB awards.

Share based award pricing
Share options (excluding TSR performance related) and awards under the deferred annual bonus plan have been valued using Black-Scholes models to determine the fair value of awards. Assumptions used within the model were as follows for awards in each year:

	2009	2008
Share price at date of grant (pence)	198.5p	174.0p
Exercise price (pence)	198.5p	174.0p
Volatility %	31%	22%
Average expected term to exercise	3 years	3 years
Risk-free rate %	4.3%	5.5%
Expected dividend yield %	2.2%	2.1%

The average share price in the year was 179.7p (2008: 186.0p).

The expected volatility assumption is based on the average historic volatility of QinetiQ's share price at the date of grant (commensurate with the vesting period to the extent possible).

Share based awards involving market based performance conditions, including those based on TSR, have used Monte Carlo models to determine the fair value at grant date. Assumptions used in these models included 32% for the average share price volatility of the FTSE comparator group and 33% for the average correlation to comparator group. The fair value for these awards (before the probability of lapsing) in the year ended March 2009 was 119.1p.

Share based awards that vest based upon non-market performance conditions, including certain PSP, RSUs and Deferred Annual Bonus awards have been valued at the share price at grant less attrition.

For the 2003 Share Option Scheme, there was a pre-bonus issue weighted average share price of £1 and a weighted average exercise price of £1 based on third-party transactions in the Company's shares in the period immediately prior to the issue of the share options. Prior to IPO in February 2006 there was no active market for the Company's shares therefore expected volatility was determined using the average volatility for a comparable selection of businesses. At this time the Group had no established pattern of dividend payments therefore no dividends were assumed in this model.

35. Operating leases

Group as a lessor

The Group receives rental income on certain properties. The Group had contracted with tenants for the following future minimum lease payments:

all figures in £ million	**2009**	2008
Within one year	6.3	8.1
In the second to fifth years inclusive	11.5	19.1
Greater than five years	–	–
	17.8	**27.2**

Group as a lessee

all figures in £ million	**2009**	2008
Lease and sublease income statement expense – minimum lease payments	**18.9**	**16.6**

The Group had the following future minimum lease payment commitments:

all figures in £ million	**2009**	2008
Within one year	17.3	13.8
In the second to fifth years inclusive	52.5	36.7
Greater than five years	22.7	25.4
	92.5	**75.9**

Operating lease payments represent rentals payable by the Group on certain office property and plant. Leases are negotiated for an average of three to ten years.

36. Transactions with MOD

The MOD is a nil% (2008: 18.9%) shareholder in the Group. On 9 September 2008 the MOD completed the sale of its 18.9% holding (124,885,445 ordinary shares) in QinetiQ Group plc via a share placing at an average price of 206 pence per share. The MOD will continue to own its special share in QinetiQ which conveys certain rights as set out in note 32. Transactions between the Group and the MOD are disclosed as follows:

Trading

The MOD is a major customer of the Group. An analysis of trading with the MOD, until 9 September 2008, is presented below:

all figures in £ million	**5 months to 9 September 2008**	12 months to 31 March 2008
Sales to the MOD excluding property rental income	279.4	599.1
Property rental income	3.0	6.4
Total income from the MOD	**282.4**	**605.5**
Purchased services from the MOD	**2.6**	**8.8**

Notes to the financial statements
continued

36. Transactions with MOD continued

Freehold land and buildings and surplus properties
Under the terms of the Group's acquisition of part of the business and certain assets of DERA from the MOD on 1 July 2001, the MOD retained certain rights in respect of the freehold land and buildings transferred. These are:

i) Restrictions on transfer of title
The title deeds of those properties with strategic assets (see below) include a clause that prevents their transfer without the approval of MOD. The MOD also has the right to purchase any strategic assets in certain circumstances.

ii) Property clawback agreement
The MOD retains an interest in future profits on disposal following a 'trigger event'. A 'trigger event' includes the granting of planning permission for development and/or change of use, and the disposition of any of the acquired land and buildings. During the 12 years from 1 July 2001, following a 'trigger event', the MOD is entitled to clawback a proportion of the gain on each individual property transaction in excess of a 30% gain on a July 2001 professional valuation. The proportion of the excess gain due to the MOD is based on a sliding scale which reduces over time from 50% to 9% and at 31 March 2009 stands at 33% (2008: 37%). The July 2001 valuation was approximately 16% greater in aggregate than the consideration paid for the land and buildings on 1 July 2001.

