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QinetiQ

Restoring Strength, Building Value



QinetiQ Group plc Annual Report and Accounts 2011

Group overview

The Group operates three divisions: US Services, UK Services and Global Products; to ensure efficient leverage of expertise, technology, customer relationships and business development skills.

Our services businesses which account for more than 70% of total sales, are focused on providing expertise and knowledge in national markets. Our products business provides the platform to bring valuable intellectual property into the commercial markets on a global basis.

Revenue by business

	2011 £m	2010 £m
US Services	588.2	628.0
UK Services	611.6	693.9
Global Products	502.8	303.5
Total	1,702.6	1,625.4

Division

US Services

Revenue

£588.2m

(2010: £628.0m)

Employees

4,500

(2010: 5,369)

Underlying operating profit*

£44.3m

(2010: £52.6m)

Division

UK Services

Revenue

£611.6m

(2010: £693.9m)

Employees

5,045

(2010: 5,707)

Underlying operating profit*

£48.7m

(2010: £59.1m)

Division

**Global
Products**

Revenue

£502.8m

(2010: £303.5m)

Employees

1,663

(2010: 2,002)

Underlying operating profit*

£52.4m

(2010: £8.6m)

Definitions of underlying measures of performance are in the glossary on page 107

Underlying operating profit* by business

Revenue by major customer type

Revenue by geography

	2011 £m	2010 £m		2011 £m	2010 £m		2011 £m	2010 £m
US Services	44.3	52.6	US Government	894.3	754.1	North America	949.2	825.3
UK Services	48.7	59.1	UK Government	526.5	614.5	United Kingdom	623.7	720.0
Global Products	52.4	8.6	Other	281.8	256.8	Other	129.7	80.1
Total	145.4	120.3	Total	1,702.6	1,625.4	Total	1,702.6	1,625.4

Capabilities

- Custom software
- C4ISR
- Cyber security
- IT infrastructure
- Program management
- Research & development
- Training and simulation

Developments during year

- Award to provide engineering services at NASA Kennedy Space Center
- Five year contract for training development and delivery services to the US Navy's Space and Naval Warfare System Center Atlantic
- Sale of S&IS

Customers

- NASA
- US Department of Homeland Security (DHS)
- US Department of Defense (DoD)
- US Department of State (DoS)

Building value

A strong position in growing market segments C4ISR, engineering services, training and simulation and cyber security

Capabilities

- Air engineering
- C4ISR
- Cyber security
- Technical information services
- Test and evaluation
- Training and simulation
- Programme and procurement support

Developments during year

- Award of the £9m managed services contract to operate flight physiological centre in Sweden
- Increased test and evaluation capability demand from overseas customers

Customers

- Ministry of Defence (MOD)
- DSTL
- The Highways Agency
- UK security agencies
- Australian Department of Defence

Building value

A strong position in test and evaluation, cyber security, C4ISR, acquisition and programme advice, engineering services and training and simulation markets

Capabilities

- Survivability
- Unmanned systems
- Energy from waste
- Vehicle power management
- Sensor networks

Developments during year

- Significant contribution from Q-NET vehicle survivability products
- Award of OptaSense® £26.5m contract with Shell
- Award of £12m contract for light protected patrol vehicle
- Acquisition of Sensoptics Ltd

Customers

- US Department of Defense (DoD)
- UK Ministry of Defence (MOD)
- UK and North American security agencies
- Shell
- Merck
- Astrium

Building value

Through international expansion while capitalising on opportunities in adjacent markets, such as oil and gas

Who we are

QinetiQ comprises teams of dedicated people; experts in defence, aerospace, security and related markets. We draw on our extensive technical knowledge and intellectual property to provide the know-how and support to solve some of the world's most challenging problems.

What we do

Our customers face challenges that define the modern world. They know that we understand the increasingly global nature of science, technology and engineering and they trust us to work alongside them to ensure the success of their mission. We support space programmes; we provide trusted technical services to the UK Ministry of Defence and the US Department of Defense; we carry out secure monitoring services for a range of commercial and government customers globally – all vital support solutions requiring trust and integrity.

How we create value

Our people make the critical difference to customers by providing unique approaches to problem solving. They supply answers requiring innovation, deep domain knowledge, rigorous independent thinking and technical expertise – answers which save lives, protect assets and critical infrastructure, reduce costs, ensure competitive advantage – answers which make tomorrow work today.

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Performance highlights

Revenue

£1,702.6m

Net debt

£260.9m

Underlying operating profit*

£145.4m

Underlying earnings per share*

14.2p

Underlying operating cash conversion*

183%

Gearing ratio[†]

1.4x

Underlying operating margin*

8.5%

Dividend

1.60p

* Definitions of underlying measures of performance are in the glossary on page 107

† The gearing ratio is net debt to adjusted EBITDA and the definition is in the glossary on page 107

Chairman's statement

Dear shareholder

I write this report having completed my first full year as Chairman of QinetiQ. I am pleased to report that, against a backdrop of challenging markets, QinetiQ's performance in the last financial year was impressive.

These results were delivered in significant part because we took charge of our destiny and implemented a 24 month self-help programme to restore the business to strength and build value for the future. Our markets on both sides of the Atlantic were under significant budgetary pressures as our customers responded to their need to reduce national deficits. Given, however, the increased global risks and threats, our key markets of defence and security remain a priority for governments. We have made rapid progress in reshaping our business. This, together, with the reduction and refinancing of our debt contributed to a more agile and competitive QinetiQ.

Results

Group revenues were £1,702.6m (2010: £1,625.4m) and underlying operating profit* increased to £145.4m (2010: £120.3m), up 21%, resulting in an underlying profit before tax for the Group of £114.6m, up 34% on the previous year (2010: £85.7m). The rigorous Group-wide focus on debt reduction resulted in a strong underlying operating cash conversion* of 183% (2010: 145%) as underlying cash flow from operations* increased to £265.8m (2010: £174.3m). Closing net debt at 31 March 2011 was £260.9m (2010: £457.4m), an improvement of £196.5m. Full year underlying earnings per share* were 14.2p (2010: 11.1p).

Dividend

In May 2010, the Board recommended a suspension of dividend payments during the first 12 months of the Group's programme to restore QinetiQ to strength. In line with its commitment at that time, the Board is recommending a return to the dividend list. The Board is also recommending the reinstatement of a progressive dividend policy, which takes into account the profitability of QinetiQ's businesses and underlying growth, as well as its capital requirements and cash flows, while maintaining an appropriate level of dividend cover. The final dividend will normally represent approximately two-thirds of the full year dividend in future periods. The proposed final dividend is 1.60p per share for the year ended 31 March 2011, which will be paid on 2 September 2011 to shareholders on the register at 5 August 2011.

Our people

QinetiQ's success rests on the skills and dedication of its people as we adapt to changing market conditions. They have played an active role in the Group's progress during the year and we know they are

deeply engaged in the self-help plan that we are implementing. Our teams embody a strong ethos of public service, which provides a vital bond with our customers in delivery of their priorities. May I take this opportunity to extend my thanks to our employees who have played such a vital role in our progress during the year.

The Board

Just as our business is evolving so is the shape of the Board. During the course of the year, Nick Luff and David Langstaff both left the Board due to growing executive management commitments outside of the Group. I thank them for their service to the Company and wish them both well for the future. In October 2010, Paul Murray joined as a Non-executive Director, bringing a broad range of experience in finance and corporate governance from a cross section of industries. I would like to welcome Paul to the Board and, on behalf of my Board colleagues, look forward to working with him. Admiral Ed Giambastiani will step down as a Non-executive Director at this year's Annual General Meeting. I would like to thank him for his contribution to QinetiQ over the past three years. We will continue to review the structure of the Board as QinetiQ transitions and adapts to changing markets.

Outlook

We are making significant progress in restoring QinetiQ to strength. Our reshaping of the businesses, together with the reduction and refinancing of the debt, all contribute to a leaner and more agile Group. With a stronger balance sheet, we are now able to fund future growth and reinstate the dividend for shareholders. Internally, we have made significant changes which we will embed and extend this year, to ensure that over the medium term we maximise value from both QinetiQ's inherent capabilities and emerging opportunities. Externally, by working closely with its US and UK government customers, QinetiQ will be able to align its unique expertise with their priorities to achieve greater value and efficiency. We are unlikely to see a repetition of last year's level of Q-NET sales, but the Board believes that the programme underway to increase competitiveness will enable the Group to perform in line with its expectations for the current financial year in what are likely to remain challenging market conditions.



Mark Elliott
Chairman
27 May 2011

Definitions of underlying measures of performance are in the glossary on page 107

Chief Executive Officer's Review

Summary of Priorities

We are now 12 months into our 24 month self-help programme to restore value, to strengthen our foundations, and build a path to future sustainable and profitable growth. The following priorities have been put in place:

Focus

- Extracting value from the portfolio

Cultural transformation

- Building a more competitive culture

Strengthen the balance sheet

- Enable longer-term options

For more information go to
www.QinetiQ.com

Chief Executive Officer's review

The Group made significant progress in the year. Its programme of self-help resulted in increased competitiveness and a strong foundation for the future. Throughout what was a difficult period in the markets, all our businesses have worked closely with their customers to ensure that QinetiQ is well-positioned to create value over the medium term.

Through a relentless focus on our key priorities, we rebased the business and put it on a strong foundation for the future. I am particularly pleased that we achieved a number of our goals ahead of schedule, principally the refinancing. This major milestone, completed 12 months ahead of schedule, culminated in a strengthened balance sheet and the confidence to reinstate the dividend. In addition, the Group has no debt maturity until 2016, providing a strong foundation to fund future growth. While we are making good progress, we remain focused on the next 12 months, to build on our progress and deliver a more agile, commercial and efficient business for the future.

Trading environment

QinetiQ's principal markets remain challenging, with defence budgets on both sides of the Atlantic under pressure in light of government programmes to reduce fiscal deficits.

In the US, after six months operating under a Continuing Resolution, President Obama signed the Defense Appropriation Bill on 15 April 2011, which funds the Department of Defense for the remainder of the US Government 2011 fiscal year. Work within the US Government now turns to the budget for the 2012 fiscal year, accompanied by a review by the Department of Defense (DoD) to evaluate long-term spending plans. Over the medium term, budget reductions are expected in order to generate efficiency savings. Against this backdrop of fiscal austerity, customer behaviours are changing as they look 'to do more with less'.

In the UK, it is anticipated that budgets will be reduced to meet the Government's target of an 8% cumulative reduction in defence spending over the next four years. In December 2010, the Government published its Consultation Paper, 'Equipment, Support and Technology for UK Defence and Security', on the role which industry will play in future defence programmes and the resulting White Paper is scheduled for this summer. In April 2011, the MOD also implemented its Comprehensive Commitment Control Regime, which requires the approval of senior civil servants for new expenditure, except in key categories such as those which support current operations, the strategic deterrent and safety. Overall, the imperative for change within the MOD is likely to continue to restrict and delay the authorisation of new contracts.

* Definitions of underlying measures of performance can be found in the glossary. The gearing ratio is adjusted net debt / EBITDA calculated in accordance with the Group's credit facility ratios.

Update on priorities

In May 2010, QinetiQ set out a 24 month self-help programme with three priorities: to refocus the businesses, to transform the culture and to strengthen the balance sheet.

Focus

The Group's new structure of three divisions – US Services, UK Services and Global Products – aligns its expertise and technology efficiently with customers' needs. Each division made progress on implementation in the period.

- full integration of the US Services businesses is underway to reduce duplicated overhead, improving the ability of the division to compete effectively,
- the realignment of UK Services with specific customer segments was completed in the first half, with further refinements likely to reflect evolving customer requirements,
- the Global Products framework is now in place and delivering a common approach to development of the product portfolio, for example, the development of E-X-Drive® for the US Ground Combat Vehicle programme.

The portfolio is reviewed on an ongoing basis to address both performance issues and key focus areas. During the year:

- the Group completed the disposal of the S&IS business and acquired Sensopics Ltd to support development of the OptaSense® business,
- existing UK synthetic training and simulation capabilities were brought together as one business within UK Services,
- a common US/UK cyber platform is under development to globalise the Group's cyber capabilities.

Cultural transformation

The world-class domain expertise and innovation of QinetiQ's scientists and engineers, together with its deep customer relationships in both the UK and US, provide the potential for longer-term profitable growth. Delivering this requires the right leadership, measurement and processes to enable empowerment and accountability, as well as a more flexible and competitive cost base. The following steps were taken to achieve this:

- more than 80% of the Group's executive team has been upgraded, as well as approximately half of senior management in the UK and a third in the US. New performance-related remuneration was introduced for the UK leadership team, to replace legacy terms and conditions,

US Services

- Aerospace operations
- Engineering management
- Information services
- Mission solutions/cyber
- Software and systems engineering

UK Services

- Air engineering
- Test and evaluation
- Training and simulation
- Cyber security and C4ISR
- Programme and procurement support

Global Products

- Survivability
- Unmanned systems
- Energy from waste
- Vehicle power management
- OptaSense®

- common business review processes have been implemented across the Group to ensure transparency and the ability to manage outcomes and react quickly,
- two programmes – My Contribution and Fit 4 Growth – have been introduced. Together, these engage all employees in raising performance and provide a single end-to-end process, from bid to project delivery, driving ongoing improvements in productivity and value delivered to customers,
- in the UK, a more commercial way of working was needed to improve performance. Sales leadership was upgraded, new incentive plans introduced and over 3,000 employees trained in value-based selling, negotiation and project delivery. During the year, the business saw a 9% improvement in MOD customer satisfaction scores, while a recent employee survey showed higher engagement levels and a 14% rise in the leadership score since 2009,
- changes to UK employee terms and conditions, including revised redundancy arrangements, came into effect on 1 July 2010 after a 75% favourable vote by union members. The combination of introducing a new performance management system, restructuring the UK businesses and rationalising the technology portfolio, resulted in a 15% reduction in UK headcount, a reduction in layers of management and in overhead costs, and addressed areas of systemic under-utilisation with minimal loss of key capability. Further reductions to the UK cost base have been achieved through structured procurement of goods and services – including IT and facilities management – and the streamlining of UK suppliers.

Balance sheet

A key goal for the 24 month programme was to restore QinetiQ's balance sheet to strength through self-help. Significant improvement was made in the first 12 months.

- rigorous Group-wide processes and the engagement of employees at all levels drove strong underlying operating cash conversion of 183% (2010 145%),
- the Group's net debt at 31 March 2011 improved to £260.9m (31 March 2010 £457.4m),
- the gearing ratio was reduced to 1.4x net debt/EBITDA* (31 March 2010 2.5x),

- in February 2011, the Group signed a new five-year revolving credit facility, totalling £275m denominated in sterling and dollars, which is currently undrawn,
- in May 2011, the US\$135m private placement note, due to mature in 2013, was repaid from surplus cash.

As a result of these actions, the Group has no debt maturity until 2016, providing a strong foundation to fund future growth.

Ongoing priorities

Over the next 12 months, the Group's key goal is to complete its 24 month programme to build a leaner, more agile QinetiQ, focused on – and competitive in – its areas of core capability. The initiatives which are transforming the Group's culture and processes must be sustained and embedded. Improvements in productivity will be extended, as will the drive to strengthen the balance sheet. The portfolio will continue to be aligned with customers' needs, both through non-core disposals and by funding carefully selected areas in which QinetiQ has a clearly established position and, therefore, a base for value creation over the medium term.



Leo Quinn
Chief Executive Officer
27 May 2011

* The gearing ratio is adjusted net debt to EBITDA calculated in accordance with the Group's credit facilities.

Operations overview

US Services

Delivery of technical services in aerospace operations and systems, engineering and lifecycle management, information solutions, mission solutions, cyber and software and systems engineering.

Revenues declined by 7% on an organic basis at constant currency impacted by US Government in-sourcing around last year end as well as the switching of some work to small business preference contracts. The protracted Continuing Resolution led to a further lack of clarity around contract funding. This resulted in new and incremental orders being delayed and the cancellation of some re-competed with shorter term extensions awarded in their place. Also, during the latter part of the year, the successful Iraqi flight training project completed.

In this environment, bidding for existing services and larger programmes is very competitive necessitating a higher investment in business development. This, coupled with the volume impact on revenue, contributed to underlying operating profit* falling to £44.3m (2010: £52.6m), delivering an underlying margin† of 7.5% (2010: 8.4%).

As part of the programme to exit non-core capabilities, the sale was agreed of S&IS, an access control business, for a total cash consideration of US\$60m before tax. The year-on-year revenue variance as a result of this disposal was £16m.

US Services	2011 £m	2010 £m
Orders	561.1	577.6
Revenue	588.2	628.0
Underlying operating profit*	44.3	52.6
Underlying operating margin†	7.5%	8.4%

The strength of ongoing relationships with key customers was evidenced by an award to provide engineering services at the Kennedy Space Center in Florida, leveraging existing NASA support contracts at the site, as well as at the Glenn Research Center in Ohio and the Goddard Spaceflight Center in Maryland. The new service at the Kennedy Space Center began on 1 March 2011 for an expected base period of five years with three one-year options.

During the year, the US Services business was awarded seven new contracts for mission-critical services by key intelligence customers totalling US\$25m. Building on its track record in providing training services to the US Army, Marine Corps, Navy and Joint communities, US Services was also awarded a five-year, US\$36m contract to provide a full range of training development and delivery services to the Tactical C2 Engineering Division by the US Navy's Space and Naval Warfare System Center Atlantic (SSC-A).

As competition intensifies, the decision to create a fully integrated US Services business will reduce duplicated overhead and deliver further efficiency savings, improving the division's ability to compete effectively. Significant progress has also been made in developing a common US/UK cyber platform to exploit opportunities – principally in 'five eyes' markets (UK, US, Canada, Australia, New Zealand) – generated by government commitments to additional cyber security funding.

Maximising operational and business effectiveness Identifying mission-critical factors, and controlling assets

Our Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR) teams offer world-leading expertise, technical advice and practical end-to-end solutions. Our services resolve the most complex issues in the intelligence, command and control (C2) and information domains. They manage information gathered from different sources on the battlefield to improve a commander's situational awareness and decision-making.

* Definitions of underlying measures of performance can be found in the glossary on page 107.

† The gearing ratio is adjusted net debt/EBITDA calculated in accordance with the Group's credit facility ratios.

A Global Challenge – cyber intelligence, solutions and services

A situational awareness approach

Our track record in the field of security positions QinetiQ to develop a comprehensive assessment of the threats an organisation or business faces in cyber space

Our technology-neutral approach leads to solutions that meet a customer's specific challenges. We have global experience to design individual security plans and the ability to implement them. Our intelligence-led approach to security addresses the full scope of today's risks, including the evolving demands of cyber space

From threats to facilities, enterprise infrastructure, malware, identity theft, phishing and loss of intellectual property, we cover the entire spectrum of cyber risks. Our excellent record in the provision of virtual and on-site managed security services for Critical National Infrastructures, governments and commercial companies all around the world, makes QinetiQ a global asset for cyber security

UK Services

Provision of technical services in aerospace engineering, test and evaluation, training and simulation, cyber security, information and intelligence and procurement consultancy.

Revenues declined 10% on an organic basis, principally due to pressure on customers' budgets and delays in spending approvals. Budget uncertainties had the greatest impact on the provision of technical and information services, where manpower utilisation has a direct correlation with profitability. In addition, the prior period included some pass-through revenues on certain contracts which did not recur this year and a contribution from the Underwater Systems business sold in 2009. Orders in the comparator period were also enhanced by approximately £40m of multi-year orders and a £31m contract associated with the Ministry of Defence's Defence Training Rationalisation (DTR) programme.

Underlying operating profit* declined from £59.1m to £48.7m, principally due to falling revenue and hence utilisation, although project margins remained strong. This was exacerbated by the combined impact of approximately £5m in respect of higher pension service costs and reduced property income following a major tenant vacating premises last year. The underlying margin* for the full year was 8.0% (2010: 8.5%), an improvement on the first half margin of 7.3% as cost reductions began to take effect. Headcount was reduced by 662 in the year, largely as a result of the restructuring programme.

UK Services	2011 £m	2010 £m
Orders ¹	371.6	493.8
Revenue	611.6	693.9
Underlying operating profit*	48.7	59.1
Underlying operating margin*	8.0%	8.5%

¹ Orders excludes remaining £3.9bn (31 March 2010: £4.1bn) in respect of LTPA contract.

UK Services continues to deliver value to its customers, de-risking the procurement of technology for core defence programmes, predominantly in the UK but increasingly overseas. New opportunities came to fruition in Scandinavia, including a £9m managed services contract to operate the flight physiological centre for the Swedish defence administration and a £4m order for the Norwegian Andoya Range System. The year also saw an increase in funding for the Weapons Technology Centre, managed by QinetiQ in support of the future pipeline of complex weapons. At the end of the period UK Services won a £11m contract to provide technical and information services for a national police unit.

In response to customers' requirements to reduce the cost of training, existing UK synthetic training and simulation capabilities have been brought together as one business. This will enable the leveraging of QinetiQ's unique, technology-agnostic position to deliver operational and mission training for force preparation using Commercial-Off-The-Shelf (COTS) technology. Reductions in government and agency size also provide an opportunity for QinetiQ, as a trusted advisor, to deliver acquisition and procurement support.

Air worthiness, safety assurance, test and evaluation certainty Independent technical expertise

QinetiQ provides a turn-key capability to design, simulate, instrument, certificate, and evaluate aircraft and equipment, assuring safety and effectiveness for a broad cross-section of government and private sector customers. Our experts provide test and evaluation, logistics and management, and research and development support as well as aerospace engineering expertise.

Definitions of underlying measures of performance can be found in the glossary on page 107.

Providing off-the-shelf capability to address training challenges

Technology-agnostic, trusted and transformational

The military is faced with ever more complex operational situations. Against this backdrop, QinetiQ is offering a new approach to the use of synthetics to make training more agile, more up-to-date, more relevant, more cost effective and more accessible.

We already lead in the design and delivery of open architecture, enabling customers to select the most effective combinations of software and hardware in a 'Plug and Play' approach to synthetics – or to select a bespoke solution if needed. Our unique skillset is capable of delivering a much wider range of mission training solutions across the simulation spectrum, from application for hand-held devices at one end to full mission simulations at the other.

Our competitive advantage lies in our deep domain knowledge, our close working relationship with the military, our research into the technologies available, and our understanding of customer needs.

QinetiQ's teams are, therefore, drawn from a wide range of disciplines, including specialists in training, simulation, modelling, software engineering and design, systems integration, and human factors.

Global Products

Focuses on the exploitation of intellectual property through the rapid development of concepts into proven products and solutions, complemented by contract-funded research and development to support the creation of the next generation of products for the international market.

Revenues were £502.8m (2010: £303.5m), a 66% organic increase at constant currency. This includes a US\$288m contribution from the new Q-NET vehicle survivability product and illustrates the lumpy profile of the Global Products revenue. Q-NET deliveries during the year were primarily for the MRAP Lite vehicle – although initial orders were also received for Navistar Maxxpro and the Stryker vehicle – and demonstrate the ability of the business to develop and deploy a technology in a timeframe that meets customers' demands. Contributions also came from TALON™ robots and Shoulder-Worn Acoustic Targeting System (SWATS) individual gunfire detection systems, with contract awards continuing in support of current operations, despite wider budgetary pressures and the Continuing Resolution.

Underlying operating profit* increased to £52.4m (2010: £8.6m) and an underlying margin* of 10.4% (2010: 2.8%), with a significant contribution from the volume of Q-NET deliveries more than offsetting a disappointing performance in the UK.

In the UK, the trading environment was impacted by further contract delays and cancellations from the MOD. During the year, the UK business was reorganised, changes were made to the leadership team and management layers were removed. Total UK headcount was reduced by 346, largely as a result of the restructuring programme, and a business that lacked customer demand and funding was closed.

Global Products	2011 £m	2010 £m
Orders	627.0	329.6
Revenue	502.8	303.5
Underlying operating profit*	52.4	8.6
Underlying operating margin*	10.4%	2.8%

The OptaSense® fibre-optic sensing business continues to make strong progress in the energy sector with a three-year, £26.5m contract with Shell. Follow-on orders for security and condition monitoring included a project for Cairn Energy PLC to protect the 700km Mangala development pipeline in India. In December 2010, the acquisition of Sensoptics Ltd was completed for an initial consideration of £2.3m, net of cash acquired. Sensoptics designs and manufactures the fibre-optic sensing hardware used by OptaSense®.

Towards the end of the period, the UK business received a £12m contract from Force Protection Europe to design, optimise and supply the modular armour kits for the Light Protected Patrol Vehicle (LPPV).

A new Global Products framework has been put in place enabling a common approach to developing and marketing the product portfolio, focused on businesses with growth strategies. The development of EX-Drive®, as part of a consortium bidding into the US Ground Combat Vehicle programme, is an early example of this approach.

Meeting the highest military standards for equipment Lifesaving equipment making a difference

Ground forces in operational urban and rural environments are faced with continuous threat. Having situational awareness capabilities and survivability products, which enables them to operate in extreme situations, is a priority. QinetiQ developed SWATS in response to concerns about the high toll of sniper fire on military forces.

The US Army and the US Marine Corps have selected SWATS as their individual gunfire detection system of choice. It is quickly becoming the global standard for wearable gun shot detection. Weighing less than one pound, it is a versatile solution for combat troops around the world.

* Definitions of underlying measures of performance can be found in the glossary on page 107.

Applying technology to new market applications

Using distributed fibre sensing to provide value enhancing information to multiple industries

Distributed fibre sensing is enabling our customers to monitor their strategic assets cost effectively and, in some cases, to measure the unmeasurable

Our OptaSense® business is leading commercial change in multiple industries through the application of distributed fibre sensing (DxS) to gather information from large or complex linear assets. At the heart of its success is its ability to convert existing fibre optic assets into thousands of sensors and then to apply advanced signal processing algorithms to disseminate the data in real time. This dual approach enables customers to leverage an existing fibre asset and receive important and timely information. This, in turn, enables them to make value-enhancing business decisions, whether these are to change a well completions process or to dispatch security to prevent theft from an oil pipeline.