Compliance Regime
The Compliance Committee monitors the effective application of the Compliance Regime required by the MOD to maintain the position of QinetiQ as a supplier of independent and impartial scientific/technical advice to the MOD and ensures that the required standards are met in trials involving human volunteers.

Strategic assets
Under the Principal Agreement with the MOD, the QinetiQ controlled Group is not permitted without the written consent of the MOD, to:

i) dispose of or destroy all or any part of a strategic asset; or

ii) voluntarily undertake any closure of, or cease to provide a strategic capability by means of, all or any part of a strategic asset.

The net book value of assets identified as being strategic assets as at 31 March 2009 was £2.7m (31 March 2008: £2.9m), the principal items being plant and machinery.

Long-Term Partnering Agreement
On 27 February 2003 QinetiQ Limited entered into a Long-Term Partnering Agreement to provide the Test and Evaluation (T&E) facilities and training support services to the MOD. This is a 25-year contract with a total revenue value of up to £5.6bn, dependent on the level of usage by MOD, under which QinetiQ Limited is committed to providing the T&E services with increasing efficiencies through cost saving and innovative service delivery.

37. Directors and other senior management personnel

The Directors and other senior management personnel of the Group during the year to 31 March 2009 comprise the Board of Directors and the QinetiQ Executive Team.

all figures in £ million	**2009**	2008
Short-term employee remuneration including benefits	3.2	3.1
Post-employment benefits	0.2	0.2
Share based payments expense	1.0	0.3
Total	**4.4**	**3.6**

Short term employee remuneration and benefits include salary, bonus, and benefits. Post-employment benefits relate to pension amounts.

38. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £8.5m at 31 March 2009 (31 March 2008: £5.8m) in the ordinary course of business.

The Group is aware of claims and potential claims by or on behalf of current and former employees, including former employees of the MOD and DERA and contractors, in respect of intellectual property, employment rights and industrial illness and injury which involve or may involve legal proceedings against the Group. The Directors are of the opinion, having regard to legal advice received, the Group's insurance arrangements and provisions carried in the balance sheet, that it is unlikely that these matters will, in aggregate, have a material effect on the Group's financial position, results of operations and liquidity.

The Group has not recognised contingent amounts receivable relating to the Chertsey property which was disposed of during 2004 or the Fort Halstead property disposed of in September 2005. Additional consideration, subject to clawback to the MOD pursuant to the arrangements referred to in note 36, is potentially due upon the purchasers obtaining additional planning consents, with the quantum dependent on the scope of the consent achieved.

39. Post-retirement benefits

Triennial funding valuation

The most recent full actuarial valuation of the defined benefit section of the QinetiQ Pension Scheme was undertaken as at 30 June 2008 and resulted in an actuarially assessed deficit of £111.3m. On the basis of this full valuation the Trustees of the scheme and the Company agreed that the current 17.5% employer contribution rate will change to 11.5%, back-dated to 30 June 2008, and there will be deficit recovery payments of £13m per year for a 10 year period.

Introduction and background to IAS 19

International Accounting Standard 19 (Employee Benefits) requires the Group to include in the balance sheet the surplus or deficit on defined benefit schemes calculated as at the balance sheet date. It is a snapshot view which can be significantly influenced by short-term market factors. The calculation of the surplus or deficit is, therefore, dependent on factors which are beyond the control of the Group – principally the value at the balance sheet date of equity shares in which the scheme has invested and long-term interest rates which are used to discount future liabilities. The funding of the scheme is based on long-term trends and assumptions relating to market growth, as advised by qualified actuaries.

The QinetiQ Pension Scheme

In the UK the Group operates the QinetiQ Pension Scheme for the majority of its UK employees, a mixed benefit scheme. The Defined Benefit (DB) section of the scheme provides future service pension benefits to transferring Civil Service employees. All Group employees who were members, or eligible to be members, of the Principal Civil Service Pension Scheme or the UKAEA principal Non-Industrial Superannuation Scheme were invited to join the DB section of the scheme from 1 July 2001, together with all new employees who were previously members of schemes who are part of the Public Sector Transfer Club. On 31 March 2009, the Group withdrew from the Public Sector Transfer Club from 31 March 2009. The Defined Contribution (DC) section of the scheme was set up for employees who were not eligible or did not wish to join the DB section of the scheme.

Other UK schemes

In the UK the Group operates a further two small defined benefit schemes, QinetiQ Prudential Platinum Scheme and a scheme for the subsidiary company ASAP Calibration Limited. The net pension deficits of these schemes at 31 March 2009 amounted to £0.2m (31 March 2008: £0.2m). The defined benefit scheme relating to ASAP Calibration Limited was closed to future benefit accruals in the year to 31 March 2007.

There were no outstanding or prepaid contributions at the balance sheet date (March 2008: £nil). Set out below is a summary of the overall IAS 19 defined benefit pension schemes' liabilities. The fair value of the schemes' assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the schemes' liabilities, which are derived from cash flow projections over long periods, and thus inherently uncertain, were:

all figures in £ million	**2009**	2008	2007	2006
Equities	473.7	620.8	641.5	551.1
Corporate bonds	78.4	83.9	74.5	85.2
Government bonds	83.2	76.3	74.7	74.8
Cash	12.1	3.2	3.4	4.9
Total market value of assets	647.4	784.2	794.1	716.0
Present value of scheme liabilities	(752.6)	(807.6)	(884.9)	(884.4)
Net pension liability before deferred tax	**(105.2)**	**(23.4)**	**(90.8)**	**(168.4)**
Deferred tax asset	29.4	6.5	27.1	50.4
Net pension liability	**(75.8)**	**(16.9)**	**(63.7)**	**(118.0)**

Assumptions

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

	2009	2008
Rate of increase in salaries	4.1%	5.0%
Rate of increase in pensions in payment	3.1%	3.5%
Rate of increase in pensions in deferment	3.1%	3.5%
Discount rate applied to scheme liabilities	6.5%	6.6%
Inflation assumption	3.1%	3.5%
Assumed life expectancies in years		
Future male pensioners (currently aged 60)	87	87
Future female pensioners (currently aged 60)	89	90
Future male pensioners (currently aged 40)	89	88
Future female pensioners (currently aged 40)	90	91

Notes to the financial statements
continued

39. Post-retirement benefits continued

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to 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 external market indicators. In light of evidence of changes in life expectancy the assumptions for mortality have changed in the year to 31 March 2009 so that the base tables for mortality have been updated to reflect the latest standard actuarial tables and the allowance for future improvements in life expectancy is now in line with the Medium Cohort projections with minimum annual rates of improvement of 1% for males and 0.5% for females (2008: no underpin for future improvement). The current mortality rates reflect the standard tables PNMA00MC (for males) and PNFA00MC (for females) for members' year of birth. These mortality tables are published by the Continuous Mortality Investigation and adopted by the actuarial profession.

Scheme assets

The overall expected rate of return on plan assets is based upon the expected return rates for each asset class. Equity return rates are the long term expected return rates based upon the market rates of return for risk free investments, typically government bonds, together with the historical level of risk premium associated with equities; with the resulting rate then being reviewed and benchmarked against a peer group of listed companies. Expected long-term rates of return on scheme assets (weighted to reflect the individual scheme actual asset allocations) were:

	2009	2008
Equities	8.0%	7.7%
Corporate bonds	6.0%	6.2%
Government bonds	3.8%	4.4%
Cash	4.0%	6.0%
Weighted average	**7.1%**	**7.2%**

Return on scheme assets

all figures in £ million	**2009**	2008
Actual return on plan assets:		
Expected return on scheme assets	56.5	56.8
Actuarial loss on scheme assets	(212.8)	(84.0)
Actual loss on scheme assets	**(156.3)**	**(27.2)**

Value of scheme assets

all figures in £ million	**2009**	2008
Changes to the fair value of scheme assets:		
Opening fair value of scheme assets	784.2	794.1
Expected return on assets	56.5	56.8
Actuarial loss	(212.8)	(84.0)
Contributions by the employer	37.3	32.3
Contributions by plan participants	1.3	6.5
Scheme disposal – Aurix Limited	–	(1.5)
Net benefits paid out and transfers	(19.1)	(20.0)
Closing fair value of scheme assets	**647.4**	**784.2**