OptaSense® delivers value in a range of markets, from the oil and gas industry, through defence and security, to transport and many others. These markets require a truly global business focus. During this year, OptaSense® opened offices in Houston and Calgary, and delivered projects in new geographies, including India and Nigeria among others.

Chief Financial Officer's review

The excellent cash flow across the Group in the year has significantly strengthened the balance sheet.

David Mellors, Chief Financial Officer

Group results overview

Revenue	2011 £m	2010 £m
US Services	588.2	628.0
UK Services	611.6	693.9
Global Products	502.8	303.5
Total	1,702.6	1,625.4

Group revenues increased by £87.3m (5%) organically, excluding a £19.7m benefit from the strengthening of the US dollar exchange rate and the impact of £29.8m in revenue contribution from divested businesses.

Global Products revenue increased by £199.3m (66%) largely as a result of the considerable demand for the new Q-NET product, whilst demand for the robot family of products remained strong. Both of these products are supporting operations in Afghanistan. Both UK and US services businesses suffered from pressures on government spending. In the UK, governmental customers' spending approvals have slowed due to the uncertainty around priorities and budget levels. The drop in revenue within the US Services business reflects the volumes of government in-sourcing around the previous year end, exacerbated by the Continuing Resolution being in effect for much of the period.

Definitions of underlying measures of performance are in the glossary on page 107. Underlying financial measures are presented as the Board believes these provide a better representation of the Group's long-term performance trend.

Group summary

	2011	2010
Revenue (£m)	1,702.6	1,625.4
Organic change at constant currency	5%	(3)%
Underlying operating profit* (£m)	145.4	120.3
Underlying operating margin*	8.5%	7.4%
Underlying profit before tax* (£m)	114.6	85.7
Net finance expense (£m)	30.8	34.6
Underlying effective tax rate	19.0%	15.0%
Basic earnings per share	0.8p	(9.7)p
Underlying earnings per share	14.2p	11.1p
Dividend per share	1.60p	1.58p
Underlying net cash from operations (post capex) (£m)	265.8	174.3
Underlying operating cash conversion	183%	145%
Net debt (£m)	260.9	457.4
Net debt EBITDA	1.4x	2.5x
Average US\$/£ exchange rate	1.56	1.59
Closing US\$/£ exchange rate	1.60	1.52

Underlying operating profit*

	2011 £m	2010 £m
Underlying operating profit		
US Services	44.3	52.6
UK Services	48.7	59.1
Global Products	52.4	8.6
Total	145.4	120.3

The increase in underlying operating profit* reflects the increased demand for the Q-NET product which more than offset a disappointing result from the UK within the Global Products business.

The UK Services underlying operating margin* decreased to 8.0% (2010 8.5%) and the US Services underlying operating margin fell to 7.5% (2010 8.4%). The reduction in underlying operating profit* and underlying operating profit margin* within both UK and US services businesses reflects the revenue volume impacts mentioned above as well as increased pension service costs and decreased rental income in the UK, and investment in business development in the US. Cost savings in the UK have contributed to the margin increasing in the second half of the year (H1 UK Services margin 7.3%).

The increase in underlying operating margin* from 7.4% to 8.5% is a result of the higher mix of revenues from product sales.

Finance costs

Net finance costs reduced to £30.8m (2010 £34.6m). A component of this decrease was the net pension finance credit of £9.1m (2010 cost of £2.5m) from the improvement in opening market value of scheme assets outweighing the negative impact of a lower discount rate applied to scheme liabilities. A lower level of debt also contributed to the reduction in net finance costs. These impacts were partially offset by accelerated interest costs of £8.8m resulting from the election to make early repayment of a US\$135m private placement debt. The early repayment was concluded during May 2011.

Taxation

The Group's underlying effective tax rate was 19.0% (2010 15.0%). The increase was due primarily to the additional US profits earned on sales of Q-NET survivability products. The Group continues to benefit from the availability of research and development relief in the UK.

Acquisition amortisation and specific non-recurring items*

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

	2011 £m	2010 £m
Underlying profit for the year attributable to equity shareholders of the parent company	92.8	72.8
UK restructuring	(33.5)	(44.1)
Pension curtailment gain	4.9	2.0
Contingent payments on acquisition treated as remuneration	(6.1)	–
Net inventory write-offs in respect of capitalised DTR-programme bid costs	(23.8)	–
Impairment of property, plant and equipment	(5.9)	(24.0)
Amortisation of intangible assets arising from acquisitions	(26.3)	(26.1)
Impairment of intangible assets	–	(53.4)
Gain on business combinations and divestments	2.7	5.1
Unrealised impairment of investments	–	(11.3)
Tax impact of items above	0.2	15.7
Profit/(loss) for the year attributable to equity shareholders of the parent company	5.0	(63.3)

The resulting statutory profit after tax was £5.0m (2010: loss of £63.3m)

The UK restructuring costs of £33.5m (2010: £44.1m) relate to headcount reductions announced in July and August 2010. The majority of the cash outflow associated with this charge occurred in the second half of the year. The restructuring formed part of the programme to restore QinetiQ to strength by ensuring the Group has a competitive cost base, appropriately sized for the market. A pension curtailment gain of £4.9m (2010: £2.0m) arose as a consequence of the restructuring.

The contingent acquisition payments of £6.1m and the gain in respect of negative goodwill of £0.2m relate to the acquisition of Sensoptics. The discounted fair value of the contingent purchase price was treated as remuneration in accordance with IFRS 3 (revised).

On 19 October 2010 the UK MOD terminated the Defence Training Rationalisation (DTR) programme for which QinetiQ was preferred bidder as a 50/50 equity partner in the Metrix joint venture. £23.8m has been written off previously capitalised bid costs within non-recurring items*.

* The gearing ratio is adjusted net debt / EBITDA calculated in accordance with the Group's credit facility ratios.

Definitions of underlying measures of performance are in the glossary on page 107. Underlying financial measures are presented as the Board believes these provide a better representation of the Group's long-term performance trend.

A charge of £5.9m (2010: £24.0m) was taken in the year against the Group's owned properties and impairment of assets. These properties are no longer occupied and as no external tenant has been found the assets are no longer generating a return.

The gain on business divestments in the year relates to the disposal of S&IS, a non-core security operations and access control business, within QinetiQ's US Services operation.

Earnings per share

Underlying earnings per share was 14.2p compared with 11.1p for the year ended 31 March 2010. Basic earnings per share increased to 0.8p (2010: (9.7p)).

Dividend

The Group did not pay an interim dividend for the year and the Board is recommending a final dividend of 1.60p per share. The record date for the final dividend will be 5 August 2011. Subject to approval at the Annual General Meeting, the final dividend will be paid on 2 September 2011 to shareholders on the register at 5 August 2011.

Other financials

Cash flow

The Group's cash flow from operations before restructuring costs but after capital expenditure was £265.8m (2010: £174.3m). The underlying operating cash conversion ratio¹ was 183% (2010: 145%), as a result of relentless focus on cash generation, assisted by deferred contract capital spend in the UK Services business. The cash outflow in the year on restructuring the UK business was £31.8m (2010: £35.4m).

Acquisition expenditure, net of cash acquired, totalled £15.8m (2010: £45.6m), £2.3m of which was due to the acquisition of Sensoptics Ltd in December 2010 and the remainder was deferred consideration in respect of DTRI, acquired in a prior year. Proceeds received from the disposal of businesses totalled £38.2m (2010: £21.1m), largely from disposal of the S&IS business.

At 31 March 2011, net debt reduced substantially to £260.9m compared with £457.4m at 31 March 2010.

The Group's borrowings remained comfortably within its financial covenants, with a gearing ratio¹ of 1.4x compared to the covenant maximum level of 3.5x, a significant improvement from 2.5x last year.

The Group refinanced its existing credit facility with a new five-year revolving credit facility provided by the Group's six global relationship banks. The new multi-currency facility, which matures in February 2016, includes a £118m tranche and a US\$250m tranche and was undrawn at 31 March 2011. The Group's cash performance also allowed it to make early repayment of a US\$135m private placement debt, which was repaid during May 2011 from surplus cash.

Net finance costs were impacted by an accelerated interest payment of £8.8m related to the early repayment of the 2013 private placement debt.

Total committed facilities available to the Group at year end amounted to £625m. Following the early repayment of the US\$135m private placement debt in May 2011, total committed facilities amount to £540m, with no maturity before 2016.

Pensions

The net pension deficit under IAS 19, after deducting deferred tax, was £92.2m (2010: £106.1m). The decrease in net pension deficit is primarily driven by the increase in market value of scheme assets, partially offset by the input of assumed increase in life expectancy.

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

Assumption	31 March 2011	31 March 2010
Discount rate	5.6%	5.6%
Inflation	3.6%	3.6%
Salary increase	4.6%	4.6%
Life expectancy – male (currently aged 40)	90	89
Life expectancy – female (currently aged 40)	91	90

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

Assumption	Change in assumption	Indicative effect on scheme liabilities (before deferred tax)
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £24m
Inflation	Increase/decrease by 0.1%	Increase/decrease by £25m
Salary increase	Increase/decrease by 0.1%	Increase/decrease by £6m
Life expectancy	Increase by one year	Increase by £22m

The market value of the assets at 31 March 2011 was £981.1m (31 March 2010: £915.9m) and the present value of scheme liabilities was £1,105.7m (31 March 2010: £1,063.2m).

The investment principles of the QinetiQ Pension Scheme were revised during the year by the trustees, in consultation with QinetiQ. A shift from the historical weighting towards equity investments, to a more balanced portfolio, was considered appropriate by the trustees to reflect the relative age of the scheme and changes to the membership profile. The next triennial full actuarial valuation of the QinetiQ pension scheme is due to be undertaken as at 30 June 2011.

Capital risk

The Group funds its operations through a mixture of equity funding and debt financing, including bank and capital market borrowings. At 31 March 2011 the Group's total equity was £457.5m (2010: £473.7m). Net debt as defined by the Group was £260.9m (2010: £457.4m).

The capital structure of the Group reflects the judgement of the Directors of an appropriate balance of funding required. The Group's target is to maintain its gearing ratio below 2x EBITDA.

Definitions of underlying measures of performance are in the glossary on page 107. Underlying financial measures are presented as the Board believes these provide a better representation of the Group's long term performance trend.

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 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 Group 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 in the short to medium term through fixed-rate debt.

Foreign exchange risk management

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

	2011	2010
£/US\$ – average rate	1 56	1 59
£/US\$ – closing rate	1 60	1 52
£/US\$ – opening rate	1 52	1 44

The Group's income and expenditure is largely settled in the functional currency of the relevant Group entity, mainly sterling or US dollar. The Group has a policy in place to hedge all material transaction exposure at the point of commitment to the underlying transaction. Uncommitted future transactions are not routinely hedged. The Group continues its practice of not hedging income statement translation exposure. To minimise the impact of currency depreciation of the net assets on its overseas subsidiaries, the Group seeks to borrow in the currencies of those subsidiaries, but only to the extent that its gearing covenant within its loan documentation, as well as its facility headroom, are likely to remain comfortably within limits.

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 prudent and 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 decreased by 14% to 11,208 at 31 March 2011. The decline primarily reflects normal in-year attrition as well as departures under the restructuring programme in the UK and the impact of Government in-sourcing and the disposal of S&IS in the US.

Accounting standards

As a UK-listed company, the Group is required to adopt EU endorsed IFRSs and comply with the Companies Act 2006. The effect of changes to financial reporting standards in the year and critical accounting estimates and judgements are disclosed in note 1 to the financial statements.

Critical accounting estimates and judgements in applying accounting policies

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



David Mellors
Chief Financial Officer
27 May 2011

Key performance indicators

The Group's strategy is underpinned by focusing on a number of performance indicators. The key indicators that the Board utilises to assess Group performance are set out below. Similar indicators are used to review performance in each of the Group's businesses.

Financial KPIs

Underlying EPS* (pence)	Description The underlying earnings per share (EPS) expressed in pence per share	Comment 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 certain of the Group's long-term incentive plans.
Organic revenue growth (%)	Description The Group's organic revenue growth is calculated by taking the increase in 2011 revenue over 2010 pro forma revenue, at constant exchange rates.	Comment Organic revenue growth demonstrates the Group's capability to expand its core operations within its chosen markets before the effect of acquisitions, disposals and currency translation impacts.
Underlying operating profit* (£m)	Description The underlying earnings before interest and tax. Underlying operating profit* for FY2009 has been restated to show the finance elements of the IAS 19 pension cost in the finance income and expense lines. There is no impact on reported profit before tax from this restatement.	Comment Underlying operating profit is used by the Group for internal performance analysis as a measure of operating profitability that is tracked over time.

Non-financial KPIs

Health and Safety (lost-time injury rate per 1,000 employees)	Description The lost-time injury rate is calculated using the total number of work related lost-time incidents x1,000 divided by the average number of employees in that year. The 2009 figures exclude Australia.	Comment Health and Safety performance is monitored to drive continual improvement in minimising the risk to employees.
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Definitions of underlying measures of performance are in the glossary on page 107. Underlying financial measures are presented, as the Board believes these provide a better representation of the Group's long-term performance trend.

* The gearing ratio is net debt to adjusted EBITDA and the definition is in the glossary on page 107.

Underlying operating margin* (%)**Description**

The Group's calculation of underlying operating margin* is consistent with prior years. Underlying operating margin is calculated by taking the earnings before tax and interest as a percentage of revenue

Comment

Underlying operating 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

Underlying operating cash conversion* (%)**Description**

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

Comment

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

Gearing ratio¹ (x)**Description**

The Group's gearing ratio¹ is calculated as net debt divided by EBITDA, as calculated in accordance with the terms of the Group's credit facilities, and is comfortably within our banking covenant limit of 3.5x

Comment

Net debt to EBITDA provides a measure of the strength of the Group's balance sheet

Employee engagement score (UK only on a scale of 0-1,000)**Description**

A measure of employee engagement on a scale of 0-1,000, based on the Best Companies Employee Survey. Through this channel, QinetiQ employees share their views of working at QinetiQ under the headings of management, leadership, my company, personal growth, my team, giving back to the community, fair deal and well-being

Comment

The survey forms part of The Sunday Times Best Companies to Work For, an annual survey run in The Sunday Times newspaper that ranks UK employers based on their employees' feedback and allows comparison between QinetiQ and other UK companies

Risks and uncertainties

The understanding and effective management of the risks that face QinetiQ is fundamental to its success and is an integral part of managing the business.

The identification, assessment, mitigation and reporting of risks are processes carried out at a Group, business and project level and are included as part of the business performance review process. Risks are assessed according to the likelihood of the event's occurrence and its impact, both from a financial and non-financial standpoint. The Group Risk Register includes an analysis of the potential exposures and severity of each risk (as a function of the likelihood and impact of the risk), the assumptions underlying each risk and the mitigating actions required to manage the risk.

The Group Risk Register is reviewed by the Executive Team on a monthly basis 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 risk register is reviewed by the Board and, in addition, the risk owners present an update of current status and mitigating actions by rotation throughout the year.

Risk	Potential impact	Mitigation
A change in demand from reduced military operations in Iraq and Afghanistan	Current plans of both US and UK Governments are to reduce involvement in Afghanistan in the coming years. A significant shift in policy by either the Administration in the US or the Government in the UK, which results in a significant reduction in the number of forces personnel present in Iraq and Afghanistan, may have a materially adverse impact on the Group's financial performance.	QinetiQ has capitalised on increased UK and US Government spending on technology in support of operations in Iraq and Afghanistan. Notably, QinetiQ has experienced strong demand for Unmanned Ground Vehicles and survivability products across the duration of both campaigns. However, the focus on operational support in defence, on both sides of the Atlantic, has given rise to a decline in defence expenditure in other areas, such as services to improve procurement efficiency and innovative research. The Group mitigates this by maintaining a market focus and competitive positioning in adjacent markets, including defence services (which are not directly conflict-related), aerospace, security and intelligence, providing a degree of portfolio diversification.
A change in either US or UK Government spending on defence and security	The Strategic Defence and Security Review in the UK, and the financial burden on both UK and US Government budgets from the recent economic downturn, will lead to reduced spending in the markets in which the Group operates. In particular the UK is reducing its defence budget by 8% in real terms by FY2015 and, additionally, seeking to remove significant over-heating in its equipment programme. Any reduction in Government defence and security spending in either the UK or the US could have an 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. The Group will continue to review trends in defence, aerospace and security expenditure in order to align the business with those trends. The UK Government is investing an additional £650m in cyber capability which offers some opportunity to the Group.

Risk	Potential impact	Mitigation
Changing in the timing of contracts	The amounts payable under some Government contracts can be significant and the timing of receiving orders could have a material impact on the Group's performance in a given reporting period	The contract and orders pipeline is regularly reviewed by senior operational management
Funding of the 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 affected 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 Group and the scheme's members. The most recent triennial funding valuation of the scheme, as at 30 June 2008, resulted in a deficit of £111.3m. The Group and trustees have agreed a ten-year recovery period to make up this deficit. The next funding valuation of the scheme is at 30 June 2011.
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 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 UK and the US. This enables us to plan for and mitigate potential changes in legislation.
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 due to the performance of new or developed products, operational overruns or external factors, such as inflation. Any significant increase in costs which cannot be passed on to a customer may 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 deliverables and, as such, the risk of cost escalation is mitigated. The Group ensures that its fixed-price bids and projects are reviewed for early detection and management of issues which may result in cost overrun.
Highly-competitive marketplace	The aerospace, defence and security markets overall 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 seeks to focus on areas within these markets in which its deep customer understanding, domain knowledge, technical expertise and platform independence provide a strong proposition and a significant advantage in competitive bidding.

Risk	Potential impact	Mitigation
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, civil unrest, and cultural and terms of reference differences leading to lack of common understanding with customers. 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 using our International Business Opportunity Management process before being formally entered into.
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, testing and training services to the MOD. The original contract was signed in 2003. 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 five-year period of the LTPA with the MOD. The first break point is in 2013. In the current year, the LTPA directly contributed 11% of the Group's revenue and supported a further 6% through tasking services using LTPA managed facilities. 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 customer performance and satisfaction levels, and significantly exceeded the agreed minimum performance rating of 80% in 2010/2011.
Failure to comply with laws and regulations, particularly trading restrictions and export controls	The Group operates in a highly-regulated environment and the majority of its 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, environmental, money laundering, anti-bribery, etc. Failure to comply with particular regulations could result in a combination of fines, penalties, civil or criminal prosecution, and suspension or debarment from Government contracts, as well as reputational damage to the QinetiQ brand. Any one of these could have a material impact on the Group's financial performance.	The Group has procedures and, where appropriate, training in place to ensure that it meets all current regulations. Local management continuously monitors local laws and regulations, and policies are in place for the appointment of advisors to support business development. Professional advice is sought when engaging in new territories to ensure that the Group complies 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. The terms of reference of the Compliance Committee have been expanded to review the effectiveness of the compliance risk frameworks.
Failure of information technology systems and breaches of data security	The Group operates in a highly-regulated information technology environment. The data held by QinetiQ is highly confidential and needs to be totally secure. A failure of systems could impact contract delivery leading to a loss in	The information systems are designed with consideration to single points of failure and the removal of risk through minor and major system failures. The business maintains business continuity plans covering both geography e.g. sites

Risk	Potential impact	Mitigation
Failure of information technology systems and breaches of data security continued	customer satisfaction. A breach of data security could impact our customer's operations and have a significant reputational impact, as well as the possibility of exclusion from some types of Government contracts with a detrimental impact on the Group's financial performance	and business units as well as technical capability of staff. These plans cover a range of scenarios which include loss of access to information technology systems. The plans are tested at appropriate intervals. Data security is assured through a multi-layered approach, providing a hardened environment including robust physical security arrangements, data resilience strategies, the application of security technologies as well as comprehensive internal and external testing of potential vulnerabilities. In addition the systems are monitored and managed on a 24x7 basis
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 US dollars or sterling	The Group actively hedges all significant transactional foreign exchange exposure as described in the notes to the financial statements and has adopted hedge accounting. The Group's objective is to reduce medium-term volatility to cash flow, margins and earnings. The Group protects its balance sheets and reserves from adverse foreign exchange movements by financing acquisitions in North America with US dollar-denominated borrowings, partially mitigating the risk as US dollar earnings are used to service and repay US dollar-denominated debt
Raising external funding and volatility in interest rates	The Group relies on the proper functioning of the credit markets which could have an impact on both the availability and associated costs of financing. The Group is exposed to interest rate risk derived mainly from long-term indebtedness and related to borrowings which have been issued at floating interest rates	The Group maintains a prudent level of committed funding facilities. A new five-year multi-currency facility totalling £275m was signed in February 2011 provided by its relationship banks. The Group also uses fixed-rate debt instruments issued to US private placement investors with maturity dates up to 2019
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, failure to realise value from intellectual property, or the need for a higher level of investment 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 invests in the development of intellectual property only where it believes there is a realistic market opportunity for the technology. The performance of intellectual property realisation programmes is 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
Acquisition of businesses	The Group has the ability to acquire 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 processes. In addition, the usual contractual protections are included in the purchase agreements signed with the vendors

Corporate responsibility review

Performance overview

Progress in the year

- ✓ ISO 14001 for UK sites maintained, following audits
- ✓ 7% reduction in CO₂ emissions achieved in the UK
- ✓ UK waste recycling at 72%
- ✓ Progress on delivery of UK conservation management plans
- ✓ Achieved MOD sustainable procurement target
- ✓ UK RIDDOR* rates reduced (1.69, down from 3.69)
- ✓ Action plans put in place following employee engagement survey

Future goals

- Reduction in reportable UK incidents to zero by 2014
- 10% reduction in UK carbon emissions by 2012
- Attainment of ISO 18001 in the UK by 2013
- Continue to improve waste management in the UK
- Continue to work proactively with customers and suppliers on sustainable procurement issues
- Use of the employee engagement survey to make improvements

A responsible and sustainable business

Leadership and management

With a wide network of domain experts across the UK, Australia and the US, corporate responsibility (CR) is embedded in the business, overseen by the Head of CR. The CR Committee, comprising the QinetiQ Executive Team, continues to review and support the CR strategy and projects.

The Group Business Ethics Policy provides a framework for how the Group operates. However, regional differences in stakeholder requirements and law, require priorities to be fine-tuned locally. QinetiQ responds promptly to changing legislation by adapting local policies, such as health and safety, environment, business ethics and equality.

Business ethics

Progress on the Business Ethics programme is now reported quarterly to the Compliance Committee. The Group is committed to the highest standards of ethical conduct and, in the forthcoming year, a Group-wide Code of Conduct will replace separate UK and US documents. All employees are required to complete regular training in business ethics. More in-depth training is provided for employees who are involved in international business. QinetiQ engages with third parties, such as TRACE to conduct due diligence associated with engaging representatives overseas. All employees have access to an independent whistle-blowing line.

Sustainable procurement

An important part of developing a sustainable and responsible business is managing how and what we buy to ensure best value for money, taking into account environmental and socio-economic issues. In the UK, QinetiQ is a signatory to the MOD's Sustainable Procurement Charter and an active member of the MOD-Industry Sustainable Procurement Working Group. QinetiQ has been active in raising employee awareness of sustainable procurement through training, employee campaigns and leadership team briefings and through the corporate induction for UK employees.

Engaging our people

Employee communications

Our people play a crucial role in enabling the Group to achieve its goals, particularly in realising the significant change embarked upon within the Group. Engaging employees begins with keeping our people informed, through a range of channels. The UK QinetiQ Employee Forum continues to provide a way by which employee engagement is enhanced. The 'My Contribution' programme gives employees a forum to voice ideas for business improvements and convert them quickly into projects that benefit the Company's bottom line.

Once again the UK and Australian business took part in the Best Companies Survey, giving employees an opportunity to share their views on working in QinetiQ. A 77.5% response rate was achieved along with a higher score than in 2010. Employee engagement has been a key part of QinetiQ North America's (QNA) programme of bringing many separate companies together into one business and an engagement survey is also undertaken.

People development

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.

QinetiQ continues to support the development and employability of our people, from apprentices and graduates to our current and future leaders. The Personal Success Plan (PSP), QinetiQ's performance management process, was introduced last year in the UK and Australia and has been successfully rolled out and embedded. It is a key mechanism for the identification of top talent, as well as addressing any employee performance issues.

Employee wellbeing

UK and Australian employees have access to an Employee Wellbeing Programme providing information and support on financial, legal and family matters and counselling. UK employees also have a benefits package through 'QinetiQ Currency'. QNA provides an excellent package of healthcare benefits for employees, an Employee Assistance Programme and a purchase discount scheme.

RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995)

Safe and sustainable delivery

Safety is a priority of the business. A review of our UK Health, Safety and Environment (HS&E) provision during 2010 highlighted the need to further develop our HS&E and Assurance management to improve leadership and focus. In August 2010, a Director of HS&E was appointed and two lead roles for occupational safety and for environment and sustainability were created. They head up a new and invigorated HS&E function aligned with the business and with a strategy focused on developing a strong HS&E and Assurance culture and competencies.

Group health and safety data	2007	2008	2009	2010	2011
UK ¹	n/a	7.61	4.66	5.32	4.73
QNA ¹	n/a	1.57	1.09	2.12	1.85
Australia ¹	n/a	n/a	n/a	3.88	3.95
QinetiQ Group ¹	n/a	5.07 ²	3.00 ²	3.78	3.28

¹ Lost Time Incidents per 1,000 employees

² Total for QNA and UK only

Environmental focus

UK carbon management

The UK Carbon Management Group promotes energy efficiency and awareness, sets strategy and plans and monitors targets. It is supported by a new network of Energy Champions across UK sites, and the low-carbon message is reinforced during 'Environment Week', the annual employee awareness campaign. We report annually to the Carbon Disclosure Project and will be participating in the UK Government's Carbon Reduction Commitment Energy Efficiency Scheme. Gaining the Carbon Trust Standard demonstrates our commitment to energy efficiency.