Changes to the present value of the defined benefit obligation

all figures in £ million	**2009**	2008
Opening defined benefit obligation	807.6	884.9
Current service cost	26.8	38.9
Interest cost	53.1	48.4
Contributions by plan participants	1.3	6.5
Actuarial gains on scheme liabilities	(117.1)	(149.5)
Scheme disposal – Aurix Limited	–	(1.6)
Net benefits paid out and transfers	(19.1)	(20.0)
Closing defined benefit obligation	**752.6**	**807.6**

Total expense recognised in the income statement

all figures in £ million	**2009**	2008
Pension costs charged to the income statement:		
Current service cost	26.8	38.9
Interest cost	53.1	48.4
Expected return on plan assets	(56.5)	(56.8)
Total expense recognised in the income statement (gross of deferred tax)	**23.4**	**30.5**

Analysis of amounts recognised in Statement of Recognised Income and Expense

all figures in £ million	2009	2008	2007	2006
Total actuarial (loss)/gain (gross of deferred tax)	(95.7)	65.5	85.8	(105.4)
Cumulative total actuarial losses recognised in the Statement of Recognised Income and Expense	**(193.2)**	**(97.5)**	**(163.0)**	**(248.8)**
History of scheme experience gains and losses*				
Experience (losses)/gains on scheme assets	(212.8)	(83.9)	7.4	85.7
Experience gains/(losses) on scheme liabilities	37.1	(1.0)	–	(81.0)

* Experience gains and losses exclude the impact of changes in assumptions.

The expected employer cash contribution to the defined benefit scheme for the year ending 31 March 2010 is expected to be £40.0m (2009:£37.3m).

Defined contribution schemes

Payments to the defined contribution schemes totalled £18.5m (March 2008: £14.6m).

40. Capital commitments

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

all figures in £ million	2009	2008
Contracted	**5.0**	9.4

Capital commitments at 31 March 2009 include £3.9m (2008: £7.4m) in relation to property, plant and equipment that will be wholly-funded by a third-party customer under long-term contract arrangements.

41. Subsidiaries

The principal subsidiary undertakings at 31 March 2009, all of which are included in the consolidated financial statements are shown below.

Name of company	Principal area of operation	Country of incorporation
Subsidiaries[1][2][3]		
QinetiQ Holdings Limited	UK	England & Wales
QinetiQ Limited	UK	England & Wales
QinetiQ Overseas Holdings Limited	UK	England & Wales
QinetiQ Overseas Trading Limited	UK	England & Wales
QinetiQ North America, Inc.	USA	USA
QinetiQ North America Operations, LLC	USA	USA
Analex Corporation	USA	USA
Apogen Technologies, Inc.	USA	USA
Dominion Technology Resources, Inc.	USA	USA
Foster-Miller, Inc.	USA	USA
Westar Aerospace & Defence Group, Inc.	USA	USA

(1) Accounting reference date is 31 March. All principal subsidiary undertakings listed above have financial year ends of 31 March and 100% of the ordinary shares are owned by the Group.
(2) QinetiQ Holdings Limited is a direct subsidiary of QinetiQ Group plc. All other subsidiaries are held indirectly by other subsidiaries of QinetiQ Group plc.
(3) All companies except for holding companies are operating companies engaged in the Group's principal activities as described in the Report of the Directors on page 62.

Notes to the financial statements
continued

42. Post balance sheet events

On 6 May 2009 the Group announced the acquisition of 100% of the issued share capital of Cyveillance, Inc., a provider of online monitoring technology to identify and track data in cyberspace. The transaction will close upon receipt of appropriate US Government regulatory approval, anticipated in June 2009. The acquisition will be settled for an initial cash consideration of £27.9m ($40.0m), with a deferred consideration of up to £27.9m ($40.0m) depending on the company's financial performance during the two year period ended 31 December 2010. As the acquisition has not yet completed, it is not practicable to provide information about the assets and liabilities as at the date of acquisition.

On 14 May 2009 the Group announced that it has reached an agreement to sell its underwater systems business based in Winfrith, Dorset to Atlas Elektronik UK for a cash consideration of £23.5m. The agreement is subject to regulatory approval and is expected to complete in summer 2009.

On 21 May 2009 the Group announced a programme to reduce the headcount of the EMEA business by approximately 400. This will generate annualised savings of approximately £14m and result in an estimated cost of c£40m.

Company balance sheet

As at 31 March

all figures in £million	note	2009	2008
Fixed assets			
Investments in subsidiary undertaking	2	102.9	97.3
		102.9	**97.3**
Current assets			
Debtors	3	164.8	182.4
		164.8	**182.4**
Current liabilities			
Creditors amounts falling due within one year		–	–
Net current assets		**164.8**	**182.4**
Net assets		**267.7**	**279.7**
Capital and reserves			
Equity share capital	4, 5	6.6	6.6
Capital redemption reserve	5	39.9	39.9
Share premium account	5	147.6	147.6
Profit and loss account	5	73.6	85.6
Capital and reserves attributable to shareholders		**267.7**	**279.7**

There are no other recognised gains and losses.

The financial statements were approved by the Board of Directors and authorised for issue on 21 May 2009 and they were signed on its behalf by:

Graham Love Chief Executive Officer

David Mellors Chief Financial Officer

Notes to the Company financial statements

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable UK accounting standards. As permitted by section 408(4) of the Companies Act 1985, a separate profit and loss account dealing with the results of the Company has not been presented.

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any impairment in value.

Share-based payments

The fair value of equity settled options for share-based payments is determined on grant and expensed straight-line over the period from grant to the date of earliest exercise. The fair value of cash settled options for share-based payments is determined at each period end until exercised or they lapse. The value is expensed on a straight-line basis over the period from grant to the date of earliest exercise or vesting. Share options (excluding TSR performance related) and awards under the deferred annual bonus plan have been valued using Black-Scholes option pricing model. Share based awards involving market based performance conditions, including those based on TSR, have used Monte Carlo models to determine the fair value at grant date. Share based awards that vest based upon non market performance conditions, including certain PSP, RSUs and Deferred Annual Bonus awards have been valued at the share price at grant less attrition. The cost of share-based payments is charged to subsidiary undertakings.

2. Investment in subsidiary undertaking

As at 31 March

all figures in £ million	2009	2008
Subsidiary undertaking – 100% of ordinary share capital of QinetiQ Holdings Limited	**102.9**	97.3

A list of all principal subsidiary undertakings of QinetiQ Group plc is disclosed in note 41 to the Group financial statements. The £5.6m (2008: £5.0m) increase in investment in the year relates to the capital contribution in relation to share-based payments for employees of subsidiary companies.

3. Debtors

As at 31 March

all figures in £ million	2009	2008
Amounts owed by Group undertakings	164.7	182.3
Other debtors	0.1	0.1
	164.8	**182.4**

4. Share capital

The Company's share capital is disclosed in note 32 to the Group financial statements.

5. Reserves

all figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Profit and loss	Total equity
At 1 April 2007	**6.6**	**39.9**	**147.6**	**68.9**	**263.0**
Profit	–	–	–	11.5	11.5
Purchase of own shares	–	–	–	(12.8)	(12.8)
Dividend received	–	–	–	40.0	40.0
Dividend paid	–	–	–	(24.9)	(24.9)
Share-based payments	–	–	–	2.9	2.9
At 31 March 2008	**6.6**	**39.9**	**147.6**	**85.6**	**279.7**
Profit	–	–	–	12.1	12.1
Purchase of own shares	–	–	–	(0.8)	(0.8)
Dividend paid	–	–	–	(28.9)	(28.9)
Share-based payments	–	–	–	5.6	5.6
At 31 March 2009	**6.6**	**39.9**	**147.6**	**73.6**	**267.7**

The capital redemption reserve is not distributable and was created following redemption of Preference Share capital.

6. Share-based payments

The Company's share-based payment arrangements are set out in note 34 to the Group financial statements.

7. Other information

The Company had no employees during the year. Details of the employees of the Group are shown in note 9 to the Group financial statements. Directors' emoluments, excluding Company pension contributions, were £1.3m (2008: £1.7m). These emoluments were all in relation to services provided on behalf of the QinetiQ Group with no amount specifically relating to their work for the Company. Details of the Directors' emoluments, share schemes and entitlements under money purchase pension schemes are disclosed in the Report of the Remuneration Committee.