UK carbon management data	2007	2008	2009	2010	2011
UK gas use (GWH)	69.6	68.6	66.8	64.7	63.0
UK oil use (GWH)	22.5	21.4	21.7	20.6	20.3
UK electricity use (GWH)	136.9	113.6	102.7	99.3	94.2
Total CO ₂ from energy use ¹	92.4	79.3	73.2	70.7	67.6
Total CO ₂ from transport ¹	n/a	n/a	26.0	19.8	16.6

¹ CO₂ emissions are calculated using the defra 2010 greenhouse gas conversion factors. These factors change regularly, so to show actual reductions, the same factors have been used for all years. Consequently, there are some differences from the data reported last year.

Environmental management and conservation

The UK business continues to maintain ISO 14001:2004 certification, confirming evidence of effective controls as part of Company Environmental Management Systems, which cover a broad range of activities. The Australian business has also established a small group responsible for developing environmental initiatives. A responsible and proactive approach is taken to the stewardship of the many Sites of Special Scientific Interest (SSSI) that are managed in the UK. Conservation management plans in place where required.

Waste

As part of QinetiQ UK's waste-management programme, data collection has been extended to the majority of QinetiQ sites and those managed on behalf of the MOD. In QNA, recycling programmes operate across much of the business.

UK waste-management data ¹	2007	2008	2009	2010	2011
General waste to landfill (tonnes)	2,472	1,911	1,924	1,230	926
Recycled waste (tonnes)	1,338	1,533	1,802	2,641	2,355
Percentage recycled waste	35%	45%	48%	68%	72%

¹ In previous years only data for major sites was reported. This year reporting is for all sites where QinetiQ has control of the waste. Additional waste streams are now incorporated, including operational waste.

Making a positive contribution to the community

Science for society

In 2010, two UK employees visited Laos as part of QinetiQ's unexploded ordnance (UXO) Science for Society Programme, which has been running for six years. The team uses its expertise to support local capability building to reduce the threat of UXO. Recently our QNA business provided specialist unmanned vehicle equipment and associated training to aid in Japan's Fukushima recovery efforts. This enabled response teams to accomplish critical and complex recovery tasks while remaining a safe distance from hazardous debris and other dangerous conditions.

Education outreach

For the fourth year running, QinetiQ UK collected an Award from STEMNET, a UK national body leading all Science, Technology, Engineering and Maths (STEM) educational outreach. Student placements are provided through 'Year in Industry' as well as sponsorship of degrees.

Charity and community programmes

Employees across the Group undertook a range of volunteering activities in the community. Total charitable giving from the business across the Group was £196,900 (see page 45).

Board of Directors

Mark Elliott Non-executive Chairman – 62

Appointment to Board

Appointed Non-executive Chairman in March 2010, Non-executive Director between June 2009 and February 2010

Committee Memberships

Member of the Remuneration Committee, Compliance Committee and Nominations Committee

Expertise

Mark was previously General Manager of IBM Europe, Middle East and Africa and sat on IBM's Worldwide Management Council. Mark currently serves as a Non-executive Director on the boards of Reed Elsevier Group plc (in respect of which he is also Chairman of the Remuneration Committee), Reed Elsevier NV and G4S plc. The Board considers that Mark's extensive experience in the technology services sector, both in the US and Europe, coupled with his exposure to a variety of industry sectors on the boards of FTSE listed companies, is a valuable asset to the Group in terms of leadership and addressing the strategic issues affecting the Group.

Leo Quinn Chief Executive Officer – 54

Appointment to Board

Appointed Chief Executive Officer in November 2009

Committee Memberships

Member of the Compliance Committee, Nominations Committee and Security Committee

Expertise

Leo was Chief Executive Officer of De La Rue plc between 2005 and 2009. Before that he was Chief Operating Officer of Invensys plc's Production Management Division. Prior to that time, he spent 16 years with Honeywell Inc, in a variety of senior management roles in the USA, Europe, the Middle East and Africa. Leo was formerly a Non-executive Director of Tomkins plc.

David Mellors Chief Financial Officer – 42

Appointment to Board

Appointed Chief Financial Officer in August 2008

Committee Memberships

Member of the Security Committee

Expertise

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, the Middle East and Asia and, prior to that, he was the Group Financial Controller. Earlier experience included various other roles with CMG plc, Rio Tinto plc and Price Waterhouse. David is a member of the Institute of Chartered Accountants in England & Wales.

Sir David Lees Deputy Chairman and Senior Independent Non-executive Director – 74

Appointment to Board

Appointed Deputy Chairman and SID in August 2005

Committee Memberships

Chairman of the Compliance Committee and Nominations Committee, Member of the Audit Committee and Security Committee

Expertise

Sir David is currently Chairman of the Court of the Bank of England, he has also been a member of the UK Panel on Takeovers and Mergers since June 2001. Sir David joined GKN plc in 1970 and had 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, a Non-executive Director of the Bank of England between 1991 and 1999, and Chairman of Tate & Lyle plc from 1999 until 2009. From 2001 to 2006, he was Non-executive Joint Deputy Chairman of Brambles Industries plc and Bramble Industries Limited. Sir David is a Fellow of the Institute of Chartered Accountants in England & Wales. The Board considers that Sir David's detailed understanding of corporate governance and the City and its institutions, and his industrial experience, significantly enhance the operation of the Board.

For more information go to
www.QinetiQ.com

Colin Balmer
Non-executive
Director – 64

Appointment to Board

Appointed Non-executive Director in February 2003.

Committee Memberships

Chairman of the Security Committee, Member of the Compliance Committee, Nominations Committee and Remuneration Committee

Expertise

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 has been a member of the Foreign and Commonwealth Office's Audit and Risk Committee. He is currently on the Board of the Royal Mint, chairing its 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.

Noreen Doyle
Non-executive
Director – 62

Appointment to Board

Appointed Non-executive Director in October 2005

Committee Memberships

Chairman of the Remuneration Committee, Member of the Audit Committee

Expertise

Noreen sits on the Board of Credit Suisse Group (Zurich) and is a Non-executive Director of Newmont Mining Corporation (Denver) where she is chair of the Audit Committee, and Rexam plc where she is chair of the Finance Committee. 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, is of significant benefit to the Board.

Admiral Edmund P. Giambastiani Jr.,
US Navy (retired)
Non-executive
Director – 63

Appointment to Board

Appointed Non-executive Director in February 2008

Committee Memberships

Member of the Compliance Committee

Expertise

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. A career nuclear-trained submarine officer, Ed's distinguished service 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. After retirement and until October 2009, he served as the Non-executive Chairman of the Board of Directors for Alenia North America Inc. He currently is a Non-executive Director of the Boeing Company, SRA International Inc and Monster Worldwide Inc, and serves in a pro-bono capacity on a number of US Government advisory boards and panels. 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 developing its US platform in the defence and security technology sector.

Admiral Sir James Burnell-Nugent
Non-executive
Director – 61

Appointment to Board

Appointed Non-executive Director in April 2010

Committee Memberships

Member of the Compliance Committee, Remuneration Committee and Security Committee

Expertise

Sir James commanded the aircraft carrier HMS Invincible and three other ships and submarines during a 37-year career in the Royal Navy which culminated in his appointment as Commander-in-Chief Fleet. In between operational duties he served in several appointments in the MOD and gained cross-Whitehall experience while on secondment to HM Treasury. The Board considers that Sir James' expertise in the Government contracting domain, particularly with the UK MOD and HM Treasury, is highly beneficial in the context of QinetiQ's Government sourced operations.

Paul Murray
Non-executive
Director – 49

Appointment to Board

Appointed Non-executive Director in October 2010

Committee Memberships

Chairman of the Audit Committee and Member of the Compliance Committee

Expertise

Paul is currently a Non-executive Director and Audit Committee chair at Royal Mail Holdings plc. He is also a Director at Knowledge Peers plc and is a Trustee of Pilotlight. He was previously Senior Independent Director of Taylor Nelson Sofres plc, a Non-executive Director of Thomson SA and Tangent Communications plc, and has also been Group Finance Director of Carlton Communications plc and LASMO plc. The Board considers that Paul brings a broad range of experience in finance and corporate governance from a cross section of industries, all of which leverage technology.

Jon Messent
Company Secretary
and Group General
Counsel – 47

Appointment

Appointed as Company Secretary and Group General Counsel in January 2011

Expertise

Jon joined QinetiQ from Chloride Group where he held a similar role. He has a background in legal private practice as well as company secretarial experience in other FTSE250 companies.

Corporate governance report

The Board sees high standards of corporate governance as essential to building value in our business and to the ongoing management of change

The Board considers that QinetiQ has promoted strong governance throughout the Group by applying the principles of the UK Financial Reporting Council's Combined Code on Corporate Governance (the Combined Code). The Board considers that QinetiQ has complied with the provisions of the Combined Code throughout the last financial year. In 2010 a new UK Corporate Governance Code was published. This will come into effect over the coming financial year and bring a number of important changes to corporate governance practice. The Board welcomes these changes as a positive reflection of the evolving nature of good business governance. The Board is in the process of reviewing the new UK Code and will be taking action to ensure that what QinetiQ does fully reflects its principles and that we comply with its provisions. Some steps have already been taken to update our practices and policies and these are highlighted in the next few pages.

The Board – governance, processes and systems **Board objectives**

Demonstrate the highest standards of corporate governance per the UK code to

- ensure the continuing evolution and implementation of the Group strategy which delivers value to all stakeholders customers, employees and shareholders,
- develop challenging objectives for the business and monitor management performance against those goals,
- provide a framework of effective controls to assess and manage risks, with clear expectations for conduct to the highest standards of ethics,
- provide support and constructive challenges to the Chief Executive Officer (CEO) to promote the Group's success,
- demonstrate leadership in management systems around Health, Safety and Environment, and
- manage succession planning for the Board and the Group's executive management

Composition of the Board

The Board currently has nine members: the Non-executive Chairman, six other Non-executive Directors, and two Executive Directors, namely the CEO and the Chief Financial Officer (CFO), with the objective of achieving a balance of Executive and Non-executive Directors.

Executive and Non-executive Board composition

Mark Elliott has been the Non-executive Chairman of QinetiQ since 1 March 2010, having first joined the Board as a Non-executive Director on 1 June 2009. During the year the Board welcomed Paul Murray, who joined as a Non-executive Director on 25 October 2010. The Board would like to express its thanks to Nick Luff and David Langstaff, both of whom stepped down during the year, for their dedication and valuable contributions during their time of service on the Board.

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 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, mergers and acquisitions and risk management, have been fundamental in the pursuit of QinetiQ's strategic initiatives (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 consolidate its position in its core markets and geographic territories.

Roles and responsibilities

The Board is responsible for overseeing the Executive Directors' management of 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 and organises its business to have regular interaction with key members of the Group, including those based in North America. The Directors are responsible for overseeing the management of the business of the Group, and their powers are subject to the Articles of Association and any applicable legislation and regulation.

Chairman and Chief Executive Officer

The roles of Chairman and CEO are separate, with their responsibilities having been clearly articulated by the Board in writing. The Chairman, Mark Elliott, is responsible for the effective operation of the Board and ensuring that all Directors are enabled and encouraged to play their full part in Board activities. The CEO, Leo Quinn, is responsible to the Board for directing and promoting the profitable operation and development of the Group consistent with enhancing long-term stakeholder value. This includes the day-to-day management of the Group, formulating, communicating and executing Group strategy, and the implementation of Board policies.

Senior Independent Director

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 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.

Independence of Non-executive Directors

Of the current Directors of the Company, the Board considers Admiral Sir James Burnell-Nugent, Noreen Doyle, Mark Elliott, Admiral Edmund P. Giambastiani, Sir David Lees and Paul Murray 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 Colin Balmer is not independent for Combined Code purposes, on the basis that 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.

Performance of the Board

In accordance with the Combined Code, QinetiQ continues each year to evaluate the performance of the Board and its Committees.

The Chairman used the core conclusions arising out of the prior year's evaluation exercise as a reference point for a series of questions focused on best practice areas of corporate governance. This was supplemented by meetings held with 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, met with individual members of the Board to evaluate the performance of the Chairman.

The evaluation process revealed that the operation of the Board was conducted in an open and transparent manner, with the Board possessing an appropriate range of skills which were well matched to QinetiQ's business and having devoted increased attention to strategic planning, succession and risk management in the year.

As a result of the evaluation exercise, the Board agreed to maintain its focus on these key issues in the coming year. As a separate exercise, the Chairman held 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 to appraise the performance of the Executive Directors.

Directors' induction, on-going 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. Further, a series of visits to Group sites giving the opportunity to meet senior management, is provided to new Directors for them to gain a strong understanding of the business. The induction programme includes an induction pack, which is refreshed to ensure it contains the most up-to-date information available on the Group. Training is also available to the Board on key business issues or developments in policy, regulation or legislation on an 'as needed' basis. The Company provides business-wide computer based training (CBT) for employees and the Board relating to compliance with its business ethics policies and practices.

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's facility in Washington and one of its meetings at QinetiQ's Farnborough site. This provided members of the Board with a greater opportunity to experience and understand the operational dynamics and technical offerings of the US and UK business at first hand.

As part of the corporate planning process, the Board has the opportunity to question the Sector Managing Directors 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 employees within the Group (including other members of the senior management team) at lunchtime/evening events, which are scheduled to coincide with Board meetings.

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.

Re-election of Directors

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. According to the Articles of Association, all Directors are subject to election by shareholders at the first Annual General Meeting (AGM) following their appointment, and to re-election thereafter at intervals of no more than three years. However, in line with best practice reflected in the new UK Governance Code, the Company requires each serving member of the Board to be put forward for election or re-election on an annual basis at each AGM.

Board meetings and attendance

The Board has regular scheduled meetings. Nine scheduled Board meetings were held in the last financial year. Members of the Board were also invited to attend a dinner on the occasion of each scheduled Board meeting, to assist in the process of relationship building and to ensure that key strategic initiatives were thoroughly discussed.

The following table shows the number of meetings of the Board and its committees held during the last financial year, and the attendance by individual Directors.

Attendance at meetings of Board and its Committees – April 2010 to March 2011

Members	Board	Committee		
		Audit	Remuneration	Compliance
Colin Balmer	9/9	–	7/7	5/5
Admiral Sir James Burnell-Nugent ¹	9/9	–	6/6	5/5
Noreen Doyle	7/9	5/5	7/7	–
Mark Elliott	9/9	–	7/7	5/5
Admiral Edmund P. Giambastiani	8/9	–	–	5/5
David Langstaff ²	9/9	5/5	7/7	–
Sir David Lees	9/9	5/5	–	5/5
Nick Luff ³	6/6	4/4	–	3/4
David Mellors	9/9	–	–	–
Paul Murray ⁴	5/5	2/2	–	–
Leo Quinn	9/9	–	–	5/5

¹ Admiral Sir James Burnell-Nugent was appointed to the Board on 28 April 2010.

² David Langstaff resigned from the Board on 18 April 2011.

³ Nick Luff resigned from the Board on 31 December 2010.

⁴ Paul Murray was appointed to the Board on 25 October 2010.

Matters reserved to the Board

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 devotes one entire meeting each year to consider strategy and planning issues which have an impact on the Group, from which the five-year corporate plan is generated, and it is also regularly kept up to date on strategic issues.

throughout the year. 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.

Operation of the Board

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 Chairs 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 which have had an impact on the Group since the previous meeting of the Board, and focuses, in particular, on the progress of each of the Sectors. 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 the post-acquisition performance of recently acquired businesses.

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, Security, Trade Controls and Pensions. Key issues considered by the Board in the past year included succession planning, which culminated in some changes to Board membership, strategy (in particular the effective operation of the UK Services, US Services and Global Products businesses) and the Company's ongoing improvement to business processes in response to the key findings of the Haddon-Cave report.

Conflicts of interest

The Company requires Directors to disclose proposed outside business interests before they are entered into. This enables prior assessment of any conflict, or potential conflict, of interest and any impact on time commitment. An annual review of all external interests is carried out by the Board.

Directors' responsibilities

Statements explaining the Directors' responsibilities for preparing the Group's financial statements and the auditor's responsibilities for reporting on those statements are set out on pages 48 and 49.

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 AGM.

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 comprises the Group CEO, Group CFO, Functional Directors and the Managing Directors of each of the

three UK business Sectors. 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 the Executive Management Team in QNA. A Global Products Steering Committee was formed in the year to accelerate the development of the Global Products business, its products, and its exploitation of QinetiQ's intellectual property.

Board Committees

The Board has established five principal committees: the Audit Committee, the Remuneration Committee, the Nominations Committee, the Compliance Committee and the Security Committee. Each 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 a 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. Details of each Committee members' attendance at Committee meetings are set out in the table on page 30.

Audit Committee

The Audit Committee is chaired by Paul Murray. The Board considers him to have recent and relevant financial experience, given his former roles as Group Finance Director of Carlton Communications plc and LASMO plc, and through his current role as Audit Committee Chairman at Royal Mail Holdings plc. The Committee is made up of three Non-executive Directors (four until the resignation of David Langstaff as a Director of the company on 18 April 2011), all of whom the Board considers to be independent. The Audit Committee monitors the Group's integrity in financial reporting and reviews the effectiveness of the risk management framework. The other members are Noreen Doyle and Sir David Lees. The members bring extensive experience of corporate management in senior executive positions to the Company.

The Audit Committee meets as necessary and at least four times a year. During the financial year ended 31 March 2011, the Committee met on five occasions. The external auditor has 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 auditor on two separate occasions, without Executive Directors present, to discuss the audit process. The Committee also met with the Group Internal Audit Manager on the same basis.

The CEO, CFO, Group Financial Controller, Group Internal Audit Manager, the QNA Internal Audit Manager and a representative of the external auditor, normally attend Audit Committee meetings, except where not appropriate.

This year the Committee's particular focus was on QNA risks, issues and mitigating actions, and on the development of a more robust review process for the business's self-assessment and certification exercise.

Consideration of the audit process for the full-year and interim results was the principal areas of focus for the Audit Committee. The Committee also assessed the effectiveness of the Internal Audit function and adequacy of resourcing levels. 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.

In the context of the Group's North American business, the Committee undertook two in-depth reviews of the internal controls environment across QNA, which included contract administration, cost accounting and billing. The Committee also reviewed the activities of the tax, insurance and treasury functions in detail, as well as overseeing the level of KPMG's audit fees. 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 and/or consulting services provided by the external auditor do not conflict with their statutory audit responsibilities and are conducted through entirely separate working teams, such as advisory and/or consulting services generally only cover regulatory reporting, tax and mergers and acquisitions work. Any non-audit services conducted by the auditor require the consent of the CFO 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 non-audit activity conducted by KPMG, on behalf of QinetiQ, which exceeded this £50,000 threshold, related to the provision of support to the US Services business in relation to the acquisition of Cyveillance Inc. in the previous year. The Committee concluded that this service did not create any conflict of interest that 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 CFO. The cost and nature of non-audit work undertaken by the auditor was reviewed by the Committee on several occasions during the last financial year. This process enables the Committee to take corrective action if it believes that there is a risk of the auditor's independence being undermined through the award of such work.

KPMG has been the Company's auditor since 2003. The members of the Audit Committee have declared themselves satisfied with the performance of KPMG as the Company's auditor in the last financial year. A rotation of KPMG's lead audit partner was last undertaken during 2008. It is anticipated that he will continue in this role for a maximum term of five years.

Remuneration Committee

The Remuneration Committee is chaired by Noreen Doyle. The Committee sets remuneration and incentives for Executive Directors, approves and monitors remuneration and incentives

for the Group. The other Committee members are Colin Balmer, Admiral Sir James Burnell-Nugent and Mark Elliott. The Committee meets as necessary although normally not less than three times a year. During the financial year ended 31 March 2011, the Remuneration Committee met on seven occasions. Although not members of the Committee, the CEO, the HR Director and the Group Reward Director normally attended meetings to provide information and advice to the Committee.

During the year, the Committee received advice from its appointed independent advisors, Towers Watson, and from Kepler Associates. Towers Watson provided other consulting services during the year to QinetiQ but did not provide advice on executive remuneration matters other than to the Committee. Market data was provided by Towers Watson and Hewitt New Bridge Street who also provided advice to assist the Committee to determine whether performance targets had been met.

No employee of QinetiQ is permitted to participate in discussions about their own remuneration.

The Committee has reviewed the changes in the new UK Governance Code relating to the remuneration and rewards of the Company's Executive Directors and senior management. As a result the Committee has taken steps to update its processes to ensure that:

- the level of reward given to the Executive Directors and senior management is stretching and designed to promote the long-term success of the company, and
- remuneration incentives remain consistent with the Company's risk management policies and systems.

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 36 to 44.

Nominations Committee

The Nominations Committee is chaired by Sir David Lees. The Committee ensures that the composition of the Board and Committees has the optimum balance of skills, knowledge and experience. The other Committee members are Colin Balmer, Mark Elliott and Leo Quinn, and David Langstaff until his departure. The Committee meets as necessary and when called by its Chair. During the financial year ended 31 March 2011, the Committee met and consulted informally on a number of occasions around Board meetings, as required.

The principal focus of the Committee's activities during the financial year ended 31 March 2011 was to review QinetiQ's succession planning processes at both the Executive and Non-executive Director levels.

The Committee also oversaw the appointment of one new Non-executive Director, which culminated in the appointment of Paul Murray in October 2010.

Compliance Committee

The Compliance Committee is chaired by Sir David Lees. The Committee's primary purpose is to monitor adherence to the MOD Compliance Regime. In addition, it keeps a watching brief over those areas of risk where the principal impact is not financial, including security, trade controls, ethics and health, safety and environment. The other Committee members are Colin Balmer, Admiral Sir James Burnell-Nugent, Mark Elliott, Admiral Edmund P Giambastiani Jr, Paul Murray and Leo Quinn. The Committee meets as necessary although normally not less than four times a year. During the financial year ended 31 March 2011, the Compliance Committee met on four occasions. This financial year the Committee has focused on ethics, the QNA Proxy Regime, Health, Safety and the Environment, Trade Controls, Security and trials involving human subjects that fall within the scope of the Helsinki Protocol. In addition, the Committee is providing oversight for 12 project areas established to address the recommendations of the Sir Robert Nelson Report completed as a result of the Haddon-Cave Review. These projects include specific activities relating to aerospace assurances and safety work in addition to the governance of advice services, general projects seeking to simplify QinetiQ's Competency and Assurance Frameworks and the processes of QinetiQ's Business Management System.

The Committee continues to monitor the Compliance Regime, which is designed to give MOD customers confidence that QinetiQ is able to provide impartial advice during any competitive evaluation of a procurement where QinetiQ wishes to operate on both the 'buy' and the 'supply' sides. QinetiQ is required by its Articles of Association to implement a Compliance Regime, which was established on its creation out of The Defence Evaluation and Research Agency (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.

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

The Board nominates two senior executives to act as Compliance Implementation Director and Compliance Audit Director. It receives a bi-annual report on the compliance areas that it monitors from the Internal Audit function. In respect of the Compliance Regime, the Committee 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 have an impact on 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 an annual mandatory test.

During the year, a total of eight new permissions were sought from the MOD under the Compliance Regime, where potential conflicts of interest were identified by QinetiQ. Of these eight requests, seven were approved and one remained outstanding at the end of March 2011. At the end of the year, 12 firewalls were in place. Since vesting in 2001, a total of 130 firewalls have operated with 118 now closed. A firewall is a series of rules and procedures governing written and oral communication between employees contributing to products in an MOD competition with industry (outside the wall) and employees assessing those products for MOD (inside the wall). No breaches of the MOD Compliance Regime were noted during the year. This year, the Committee has continued to have oversight, through quarterly reporting, on Health, Safety and Environment, Trade Controls, Ethics and Security from the heads of those functions within the business. A summary of the key focus and activities of the Health, Safety and Environment and Ethics functions is set out in the Corporate Responsibility Review on page 24.

Security Committee

The Security Committee is chaired by Colin Balmer. The other Committee members are Admiral Sir James Burnell-Nugent, Sir David Lees, David Mellors, Paul Murray and Leo Quinn. The Committee was established in June 2009 to enable UK nationals on the Board to consider matters of a UK national security dimension which have an impact on QinetiQ's UK business.

Risk Management and Internal controls

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness in safeguarding shareholders' interests and the Company's assets. Such a system is designed to manage and mitigate, 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 the 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. The Board and the Audit Committee regularly review significant risks to the business.

An annual 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 self-certification process is informed by a rigorous and structured self-assessment that addresses all the guidance cited in the Combined Code and compliance with Company policy. 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.

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 QET and the QNA Executive Team.

The Audit Committee reviews, on behalf of the Board, the risk management process and the system of internal control necessary to manage 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. Where areas for improvement in the system of internal control are identified, the Board considers the recommendations made by the QET, the QNA Executive Team, the Audit Committee and the Compliance 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 reviewed the effectiveness of the system of internal control that was in operation during the financial year ended 31 March 2011. The Board also routinely challenges the management to ensure that the systems of internal control are constantly improving to maintain their continuing effectiveness.

QinetiQ has in place internal procedures which are designed to comply with international best practice in relation to the prevention of corruption. During this year QinetiQ has undertaken significant activity to review and update its business processes relating to its ethics and anti-corruption policies and procedures, particularly in response to the new UK Bribery Act. This activity has included

- continuing to provide computer based training for all employees,
- providing more in depth training on business ethics and risk management best practice for employees who are involved in overseas business, and
- developing a new Group-wide Code of Conduct dealing with ethical best practice and compliance with the regulatory environments within which the Company operates.

Compliance with anti-corruption legislation is further facilitated by the engagement of independent, internationally recognised organisations, such as TRACE, who conduct anti-corruption due diligence reviews of all third-party agents overseas.

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 CEO's Review on pages 4 to 11. The CFO's Review on pages 12 to 17 sets out details on the financial position of the Group, the cash flows, committed borrowing facilities, liquidity and the Group's policies and processes for managing both its capital and financial risks. Note 28 to the financial statements also provides details of the Group's hedging activities, financial instruments and its exposure to liquidity and credit risk.

The market conditions in which the Group operates have been, and are expected to continue to be, challenging as spending from the Group's key customers in its primary markets in the UK and US remains under pressure. Despite these challenges, the Directors believe that the Group is well positioned to manage its overall business risks successfully.

After making the appropriate enquiries, including a review of the latest two-year budget for cash flow and results, 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 and US and regular meetings with major shareholders and industry analysts. In addition, each member of the Board attended the Company's AGM in July 2010 and Interim Results and were available to take questions. The Chairman, the Senior Independent Director and Non-executive Directors make themselves available to meet with shareholders as required. All shareholders and potential shareholders can gain access to the Annual Report, presentations to investors and other significant information about QinetiQ on the Company's website, 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 Chairs of the Audit, Remuneration, Nominations, Compliance and Security Committees are available at that meeting 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 Group's website.

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

During the coming year the Company will be looking to continue to improve the quality of its engagement with shareholders and explore with investors any additional practical means by which it can give effect to the requirements of the Stewardship Code and the new UK Corporate Governance Code.

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, Inc (QNA) (formerly known as 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 agreement, QinetiQ has appointed four US citizens (Peter Marino, Riley Mixson, John Currier and Vince Vitto) holding requisite US security clearances as proxy holders to exercise the voting rights of QNA'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 QNA. The proxy holders have a fiduciary duty to, and agree to perform their role in the best interests of shareholders, and consistent with the national security interests of the US.

QinetiQ plc 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 plc may not remove the proxy holders except for acts of gross negligence or wilful misconduct or for breach of the proxy agreement (with the consent of the US Defense Security Service).

In terms of the power to govern, the proxy agreement vests certain powers solely with the proxy holders and certain powers solely with QinetiQ. For example, QinetiQ can, at its sole discretion, direct the proxy holders to

- sell or dispose, in any manner, capital assets or the business of QNA,
- pledge, mortgage or encumber assets of QNA for purposes other than obtaining working capital or funds for capital improvements,
- merge, consolidate, reorganise or dissolve QNA, and
- file or make any petition under the federal bankruptcy laws or similar law or statute of any state or any foreign country.

The proxy holders cannot carry out any of the above actions without the express approval of QinetiQ. Unlike minority interest holders with protective veto rights, QinetiQ can unilaterally require the above to be carried out and these are therefore considered significant participative features. In addition, QinetiQ can require the payment of dividends, and the pay down of parent company loans, from QNA.

Remuneration report

The key purpose of the Remuneration Committee is to ensure that the remuneration structure supports the Company's strategy and that we are able to attract, retain and motivate the highest calibre executives while rewarding the creation of long-term sustainable value.

Noreen Doyle
Chair, Remuneration Committee

Introduction

I am pleased to present the Remuneration Committee's report on Directors' remuneration for the year to 31 March 2011

The primary objectives of our remuneration policy remain unchanged

- attracting and retaining top talent
- incentivising key executives and managers
- driving superior performance in both the short and long term
- alignment with the interests of shareholders

During the year, the Committee, with its advisors, developed a new long-term incentive plan, the Value Sharing Plan (VSP). This was approved by Shareholders at a General Meeting in July 2010. The VSP resulted from the Committee's review of Executive Remuneration and increases the alignment of Executives' interests and those of shareholders. The environment for the Company continues to be challenging and we will maintain our focus on providing Executive Remuneration programmes appropriate to the Company's strategy.

Following a market based review of executive salaries and incentive plans, a salary increase has been approved for the Group Chief Finance Officer (CFO) in July 2011 for the first time in three years. This increase will bring closer alignment to the market median. The Group Chief Executive Officer (CEO) proposed that he should not be considered for a base salary increase.

To improve market competitiveness for the senior executives, the on-target and maximum annual bonus opportunities for the CEO and CFO will be increased to 50% and 125% of base salary, respectively, with a corresponding increase from 30% to 40% for mandatory bonus deferral of any bonus awarded.

Report of the Remuneration Committee

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

The Report covers the remuneration of Directors and includes specific disclosures relating to their compensation, 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 Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and the FSA Listing Rules.

Membership

The following Non-executive Directors were members of the Remuneration Committee during 2010/2011:

- Noreen Doyle (Chair, Remuneration Committee)
- Mark Elliott (Group Chairman)
- Colin Balmer
- David Langstaff
- Admiral Sir James Burnell-Nugent (from 28 April 2010)
- Sir David Lees (until 28 April 2010)

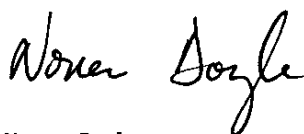
The full Terms of Reference of the Committee can be found on the QinetiQ website (www.QinetiQ.com). Copies are also available on request.

Governance

The Committee is chaired by Noreen Doyle and all its members are Non-executive Directors. In the financial year 2010/2011, the Committee met seven times.

During the year, the Committee received advice from its appointed independent advisors, Towers Watson, and from Kepler Associates. Towers Watson provided other consulting services during the year to QinetiQ but did not provide advice on executive remuneration matters other than to the Committee. Market data was provided by Towers Watson and Hewitt New Bridge Street who also advised on whether performance targets had been met.

The Group Chief Executive (CEO), Group HR Director and Group Reward Director also provided information and advice to the Committee.



Noreen Doyle
Chair, Remuneration Committee
27 May 2011

Activities

During 2010/2011 the Committee meetings covered a number of topics including

April	<ul style="list-style-type: none"> Executive Directors 2010/2011 bonuses 2010/2011 performance targets
May	<ul style="list-style-type: none"> Executive Directors salary reviews Directors' remuneration report Executive team salary reviews and 2010/11 bonuses Value Sharing Plan
July	<ul style="list-style-type: none"> Value Sharing Plan, Performance Share Plan and Restricted Stock Unit awards
November	<ul style="list-style-type: none"> Executive team Total Compensation Update on pay trends Executive team shareholdings
February	<ul style="list-style-type: none"> Executive Incentive Structure Remuneration Committee programme for the year UK pension arrangements

Directors' remuneration policy

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

- attracts, retains and motivates individuals of high calibre,
- is responsive to both Company and personal performance, and
- competitive within relevant employment markets

The remuneration policy is built on the following philosophy

- remuneration packages are structured to support business strategy and conform to current best practice,
- appropriate rewards are given for meeting specific target objectives set at the beginning of each year,
- incremental compensation is achieved for attaining stretch performance targets,
- objectives are measured on metrics designed to be consistent with sustainable long-term business performance, and
- to monitor pay and employment conditions elsewhere in the Group

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

- performance of the executive against specific targets,
- competitive market practice and remuneration levels, and
- the general economic environment

Base salary

Annual salary	2010/2011	2009/2010
Leo Quinn	£580,000	£580,000
David Mellors	£300,000	£300,000

Executive Directors' base salaries are reviewed annually as are those for all other employees. There were no increases in salaries for the Executive Directors in 2010/2011 while the majority of employees within QinetiQ received salary increases.

External remuneration consultants provide data on salary levels in the markets in which QinetiQ operates. For comparison purposes company type, sector and size in terms of both market capitalisation and turnover.

Based on this market review, a salary increase of £70,000 pa (23.3%) has been approved for the CFO for the coming year, effective 1 July 2011, to bring the CFO salary to market median, reflecting also personal performance, potential and competitive factors. The Group CEO proposed that he should not be considered for a base salary increase.

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 Group's policy is to offer all UK employees membership in 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 supplement in lieu of pension contributions.

In 2010/2011, Leo Quinn received contributions of 25% of base salary in lieu of a pension. David Mellors is a member of the Company's DC pension scheme and the Company contributes 20% of base salary. In line with legislative changes, for 2011/2012, contributions for David Mellors will be restructured to comply with the new annual allowance of £50,000 and the difference paid as cash in lieu of pension.

Annual bonus

% of salary	On target payment	Maximum payment	2010/2011 Actual bonus earned
Leo Quinn	40%	100%	100%
David Mellors	40%	100%	100%

Executive Directors participate in an annual bonus plan which is non-pensionable. Bonuses are linked to Group performance targets for underlying operating profit, underlying operating cash flow, and underlying EPS. The resulting annual cash bonus also takes into account performance against personal objectives. The 2010/2011 bonus potential and awards are laid out above, expressed as a percentage of salary.

Definitions of underlying measures of performance are in the glossary on page 107.

Annual bonus continued

During 2010/2011, financial targets were significantly exceeded, resulting in excellent cash flow and cost reduction, enabling substantial net debt reduction and early re-financing of the credit facility. Annual bonuses have been earned as indicated on page 37 and in the Directors' Remuneration table later in this report.

After its review of executive salary and incentive plans, the Committee agreed that, for 2011/2012, the on-target and maximum bonus opportunities will be increased to 50% and 125% of base salary, respectively, to bring closer alignment to the competitive market.

Part of all annual cash bonuses earned are deferred and paid in shares, as described below.

Deferred Annual Bonus (DAB) Plan

The Deferred Annual Bonus 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.

Executive Directors have a mandatory deferral of 30% of any bonus earned and may voluntarily defer up to 50% of their bonus into QinetiQ shares. Any deferred bonus will be matched based on EPS performance up to a maximum match of 100% of the deferred element. After its review of executive salary and incentive plans, for 2011/2012, the mandatory deferral will be increased to 40% of any bonus earned with a voluntary deferral up to 60%, to complement the changes outlined above in the annual bonus target opportunities.

In order for the matching shares to vest, EPS growth, measured over three years, must exceed defined targets. EPS must grow by at least 22.5% over three years for any matching shares to vest, at which point deferred shares will be matched with one share for every four deferred. Vesting increases pro rata to EPS growth up to a maximum match of one share for every one deferred if EPS growth of 52% is achieved over three years, as illustrated below.

Awards are in the form of matching shares delivered after three years, subject to the achievement of the 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 base salary for any one year.

Long-term incentives for Executive Directors

The objective of QinetiQ's long-term incentive programmes for Executive Directors is to align their rewards with returns to shareholders by a focus on increasing shareholder value over the medium to long term.

In addition to the DAB plan, Executive Directors are eligible for long-term incentives which have taken two forms: the Value Sharing Plan (VSP) and the Performance Share Plan (PSP). An Executive Director who is granted an award under the VSP may not also be granted an award under the PSP for the same granting year and vice versa.

These are the principal means for long-term incentivisation of the Executive Directors and the direct reports of the CEO. The Committee considered various performance conditions and determined that the criteria set out below were appropriate to incentivise the long-term creation of shareholder value for 2010/2011.

Value Sharing Plan (VSP)

The Value Sharing Plan was approved by shareholders in July 2010. It is an annual, long-term incentive plan designed to reinforce QinetiQ's strategy of focusing on shareholder value creation.

Leo Quinn, David Mellors and a limited number of senior executives participate in the VSP, which rewards executives with a pre-determined number of shares for every £1m of value created over and above three-year performance hurdles.

On 29 July 2010 Leo Quinn was granted an award under which he will be entitled to receive 2,000 QinetiQ Group shares for each £1m of additional shareholder value (ASV) created (above a hurdle) in respect of the performance period beginning on 1 April 2010. On the same date David Mellors was granted an award under which he will be entitled to receive 1,000 QinetiQ Group shares for each £1m of additional shareholder value created in respect of the same performance period.

For VSP awards made in 2010/2011, additional value created is measured in two ways

- **Total shareholder return (TSR)** - 30% of the award will depend on QinetiQ's TSR out-performance of the FTSE 250 index (excluding Investment Trusts). Participants will be entitled to a vesting of shares under the TSR Element only if the Committee is satisfied that this is justified by the underlying financial performance of the Company over the performance period

Example

QinetiQ's average market capitalisation over the three months to 31 March 2010 was £906m

Assume that QinetiQ's TSR over the period was 30%, the TSR for the FTSE250 Index is 20% and the executive receives 1,000 shares per £1m ASV

Additional shareholder value based on TSR is therefore QinetiQ TSR out-performance of 10% (= 30% - 20%) multiplied by QinetiQ market capitalisation of £906m equals ASV based on TSR of £90.6m (=10% x £906m)

In this example the executive would therefore receive 27,180 shares based on TSR (= £90.6m x 1,000 shares per £1m x 30% of award based on TSR)

- **Profit Before Tax (PBT)** - the remaining 70% of each award will be determined by growth above the cost of equity of 8.5% a year, adjusted by the dividend yield

Example

QinetiQ's average market capitalisation over the three months to 31 March 2010 was £906m

Group adjusted PBT for the financial year ending 31 March 2010 was £88.2m

Market capitalisation as a (fixed) multiple of PBT for 2010 VSP awards is therefore 10.27 (= £906m/£88.2m)

Assume Group adjusted PBT for the financial year ending 31 March 2013 is £115m, and dividends to shareholders over the three-year period amount to £80m (including interest rolled up at 8.5% p.a.)

Additional shareholder value based on PBT is therefore PBT in FY 2013 of £115m multiplied by the fixed multiple of 10.27 equals a value of £1,181m (= £115m x 10.27) plus £80m (rolled-up dividends) equals £1,261m (= £1,181m + £80m) less cost of equity hurdle of £1,157m (= £906m x (1+8.5%)³) equals ASV for PBT element of award of £104m (= £1,261m - £1,157m)

In this example the executive would therefore receive 72,800 shares based on PBT (= £104.0m x 1,000 shares per £1m x 70% of award based on PBT)

For 2011/2012, reflecting the changed defence environment and following the good work by the executive team, the Remuneration Committee decided that VSP awards should be subject to an equal weighting of the two performance indicators to 50% TSR and 50% PBT. This combination provides a balanced approach between the internal measure (PBT) and the external measure (TSR) and provides an appropriate balance between shareholder and senior management line of sight. The award quotient for Leo Quinn and David Mellors has been reduced to 1,800 and 900 shares respectively to complement the annual bonus adjustments, outlined opposite.

Performance Share Plan (PSP)

There were no awards of performance shares under the PSP to Executive Directors in 2010/2011, although awards remain outstanding from prior years.

PSP awards are contingent on meeting pre-determined performance criteria. Individual participants' award levels are determined by the Committee annually based on these criteria and, with due consideration of business and personal performance.

Executive Directors are eligible to receive awards with a value of up to 100% of base salary per annum and other executives up to 75% of base salary per annum. 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 criterion for the PSP awards that were made in 2009/2010 and earlier years was the same as that applied to the DAB (outlined above).

TSR performance for the purposes of PSP awards made in 2009/2010 and earlier years is measured against the constituents of the following comparator group of companies:

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

Performance Share Plan (PSP) continued

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

Personal shareholding policy

The Committee believes that a meaningful 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 shares in QinetiQ with a value equivalent to one times their base salary in QinetiQ shares

David Mellors, who joined on 20 August 2008, has been given four years to build up such a shareholding. Leo Quinn has already met the Committee's guideline on minimum shareholding requirement

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

Directors' terms and conditions

Service agreements for the Executive and the Non-executive Directors are reviewed annually and amended as appropriate

	Notice to be given	Date of most recent service agreement	Date of appointment
Executives			
Leo Quinn	12 months	28 October 2009	November 2009
David Mellors	12 months	20 May 2008	August 2008
Non-executives			
Mark Elliott (Group Chairman)	–	10 February 2010	June 2009
Sir David Lees	–	20 January 2006	August 2005
Colin Balmer	–	20 January 2006	February 2003
Noreen Doyle	–	16 February 2006	October 2005
Admiral Ed Giambastiani	–	31 January 2008	February 2008
Admiral Sir James Burnell-Nugent ^a	–	10 April 2010	April 2010
Paul Murray ^b	–	25 October 2010	October 2010
David Langstaff ^c		4 August 2009	September 2009
Former Director			
Nick Luff ^d		16 February 2006	June 2004

^a Admiral Sir James Burnell-Nugent was appointed to the Board on 10 April 2010

^b Paul Murray was appointed to the Board on 25 October 2010

^c David Langstaff resigned from the Board on 18 April 2011

^d Nick Luff resigned from the Board on 31 December 2010

QinetiQ's policy is that Executive Directors should have service agreements 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 consider mitigation to reduce the compensation payable to a departing Executive Director.

Non-executive Directors' terms, conditions and fees

The Group Chairman reviews the fees of the Non-executive Directors, other than his own, and makes recommendations to the Board. Non-executive Directors receive additional fees as agreed by the Board for chairing 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 by UK organisations of a similar size and complexity to QinetiQ is considered in setting the 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.

A review of Non-executive Director's fees was carried out in July 2010, using an independent market survey, which resulted in no changes being made to the existing fee structures as shown below.

	2010/2011 Fees
Non-executive Chairman	£225,000
Basic fee for UK Non-executive Director	£40,000
	US\$100,000
Basic fee for US resident Non-executive Director	or £50,000
Additional fee for chairing a Committee	£7,000
Additional fee to Deputy Chairman/Senior Independent Non-executive Director	£10,000

As the Group Chairman is a US resident, the Board has agreed an accommodation allowance of £75,000 per annum.

Excluding the Group Chairman, an additional fee of US\$4,000 is payable to US-resident Non-executive Directors when they attend Board Meetings in the UK. With effect from 29 July 2010, to align UK Non-executive Directors, UK resident Non-executive Directors, are paid an additional fee of £2,500 for attending meetings held in the US.

Non-executive Directors' letters of appointment are renewed on a rolling 12 month basis subject to reappointment at the Annual General Meeting. There are no provisions for compensation on early termination.

Management of share based rewards

The Committee also oversees arrangements for share-based reward in respect of managers and the wider workforce.

Employee plans

The Share Incentive Plan is operated in the UK and Australia in the form of a share purchase award with matching company contribution to encourage employee ownership and engagement in the business.

Executive plans

In addition to the VSP and PSP, the Company operates the following executive share plans:

- QinetiQ Share Option Scheme (QSOS) – no awards were made during the year under QSOS but provision exists for annual awards up to a face value of 300% of salary.
- Stock Award Plan – Restricted Stock Units (RSU) – RSU awards are used in QinetiQ North America to retain and motivate senior managers. The RSU awards vest in four equal tranches over a four-year period. Vesting of half of the award is subject to time-based vesting criteria and vesting of the other half is subject to performance criteria linked to organic profit growth as follows:

% Organic operating income growth achieved	% RSU award vesting
<5%	0%
5%-12.5%	Between 25%-100% (linear)
>12.5%-15%	100%-125% (linear)

Awards are granted based on business performance, balanced with the need to attract, retain and motivate high-calibre employees. Executive Directors do not participate in the two plans shown.

Dilution limits

In accordance with ABI guidelines, no more than 10% of the Company's issued share capital will be used under all of the Company's share schemes during a ten year period. The dilution as at 31 March 2011 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 an employee benefit trust.

Performance graph

The graph below shows the Company's TSR over the period from flotation to 31 March 2011 compared to the FTSE 250 and FTSE 350 Aerospace & Defence indices over the same period. QinetiQ is a constituent of both indices.

Audited information

Directors' remuneration

The information about Directors' remuneration and Directors' interests on pages 42 to 44 has been audited

The table below shows the aggregate remuneration of the Directors for the year ended 31 March 2011

	Salary/fees ^a	Bonus ^b	Other benefits ^c	Payment in lieu of pension	Total 2011	Total 2010
Executives						
Leo Quinn	£580,000	£580,000	£22,156	£145,000	£1,327,156	£886,564
David Mellors	£300,000	£300,000	£17,800	–	£617,800	£318,085
Non-executives						
Mark Elliot (Group Chairman)	£225,000	–	£75,000	–	£300,000	£72,271
Sir David Lees	£64,000	–	–	–	£64,000	£64,000
Noreen Doyle	£52,000	–	–	–	£52,000	£44,667
Colin Balmer	£45,000	–	–	–	£45,000	£40,000
Paul Murray ^d	£17,436	–	–	–	£17,436	–
Admiral Ed Giambastiani	£79,652	–	–	–	£79,652	£62,880
Admiral Sir James Burnell-Nugent	£41,931	–	–	–	£41,931	–
David Langstaff	£65,538	–	–	–	£65,538	£42,643
Former Directors						
Sir John Chisholm	–	–	–	–	–	£209,716
Peter Fellner	–	–	–	–	–	£16,028
Graham Love ^e	£100,000	–	–	–	£100,000	£948,805
Nick Luff	£35,250	–	–	–	£35,250	£47,000
Total	£1,605,807	£880,000	£114,956	£145,000	£2,745,763	£2,752,659

^a Before adjustments to basic pay for salary sacrifice pensions

^b The figure shown for bonus is paid in both cash and shares under the DAB

^c Includes car allowance and health insurance benefits for executives and accommodation allowance for Group Chairman

^d Paul Murray was appointed to the Board on 25 October 2010

^e Graham Love agreed to provide services to the Company on a consultancy basis to ensure a smooth transition on the DTR project, for which he received a final payment of £100,000 in May 2010

Pensions

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

	2011	2010
Executive Directors		
David Mellors	£60,000	£60,000

Leo Quinn received contributions of 25% of base salary in lieu of a pension

Interests of Executive Directors under long-term incentive share plans

	Grant date	Number at 1 April 2010	Granted in year	Exercised /vested in year	Lapsed in year	Number at 31 March 2011	Market price on date of grant	Earliest vest date	Latest vest date
Leo Quinn									
Matching award TSR ^c	16/12/09	362,844	–	–	–	362,844	165p ^a	28/10/13	28/10/13
Matching award EPS ^c	16/12/09	362,845	–	–	–	362,845	165p ^a	28/10/13	28/10/13
PSP Mirror TSR ^c	16/12/09	210,450	–	–	–	210,450	165p ^a	28/10/13	28/10/13
PSP Mirror EPS ^c	16/12/09	210,450	–	–	–	210,450	165p ^a	28/10/13	28/10/13
VSP TSR	29/07/10	–	271,800	–	–	271,800	–	29/07/13	29/07/13
VSP TSR	29/07/10	–	271,800	–	–	271,800	–	29/07/14	29/07/14
VSP PBT	29/07/10	–	634,200	–	–	634,200	–	29/07/13	29/07/13
VSP PBT	29/07/10	–	634,200	–	–	634,200	–	29/07/14	29/07/14
David Mellors									
PSP TSR	21/08/08	75,567	–	–	–	75,567	217 8p ^b	21/08/11	21/08/11
PSP EPS	21/08/08	75,567	–	–	–	75,567	217 8p ^b	21/08/11	21/08/11
PSP TSR	04/08/09	100,000	–	–	–	100,000	135 0p	04/08/12	04/08/12
PSP EPS	04/08/09	100,000	–	–	–	100,000	135 0p	04/08/12	04/08/12
DAB Match	01/07/09	6,859	–	–	–	6,859	144 7p	01/07/12	01/07/12
VSP TSR	29/07/10	–	135,900	–	–	135,900	–	29/07/13	29/07/13
VSP TSR	29/07/10	–	135,900	–	–	135,900	–	29/07/14	29/07/14
VSP PBT	29/07/10	–	317,100	–	–	317,100	–	29/07/13	29/07/13
VSP PBT	29/07/10	–	317,100	–	–	317,100	–	29/07/14	29/07/14
		1,504,582	2,718,000	–	–	4,222,582			

^a Shares awarded to the CEO in 2009 were based on an average market price of 138p representing the average price over the ten days before joining

^b Shares awarded to the CFO in 2008 were based on a market price of 198 5p, as at 7 August 2008

^c On appointment the CEO was granted a mirror PSP award, subject to the same EPS and TSR performance conditions as above. In addition, the CEO invested c. £1m in QinetiQ shares, for which he received an additional matching PSP award, subject to the same EPS and TSR performance conditions

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 2011 was 121 7p. The highest and lowest prices of a QinetiQ share during the year ended 31 March 2011 were 139 6p and 96 0p respectively.

Executive Directors' interest in the All-Employee Share Incentive Plan (SIP)

	Interest as at 1 April 2010	Partnership shares acquired during year	Interest as at 31 March 2011
Leo Quinn	–	1,146	1,146
David Mellors	1,075	1,238	2,313

The SIP is HMRC approved and under the plan rules, matching shares are not awarded until the three year time condition has been satisfied. Therefore these shares are not included in the above table.

Interests of Directors in office as at 31 March 2011 (including shares held under SIP and DAB)

	Number 1p ordinary shares held at 27 May 2011	Number 1p ordinary shares held at 31 March 2011	Number 1p ordinary shares held at 1 April 2010
Executives			
Leo Quinn	654,563	654,285	602,757
David Mellors	26,213	25,934	24,284
Non-executives			
Mark Elliott (Group Chairman)	125,000	125,000	100,000
Sir David Lees	100,000	100,000	83,000
Colin Balmer	7,662	7,662	–
Noreen Doyle	24,662	24,662	17,000
Admiral Ed Giambastiani	5,232	5,232	–
Admiral Sir James Burnell-Nugent ^a	11,419	11,419	–
Paul Murray ^b	56,077	56,077	–
Former Directors			
David Langstaff ^c	–	52,000	12,000
Nick Luff ^d	–	–	70,000

^a Admiral Sir James Burnell Nugent was appointed to the Board on 10 April 2010

^b Paul Murray was appointed to the Board on 25 October 2010

^c David Langstaff resigned from the Board on 18 April 2011

^d Nick Luff resigned from the Board on 31 December 2010

Other statutory information

Principal activity

QinetiQ Group plc is a public 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 technical support, training, test and evaluation, and know-how to customers in the global defence, aerospace and security markets. Customers include government organisations, such as the UK MOD and the US DoD and a range of other government and commercial customers globally

Research and development

One of the Group's principal business streams is the provision of funded research and development (R&D) 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 £395.0m (2010 £425.6m) of total R&D-related expenditure, of which £382.0m was customer-funded work (2010 £418.3m)

In the year to 31 March 2011, £13.0m (2010 £7.3m) of internally funded R&D was charged to the income statement. £0.3m (2010 £0.6m) of late-stage development costs was capitalised and £2.2m (2010 £3.0m) of capitalised development costs was amortised in the year

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. In the financial year to 31 March 2011 the Group has implemented a policy of agreeing payment terms of not less than 60 days with suppliers, except in exceptional circumstances. At 31 March 2011, the trade creditors of the Group represented 24 days of annual purchases (2010 28 days)

Political and charitable contributions

QinetiQ does not make political donations to parties as that term would be commonly recognised. The legal definition of that term is, however, quite broad and may have the effect of covering a number of normal business activities that would not commonly be perceived to be political donations, such as sponsorship of events

These may include legitimate interactions in making MPs and others in the political world aware of key industry issues and matters affecting QinetiQ, which make an important contribution to their understanding of QinetiQ, the markets in which it operates and their constituents work. During the last financial year this expenditure amounted to no more than £15,000 (2010 £15,000)

Charitable donations during the year across the Group amounted to £196,900 (2010 £114,100)

Share capital

As at 31 March 2011 the Company had allotted and fully paid up share capital of 660,476,373 ordinary shares of 1p each with an aggregate nominal value of £6.6m (including shares held by employee share trusts) and one Special Share with an aggregate nominal value of £1

Details of the shares issued during the financial year are shown in note 33 on page 92

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 through the Secretary of State for Defence and it confers certain rights under the Articles of Association which are detailed in note 33 on page 92. These include the right to require certain persons with a material interest in QinetiQ to dispose of some or all of their ordinary shares on the grounds of national security or conflict of interest. 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 (LTPA) 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 multi-currency Revolving Credit Facility, with a US\$250m tranche and a £118m tranche, provided by the Group's six global relationship banks and expiring 4 February 2016. Under the terms of the facility, if there is a change of control of the Company, any lender may request by not less than 60 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 US Holdings, Inc, formerly known as QinetiQ North America, Inc (as Borrower) and the Company (as Guarantor) entered into a Note Purchase Agreement to issue US\$135m 5.44% Senior Notes due 6 December 2013 and US\$125m 5.50% Senior Notes due 6 December 2016. 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, 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 US Holdings, Inc, formerly known as QinetiQ North America, Inc (as Borrower) and the Company (as Guarantor) entered into a Note Purchase Agreement to issue US\$62m 7.13% Senior Notes due 5 February 2016 and US\$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 26 May 2011, being the latest practicable date prior to the issuance of this report, the Group had been notified of the following shareholdings in accordance with the Vote Holder and Issuer Notification Rules, which form part of the FSA's UK Disclosure Rules and Transparency Rules

Artisan Partners	13%
Ruane, Cunniff & Goldfarb, Inc	11%
Fidelity International Ltd	5%
Fidelity Management and Research Company	5%
Schroders	5%
Investec	5%

Allotment/purchase of own shares

At the Company's AGM held in July 2010, the shareholders passed resolutions which authorised the Directors to allot relevant securities up to an aggregate nominal value of £4,403,174 (£2,201,587 pursuant only to a rights issue), 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 2011 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 34 on page 93.