The remuneration of the Company's auditors for the year to 31 March 2009 was £5,000 (2008: £5,000) all of which was for statutory audit services. No other services were provided by the auditors to the Company.

Five-year record for the years ended 31 March (unaudited)

all figures in £ million	**2009**	2008	2007	2006	2005
QinetiQ North America	765.6	540.2	358.2	248.4	70.1
EMEA	842.3	820.1	779.3	797.2	780.8
Ventures	9.4	5.7	12.0	6.1	5.0
Revenue	**1,617.3**	**1,366.0**	**1,149.5**	**1,051.7**	**855.9**
QinetiQ North America	83.0	62.1	39.9	24.5	8.0
EMEA	87.6	80.0	73.0	73.7	67.2
Ventures	(15.6)	(15.1)	(6.9)	(7.5)	(10.0)
Operating profit[1]	**155.0**	**127.0**	**106.0**	**90.7**	**65.2**
Operating margin[1]	9.6%	9.3%	9.2%	8.6%	7.6%
Underlying Profit before tax[1]	130.2	109.0	94.0	80.1	58.2
Profit before tax	114.0	51.4	89.3	72.5	78.0
Profit after tax	93.6	47.4	69.0	60.4	72.3
Underlying Basic EPS (pence)	15.9p	13.4p	11.3p	10.2p	8.8p
Diluted EPS (pence)	14.3p	7.2p	10.3p	9.8p	11.7p
Basic EPS (pence)	14.3p	7.2p	10.5p	10.0p	12.0p
Dividend per share	4.75p	4.25p	3.65p	2.25p	Nil
Cash flow from operations	175.2	138.3	107.0	107.6	36.9
Net debt	537.9	379.9	300.8	233.0	176.6
Average number of employees	13,882	13,470	11,870	11,024	9,632
Orders	1,596.0	1,277.1	1,214.0	816.7	668.3

(1) Underlying is before amortisation of intangibles arising from acquisitions, EMEA reorganisation costs in 2008 and restructuring costs in 2005, IPO costs in 2006, profit on disposal of interests in subsidiaries, profit on disposal of interest in associates and business divestments and unrealised impairment of investments.