Restrictions on transfer of shares

As outlined in note 33 on page 92, 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

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

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

Auditor

KPMG Audit plc has expressed its willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the Annual General Meeting

Statement of disclosure of information to auditor

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 auditor is 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 auditor is aware of that information

Annual General Meeting

The Company's Annual General Meeting will be held on Tuesday, 2 August 2011 at 1 00pm, at The Auditorium, JP Morgan Cazenove, 20 Moorgate, London EC2R 6DA. 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 Company's website (www.QinetiQ.com)

By order of the Board



Jon Messent
Company Secretary

Cody Technology Park
Ively Road
Farnborough
Hampshire GU14 0LX

27 May 2011

Statement of Directors' responsibilities

in respect of the Annual Report and financial statements

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 IFRSs 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)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. 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,
- make judgements and estimates that are reasonable and prudent,
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. 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 that 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 IFRS 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

Mark Elliott
Chairman
27 May 2011



Leo Quinn
Chief Executive Officer
27 May 2011



David Mellors
Chief Financial Officer
27 May 2011



Independent auditor's report to the members of QinetiQ Group plc

We have audited the financial statements of QinetiQ Group plc for the year ended 31 March 2011 set out on pages 50 to 105. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Directors' responsibilities statement set out on page 48, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2011 and of the Group's profit for the year then ended,
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU,
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practices, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006, and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

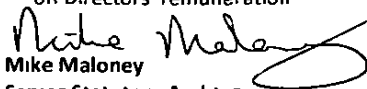
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 34, in relation to going concern,
- the part of the corporate governance statement on pages 28 to 35 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors' remuneration.


Mike Maloney
Senior Statutory Auditor

for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

27 May 2011

Consolidated income statement

for the year ended 31 March

	note	2011		Total	2010		Total
		Before acquisition amortisation and specific non-recurring items	Acquisition amortisation and specific non-recurring items		Before acquisition amortisation and specific non-recurring items	Acquisition amortisation and specific non-recurring items	
all figures in £ million							
Revenue	2, 3	1,702 6	–	1,702 6	1,625 4	–	1,625 4
Operating costs excluding depreciation and amortisation		(1,516 4)	(58 5)	(1,574 9)	(1,465 8)	(42 1)	(1,507 9)
Share of post-tax profit of equity accounted joint ventures and associates	16	0 2	–	0 2	0 2	–	0 2
Other income	2	4 1	–	4 1	6 9	–	6 9
EBITDA (earnings before interest, tax, depreciation and amortisation)		190 5	(58 5)	132 0	166 7	(42 1)	124 6
Depreciation and impairment of property, plant and equipment	3, 14	(33 6)	(5 9)	(39 5)	(35 1)	(24 0)	(59 1)
Amortisation and impairment of intangible assets	11, 12	(11 5)	(26 3)	(37 8)	(11 3)	(79 5)	(90 8)
Group operating profit/(loss)	3	145 4	(90 7)	54 7	120 3	(145 6)	(25 3)
Gain/(loss) on business combinations and divestments and unrealised impairment of investments	5	–	2 7	2 7	–	(6 2)	(6 2)
Finance income	6	70 4	–	70 4	48 1	–	48 1
Finance expense	6	(101 2)	–	(101 2)	(82 7)	–	(82 7)
Profit/(loss) before tax	4	114 6	(88 0)	26 6	85 7	(151 8)	(66 1)
Taxation (expense)/income	7	(21 8)	0 2	(21 6)	(12 9)	15 7	2 8
Profit/(loss) for the year attributable to equity shareholders		92 8	(87 8)	5 0	72 8	(136 1)	(63 3)
Earnings per share							
Basic	10			0 8p			(9 7)p
Diluted	10			0 8p			(9 7)p

Specific non-recurring items include amounts relating to restructuring charges, pension curtailment gains, contingent payments on acquisition treated as remuneration, net inventory write-offs in respect of capitalised DTR-programme bid costs, impairment of property, plant and equipment, impairment of intangible assets, gain/(loss) on business combinations and divestments, unrealised impairments of investments, and tax thereon. See note 4.

Consolidated statement of comprehensive income

for the year ended 31 March

all figures in £ million	2011	2010
Profit/(loss) for the year	5 0	(63 3)
Other comprehensive income/(expense)		
Effective portion of change in fair value of net investment hedges	–	28 7
Foreign currency translation differences for foreign operations	(19 4)	(30 8)
Movement in fair value of hedging derivatives	(0 4)	(0 2)
Reclassification of hedging derivatives to the income statement	4 1	6 6
Movement in deferred tax on hedging derivatives	(4 8)	(1 8)
Fair value movement on available for sale investments	–	1 7
Actuarial loss recognised in defined benefit pension schemes	(4 7)	(60 2)
Increase in deferred tax asset due to actuarial movement in pension deficit	1 3	16 9
Other comprehensive income/(expense) for the year, net of tax	(23 9)	(39 1)
Total comprehensive income/(expense) for the year attributable to equity holders	(18 9)	(102 4)

Consolidated statement of changes in equity

for the year ended 31 March

all figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 1 April 2010	6 6	39 9	147 6	(12 1)	54 4	237 2	473 6	0 1	473 7
Total comprehensive income/(expense) for the year	–	–	–	(1 1)	(19 4)	1 6	(18 9)	–	(18 9)
Transfers	–	–	–	13 4	(13 4)	–	–	–	–
Purchase of own shares	–	–	–	–	–	(0 6)	(0 6)	–	(0 6)
Share-based payments	–	–	–	–	–	3 3	3 3	–	3 3
At 31 March 2011	6 6	39 9	147 6	0 2	21 6	241 5	457 4	0 1	457 5
At 1 April 2009	6 6	39 9	147 6	(16 7)	56 5	368 7	602 6	0 1	602 7
Total comprehensive income/(expense) for the year	–	–	–	4 6	(2 1)	(104 9)	(102 4)	–	(102 4)
Dividends paid	–	–	–	–	–	(31 6)	(31 6)	–	(31 6)
Purchase of own shares	–	–	–	–	–	(0 8)	(0 8)	–	(0 8)
Share-based payments	–	–	–	–	–	5 8	5 8	–	5 8
At 31 March 2010	6 6	39 9	147 6	(12 1)	54 4	237 2	473 6	0 1	473 7

Consolidated balance sheet

as at 31 March

all figures in £ million	Note	2011	2010 (Restated) ¹
Non-current assets			
Goodwill	11	521 1	577 8
Intangible assets	12	103 2	141 7
Property, plant and equipment	14	260 9	285 5
Other financial assets	15	8 2	10 0
Equity accounted investments	16	1 1	0 9
Other investments	17	4 8	4 8
Deferred tax asset	25	33 8	28 7
		933 1	1,049 4
Current assets			
Inventories	18	45 4	79 8
Other financial assets	15	3 0	7 8
Trade and other receivables	19	389 5	423 8
Investments	20	2 3	2 3
Assets classified as held for sale	21	7 5	5 1
Cash and cash equivalents	22	102 5	63 9
		550 2	582 7
Total assets		1,483 3	1,632 1
Current liabilities			
Trade and other payables	23	(465 6)	(396 4)
Current tax		(4 2)	(7 5)
Provisions	24	(20 4)	(16 1)
Other financial liabilities	26	(97 2)	(8 9)
		(587 4)	(428 9)
Non-current liabilities			
Retirement benefit obligation	39	(124 6)	(147 3)
Deferred tax liability	25	–	(8 9)
Provisions	24	(12 6)	(7 9)
Other financial liabilities	27	(277 4)	(530 2)
Other payables	23	(23 8)	(35 2)
		(438 4)	(729 5)
Total liabilities		(1,025 8)	(1,158 4)
Net assets		457 5	473 7
Capital and reserves			
Ordinary shares	33	6 6	6 6
Capital redemption reserve		39 9	39 9
Share premium account		147 6	147 6
Hedging and translation reserve		21 8	42 3
Retained earnings		241 5	237 2
Capital and reserves attributable to shareholders of the parent company		457 4	473 6
Non-controlling interest		0 1	0 1
Total shareholders' funds		457 5	473 7

¹ Goodwill and deferred tax liabilities have been restated to reflect fair value changes in respect of an acquisition in the year ended 31 March 2010 (see note 13)

The financial statements were approved by the Board of Directors and authorised for issue on 27 May 2011 and were signed on its behalf by



Mark Elliott
Chairman



Leo Quinn
Chief Executive Officer



David Mellors
Chief Financial Officer

Consolidated cash flow statement

for the year ended 31 March

all figures in £ million	note	2011	2010
Net cash inflow from operations before restructuring costs	29	287 6	204 6
Net cash outflow relating to UK restructuring		(31 8)	(35 4)
Cash inflow from operations		255 8	169.2
Tax (paid)/received		(42 9)	1 5
Interest received		0 3	0 4
Interest paid		(28 9)	(36 8)
Net cash inflow from operating activities		184 3	134.3
Purchases of intangible assets		(2 4)	(6 2)
Purchases of property, plant and equipment		(19 7)	(24 1)
Proceeds from sale of property, plant and equipment		0 3	–
Costs from sale of property, plant and equipment		–	(0 7)
Equity accounted investments and other investment funding		–	(1 1)
Purchase of subsidiary undertakings		(16 3)	(46 3)
Net cash acquired with subsidiary undertakings		0 5	0 7
Proceeds from sale of interests in subsidiary undertakings		38 2	21 1
Net cash inflow/(outflow) from investing activities		0 6	(56 6)
Repayment of bank borrowings		(144 1)	(232 1)
Proceeds from bank borrowings		4 9	–
Payment of bank loan arrangement fees		(2 4)	–
Settlement of forward contracts designated as net investment hedges		–	(14 3)
Purchase of own shares		(0 6)	(0 8)
Dividends paid to shareholders		–	(31 6)
Capital element of finance lease rental payments		(2 8)	(2 8)
Capital element of finance lease rental receipts		3 0	3 0
Net cash outflow from financing activities		(142 0)	(278 6)
Increase/(decrease) in cash and cash equivalents	30	42 9	(200 9)
Effect of foreign exchange changes on cash and cash equivalents		(1 4)	(0 5)
Cash and cash equivalents at beginning of year		60 7	262 1
Cash and cash equivalents at end of year		102 2	60 7
Cash and cash equivalents	22	102 5	63 9
Overdrafts	31	(0 3)	(3 2)
Cash and cash equivalents at end of year		102 2	60 7

Reconciliation of movement in net debt

for the year ended 31 March

all figures in £ million	note	2011	2010
Increase/(decrease) in cash and cash equivalents in the year	30	42.9	(200.9)
Cash flows from repayment of bank loans and other financial instruments		141.4	246.2
Change in net debt resulting from cash flows	31	184.3	45.3
Other non-cash movements including foreign exchange	31	12.2	35.2
Movement in net debt in the year		196.5	80.5
Net debt at beginning of year	31	(457.4)	(537.9)
Net debt at end of the year	31	(260.9)	(457.4)

Notes to the financial statements

1 Significant accounting policies

Accounting policies

With the exception of the accounting policy in respect of business combinations (see below), 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 restructuring costs, pension curtailment gains, contingent payments on acquisition treated as remuneration, net inventory write-offs in respect of capitalised DTR-programme bid costs, impairment of property, plant and equipment, impairment of intangible assets, gain/(loss) on business combinations and divestments, unrealised impairments of investments, and tax thereon.

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 2006 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 103-105. 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 reporting 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 2011. The purchase method of accounting has been adopted. 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%-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:

Service contracts

The Group's service contract arrangements are accounted for under IAS 18 Revenue. Revenue is 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. The Group generally does not undertake construction contracts.

Goods sold

Sales of goods are recognised in the income statement on delivery of the product or when the significant risks and rewards of ownership have been transferred to the customer and revenue and costs can be reliably measured.

Royalties and intellectual property

Royalty revenue is recognised over the period to which the royalty relates. Intellectual property revenue can be attributed to either perpetual licences or limited licences. Limited licences are granted for a specified time period and revenue is recognised over the period of the licence. Perpetual licences are granted for unlimited time frames and are recognised when the risks and rewards of ownership are transferred to the customer.

1 Significant accounting policies continued

Segmental information

Segmental information is presented according to the Group's management structure and markets in which the Group operates. A simplified structure has been implemented with effect from 1 April 2010 comprising three divisions: US Services, UK Services and Global Products. This enables greater clarity around markets and customers aligning the Group's capabilities in order to leverage existing strengths and address weaknesses systematically. The comparative figures for the year ended 31 March 2010 have been restated to reflect the reorganised structure adopted at the start of the current financial year. The segments previously reported were Europe, Middle East and Australasia (EMEA), QinetiQ North America (QNA) and Ventures.

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 and liabilities information is not regularly provided to the chief operating decision maker.

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.

Business combinations

Business combinations are accounted for as follows:

Business combinations on or after 1 April 2010 (IFRS 3, *Business Combinations*)

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The Group measures goodwill as the acquisition-date fair value of the consideration transferred, including the amount of any non-controlling interest in the acquiree, less the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed, including contingent liabilities as required by IFRS 3.

Consideration transferred includes the fair values of assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, equity interests issued by the Group to the previous owners of the acquiree, equity interests issued by the Group, contingent consideration and share based payment awards of the acquiree that are replaced in the business combination. Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration that is not classified as equity are recognised in the consolidated income statement. If a business combination relates to the termination of pre-existing relationships between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element, is deducted from the consideration transferred and recognised in other expenses.

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional fees and consulting fees, are expensed as incurred

Non-controlling interests are measured at either the non-controlling interest's proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities recognised or at fair value. The method used is determined on an acquisition-by-acquisition basis

Business combinations prior to 1 April 2010 (IFRS 3, *Business Combinations* (2004))

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. Previously held identifiable assets, liabilities and contingent liabilities of the acquired entity are revalued to their fair value at the date of acquisition, being the date at which the Group achieves control of the acquiree. The movement in fair value is taken to the asset revaluation reserve.

Upon initial acquisition of a non-controlling interest, the interest of minority shareholders is measured at the minority's proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of joint ventures and associates is included in the carrying value of equity accounted investments. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Intangible assets

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

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 those 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 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 derivatives designated as 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

Changes in the fair value of derivatives designated as hedges of 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 Comprehensive Income.

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. The finance element of the pension charge is shown in finance income and expenses, the remaining service cost element is charged as a component of employee costs in the income statement. Actuarial gains and losses are recognised in full immediately through the Statement of Comprehensive Income. 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 awards 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 awards 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 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 businesses are finalised within 12 months of the acquisition date. 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.

1 Significant accounting policies continued

Recent accounting developments

The following EU-endorsed new, revised and amended published standards and interpretations are effective for accounting periods beginning on or after 1 April 2010 and have been adopted

IFRS 3 (revised), Business Combinations and amendments to IAS 27, Consolidated and Separate Financial Statements The standard continues to apply the acquisition method to business combinations with some significant changes. For example, all acquisition-related costs are expensed, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments subsequently re-measured at fair value through the income statement. There are also changes to the reporting of non-controlling interest. The change has been applied prospectively.

Improvements to IFRSs 2009 The improvements include changes to finance leases and financial instrument disclosures. These consolidated Financial Statements have been prepared under the revised disclosure requirements.

The following EU-endorsed amendments, improvements and interpretations of published standards are effective for accounting periods beginning on or after 1 April 2010 and have been adopted with no material impact on the Group's financial statements:

- Amendment to IFRS 2, Share-based Payment,
- Amendment to IAS 32, Financial Instruments: Presentation,
- Amendment to IAS 39, Financial Instruments: Recognition and Measurement,
- IFRIC 17, Distributions of Non-cash Assets to Owners,
- IFRIC 18, Transfer of Assets from Customers, and
- Management Commentary practice statement

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

- IAS 24 (revised), Related Party Transactions,
- Amendment to IFRS 7, Financial Instruments: Disclosures, subject to EU endorsement,
- Amendment to IAS 12, Income Taxes, subject to EU endorsement,
- Amendment to IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, and
- IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments

The impact of adopting the following new and improved published standards when they become effective in future periods, but were in issue at the date of authorisation of these Financial Statements, is under assessment:

- IFRS 9, Financial Instruments, subject to EU endorsement,
- IFRS 10, Consolidated Financial Statements,
- IFRS 11, Joint Arrangements,
- IFRS 12, Disclosure of Interests in Other Entities,
- IFRS 13, Fair Value Measurement, and
- Improvements to IFRSs 2010

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. Further details on the sensitivity of the carrying value of goodwill to changes in the key assumptions are set out in note 11.

Consolidation of US subsidiaries

As described on page 35, the Group and the US DoD have entered into a proxy agreement that regulates the ownership, management and operation of the Group's 100% owned subsidiary, QinetiQ North America, Inc and its subsidiaries. Having considered the terms of the proxy agreement, the Directors consider that the Group has control over the operating and financial policies of QinetiQ North America and, therefore, consolidates the subsidiaries in the consolidated accounts.

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. Any change in these assumptions would have an impact on the retirement benefit obligation recognised. Further details on these assumptions are set out in note 39.

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.

2 Revenue and other income

Revenue and other income is analysed as follows

Revenue by category

Year ended 31 March

all figures in £ million	2011	2010
Sales of goods	365 5	151 9
Services	1,330 0	1,467 5
Royalties	7 1	6 0
Revenue	1,702 6	1,625 4

Other income	4 1	6 9
---------------------	------------	------------

Other income is in respect of property rentals and the recovery of other related property costs

Revenue by customer geographic location

Year ended 31 March

all figures in £ million	2011	2010
North America	949 2	825 3
United Kingdom	623 7	720 0
Other	129 7	80 1
Total	1,702 6	1,625 4

Revenue by major customer type

Year ended 31 March

all figures in £ million	2011	2010
UK Government	526 5	614 5
US Government	894 3	754 1
Other	281 8	256 8
Total	1,702 6	1,625 4

Revenue from the UK Government was generated by the UK Services and Global Products operating groups. Revenue from the US Government was generated by the US Services and Global Products operating groups.

3 Segmental analysis

Business segments

all figures in £ million

	Year ended 31 March 2011		Year ended 31 March 2010	
	Revenue	Operating profit ¹	Revenue	Operating profit ¹
US Services	588.2	44.3	628.0	52.6
UK Services	611.6	48.7	693.9	59.1
Global Products	502.8	52.4	303.5	8.6
Total operating segments	1,702.6	145.4	1,625.4	120.3
Operating profit before acquisition amortisation and specific non-recurring items²		145.4		120.3
Restructuring charge		(33.5)		(44.1)
Pension curtailment gain		4.9		2.0
Contingent payments on acquisition treated as remuneration		(6.1)		–
Net inventory write-offs in respect of capitalised DTR-programme bid costs		(23.8)		–
Non-recurring operating costs before amortisation, depreciation and impairment		(58.5)		(42.1)
Impairment of property, plant and equipment		(5.9)		(24.0)
Amortisation of intangible assets arising from acquisitions		(26.3)		(26.1)
Impairment of intangible assets		–		(53.4)
Operating profit/(loss)		54.7		(25.3)
Gain/(loss) on business divestments and unrealised impairment of investments		2.7		(6.2)
Net finance expense		(30.8)		(34.6)
Profit/(loss) before tax		26.6		(66.1)
Taxation (expense)/income		(21.6)		2.8
Profit/(loss) for the year		5.0		(63.3)

¹ The measure of profit presented to the chief operating decision maker is operating profit stated before amortisation of intangible assets arising from acquisitions and specific non-recurring items. Specific non-recurring items include amounts relating to reorganisation costs, pension curtailment gains, contingent payments on acquisition treated as remuneration, net inventory write-offs in respect of capitalised DTR-programme bid costs, impairment of property, plant and equipment, and impairment of intangible assets.

² The comparative figures for the year ended 31 March 2010 have been restated to reflect the reorganised structure adopted at the start of the current financial year.

The segments previously reported were Europe, Middle East and Australasia (EMEA), QinetiQ North America (QNA) and Ventures.

³ There were no internal sales from US Services to UK Services during the year.

No measure of segmental assets and liabilities has been disclosed as this information is not regularly provided to the chief operating decision maker.

3 Segmental analysis continued

Other information

Year ended 31 March 2011

all figures in £ million	US Services	UK Services	Global Products	Total
Depreciation of property, plant and equipment	3 1	25 4	5 1	33 6
Amortisation of purchased or internally developed intangible assets	0 6	10 0	0 9	11 5
	3 7	35 4	6 0	45 1

Year ended 31 March 2010

all figures in £ million	US Services	UK Services	Global Products	Total
Depreciation of property, plant and equipment	2 9	27 4	4 8	35 1
Amortisation of purchased or internally developed intangible assets	0 7	8 0	2 6	11 3
	3 6	35 4	7 4	46 4

Excludes non-recurring items not included within the measure of operating profit reported to the chief operating decision maker

Non-current assets by geographic location

all figures in £ million	North America	Europe and Australia	Total
Year ended 31 March 2011	584 1	349 0	933 1

	North America	Europe and Australia	Total
Year ended 31 March 2010	672 5	376 9	1,049 4

4 Profit/loss before tax

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

all figures in £ million	2011	2010
Fees payable to the auditor		
– Statutory audit	0 8	1 0
– Audit of the Company's subsidiaries pursuant to legislation	0 1	0 1
– Other services relating to taxation	0 1	0 1
– Other services	0 1	0 4
Total auditor's remuneration	1 1	1 6

Depreciation of property, plant and equipment

– Owned assets before impairment	33 6	35 1
– Owned assets impairment	5 9	24 0
Foreign exchange loss/(gain)	0 3	(0 2)
Research and development expenditure – customer funded contracts	382 0	418.3
Research and development expenditure – Group funded	13 0	7 3

The following non-recurring items have been charged in arriving at profit/loss before tax

all figures in £ million	note	2011	2010
Restructuring costs ¹		33 5	44 1
Pension curtailment gain		(4 9)	(2 0)
Contingent payments on acquisition treated as remuneration		6 1	–
Net inventory write-offs in respect of capitalised DTR-programme bid costs		23 8	–
Non-recurring operating costs before amortisation, depreciation and impairment		58.5	42 1
Impairment of property, plant and equipment	14	5 9	24 0
Amortisation of intangible asset arising on acquisitions	12	26 3	26 1
Impairment of intangible asset	12	–	3 3
Impairment of goodwill	11	–	50 1
Total goodwill and intangible impairment and acquisition amortisation		26 3	79 5
Gain on business divestment	5	(2 1)	(5 1)
Gain in respect of negative goodwill on acquisitions in the period	5	(0 2)	–
Gain in respect of deferred consideration on prior year acquisitions	5	(0 4)	–
Unrealised impairment of investment	5	–	11 3
(Gain)/loss on business combinations and divestments and unrealised impairment of investment	5	(2 7)	6 2
Total non-recurring items before tax		88 0	151 8

¹ The UK restructuring programme announced in May 2009 was largely completed in the last financial year and the cost of the programme was £44.1m. A subsequent 24-month self help programme was announced in May 2010 to refocus the businesses, to build a more commercial performance-oriented culture and to strengthen the balance sheet. A charge of £33.5m has been taken in the current financial year in respect of restructuring the UK business.

5 Gain/(loss) on business combinations and divestments and unrealised impairment of investments

For the year ended 31 March

all figures in £ million	2011	2010
Gain on business divestments	2.1	5.1
Gain in respect of negative goodwill on acquisitions in the period	0.2	–
Gain in respect of deferred consideration on prior year acquisitions	0.4	–
Unrealised impairment of investments	–	(11.3)
	2.7	(6.2)

The gain on business divestments in the year relates to the disposal of S&IS, a non-core security operations and access control business within QinetiQ's US Services operation, to ManTech International Corporation. The total consideration net of disposal costs was £37.2m and resulted in a gain on disposal of £2.1m. Additional cash receipts in the year included £1.0m in respect of prior year divestments. Total proceeds from sale of interests in subsidiary undertakings are £38.2m (2010: £21.1m).

The gain in respect of negative goodwill on acquisitions in the period relates to the acquisition of Sensoptics Ltd on 16 December 2010 as described in note 13.

The gain in respect of deferred consideration on prior year acquisitions is the result of conditions for the deferred consideration in respect of the Cyveillance, Inc acquisition not being met.

The prior year gain on business divestments relates to the disposal of two businesses. On 30 September 2009 the Group disposed of the Underwater Systems business, a division of QinetiQ Limited, to Atlas Elektronik UK Limited for a consideration before costs of £23.5m which resulted in a profit on disposal of £6.9m. On 31 July 2009 the Calibration business of the Group, including ASAP Calibration Ltd, was sold for proceeds before costs of £0.4m and resulted in a loss on disposal of £1.8m.

The prior year unrealised impairment of investments and associated committed costs relates to a £11.3m charge in respect of the impairment in the carrying value of investments held for sale.

6 Finance income and expense

For the year ended 31 March

all figures in £ million	2011	2010
Receivable on bank deposits	0.6	0.4
Finance lease income	1.2	1.4
Expected return on pension scheme assets	68.6	46.3
Finance income	70.4	48.1
Amortisation of recapitalisation fee ¹	(1.8)	(0.7)
Payable on bank loans and overdrafts	(5.9)	(7.9)
Payable on US dollar private placement debt ²	(32.6)	(23.2)
Finance lease expense	(1.0)	(1.1)
Unwinding of discount on financial liabilities	(0.4)	(1.0)
Interest on pension scheme liabilities	(59.5)	(48.8)
Finance expense	(101.2)	(82.7)
Net finance expense	(30.8)	(34.6)

¹ In 2011 the Group refinanced its existing credit facility with a new five year revolving credit facility. The unamortised amount of the fees previously capitalised in respect of the pre-existing facility were written off on termination of that facility and charged to Finance expense.

² The Group elected to make early repayment of US\$135m of US Dollar private placement debt, which was repaid post year end in May 2011 from surplus cash. Net interest in 2011 was impacted by an accelerated interest charge of £8.8m in respect of the year end obligation to make this early repayment.

7 Taxation

all figures in £ million	2011 Before acquisition amortisation and specific non-recurring items	2011 Acquisition amortisation and specific non-recurring items	2011 Total	2010 Before acquisition amortisation and specific non-recurring items	2010 Acquisition amortisation and specific non-recurring items	2010 Total
Analysis of charge						
UK corporation tax	–	–	–	–	–	–
Overseas corporation tax						
Current year	41.3	(1.1)	40.2	16.7	(8.8)	7.9
Adjustment for prior year	(0.8)	–	(0.8)	–	–	–
Current tax expense/(income)	40.5	(1.1)	39.4	16.7	(8.8)	7.9
Deferred tax	(20.2)	0.9	(19.3)	(3.6)	(6.9)	(10.5)
Deferred tax impact of change in rates	2.5	–	2.5	–	–	–
Deferred tax in respect of prior years	(1.0)	–	(1.0)	(0.2)	–	(0.2)
Taxation expense/(income)	21.8	(0.2)	21.6	12.9	(15.7)	(2.8)
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/(loss) before tax	114.6	(88.0)	26.6	85.7	(151.8)	(66.1)
Tax on profit/(loss) before tax at 28% (2010: 28%)	32.1	(24.7)	7.4	24.0	(42.5)	(18.5)
Effect of						
Expenses not deductible for tax purposes, research and development relief and non-taxable items	(33.4)	22.0	(11.4)	(19.6)	29.4	9.8
Utilisation of previously unrecognised tax losses of overseas subsidiaries	(0.3)	–	(0.3)	(0.1)	–	(0.1)
Current tax losses for which no deferred tax asset was recognised	17.5	–	17.5	6.1	–	6.1
Deferred tax impact of change in rates	2.5	–	2.5	–	–	–
Deferred tax in respect of prior years	(1.0)	–	(1.0)	(0.2)	–	(0.2)
Effect of different rates in overseas jurisdictions	4.4	2.5	6.9	2.7	(2.6)	0.1
Taxation expense/(income)	21.8	(0.2)	21.6	12.9	(15.7)	(2.8)

The total tax expense in the year to 31 March 2011 includes a credit of £0.2m (2010: £15.7m) for tax on acquisition amortisation and specific non-recurring items. The rate on this credit is low as the majority of items do not attract tax relief in the current period.

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 and the geographical mix of profits. At 31 March 2011, the Group had unused tax losses of £188.7m (2010: £117.1m) potentially available for offset against future profits.

8 Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2011 and 2010 is provided below

	Pence per share	£m	Date paid/ payable
Interim 2011	–	–	–
Final 2011 (proposed)	1 60	10 5	Sept 2011
Total for the year ended 31 March 2011	1 60	10 5	
Interim 2010	1 58	10 4	Feb 2010
Final 2010	–	–	–
Total for the year ended 31 March 2010	1 58	10 4	

The Directors proposed a final dividend of 1 60p (2010 nil). The dividend, which is subject to shareholder approval, will be paid on 2 September 2011. The ex-dividend date is 3 August 2011 and the record date is 5 August 2011.

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	
	2011 Number	2010 Number	2011 Number	2010 Number
US Services	4,500	5,369	4,839	5,512
UK Services	5,045	5,707	5,418	5,899
Global Products	1,663	2,002	1,776	2,193
Total	11,208	13,078	12,033	13,604

The aggregate payroll costs of these persons were as follows

all figures in £ million	note	2011	2010 (Restated) ¹
Wages and salaries		635.7	659.3
Social security costs		46.3	52.1
Other pension costs		47.3	44.6
Cost of share-based payments	34	3.3	5.8
Employee costs before UK restructuring costs		732.6	761.8
UK restructuring costs		33.5	44.1
Total employee costs		766.1	805.9

¹ Prior year employee costs have been restated to include certain elements of employee compensation and benefits that were previously allocated to direct costs and to other overheads.

The 2011 UK restructuring costs relate to the restructuring of the UK business announced in May 2010. The 2010 restructuring costs principally comprise the headcount reduction programme announced in May 2009.

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		2011	2010
Basic EPS			
Profit/(loss) attributable to equity shareholders	£m	5.0	(63.3)
Weighted average number of shares	million	654.6	653.5
Basic EPS	pence	0.8	(9.7)
Diluted EPS			
Profit/(loss) attributable to equity shareholders	£m	5.0	(63.3)
Weighted average number of shares	million	654.6	653.5
Effect of dilutive securities*	million	6.8	–
Diluted number of shares	million	661.4	653.5
Diluted EPS	pence	0.8	(9.7)
Underlying basic EPS			
Profit/(loss) attributable to equity shareholders	£m	5.0	(63.3)
Reorganisation costs	£m	33.5	42.1
(Gain)/loss on business divestments, disposals and unrealised impairment of investments	£m	(2.7)	6.2
Impairment of property plant and equipment	£m	5.9	24.0
Contingent payments on acquisition treated as remuneration	£m	6.1	–
Pension curtailment gain	£m	(4.9)	–
Amortisation of intangible assets arising from acquisitions and impairment of intangible assets	£m	26.3	79.5
Net inventory write-offs in respect of capitalised DTR-programme bid costs	£m	23.8	–
Tax impact of items above	£m	(0.2)	(15.7)
Underlying profit after taxation	£m	92.8	72.8
Weighted average number of shares	million	654.6	653.5
Underlying basic EPS	pence	14.2	11.1

The loss attributable to equity shareholders in the year ended 31 March 2010 resulted in no effect of dilutive securities to the weighted average number of shares. If there had been a profit in the year ended 31 March 2010, the effect of dilutive securities would have been to increase the diluted number of shares by 4.2m.

11 Goodwill

all figures in £ million	note	2011	2010 (Restated) ¹
Cost			
At 1 April		628 0	639 0
Amendment to goodwill for prior year acquisition ¹		–	(1 9)
Acquisitions	13	–	19 1
Disposals		(32 0)	–
Foreign exchange		(29 8)	(28 2)
At 31 March		566 2	628 0
Impairment			
At 1 April		(50 2)	(0 5)
Disposals		3 5	–
Impairment in year		–	(50 1)
Foreign exchange		1 6	0 4
At 31 March		(45 1)	(50 2)
Net book value at 31 March		521 1	577 8

¹ Goodwill and deferred tax liabilities have been restated to reflect fair value changes in respect of an acquisition in the year ended 31 March 2010 (see note 13)

Goodwill at 31 March 2011 was allocated across six cash generating units (CGUs). In the year two CGUs in the US Services business were amalgamated into one to reflect the way in which these 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 employee knowledge, expertise and security clearances. The Group tests goodwill impairment for each CGU annually or more frequently if there are indications that goodwill might be impaired.

Key assumptions

The value in use calculations use discounted future cash flows based on financial plans approved by the Board covering a two year period. Cash flows for periods beyond this period are extrapolated based on the second year of the two year plan, with a terminal growth rate assumption applied.

Terminal growth rates

The specific plans for each of the CGUs have been extrapolated using a terminal growth rate of 2.0%-3.0% (2010: 1.5%-2.5%). 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 pre-tax discount rate applied for US CGUs was 11.8% (2010: 11.8%-12.1%) and a range from 11.1%-19.0% for UK and Australia CGUs (2010: 9.3%-16.9%).

Significant CGUs

Sensitivity analysis shows that both the discount rate and growth rate assumptions are key variables impacting on the outcome of the recoverable amount

The US Services CGU has headroom, with current assumptions, of £73.3m. If the discount rate assumption was increased by 1% then the CGU would require an impairment of £16.2m. Sensitivity analysis shows that an decrease or increase of 1% in the terminal growth rate could result in an impairment of £5.8m or headroom of £190.1m, respectively. The carrying value of goodwill for this CGU as at 31 March was £369.9m.

The Technology Solutions CGU in the US has significant headroom. An increase in either the WACC rate or decrease in the terminal growth rate by 1% would not cause the net operating assets to exceed their recoverable amount. The carrying value of goodwill for this CGU as at 31 March was £115.3m.

Within UK Services the individual CGUs have significant headroom. An increase in the WACC rate or a decrease in the terminal growth rate by 1% would not cause the net operating assets to exceed their recoverable amount. The carrying value of goodwill for these CGUs as at 31 March was £27.6m.

The Technology Solutions CGU in the UK has headroom, under current assumptions, of £43.4m. If the discount rate was to increase by 1%, or the terminal growth rate decrease by 1%, this would not cause the net operating assets to exceed their recoverable amount. The carrying value of goodwill for this CGU as at 31 March was £5.8m.

The Australia CGU has headroom, under current assumptions, of £1.1m. If the discount rate was to increase by 1%, or the terminal growth rate decrease by 1%, this would not cause the net operating assets to exceed their recoverable amount. The carrying value of goodwill for this CGU as at 31 March was £2.5m.

The Directors have not identified any other likely changes in other significant assumptions since 31 March 2011 and the signing of the financial statements that would cause the carrying value of the recognised goodwill to exceed its recoverable amount.

12 Intangible assets

Year ended 31 March 2011

		Acquired intangible assets				Other intangible assets	Total
all figures in £ million	note	Customer relationships	Intellectual property	Brand names	Development costs		
Cost							
At 1 April 2010		160.6	53.5	14.7	13.4	36.1	278.3
Additions – internally developed		–	–	–	0.3	–	0.3
Additions – purchased		–	–	–	–	2.1	2.1
Additions – recognised on acquisitions	13	–	4.0	–	–	–	4.0
Disposals		–	–	–	–	(1.2)	(1.2)
Disposals – recognised on divestments		(6.2)	–	–	–	–	(6.2)
Transfers		–	–	–	0.2	0.1	0.3
Foreign exchange		(7.1)	(2.2)	(0.8)	–	(0.3)	(10.4)
At 31 March 2011		147.3	55.3	13.9	13.9	36.8	267.2
Amortisation and impairment							
At 1 April 2010		70.5	34.5	4.2	7.3	20.1	136.6
Amortisation charge for the year		16.2	7.9	2.2	2.2	9.3	37.8
Disposals		–	–	–	–	(1.2)	(1.2)
Disposals – recognised on divestments		(4.0)	–	–	–	–	(4.0)
Transfers		–	–	–	1.3	(1.2)	0.1
Foreign exchange		(3.2)	(1.5)	(0.3)	–	(0.3)	(5.3)
At 31 March 2011		79.5	40.9	6.1	10.8	26.7	164.0
Net book value at 31 March 2011		67.8	14.4	7.8	3.1	10.1	103.2

Year ended 31 March 2010

all figures in £ million	note	Acquired intangible assets			Development costs	Other intangible assets	Total
		Customer relationships	Intellectual property	Brand names			
Cost							
At 1 April 2009		159.4	48.7	13.4	10.9	34.4	266.8
Additions – internally developed		–	–	–	0.6	–	0.6
Additions – purchased		–	–	–	–	5.6	5.6
Additions – recognised on acquisitions	13	7.2	6.8	2.0	–	–	16.0
Disposals		–	–	–	(0.2)	(4.3)	(4.5)
Disposals – recognised on divestments		–	(0.5)	–	–	(0.8)	(1.3)
Transfers		–	–	–	2.1	1.4	3.5
Foreign exchange		(6.0)	(1.5)	(0.7)	–	(0.2)	(8.4)
At 31 March 2010		160.6	53.5	14.7	13.4	36.1	278.3
Amortisation and impairment							
At 1 April 2009		55.9	27.5	2.6	4.5	12.1	102.6
Amortisation charge for the year		16.0	8.3	1.8	3.0	8.3	37.4
Impairment in year		–	–	–	–	3.3	3.3
Disposals		–	–	–	(0.2)	(3.1)	(3.3)
Disposals – recognised on divestments		–	(0.5)	–	–	(0.4)	(0.9)
Foreign exchange		(1.4)	(0.8)	(0.2)	–	(0.1)	(2.5)
At 31 March 2010		70.5	34.5	4.2	7.3	20.1	136.6
Net book value at 31 March 2010		90.1	19.0	10.5	6.1	16.0	141.7

13 Business combinations

Acquisition of subsidiaries for the year ended 31 March 2011

The Group has adopted IFRS 3 (2008) *Business Combinations* and IAS 27 (2008) *Consolidated and separate financial statements* with effect from 1 April 2010

On 16 December 2010, the Group acquired 100 per cent of the issued share capital of Sensoptics Limited from its founder management team. If the acquisition had been completed on the first day of the financial year, Group revenue for the period would have been £1,705 0m and the Group profit before tax would have been £27 3m

Acquisitions in the year to 31 March 2011

Company acquired all figures in £ million	Date acquired	Cash consideration ¹	Deferred consideration	Goodwill	Fair value of assets acquired ²	Contribution post-acquisition	
						Revenue	Operating profit
	16 December						
Sensoptics Limited	2010	2 8	0 9	(0 2)	3 9	0 7	0 2
Current year acquisitions		2 8	0 9	(0 2)	3 9	0 7	0 2
Consideration in respect of prior year acquisitions³							
Dominion Technology Resources, Inc		13 5	—	—	—	—	—
Total		16 3	0 9	(0 2)	3 9	0 7	0 2

¹ Initial cash consideration includes price adjustments for working capital and net debt

² Fair value of assets acquired are provisional

³ Cash consideration paid in the year includes consideration amounts in respect of prior year acquisitions

Set out below are the allocations of purchase consideration, assets and liabilities of the acquisition 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. The fair values remain provisional, but will be finalised within 12 months of acquisition

Sensoptics Limited

Acquisition in the year to 31 March 2011

all figures in £ million	note	Book value	Fair value adjustment	Fair value at acquisition
Intangible assets	12	—	4 0	4 0
Property, plant and equipment	14	—	—	—
Trade and other receivables		1 0	—	1 0
Other current assets		0 5	—	0 5
Trade and other payables		(1 0)	—	(1 0)
Cash and cash equivalents		0 5	—	0 5
Deferred tax liability	25	—	(1 1)	(1 1)
Net assets acquired		1.0	2 9	3 9
Goodwill				(0 2)
				3 7
Consideration satisfied by				
Cash				2 8
Deferred consideration				0 9
Total consideration				3 7

Sensoptics Limited is a designer of fibre-optic sensing hardware. Sensoptics Limited was acquired to combine its technology with QinetiQ's OptaSense® signal processing capabilities. The OptaSense® solution provides cost-effective around-the-clock distributed acoustic monitoring over long distances.

The intangible assets acquired as part of the business combination relate to the intellectual property embodied within the Sensoptics Limited existing products and products under development.

Total expected payments are in excess of the fair value of net assets acquired. However, certain potential payments are linked to continuing employment assumptions for the retained founder management team, which would be forfeited in full should they leave within the stipulated period. Under IFRS 3 (revised) this type of arrangement is required to be accounted for as remuneration expense as opposed to part of the consideration. As a result, the acquisition resulted in negative goodwill of £0 2m, which was recognised as a gain in the consolidated income statement within "gain/(loss) on business combinations and divestments and unrealised impairment of investments". The discounted fair value of the deferred contingent purchase price payments treated as remuneration was £6 1m and this was charged to the consolidated income statement within operating costs (significant non-recurring items). Acquisition-related costs (included within other operating costs excluding depreciation and amortisation) amount to £0 2m.

13 Business combinations continued

Adjustments to goodwill in respect of prior year acquisitions

Cyveillance, Inc

The comparative figures for the balance sheet for the year ended 31 March 2010 have been restated to update the initial estimate of the fair value of assets acquired with Cyveillance, Inc on 1 July 2009. The tax losses acquired at the time have subsequently been valued. The financial effect of this is to reduce goodwill and decrease the deferred tax liability on the balance sheet by £1.9m. There is no impact on the Group's reported profit before tax for these periods. An additional column has not been included on the balance sheet to show the opening position in relation to the restated amounts as the restatement would not have affected the opening position.

Acquisitions in the year to 31 March 2010

Company acquired all figures in £ million	Date acquired	Cash consideration ¹	Deferred consideration ²	Goodwill ³	Fair value of assets acquired ³	Contribution post-acquisition	
						Revenue	Operating profit
QNA acquisitions							
Cyveillance, Inc	1 July 2009	26.1	0.4	17.2	9.3	5.9	0.9
Current year acquisitions		26.1	0.4	17.2	9.3	5.9	0.9
Deferred consideration in respect of prior year acquisitions							
ITS Corporation		6.2	—	—	—	—	—
Novare Services Pty Ltd		0.4	—	—	—	—	—
Spectro, Inc		0.8	—	—	—	—	—
Dominion Technology Resources, Inc		12.8	—	—	—	—	—
Total		46.3	0.4	17.2	9.3	5.9	0.9

¹ Initial cash consideration includes acquisition costs and price adjustments for working capital and net debt.

² The deferred consideration of £0.4m was recognised on the acquisition of Cyveillance, Inc based upon the estimated payment to be made. This deferred consideration was credited to the consolidated income statement in the year to 31 March 2011 as the conditions for the deferred consideration were not met.

³ Goodwill and deferred tax liabilities have been restated to reflect fair value changes in respect of the acquisition of Cyveillance in the year ended 31 March 2010.

Set out below are the allocations of purchase consideration, assets and liabilities of the acquisitions made in the prior 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. The fair value adjustment in respect of deferred tax liabilities has been restated as a result of the tax losses being re-valued.

Cyveillance, Inc

Acquisition in the year to 31 March 2010

all figures in £ million	note	Book value	Fair value adjustment	Fair value at acquisition
Intangible assets	12	–	16.0	16.0
Property, plant and equipment	14	0.4	–	0.4
Trade and other receivables		1.0	–	1.0
Other current assets		0.7	–	0.7
Trade and other payables		(0.2)	–	(0.2)
Cash and cash equivalents		0.7	–	0.7
Deferred tax liability		–	(4.4)	(4.4)
Other liabilities		(4.9)	–	(4.9)
Net assets acquired		(2.3)	11.6	9.3
Goodwill				17.2
				26.5
Consideration satisfied by				
Cash				25.6
Deferred consideration				0.4
Total consideration before costs				26.0
Related costs of acquisition				0.5
				26.5

The fair value adjustments include £16.0m in relation to the recognition of acquired intangible assets less the recognition of a deferred tax liability of £4.4m in relation to these intangible assets.

14 Property, plant and equipment

Year ended 31 March 2011

all figures in £ million	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Assets under construction	Total
Cost					
At 1 April 2010	304.6	151.7	58.8	12.2	527.3
Additions	1.0	2.8	3.3	12.7	19.8
Disposals	(1.9)	(7.8)	(11.1)	(0.2)	(21.0)
Transfers	3.6	9.6	(1.9)	(11.6)	(0.3)
Transfer to Assets Held for Sale	(0.9)	(5.5)	–	–	(6.4)
Foreign exchange	(0.6)	(0.7)	(0.9)	–	(2.2)
At 31 March 2011	305.8	150.1	48.2	13.1	517.2
Depreciation					
At 1 April 2010	95.6	107.2	39.0	–	241.8
Charge for the year	11.8	15.3	6.5	–	33.6
Impairment	5.8	1.2	–	–	7.0
Impairment reversal	(1.1)	–	–	–	(1.1)
Disposals	(1.5)	(7.1)	(10.9)	–	(19.5)
Transfers	0.1	–	(0.2)	–	(0.1)
Transfer to Assets Held for Sale	–	(4.0)	–	–	(4.0)
Foreign exchange	(0.4)	(0.4)	(0.6)	–	(1.4)
At 31 March 2011	110.3	112.2	33.8	–	256.3
Net book value at 31 March 2011	195.5	37.9	14.4	13.1	260.9

Impairment of land and buildings of £5.8m relates to vacant owned properties where there has been no external tenants following vacancies arising in the year. The impairment reversal of £1.1m relates to vacant property where a new tenant has been found. Plant, machinery and vehicles impairments of £1.2m relates to the impairment of assets which are no longer generating revenue.

Year ended 31 March 2010

all figures in £ million	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Assets under construction	Total
Cost					
At 1 April 2009	302.2	136.6	62.5	24.4	525.7
Additions	1.9	3.4	3.4	14.8	23.5
Acquisition of subsidiaries	0.1	–	0.3	–	0.4
Disposals	(3.5)	(1.0)	(2.2)	(4.8)	(11.5)
Disposals – recognised on divestments	(1.7)	(2.8)	(1.3)	–	(5.8)
Transfers	5.7	15.9	(3.0)	(22.1)	(3.5)
Foreign exchange	(0.1)	(0.4)	(0.9)	(0.1)	(1.5)
At 31 March 2010	304.6	151.7	58.8	12.2	527.3
Depreciation					
At 1 April 2009	64.5	90.1	38.7	–	193.3
Charge for the year	11.8	16.7	6.6	–	35.1
Impairment	20.7	3.3	–	–	24.0
Disposals	(3.5)	(1.0)	(2.2)	–	(6.7)
Disposals – recognised on divestments	(1.0)	(1.8)	(1.0)	–	(3.8)
Transfers	3.1	(0.1)	(3.0)	–	–
Foreign exchange	–	–	(0.1)	–	(0.1)
At 31 March 2010	95.6	107.2	39.0	–	241.8
Net book value at 31 March 2010	209.0	44.5	19.8	12.2	285.5

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.

15 Other financial assets

As at 31 March

all figures in £ million

	2011	2010
Current financial assets		
Derivative financial instruments	–	4 8
Net investment in finance lease	3 0	3 0
Total current financial assets	3 0	7 8
Non-current financial assets		
Net investment in finance lease	8 2	10 0
Total non-current financial assets	8 2	10 0
Total financial assets	11 2	17 8

16 Equity accounted investments

Year ended 31 March 2011

all figures in £ million	Joint venture and associates financial results	Group net share of joint ventures and associates
Revenue	24 9	7 3
Profit after tax	0 5	0 2
Non-current assets	1 5	0 5
Current assets	7 8	2 5
	9 3	3 0
Current liabilities	(4 7)	(1 8)
Non-current liabilities	(0 4)	(0 1)
	(5 1)	(1 9)
Net assets	4 2	1 1

Year ended 31 March 2010

all figures in £ million	Joint venture and associates financial results	Group net share of joint ventures and associates
Revenue	18 9	5 9
Profit after tax	0 5	0 2
Non-current assets	1 2	0 4
Current assets	6 9	2 1
	8 1	2 5
Current liabilities	(4 7)	(1 5)
Non-current liabilities	(0 2)	(0 1)
	(4 9)	(1 6)
Net assets	3 2	0 9

The unrecognised share of losses of equity accounted investments at 31 March 2011 was £nil (31 March 2010 £nil). During the year ended 31 March 2011, there were sales to joint ventures of £nil (2010 £nil) and to associates of £nil (2010 £2.7m). At year end, there were outstanding receivables from joint ventures of £nil (2010 £nil) and £nil (2010 £0.3m) 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	2011	2010
Available for sale investments at 1 April	4 8	15 7
Impairment charged to income statement in year	–	(10 8)
Foreign exchange	–	(0 1)
Available for sale investments at 31 March	4 8	4 8

Impairments in the prior year related to four unquoted investments due to a decline in the future growth prospects of the markets in which those investments operate

18 Inventories

As at 31 March all figures in £ million	2011	2010
Raw materials	25 6	4 4
Work in progress	2 8	32 8
Finished goods	17 0	42 6
	45 4	79 8

The reduction in work in progress during the year includes a write down of work in progress in respect of the Defence Training Review bid costs capitalised prior to the MOD's announcement of the cancellation of the programme. The write down is included in Other Operating Costs as a Non-recurring item.

19 Trade and other receivables

As at 31 March all figures in £ million	2011	2010
Trade debtors	189 8	213 0
Amounts recoverable under contracts	152 4	180 7
Other debtors	31 5	9 9
Prepayments	15 8	20 2
	389 5	423 8

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 2011, the Group carried a provision for doubtful debts of £5.8m (2010: £8.8m).

Ageing of past due but not impaired receivables

all figures in £ million	2011	2010
Up to three months	50 1	29 4
Over three months	2 4	2 8
	52 5	32 2

Movements on the Group doubtful debt provision

all figures in £ million	2011	2010
At 1 April	8 8	5 9
Created	2 0	5 6
Released	(4 1)	(2 7)
Utilised	(0 9)	–
At 31 March	5 8	8 8

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.