Glossary

AGM – Annual General Meeting
Book to bill ratio – Ratio of funded orders received in the year to revenue for the year, adjusted to exclude revenue from the 25-year LTPA contract
BPS – Basis points
CIFA – US Department of Defense Counterintelligence Field Activity
Compliance Principles – The principles underlying the Compliance Regime, covering impartiality, integrity, conflicts, confidentiality and security
CR – Corporate Responsibility
DARPA – US Defense Advanced Research Projects Agency
DHS – US Department of Homeland Security
DoD – US Department of Defense
Dragon Runner™ – A small, unmanned, man-portable ground vehicle intended for use in urban environments
DSALT – Distributed Synthetic Air Land Training
DTR – MOD's Defence Training Rationalisation programme
EBITDA – Earnings before interest, tax, depreciation, amortisation, gains/loss on business divestments, unrealised impairment of investment and disposal of non-current assets
EMEA – Europe, Middle East and Australasia
EPS – Earnings per share
ESA – European Space Agency
ETIS – NASA Environmental Test and Integration Services
EU – European Union
Funded backlog – The expected future value of revenue from contractually committed and funded customer orders (excluding £4.5bn value of the remaining 19 years of LTPA contract)
GSA – General Services Administration
IAS – International Accounting Standards
IDIQ – Indefinite delivery indefinite quantity
IFRS – International Financial Reporting Standards
IPO – Initial Public Offering
KPI – Key Performance Indicator
LIBID – London inter-bank bid rate
LIBOR – London inter-bank offered rate
LSE – London Stock Exchange
LTPA – Long-Term Partnering Agreement – 25 year contract established in 2003 to manage the MOD's test and evaluation ranges
MAARS – Modular Advanced Armed Robotic System
MOD – Ministry of Defence
MSCA – Maritime Strategic Capability Agreement
NASA – National Aeronautics and Space Administration (USA)
OCI – Organisational Conflicts of Interest
Organic Growth – The level of year-on-year growth, expressed as a percentage, calculated at constant foreign exchange rates, adjusting comparatives to incorporate the results of acquired entities and excluding the results for any disposals or discontinued operations for the same duration of ownership as the current period
QNA – QinetiQ North America
R&D – Research & Development
RFID – Radio frequency identification
RIDDOR – Reporting of Injuries, Diseases & Dangerous Occurrences Regulations
RoSPA – Royal Society for the Prevention of Accidents
Specific non-recurring items and acquisition amortisation – Major restructuring costs, disposal of non-current assets, business divestments, amortisation of intangible assets arising from acquisitions and impairment of investments
STEM – Science, Technology, Engineering and Mathematics educational programme
TSR – Total Shareholder Return
UAV – Unmanned Aerial Vehicle
UGV – Unmanned Ground Vehicle
UOR – Urgent Operational Requirements
UK GAAP – UK Generally Accepted Accounting Practice
Underlying basic earnings per share – Basic earnings per share as adjusted for gain/loss on business divestments, disposal of non-current assets, unrealised impairment of investments, major reorganisation costs and amortisation of intangible assets arising from acquisitions and tax thereon
Underlying effective tax rate – The tax charge for the year excluding the tax impact on gain/loss on business divestments, disposal of non-current assets, unrealised impairment of investments, major reorganisation costs, acquisition amortisation and any tax rate change effect expressed as a percentage of underlying profit before tax
Underlying operating cash conversion – The ratio of net cash flow from operations (excluding major reorganisations), less outflows on the purchase of intangible assets and property, plant and equipment to underlying operating profit excluding share of post tax result of equity accounted joint ventures and associates
Underlying operating margin – Underlying operating profit expressed as a percentage of revenue
Underlying operating profit – Earnings before interest, tax, gain/loss on business divestments, disposal of non-current assets, unrealised impairment of investments, major reorganisation costs and amortisation of intangibles arising on acquisitions
Underlying profit before tax – Profit before tax excluding gain/loss on business divestments, disposal of non-current assets, unrealised impairment of investments, major reorganisation costs and amortisation of intangible assets arising from acquisitions
Unfunded Orders – Typically long term contracts awarded by the US government which the customer funds incrementally over the life of the contract. The Group does not recognise such awards into the reported backlog until funding is confirmed.

Financial calendar

4 August 2009	Interim management statement
4 August 2009	Annual General Meeting
5 August 2009	Ex-dividend date
4 September 2009	Final ordinary dividend payable
30 September 2009	Interim financial period end
25 November 2009	Interim results announcement
February 2010	Interim management statement (provisional date)
February 2010	Interim dividend payment (provisional date)
31 March 2010	Financial year end
May 2010	Preliminary announcement (provisional date)

Analysis of shareholders*

Institutional investors with shareholding greater than 0.5m shares	89%
Other (including employees, management and financial institutions with shareholding less than 0.5m)	11%
	100%

* Analysis as at 12 May 2009

Auditors

KPMG Audit Plc
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Company Registration Number 4586941

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London
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Where can you learn more?

View our report online at www.QinetiQ.com/Investors

The QinetiQ Annual Report 2009 can be viewed at www.QinetiQ.com/Investors along with further useful shareholder information and information on the Company, its performance, the Annual General Meeting and latest presentations.

For more information visit: www.QinetiQ.com. You can access the following:

Latest shareholder information

- Latest share price
- Financial calendar
- RNS news feeds
- Corporate governance

View archive information

- Results and trading updates
- Company reports
- Company presentations

Learn about shareholder services

- Register online
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- Common questions

Give us feedback

- Your feedback
- Investor contacts

Electronic communication

QinetiQ has taken full advantage of changes brought about by the Companies Act 2006 which recognises the growing importance of electronic communications and allows companies to provide documentation and communications to shareholders via their websites (except to those who have specifically elected to receive a hardcopy (i.e. paper).

The wider use of electronic communications enables fast receipt of documents, reduces the Company's printing, paper and post costs and has a positive impact on the environment.

Shareholders may also cast their vote for the 2009 AGM online quickly and easily using the Sharevote-service by using www.sharevote.co.uk or the QinetiQ website at www.QinetiQ.com/agm

Corporate responsibility

Read more about our Corporate responsibility policy at www.QinetiQ.com/cr

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