20 Current asset investments

As at 31 March all figures in £ million	2011	2010
Available for sale investment	2 3	2 3

At 31 March 2011 the Group held a 4.9% shareholding in pSivida Limited (31 March 2010: 4.9%), a company listed on NASDAQ and the Australian and Frankfurt Stock Exchanges. The investment is held at fair value of £2.3m (2010: £2.3m) using the closing share price at 31 March 2011 of A\$4.00 per share (31 March 2010: A\$4.20 per share).

21 Assets classified as held for sale

As at 31 March

all figures in £ million

	2011	2010
Property, plant and equipment	7.5	5.1
Total assets held for sale	7.5	5.1

Various properties in the UK that are surplus to the Group's requirements are being marketed for sale

22 Cash and cash equivalents

As at 31 March

all figures in £ million

	2011	2010
Cash	58.3	57.2
Cash equivalents	44.2	6.7
Total cash and cash equivalents	102.5	63.9

At 31 March 2011 £4.5m (31 March 2010 £4.4m) of cash is held by the Group's captive insurance subsidiary including £4.5m (2010 £3.6m) which is restricted in its use

23 Trade and other payables

As at 31 March

all figures in £ million

	2011	2010
Trade creditors	37.5	48.0
Other tax and social security	34.6	36.9
Other creditors	24.5	25.2
Accruals and deferred income	369.0	286.3
Total current trade and other payables	465.6	396.4
Payments received on account	23.1	23.7
Other payables	0.7	11.5
Total non-current trade and other payables	23.8	35.2
Total trade and other payables	489.4	431.6

24 Provisions

Year ended 31 March 2011

all figures in £ million	Restructuring	Other ¹	Total
At 1 April 2010	9.6	14.4	24.0
Created in year	35.5	11.5	47.0
Released in year	(3.3)	(2.2)	(5.5)
Unwind of discount	–	0.2	0.2
Reclassification to other balance sheet accounts	–	1.1	1.1
Utilised in year	(31.8)	(2.0)	(33.8)
At 31 March 2011	10.0	23.0	33.0
Current liability	10.0	10.4	20.4
Non-current liability	–	12.6	12.6
At 31 March 2011	10.0	23.0	33.0

Year ended 31 March 2010

all figures in £ million	Restructuring	Other	Total
At 1 April 2009	0.9	12.2	13.1
Created in year	44.1	7.9	52.0
Released in year	–	(4.1)	(4.1)
Utilised in year	(35.4)	(1.6)	(37.0)
At 31 March 2010	9.6	14.4	24.0
Current liability	9.6	6.5	16.1
Non-current liability	–	7.9	7.9
At 31 March 2010	9.6	14.4	24.0

¹ Other provisions comprise legal, environmental, property and other liabilities and are expected to be utilised within the next five years

The restructuring provisions are expected to be utilised within the next year

25 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 in the deferred tax assets and liabilities are shown below

Year ended 31 March 2011

Deferred tax asset

all figures in £ million	Pension liability	Accelerated capital allowances	Hedging	Short-term timing differences	Total
At 1 April 2010	41.2	–	3.7	35.4	80.3
Created through income statement	(7.6)	–	1.2	4.5	(1.9)
Created through equity	1.3	–	(4.8)	–	(3.5)
Prior-year adjustment	–	–	–	(0.8)	(0.8)
Foreign exchange	–	–	–	(1.9)	(1.9)
Transfer to current tax	–	–	–	0.4	0.4
Reclassification from deferred tax liability	–	0.6	–	–	0.6
Deferred tax impact of change in rates	(2.5)	–	–	–	(2.5)
Gross deferred tax asset at 31 March 2011	32.4	0.6	0.1	37.6	70.7
Less: liability available for offset	–	–	–	–	(36.9)
Net deferred tax asset at 31 March 2011					33.8

The net deferred tax asset created in the year relating to the pension liability includes £1.3m released to equity (2010: £16.9m released to equity)

25 Deferred tax continued

Deferred tax liability

all figures in £ million	Accelerated capital allowances	Amortisation	Total
At 1 April 2010 ¹	(14 7)	(45 8)	(60 5)
Acquisition	–	(1 1)	(1 1)
Created through the income statement	17 0	4 2	21 2
Prior-year adjustment	(1 7)	3 5	1 8
Foreign exchange	0 1	2 2	2 3
Deferred tax impact of change in rates	(0 1)	0 1	–
Transfer to deferred tax asset	(0 6)	–	(0 6)
Gross deferred tax liability at 31 March 2011	–	(36 9)	(36 9)
Less asset available for offset			36 9
Net deferred tax liability at 31 March 2011			–

¹ Goodwill and deferred tax liabilities have been restated to reflect fair value changes in respect of an acquisition in the year ended 31 March 2010 (see note 13)

At the balance sheet date, the Group had unused tax losses of £188.7m (2010: £117.1m) 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 its utilisation. These losses can be carried forward indefinitely.

Year ended 31 March 2010

Deferred tax asset

all figures in £ million	Pension liability	Hedging	Short-term timing differences	Total
At 1 April 2009	29 4	6 6	22 0	58 0
Created	11 8	(2 9)	6 4	15 3
Prior-year adjustment	–	–	1 3	1 3
Foreign exchange	–	–	(1 1)	(1 1)
Transfer	–	–	6 8	6 8
Gross deferred tax asset at 31 March 2010	41 2	3 7	35 4	80 3
Less liability available for offset				(51 6)
Net deferred tax asset at 31 March 2010				28 7

Deferred tax liability

all figures in £ million	Accelerated tax depreciation and amortisation
At 1 April 2009	(66 9)
Acquisitions	(6 3)
Created	10 2
Prior-year adjustment	(1 1)
Foreign exchange	1 7
Restatement ¹	1 9
Gross deferred tax liability at 31 March 2010	(60 5)
Less asset available for offset	51 6
Net deferred tax liability at 31 March 2010	(8 9)

¹ Goodwill and deferred tax liabilities have been restated to reflect fair value changes in respect of an acquisition in the year ended 31 March 2010 (see note 13)

26 Other financial liabilities – current

As at 31 March

all figures in £ million

	2011	2010
Bank overdraft	0.3	3.2
Deferred financing costs	(0.6)	(0.7)
US\$135m 5.44% private placement, maturity date December 2013 (repaid May 2011)	94.3	–
Finance lease creditor	2.8	2.8
Derivative financial instruments	0.4	3.6
	97.2	8.9

Further analysis of the terms and maturity dates for financial liabilities are set out in note 28. In March 2011 the Group gave notice to repay the whole US\$135m private placement originally maturing December 2013. This was repaid in May 2011.

27 Other financial liabilities – non-current

As at 31 March

all figures in £ million

	2011	2010
Bank loan	–	143.7
Deferred financing costs	(1.7)	(0.9)
	(1.7)	142.8
US\$135m 5.44% private placement, maturity date December 2013 (repaid May 2011)	–	90.4
US\$62m 7.13% private placement, repayable February 2016	39.6	41.9
US\$125m 5.50% private placement, repayable December 2016	78.9	83.4
US\$238m 7.62% private placement, repayable February 2019	152.7	161.0
Finance lease creditor	7.9	9.7
Derivative financial instruments	–	1.0
	277.4	530.2

The bank loan in the prior year reflected draw-downs under the Revolving Credit Facility which comprised loans of US\$210m and €6m as at March 2010. These were repaid in the year to 31 March 2011. After the effect of interest rate swaps the loan had an average fixed rate of 4.35%.

All the US private placements have been issued as fixed-rate bonds and have not been converted to floating-rate. Further analysis of the terms and maturity dates for financial liabilities are set out in note 28.

28 Financial risk management

The Group's international operations and debt financing expose it to financial risks which include the effects of changes in foreign exchange rates, interest rates, credit risks and liquidity risks

Treasury and risk management policies are set by the Board, setting out specific guidelines on financial risks and the use of financial instruments to manage risk. The instruments and techniques used to manage exposures include foreign currency derivatives and interest rate derivatives. Group treasury monitors financial risks and compliance with risk management policies.

A) Fair values of financial instruments

The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2: Inputs other than quoted prices including those within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 March 2011.

	note	Level 1	Level 2	Level 3	Total
Assets					
Current other investments	20	2.3	—	—	2.3
Non-current other investments	17	—	—	4.8	4.8
Liabilities					
Current derivative financial instruments	26	—	(0.4)	—	(0.4)
Total		2.3	(0.4)	4.8	6.7

For cash and cash equivalents, trade and other receivables and bank and current borrowings, the fair value of the financial instruments approximate to their carrying value due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within the carrying value for credit risk. For other financial instruments, the fair value is based on market value, where available. Where market values are not available, the fair values have been calculated by discounting cash flows to net present value using prevailing market-based interest rates translated at the year-end rates, except for unlisted fixed asset investments where fair value equals carrying value.

All financial assets and liabilities have a fair value identical to book value at 31 March 2011 and 31 March 2010 except where noted below

As at 31 March 2011

all figures in £ million	note	Financial asset fair value through income statement	Available for sale	Loans and receivables	Financial liabilities at amortised cost	Derivatives used as hedges	Total carrying value	Total Fair value
Financial assets								
Non-current								
Net investment in finance lease	15	—	—	8 2	—	—	8 2	9 2
Equity accounted investments	16	—	1 1	—	—	—	1 1	1 1
Other investments	17	—	4 8	—	—	—	4 8	4 8
Current								
Net investment in finance leases	15	—	—	3 0	—	—	3 0	3 0
Trade and other receivables	19	—	—	389 5	—	—	389 5	389 5
Investments	20	—	2 3	—	—	—	2 3	2 3
Cash and cash equivalents	22	—	—	102 5	—	—	102 5	102 5
		—	8 2	503 2	—	—	511 4	512 4
Financial liabilities								
Non-current								
Trade and other payables	23	—	—	—	(23 8)	—	(23 8)	(23 8)
Bank and other borrowings	27	—	—	—	(269 5)	—	(269 5)	(298 5)
Finance lease	32	—	—	—	(7 9)	—	(7 9)	(8 6)
Current								
Trade and other payables	23	—	—	—	(465 6)	—	(465 6)	(465 6)
Derivative financial instruments	26	—	—	—	—	(0 4)	(0 4)	(0 4)
Finance lease	32	—	—	—	(2 8)	—	(2 8)	(2 8)
Bank overdraft, finance cost and private placement	26	—	—	—	(94 0)	—	(94 0)	(94 0)
		—	—	—	(863 6)	(0 4)	(864 0)	(893 7)
Total		—	8 2	503 2	(863 6)	(0 4)	(352 6)	(381 3)

For cash and cash equivalents, trade and other receivables and bank and other borrowings, the fair value of the financial instruments approximate to their carrying value due to the short maturity periods of these financial instruments. For trade and other receivables, allowances are made within the carrying value for credit risk. For other financial instruments, the fair value is based on market value, where available. Where market values are not available, 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.

28 Financial risk management continued

A) Fair values of financial instruments continued

As at 31 March 2010

all figures in £ million	note	Financial asset fair value through income statement	Available for sale	Loans and receivables	Financial liabilities at amortised cost	Derivatives used as hedges	Total carrying value	Total fair value
Financial assets								
Non-current								
Net investment in finance lease	15	–	–	10 0	–	–	10 0	11 4
Equity accounted investments	16	–	0 9	–	–	–	0 9	0 9
Other investments	17	–	4 8	–	–	–	4 8	4 8
Current								
Derivative financial instruments	15	4 8	–	–	–	–	4 8	4 8
Net investment in finance leases	15	–	–	3 0	–	–	3 0	3 0
Trade and other receivables	19	–	–	423 8	–	–	423 8	423 8
Investments	20	–	2 3	–	–	–	2 3	2 3
Cash and cash equivalents	22	–	–	63 9	–	–	63 9	63 9
		4 8	8 0	500 7	–	–	513 5	514 9
Financial liabilities								
Non-current								
Trade and other payables	23	–	–	–	(35 2)	–	(35 2)	(35 2)
Derivative financial instruments	27	–	–	–	–	(1 0)	(1 0)	(1 0)
Bank and other borrowings	27	–	–	–	(519 5)	–	(519 5)	(552 7)
Finance lease	32	–	–	–	(9 7)	–	(9 7)	(10 7)
Current								
Trade and other payables	23	–	–	–	(396 4)	–	(396 4)	(396 4)
Derivative financial instruments	26	–	–	–	–	(3 6)	(3 6)	(3 6)
Finance lease	32	–	–	–	(2 8)	–	(2 8)	(2 8)
Bank overdraft and finance cost	26	–	–	–	(2 5)	–	(2 5)	(2 5)
		–	–	–	(966 1)	(4 6)	(970 7)	(1,004 9)
Total		4 8	8 0	500 7	(966 1)	(4 6)	(457 2)	(490 0)

B) Interest rate risk

The Group operates an interest rate policy designed to optimise interest cost and reduce volatility in reported earnings. The Group's current policy is to require rates to be fixed for 30-80% of the level of borrowings, achieved primarily through fixed rate borrowings, and also through the use of interest rate swaps. Where there are significant changes in level and/or structure of debt, policy permits borrowings to be 100% fixed, with regular Board review of the appropriateness of this fixed percentage. At 31 March 2011 99% (2010 98%) of the Group's borrowings were at fixed rates with no adjustment for interest rate swaps at 31 March 2011.

Financial assets/(liabilities)

As at 31 March 2011

all figures in £ million	Financial asset			Financial liability		
	Fixed or capped	Floating	Non-interest bearing	Fixed or capped	Floating	Non-interest bearing
Sterling	11.2	80.8	4.8	(10.7)	(0.3)	(0.4)
US dollar	–	15.1	–	(365.5)	–	–
Euro	–	1.7	–	–	–	–
Australian dollar	–	4.7	2.3	–	–	–
Other	–	0.2	–	–	–	–
	11.2	102.5	7.1	(376.2)	(0.3)	(0.4)

As at 31 March 2010

all figures in £ million	Financial asset			Financial liability		
	Fixed or capped	Floating	Non-interest bearing	Fixed or capped	Floating	Non-interest bearing
Sterling	13.0	56.3	10.5	(12.5)	(0.3)	(0.8)
US dollar	–	4.4	–	(515.2)	(0.1)	(3.8)
Euro	–	1.4	–	–	(5.2)	–
Australian dollar	–	1.8	2.3	–	(1.2)	–
	13.0	63.9	12.8	(527.7)	(6.8)	(4.6)

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) and deferred finance costs 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:

	2011			2010		
	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	11.2	13.4	4.5	13.0	13.4	5.5
Financial liabilities						
Sterling	(10.7)	12.1	4.5	(12.5)	12.1	5.5
US dollar	(365.5)	6.6	5.2	(515.2)	5.9	4.8
	(376.2)	6.7	5.1	(527.7)	6.1	4.8

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 Group private placement borrowings are fixed rate, while the Revolving Credit Facility is floating rate and undrawn as at 31 March 2011. The notional principal amount of the outstanding interest rate swap contracts at 31 March 2011 was £nil (31 March 2010 £138.4m or US\$210m).

28 Financial risk management continued

C) Currency risk

Transactional currency exposure

The Group is exposed to foreign currency risks arising from sales or purchases by businesses in currencies other than their functional currency. It is Group policy that when such a sale or purchase is certain, the net foreign exchange exposure is hedged using forward foreign exchange contracts. Hedge accounting documentation and effectiveness testing are undertaken for all the Group's transactional hedge contracts.

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

all figures in £ millions	Net foreign currency monetary assets/(liabilities)				
	US dollar	Euro	Australian dollar	Other	Total
31 March 2011 – sterling	15.5	(2.7)	6.4	1.1	20.3
31 March 2010 – sterling	5.1	1.4	4.1	0.4	11.0

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

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 2011 against sterling are net US dollars sold £5.4m (US\$8.3m) and net Euros sold of £12.8m (€14.3m).

Translational currency exposure

The Group has significant investments in overseas operations, particularly in the United States. As a result, the sterling value of the Group's balance sheet can be significantly affected by movement in exchange rates. The Group seeks to mitigate the effect of these translational exposures by matching the net investment in overseas operations with borrowings denominated in their functional currencies unless the cost of such hedging activity is uneconomic. This is achieved by borrowing in the local currency or in some cases indirectly through the use of forward foreign exchange contracts.

The Group had one €6m currency loan and one A\$1.5m currency loan as net investment hedges in year, both were repaid before 31 March 2011.

D) Financial credit risk

The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not currently expect any counterparties to fail to meet their obligations. Credit risk is mitigated by Board approved policy of only selecting counterparties with a strong investment grade long-term credit rating for cash deposits, normally at least AA- or equivalent. In the normal course of business, the Group operates notional cash pooling systems, where a legal right of set-off applies.

The maximum credit-risk exposure in the event of other parties failing to perform their obligations under financial assets, excluding trade and other receivables, totals £121.9m (2010: £80.2m). The Group held cash and cash equivalents of £102.5m at 31 March 2011 (2010: £63.9m), which represents the maximum credit exposure on these assets. The cash and cash equivalents were held with different financial institutions which are rated AA or better.

E) Liquidity risk

Borrowing facilities

As at 31 March 2011, the Group had a Revolving Credit Facility (RCF) of US\$250m and £118m (2010 £500m). The RCF is contracted until 2016 and is utilised as shown in the table below

	Interest rate LIBOR plus	Total £m	Drawn £m	Undrawn £m
Committed facilities 31 March 2011	1.45%	274.2	–	274.2
Freely available cash and cash equivalents				98.0
Available funds 31 March 2011				372.2
Committed facilities 31 March 2010	0.3%	500.0	143.7	356.3
Freely available cash and cash equivalents				63.9
Available funds 31 March 2010				420.2

Gross contractual cash-flows for borrowings and other financial liabilities

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 2011

all figures in £ million	Book value	Contractual cash flows	1 year or less	1-2 years	3-5 years	More than 5 years
Non-derivative financial liabilities						
Trade and other payables	(489.4)	(489.4)	(465.6)	(23.8)	–	–
Bank overdrafts	(0.3)	(0.3)	(0.3)	–	–	–
US private placement debt	(365.5)	(494.5)	(113.3)	(18.4)	(94.6)	(268.2)
Recapitalisation fee	2.3	–	–	–	–	–
Finance leases	(10.7)	(12.6)	(2.8)	(2.8)	(7.0)	–
Derivative financial liabilities						
Interest rate swaps – cash flow hedges	–	–	–	–	–	–
Forward foreign currency contracts – cash flow hedges	(0.4)	(0.4)	(0.4)	–	–	–
	(864.0)	(997.2)	(582.4)	(45.0)	(101.6)	(268.2)

As at 31 March 2010

all figures in £ million	Book value	Contractual cash flows	1 year or less	1-2 years	3-5 years	More than 5 years
Non-derivative financial liabilities						
Trade and other payables	(431.6)	(431.6)	(396.4)	(35.2)	–	–
Bank overdrafts	(3.2)	(3.2)	(3.2)	–	–	–
US private placement debt	(376.7)	(549.9)	(24.2)	(24.2)	(156.9)	(344.6)
Multi-currency revolving facility	(143.7)	(143.7)	–	–	(143.7)	–
Recapitalisation fee	1.6	–	–	–	–	–
Finance leases	(12.5)	(15.5)	(2.8)	(2.8)	(8.5)	(1.4)
Derivative financial liabilities						
Interest rate swaps – cash flow hedges	(3.8)	(3.8)	(2.8)	(0.8)	(0.2)	–
Forward foreign currency contracts – cash flow hedges	(0.8)	(0.8)	(0.8)	–	–	–
	(970.7)	(1,148.5)	(430.2)	(63.0)	(309.3)	(346.0)

28 Financial risk management continued

F) Derivative financial instruments

As at 31 March

all figures in £ million	2011			2010		
	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
Interest rate swaps	–	–	–	–	(3 8)	(3 8)
Forward foreign currency contracts – cash flow hedges	–	(0 4)	(0 4)	–	(0 8)	(0 8)
Forward foreign currency contracts – not designated as hedge accounted	–	–	–	4 8	–	4 8
Forward foreign currency contracts – net investment hedges	–	–	–	–	–	–
Derivative assets/(liabilities) at the end of the year	–	(0 4)	(0 4)	4 8	(4 6)	0 2

As at 31 March

all figures in £ million	2011			2010		
	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
Expected to be recognised						
In one year or less	–	(0 4)	(0 4)	4 8	(3 6)	1 2
Between one and two years	–	–	–	–	(0 8)	(0 8)
Between two and five years	–	–	–	–	(0 2)	(0 2)
	–	(0 4)	(0 4)	4 8	(4 6)	0 2

G) Maturity of financial liabilities

As at 31 March 2011

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	465 6	94 0	3 2	562 8
Due in more than one year but not more than two years	23 8	(0 6)	1 9	25 1
Due in more than two years but not more than five years	–	38 5	5 5	44 0
Due in more than five years	–	231 6	0 5	232 1
	489 4	363 5	11 1	864 0

As at 31 March 2010

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	396 4	2 5	6 4	405 3
Due in more than one year but not more than two years	35 2	(0 7)	2 6	37 1
Due in more than two years but not more than five years	–	143 5	6 7	150 2
Due in more than five years	–	376 7	1 4	378 1
	431 6	522 0	17 1	970 7

H) Sensitivity analysis

The Group's sensitivity to changes in market rates on financial assets and liabilities as at 31 March 2011 is set out in the table below. 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 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% (100 basis points) in the specific rate of interest applicable to each class of financial instruments from the levels effective at 31 March 2011, with all other variables remaining constant. The estimated changes for foreign exchange rates are based on an instantaneous 10% weakening or strengthening in sterling against all other currencies from the levels applicable at 31 March 2011, with all other variables remaining constant. Such analysis is for illustrative purposes only – in practice market rates rarely change in isolation.

As at 31 March 2011

all figures in £ million	1% decrease in interest rates		10% weakening in sterling	
	Equity	Profit before tax	Equity	Profit before tax
Sterling	–	(0.6)	–	–
US dollar	–	–	(38.9)	(3.0)
Other	–	(0.1)	1.0	–

all figures in £ million	1% increase in interest rates		10% strengthening in sterling	
	Equity	Profit before tax	Equity	Profit before tax
Sterling	–	0.8	–	–
US dollar	–	0.2	31.8	2.2
Other	–	0.1	(1.0)	–

As at 31 March 2010

all figures in £ million	1% decrease in interest rates		10% weakening in sterling	
	Equity	Profit before tax	Equity	Profit before tax
Sterling	–	(0.3)	–	–
US dollar	(3.1)	–	(41.8)	(3.4)
Other	–	–	(0.1)	–

all figures in £ million	1% increase in interest rates		10% strengthening in sterling	
	Equity	Profit before tax	Equity	Profit before tax
Sterling	–	0.5	–	–
US dollar	3.1	–	34.2	2.8
Other	–	–	0.1	–

29 Cash flows from operations

all figures in £ million	2011	2010
Profit/(loss) after tax for the period	5 0	(63 3)
Adjustments for		
Taxation expense/(income)	21 6	(2 8)
Net finance costs	30 8	34 6
(Gain)/loss on business divestments and unrealised impairment of investments	(2 7)	6 2
Amortisation of purchased or internally developed intangible assets	11 5	11 3
Amortisation of intangible assets arising from acquisitions and impairments	26 3	79 5
Depreciation and impairment of property, plant and equipment	39 5	59 1
Loss on disposal of property, plant and equipment	1 0	–
Share of post-tax profit of equity accounted entities	(0 2)	(0 2)
Share-based payments charge	3 3	5 8
Net inventory write-offs in respect of capitalised DTR-programme bid costs	23 8	–
Changes in retirement benefit obligations	(13 4)	(18 4)
Pension curtailment gain	(4 9)	(2 0)
Net movement in provisions	9 0	10 9
	150 6	120 7
Increase in inventories ¹	(5 1)	(13 1)
Decrease in receivables	45 6	89 9
Increase/(decrease) in payables	64 7	(28 3)
Changes in working capital	105 2	48 5
Cash generated from operations	255 8	169 2
Add back cash outflow relating to UK restructuring	31 8	35 4
Net cash flow from operations before UK restructuring costs	287 6	204 6

¹ Excludes inventory write-offs in respect of capitalised DTR programme bid costs

30 Reconciliation of net cash flow to movement in net debt

all figures in £ million	note	2011	2010
Increase/(decrease) in cash in the year		42 9	(200 9)
Repayment of bank loans		144 1	232 1
Proceeds from bank borrowings		(4 9)	–
Settlement of forward contracts designated as net investment hedges		–	14 3
Payment of bank loan arrangement fees		2 4	–
Capital element of finance lease payments		2 8	2 8
Capital element of finance lease receipts		(3 0)	(3 0)
Change in net debt resulting from cash flows		184 3	45 3
Amortisation of deferred financing costs		(1 7)	(0 7)
Finance lease receivables		1 2	1 4
Finance lease payables		(1 0)	(1 1)
Foreign exchange movements and other non-cash movements		13 7	35 6
Movement in net debt in the year		196 5	80 5
Net debt at the start of the year		(457 4)	(537 9)
Net debt at the end of the year	31	(260 9)	(457 4)

31 Analysis of net debt

all figures in £ million	As at 31 March 2010	Cash flow	Reclassification	Non-cash movement	As at 31 March 2011
Due within one year					
Bank and cash	63.9	40.0	–	(1.4)	102.5
Bank overdraft	(3.2)	2.9	–	–	(0.3)
Recapitalisation fee	0.7	–	–	(0.1)	0.6
Finance lease receivables	3.0	(3.0)	–	3.0	3.0
US private placement	–	–	(94.3)	–	(94.3)
Finance lease payables	(2.8)	2.8	–	(2.8)	(2.8)
Derivative financial assets	4.8	–	–	(4.8)	–
Derivative financial liabilities	(3.6)	–	–	3.2	(0.4)
	62.8	42.7	(94.3)	(2.9)	8.3
Due after one year					
Bank loan	(143.7)	139.2	–	4.5	–
Recapitalisation fee	0.9	2.4	–	(1.6)	1.7
US private placement	(376.7)	–	94.3	11.2	(271.2)
Finance lease receivables	10.0	–	–	(1.8)	8.2
Finance lease payables	(9.7)	–	–	1.8	(7.9)
Derivative financial assets	–	–	–	–	–
Derivative financial liabilities	(1.0)	–	–	1.0	–
	(520.2)	141.6	94.3	15.1	(269.2)
Total net debt as defined by the Group	(457.4)	184.3	–	12.2	(260.9)

32 Finance leases

Group as a lessor

The minimum lease receivables under finance leases fall as follows

all figures in £ million	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	2011	2010
Amounts receivable under finance leases				
Within one year	3.0	3.0	3.0	3.0
In the second to fifth years inclusive	10.5	12.0	8.2	8.9
Greater than five years	–	1.5	–	1.1
	13.5	16.5	11.2	13.0
Less: unearned finance income	(2.3)	(3.5)	–	–
Present value of minimum lease payments	11.2	13.0	11.2	13.0
Classified as follows				
Financial asset – current			3.0	3.0
Financial asset – non-current			8.2	10.0
			11.2	13.0

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

32 Finance leases continued

Group as a lessee

The minimum lease payments under finance leases fall due as follows

all figures in £ million	Minimum lease payments		Present value of minimum lease payments	
	2011	2010	2011	2010
Amounts payable under finance leases				
Within one year	2 8	2 8	2 8	2 8
In the second to fifth years inclusive	9 9	11 3	7 9	8 9
Greater than five years	–	1 4	–	0 8
	12 7	15 5	10 7	12 5
Less future finance charges	(2 0)	(3 0)	–	–
Present value of minimum lease payments	10.7	12 5	10 7	12 5
Classified as follows				
Financial liability – current			2 8	2 8
Financial liability – non-current			7 9	9 7
			10.7	12 5

The Group utilises certain buildings under finance leases. Average lease terms are typically between two and ten years (31 March 2010 between two and ten years)

33 Share capital and other reserves

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 2009	6,604,764	660,476,373	1	1	6,604,765	660,476,374
Issued in year	–	–	–	–	–	–
At 31 March 2010	6,604,764	660,476,373	1	1	6,604,765	660,476,374
Issued in year	–	–	–	–	–	–
At 31 March 2011	6,604,764	660,476,373	1	1	6,604,765	660,476,374

Except as noted below all shares in issue at 31 March 2011 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

- 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,
- to refer matters to the Board or the Compliance Committee for its consideration in relation to the application of the Compliance Principles,
- to veto any contract, transaction, arrangement or activity which the Special Shareholder considers
 - 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
 - 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,
- 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,
- to exercise any of the powers contained in the Articles in relation to the Compliance Committee, and
- 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.

Other reserves

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 2011 are 5,494,001 shares (2010: 6,440,256 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 £3.3m (year to 31 March 2010: £5.8m).

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.

	2011		2010	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at the start of the year	714,840	2.3p	924,186	2.3p
Exercised during the year	(59,570)	2.3p	(103,822)	2.3p
Forfeited during the year	(110,630)	2.3p	(105,524)	2.3p
Outstanding at the end of the year	544,640	2.3p	714,840	2.3p

The 2003 ESOS are equity settled awards and those outstanding at 31 March 2011 had an average remaining life of 2.3 years (31 March 2010: 3.3 years). In respect of the share options exercised during the year, the average share price on the date of exercise was 121.3p. The exercise price of the outstanding options was 2.3p. Of the outstanding awards at the year end 544,640 were exercisable (2010: 714,840).

QinetiQ Share Option Scheme (QSOS)

No new options were granted during the year under the QSOS. The exercise price of QSOS 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 3,349,939 (2010: 8,711,683) 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 nil (2010: 425,073) 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.

	2011		2010	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at the start of the year	9,136,756	186.2p	18,103,300	190.0p
Forfeited during the year	(5,786,817)	179.1p	(8,966,544)	193.5p
Outstanding at the end of the year	3,349,939	198.7p	9,136,756	186.2p

QSOS grants are equity-settled awards and those outstanding at 31 March 2011 had an average remaining life of 0.4 years (2010: 0.9 years). There were no QSOS awards in 2011 (2010: nil). Of the options outstanding at the end of the year nil were exercisable (2010: 425,073). The range of exercise prices for the outstanding options at the end of the year was 198.5p to 214.0p.

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.

	2011 Number of shares	2010 Number of shares
Outstanding at the start of the year	3,686,623	1,318,213
Granted during the year	943,500	3,219,463
Exercised during the year	–	(215,763)
Forfeited during the year	(1,191,511)	(635,290)
Outstanding at the end of the year	3,438,612	3,686,623

PSP awards are equity-settled awards and those outstanding at 31 March 2011 had an average remaining life of 1.7 years (2010: 2.2 years). There is no exercise price for these PSP awards. Monte Carlo modelling was used to fair value the TSR element of the awards at grant date. Assumptions used in the models included 35% (2010: 34%) for the average share price volatility to the FTSE comparator group and 40% (2010: 37%) for the average correlation to the comparator group. The weighted average fair value of grants made during the year was £1.01 (2010: £1.17). Of the options outstanding at the end of the year nil were exercisable (2010: nil).

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 one year, two years, three years and four years. Half of the awards are dependent on achieving QNA organic profit growth targets and half on a time-based criterion. The time-based criterion 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%.

	2011 Number of shares	2010 Number of shares
Outstanding at the start of the year	7,321,228	3,694,277
Granted during the year	4,315,625	5,304,501
Exercised during the year	(869,663)	(1,087,219)
Forfeited during the year	(2,830,677)	(590,331)
Outstanding at the end of the year	7,936,513	7,321,228

RSUs are equity-settled awards and those outstanding at 31 March 2011 had an average remaining life of 1.5 years (2010: 1.7 years). There is no exercise price for these RSU awards. The weighted average fair value of grants made during the year was £1.25 (2010: £1.35). Of the awards outstanding at the end of the year, 7,845 were exercisable (2010: 2,726).

Value Sharing Plan (VSP)

In the year the Group granted VSP awards to certain senior UK employees under the VSP Plan. The awards vest over a three-year performance period. 70% of the awards are dependent on creating additional shareholder value, measured as net cash returns to investors and the increase in PBT over an 8.5% hurdle. 30% of the awards are dependent on total shareholder return (TSR) against a comparator group of FTSE 250 listed companies (less investment trusts) over a three-year performance period. Half of the awards vest three years from the date of grant, the remaining half of the awards vest four years from the date of grant. Further details of the vesting conditions of the scheme are in the Remuneration Report on page 38.

	2011 Number of shares	2010 Number of shares
Outstanding at the start of the year	–	–
Granted during the year	6,287,640	–
Outstanding at the end of the year	6,287,640	–

VSP awards are equity-settled awards and those outstanding at 31 March 2011 had an average remaining life of 2.5 years (2010: nil). There is no exercise price for these VSP awards. Monte Carlo modelling was used to fair value the TSR element of the awards at grant date. Assumptions used in the models included 34% for the average share price volatility to the FTSE comparator group and 50% for the average correlation to the comparator group. The weighted average fair value of grants made during the year was £0.95. Of the awards outstanding at the end of the year, nil were exercisable.

34 Share-based payments continued

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.

	2011 Number of matching shares	2010 Number of matching shares
Outstanding at the start of the year	1,339,543	1,252,730
Granted during the year	511,825	555,688
Exercised during the year	(414,487)	(430,743)
Forfeited during the year	(54,856)	(38,132)
Outstanding at the end of the year	1,382,025	1,339,543

SIP matching shares are equity-settled awards and those outstanding at 31 March 2011 had an average remaining life of 1.5 years (2010: 1.5 years). There is no exercise price for these SIP awards. Of the shares outstanding at the end of the year nil were exercisable (2010: nil).

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 three years as detailed in the QSOS EPS conditions above. No awards will vest if EPS growth in the vesting period is below 22.5%.

	2011 Number of matching shares	2010 Number of matching shares
Outstanding at the start of the year	11,988	83,539
Granted during the year	–	6,859
Exercised during the year	(2,052)	(25,155)
Forfeited during the year	(3,077)	(53,255)
Outstanding at the end of the year	6,859	11,988

DAB matching shares are equity-settled awards and those outstanding at 31 March 2011 had an average remaining life of 1.2 years (2010: 1.8 years). There is no exercise price for these DAB awards. Of the shares outstanding at the end of the year nil were exercisable (2010: nil).

Share-based award pricing – options

Share options (excluding TSR performance related) have been valued using Black-Scholes models to determine the fair value of awards. There were no such awards in 2010 or 2011.

No assumptions have been disclosed in the current year, as no QSOS awards have been made in the year ended 31 March 2011.

Share-based award pricing – other

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	2011	2010
Within one year	6.5	4.6
In the second to fifth years inclusive	24.0	16.3
Greater than five years	0.1	–
	30.6	20.9

Group as a lessee

all figures in £ million	2011	2010
Lease and sub-lease income statement expense – minimum lease payments	22.5	23.3

The Group had the following future minimum lease payment commitments

all figures in £ million	2011	2010
Within one year	15.2	16.9
In the second to fifth years inclusive	68.2	50.4
Greater than five years	32.2	33.2
	115.6	100.5

Operating lease payments represent rentals payable by the Group on certain office property and plant. Leases are negotiated for an average of 3-10 years.

36 Transactions with MOD

The MOD continues to own its Special Share in QinetiQ which conveys certain rights as set out in note 33. Transactions between the Group and the MOD are disclosed as follows:

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 2011 stands at 16% (2010: 28%). 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 2011 was £3.8m (31 March 2010: £4.4m).

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 2011 comprise the Board of Directors and the QinetiQ Executive Team

all figures in £ million	2011	2010
Short-term employee remuneration including benefits	6.4	5.4
Post-employment benefits	0.2	0.1
Share-based payments expense	1.7	1.0
Total	8.3	6.5

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 £56.7m at 31 March 2011 (31 March 2010: £55.1m) 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 the employer contribution rate of 11.5% from 30 June 2008, and past service deficit recovery payments of £13m per year for a ten-year period from this date. The next scheduled triennial valuation will be performed as at 30 June 2011.

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. 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 which are part of the Public Sector Transfer Club. On 31 March 2009, the Group withdrew from the Public Sector Transfer Club. 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. The Company closed the DC section from 31 March 2011 and has replaced this with a Group Personal Pension Plan managed by Zurich. All existing DC members will be automatically transferred to the GPP Plan. The DC Section will be wound up by the Trustees in due course. The expected employer cash contribution to the defined benefit scheme for the year ending 31 March 2012 is £32.5m (2011: £36.6m), subject to the outcome of the next triennial valuation in June 2011.

Other UK schemes

In the UK the Group has a small number of employees for whom benefits are secured through the Prudential Platinum Scheme. The net pension deficits of this scheme at 31 March 2011 amounted to £nil (31 March 2010: £0.2m). QinetiQ also offers employees access to a Group Self Invested Personal Pension Plan, but no Company contributions are paid to this arrangement.

There were no outstanding or prepaid contributions at the balance sheet date (March 2010: £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	2011	2010	2009	2008
Equities	564.1	714.6	473.7	620.8
Corporate bonds	158.7	69.5	78.4	83.9
Government bonds	165.3	69.6	83.2	76.3
Property	78.0	53.4	–	–
Other	15.0	8.8	12.1	3.2
Total market value of assets	981.1	915.9	647.4	784.2
Present value of scheme liabilities	(1,105.7)	(1,063.2)	(752.6)	(807.6)
Net pension liability before deferred tax	(124.6)	(147.3)	(105.2)	(23.4)
Deferred tax asset	32.4	41.2	29.4	6.5
Net pension liability	(92.2)	(106.1)	(75.8)	(16.9)

39 Post-retirement benefits continued

Changes to the fair value of scheme assets

all figures in £ million

	2011	2010
Opening fair value of scheme assets	915.9	647.4
Expected return on assets	68.6	46.3
Actuarial (loss)/gain on scheme assets	(14.0)	206.6
Contributions by the employer	36.6	38.4
Contributions by plan participants	0.2	0.3
Net decrease in assets from disposals	–	(0.6)
Net benefits paid out and transfers	(26.2)	(22.5)
Closing fair value of scheme assets	981.1	915.9

Changes to the present value of the defined benefit obligation

all figures in £ million

	2011	2010
Opening defined benefit obligation	1,063.2	752.6
Current service cost	22.9	20.0
Interest cost	59.5	48.8
Contributions by plan participants	0.2	0.3
Actuarial (gain)/loss on scheme liabilities	(9.3)	266.8
Net decrease in liabilities from disposals	–	(0.8)
Curtailment gain	(4.9)	(2.0)
Past service cost	0.3	–
Net benefits paid out and transfers	(26.2)	(22.5)
Closing defined benefit obligation	1,105.7	1,063.2

Total expense recognised in the income statement

all figures in £ million

	2011	2010
Pension costs charged to the income statement		
Current service cost	22.9	20.0
Past service cost	0.3	–
Interest cost	59.5	48.8
Expected return on plan assets	(68.6)	(46.3)
Curtailment	(4.9)	(2.0)
Total expense recognised in the income statement (gross of deferred tax)	9.2	20.5

Analysis of amounts recognised in statement of recognised income and expense

all figures in £ million

	2011	2010	2009	2008
Total actuarial (loss)/gain (gross of deferred tax)	(4.7)	(60.2)	(95.7)	65.5

Cumulative total actuarial losses recognised in the Statement of Recognised Income and Expense

(258.1) (253.4) (193.2) (97.5)

History of scheme experience gains and losses*

Experience (losses)/gains on scheme assets	(14.0)	206.6	(212.8)	(83.9)
Experience gains/(losses) on scheme liabilities	32.0	(2.9)	37.1	(1.0)

Experience gains and losses exclude the impact of changes in assumptions

Assumptions

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

	2011	2010
Rate of increase in salaries	4.6%	4.6%
Rate of increase in pensions in payment	3.6%	3.6%
Discount rate applied to scheme liabilities	5.6%	5.6%
RPI inflation assumption	3.6%	3.6%
CPI inflation assumption	2.7%	N/A
Assumed life expectancies in years		
Future male pensioners (currently aged 60)	88	87
Future female pensioners (currently aged 60)	90	89
Future male pensioners (currently aged 40)	90	89
Future female pensioners (currently aged 40)	91	90

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. The life expectancy assumptions for mortality have increased in the year to 31 March 2011 with the base tables for mortality in line with the Medium Cohort projections with minimum annual rates of improvement of 1.25% for males and 0.75% for females (2010 improvement 1% for males and 0.5% for females). 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.

Sensitivity analysis of the principal assumptions used to measure scheme liabilities

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase/decrease by 0.1%	Decrease/increase by £24.1m
Rate of inflation	Increase/decrease by 0.1%	Increase/decrease by £24.5m
Salary increase	Increase/decrease by 0.1%	Increase/decrease by £5.8m
Rate of mortality	Increase by one year	Increase by £22.2m

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

	2011	2010
Equities	8.0%	8.0%
Corporate bonds	5.5%	5.5%
Government bonds	4.3%	4.4%
Property	8.0%	8.5%
Cash	4.3%	4.3%
Weighted average	6.9%	7.5%

Return on scheme assets

all figures in £ million

	2011	2010
Actual return on plan assets		
Expected return on scheme assets	68.6	46.3
Actuarial (loss)/gain on scheme assets	(14.0)	206.6
Actual gain on scheme assets	54.6	252.9

Defined contribution schemes

Payments to the defined contribution schemes totalled £24.1m (March 2010: £24.6m)

40 Capital commitments

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

all figures in £ million	2011	2010
Contracted	4 3	5 9

Capital commitments at 31 March 2011 include £3 9m (2010 £5 5m) 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 companies listed below are those which were part of the Group at 31 March 2011 and which, in the opinion of the Directors, significantly affected the Group's results and net assets during the year. The Directors consider that those companies not listed are not significant in relation to the Group as a whole. A comprehensive list of all subsidiaries will be disclosed as an appendix to the Group's annual return.

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 North America, Inc	USA	USA
QinetiQ US Holdings, Inc	USA	USA
Analex Corporation	USA	USA
Apogen Technologies, 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 Directors' Report on page 45.

Company balance sheet

all figures in £ million	note	2011	2010
Fixed assets			
Investments in subsidiary undertaking	2	112 0	108 7
		112 0	108 7
Current assets			
Debtors	3	306 3	303 9
		306 3	303 9
Current liabilities			
Creditors amounts falling due within one year	4	(79 2)	(91 0)
Net current assets		227.1	212 9
Net assets		339 1	321 6
Capital and reserves			
Equity share capital	6	6 6	6 6
Capital redemption reserve	6	39 9	39 9
Share premium account	6	147 6	147 6
Profit and loss account	6	145 0	127 5
Capital and reserves attributable to shareholders		339 1	321 6

There are no other recognised gains and losses

The financial statements of QinetiQ Group plc (company number 4586941) were approved by the Board of Directors and authorised for issue on 27 May 2011 and they were signed on its behalf by



Mark Elliott
Chairman



Leo Quinn
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 2006, 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 awards 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 awards 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 charges for both equity and cash-settled share-based payments are updated annually for non-market-based vesting conditions. Further details of the Group's share-based payment charge is disclosed in note 34 of the Group financial statements. The cost of share-based payments is charged to subsidiary undertakings

2 Investment in subsidiary undertaking

As at 31 March

all figures in £ million	2011	2010
Subsidiary undertaking – 100% of ordinary share capital of QinetiQ Holdings Limited	92.4	92.4
Capital contributions arising from share-based payments to employees of subsidiaries	19.6	16.3
	112.0	108.7

A list of all principal subsidiary undertakings of QinetiQ Group plc is disclosed in note 41 to the Group financial statements. The £3.3m (2010: £5.8m) 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	2011	2010
Amounts owed by Group undertakings	306.3	303.9

4 Creditors

As at 31 March

all figures in £ million	2011	2010
Amounts owed to Group undertakings	79.2	91.0

5 Share capital

The Company's share capital is disclosed in note 33 to the Group financial statements

6 Reserves

all figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Profit and loss	Total equity
At 31 March 2010	6 6	39 9	147 6	127 5	321 6
Profit	—	—	—	14 8	14 8
Purchase of own shares	—	—	—	(0 6)	(0 6)
Share-based payments	—	—	—	3 3	3 3
At 31 March 2011	6 6	39 9	147 6	145 0	339 1
At 31 March 2009	6 6	39 9	147 6	73 6	267 7
Profit	—	—	—	80 5	80 5
Purchase of own shares	—	—	—	(0 8)	(0 8)
Dividend paid	—	—	—	(31 6)	(31 6)
Share-based payments	—	—	—	5 8	5 8
At 31 March 2010	6 6	39 9	147 6	127 5	321 6

The capital redemption reserve is not distributable and was created following redemption of Preference Share capital

7 Share-based payments

The Company's share-based payment arrangements are set out in note 34 to the Group financial statements

8 Other information

Directors' emoluments, excluding Company pension contributions, were £2 7m (2010 £2 8m) 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 2011 was £15,000 (2010 £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		2011 ³	2010 ³		
US Services	£m	588.2	628.0		
UK Services	£m	611.6	693.9		
Global Products	£m	502.8	303.5		
Revenue	£m	1,702.6	1,625.4		
US Services	£m	44.3	52.6		
UK Services	£m	48.7	59.1		
Global Products	£m	52.4	8.6		
Underlying operating profit¹	£m	145.4	120.3		
		2010 ³	2009 ³	2008 ³	2007 ³
QinetiQ North America	£m	800.1	765.6	540.2	358.2
EMEA	£m	818.8	842.3	820.1	779.3
Ventures	£m	6.5	9.4	5.7	12.0
Revenue	£m	1,625.4	1,617.3	1,366.0	1,149.5
QinetiQ North America	£m	67.7	83.0	62.1	39.9
EMEA	£m	61.1	84.2	80.0	73.0
Ventures	£m	(8.5)	(15.6)	(15.1)	(6.9)
Underlying operating profit¹	£m	120.3	151.6	127.0	106.0
Underlying operating margin ¹	%	8.5	7.4	9.4	9.2
Underlying profit before tax ¹	£m	114.6	85.7	130.2	94.0
Profit/(loss) before tax	£m	26.6	(66.1)	114.0	89.3
Profit/(loss) after tax	£m	5.0	(63.3)	93.6	69.0
Underlying basic EPS ¹ (pence)	pence	14.2	11.1	15.9	11.3
Diluted EPS (pence)	pence	0.8	(9.7)	14.3	10.3
Basic EPS (pence)	pence	0.8	(9.7)	14.3	10.5
Dividend per share	pence	1.60	1.58	4.75	3.65
Underlying net cash from operations (post capex) ¹	£m	265.8	169.2	175.2	107.0
Net debt	£m	260.9	457.4	537.9	300.8
Average number of employees		12,033	13,604	13,882	13,470
Orders	£m	1,559.7	1,400.9	1,596.0	1,277.1
				1,277.1	1,214.0

¹ Underlying measures are stated before amortisation of intangibles arising from acquisitions and specific non-recurring items. Specific non-recurring items include amounts relating to restructuring charges, pension curtailment gains, contingent payments on acquisition treated as remuneration, net inventory write-offs in respect of capitalised DTR programme bid costs, impairment of property, plant and equipment, impairment of intangible assets, gain/(loss) on business combinations and divestments, unrealised impairments of investments, and tax thereon. Definitions of underlying measures of performance are in the glossary on page 107. Underlying financial measures are presented as the Board believes these provide a better representation of the Group's long-term performance trend.

² Operating profit and operating margins for 2009, 2008 and 2007 have been restated to show the net finance element of the IAS 19 pension cost in the finance income and expense lines. This was previously reported in other operating costs.

³ The Group's management structure changed with effect from 1 April 2010. Comparatives for the new structure have been provided for 2010. Segmental data for 2007 to 2010 has been retained on the old structure as reported in previous financial statements.

Glossary

AGM	Annual General Meeting	RoSPA	Royal Society for the Prevention of Accidents
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	RSU	Restricted Stock Unit
BPS	Basis points	SDSR	Strategic Defence and Security Review undertaken by UK Government
C4ISR	Command, control, communications, computers, intelligence, surveillance and reconnaissance	Specific non-recurring items and acquisition amortisation	Restructuring charges, pension curtailment gains, contingent payments on acquisition treated as remuneration, net inventory write-offs in respect of capitalised DTR-programme bid costs, impairment of property, plant and equipment, impairment of intangible assets, gain/(loss) on business combinations and divestments, unrealised impairments of investments, and tax thereon
Combined Code	Guidelines required by the Listing Rules of the Financial Services Authority to address the principal aspects of Corporate Governance	TSR	Total Shareholder Return
Compliance Principles	The principles underlying the Compliance Regime, covering impartiality, integrity, conflicts, confidentiality and security	UOR	Urgent Operational Requirements
COTS	Commercial-Off-The Shelf	UK GAAP	UK Generally Accepted Accounting Practice
CR	Corporate Responsibility	Underlying basic earnings per share	Basic earnings per share as adjusted to exclude 'specific non-recurring items and acquisition amortisation'
Cyveillance, Inc	Cyveillance, Inc is a QinetiQ company and leader in cyber intelligence, currently serving financial institutions worldwide and more than 100 million global customers	Underlying effective tax rate	The tax charge for the year excluding the tax impact of 'specific non-recurring items and acquisition amortisation' expressed as a percentage of underlying profit before tax
DAB	Deferred Annual Bonus	Underlying net cash from operations (post capex)	Net cash inflow from operations before restructuring costs less net cash outflow on purchase/sale of intangible assets and property, plant and equipment
DERA	Defence Evaluation and Research Agency, the majority of which was transferred into QinetiQ in 2001	Underlying operating cash conversion	The ratio of underlying net cash from operations (post capex) to underlying operating profit excluding share of post tax result of equity-accounted joint ventures and associates
DHS	US Department of Homeland Security	Underlying operating margin	Underlying operating profit expressed as a percentage of revenue
DoD	US Department of Defense	Underlying operating profit	Operating profit as adjusted to exclude 'specific non-recurring items and acquisition amortisation'
DTR	MOD's Defence Training Rationalisation programme	Underlying profit before tax	Profit before tax as adjusted to exclude 'specific non-recurring items and acquisition amortisation'
EBITDA	Earnings before interest, tax, depreciation and amortisation	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
EMEA	Europe, Middle East and Australasia	VSP	Value Sharing Plan
EPS	Earnings per share		
Funded backlog	The expected future value of revenue from contractually committed and funded customer orders (excluding £3.9bn value of the remaining 17 years of LTPA contract)		
GWH	Giga-Watt Hours		
HMRC	Her Majesty's Revenue and Customs (UK)		
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		
MOD	UK Ministry of Defence		
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		
PBT	Profit Before Tax		
PSP	Performance Share Plan		
QNA	QinetiQ North America		
QSOS	QinetiQ Share Option Scheme		
R&D	Research & Development		
ROCE	Return on Capital Employed		
RFID	Radio frequency identification		
RIDDOR	Reporting of Injuries, Diseases & Dangerous Occurrences Regulations		

Additional information

Financial calendar

2 August 2011	Interim management statement
2 August 2011	Annual General Meeting
3 August 2011	Final 2011 dividend ex-dividend date
2 September 2011	Final 2011 dividend payment date
30 September 2011	Interim financial period end
23 November 2011	Interim results announcement
February 2012	Interim management statement (provisional date)
31 March 2012	Financial year end
May 2012	Preliminary results announcement

Analysis of shareholders*

Institutional investors with a shareholding greater than 0.5m shares	96%
Other (including employees, management and financial institutions with a shareholding less than 0.5m shares)	4%
	100%

* Analysis as at 26 May 2011

Auditor

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Chartered Accountants
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Corporate brokers

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EC2A 2HS

Registrars

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Company information

Company Registration Number 4586941

Registered office

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Where can you learn more?

View our report online at www.QinetiQ.com/Investors

The QinetiQ Annual Report 2011 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

Archive information

- Results and trading updates
- Company reports
- Company presentations

Shareholder services

- Register online
- Shareview
- Common questions

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 hard copy (i.e. paper))

The wider use of electronic communications enables fast receipt of documents, reduces the Company's printing, paper and postal costs and has a positive impact on the environment

Shareholders may also cast their vote for the 2011 AGM online quickly and easily using the Sharevote service by visiting www.sharevote.co.uk

Corporate responsibility

Read more about our corporate responsibility policy at www.QinetiQ.com/cr



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