QinetiQ
People Who Know How

Co. No. 4586941

QINETIQ GROUP PLC.

Committed to delivering value

QinetiQ Group plc Annual Report and Accounts 2013

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Performance highlights

Robust Group performance in tough markets

Revenue

£1,327.8m

2013	£1,327 8m
2012	£1 469 6m

Net cash/(debt)

£74.0m

2013	£74 0m
2012	(£122 2m)

Underlying operating profit*

£168.7m

2013	£168 7m
2012	£159 6m^

Underlying operating margin*

12.7%

2013	12 7%
2012	10 9%^

Underlying operating cash conversion*

104%

2013	104%
2012	148%^

Underlying earnings per share*

18.9p

2013	18 9p
2012	13 6p^

Total dividend

3.80p

2013	3 80p
2012	2 90p

(Loss)/profit after tax

(£133.2m)

2013	(£133 2m)
2012	£246 3m^

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

This Annual Report is intended to provide information to shareholders and is not designed to be relied upon by any other party The Company and its Directors accept no liability to any other person other than under English law

Note Year references (2013 and 2012) relate to the year ended 31 March

* Definitions of underlying measures of performance can be found in the glossary on page 116

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly

Who we are

We are experts in defence, aerospace and security. We employ more than 9,000 people worldwide, and our scientists and engineers solve some of the world's most important problems.

What we do

We offer high-end technical knowledge underpinned by world-class research and innovation. We supply advice, assurance, test and evaluation, engineering solutions and training.

Why we are different

Our customers face challenges that define the modern world. They know that we are uniquely placed to understand these issues and work with them to ensure the success of their mission.

Our people make the critical difference to customers by providing unique answers which combine technical expertise, deep domain knowledge and rigorous independent thinking.

How we build confidence

Our prized possession is trust. Customers around the world rely on the drive and dedication of our people to help them meet their goals – often in environments where there is no second chance for failure. We aim to deliver solutions that work first time, every time.

Download our Investor Relations App

You can view this Annual Report and Accounts and other results materials at QinetiQ com In addition, the QinetiQ Investor Relations App gives you all the latest investor and financial media information The App allows you to get the latest share price information and corporate news, as well as review financial reports

www QinetiQ com

Group overview

Understanding our business

QinetiQ Group plc is a global business, listed on the London Stock Exchange It employs over 9,000 employees principally in the UK and North America

Our services offerings, which account for more than 80% of total sales, are focused on providing expertise and knowledge in national markets Our products business focuses on the provision of technology-based solutions to meet customer requirements, complemented by contract-funded research and development on a global basis

Under the QinetiQ brand we operate numerous businesses across multiple platforms, as illustrated below This diversified portfolio is underpinned by a selection of long-term contracts

Reporting structure — **UK Services**

Read more on pages 14-23

Markets — **Defence**

Revenue streams	Air	Weapons	Maritime	Australia	Training & Simulation Services	C4ISR	Acquisition Services
Research Relationship-based value selling at a fixed price or cost plus project consultancy contracts	●	●	●		●	●	●
Advice Contracts based on the provision of advice and specific facility services including manpower services	●	●	●	●	●	●	●
Test & Evaluation Long-term fixed price contracts with additional ad-hoc testing and evaluation projects	●	●	●	●	●		
Advanced technology solutions Low volume, defence focused, bespoke requirements with incremental revenue from software, services and after sales support	●	●	●		●	●	●
Intellectual property exploitation and licensing Royalties and licence fees from third-party exploitation of intellectual property	●	●	●	●	●	●	●

Revenue by division (£m)

19%
45%
36%

	2013 £m	2012 £m
UK Services	597 3	610 1
US Services	475 6	534 5
Global Products	254 9	325 0
Total	**1,327 8**	**1,469 6**

Revenue by major customer type (£m)

17%
36%
47%

	2013 £m	2012 £m
UK Government	480 3	482 8
US Government	620 8	730 5
Other	226 7	256 3
Total	**1,327 8**	**1,469 6**

Underlying operating profit* by division (£m)

36%
51%
13%

	2013 £m	2012^ £m
UK Services	85 8	61 3
US Services	21 9	32 1
Global Products	61 0	66 2
Total	**168 7**	**159 6**

Revenue by geography (£m)

7%
42%
51%

	2013 £m	2012 £m
United Kingdom	560 4	570 1
North America	672 7	788 7
Other	94 7	110 8
Total	**1,327 8**	**1,469 6**

	US Services						**Global Products**					
	Security			**Government**			**Defence**			**Other**		
	Security	**Cyveillance®**	**Mission Solutions**	**Aerospace Operations & Systems**	**Software & Systems Engineering**	**Lifecycle Solutions**	**Survivability**	**Unmanned Systems**	**Maritime & Transportation**	**OptaSense®**	**Space**	**New Technologies**
	●	●		●			●	●	●	●	●	●
	●	●	●	●	●	●					●	●
				●		●						
	●	●	●	●	●	●	●	●	●	●	●	●
	●	●	●	●	●	●	●	●	●	●	●	●

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^ IAS 19 (revised) 'Employee benefits' has been adopted for FY13 and the FY12 comparatives have been restated accordingly

Chairman's statement

Recognising the importance of shareholder returns

Mark Elliott
Chairman

The Results

The Group delivered a robust performance with underlying operating profit* increasing 6% to £168 7m (2012 £159 6m^) This was achieved despite revenue decreasing 10% on an organic basis at constant currency, principally reflecting the impact of continued budget uncertainty in the US on federal services spending and the expected second half reduction in conflict-related products

The underlying operating margin* increased to 12 7% (2012 10 9%^), as a result of improvements in utilisation rates and project margins in UK Services, enhanced by the mix of Global Products sales that included a large proportion of spares In addition, there was a one-off credit of £6m relating to a contract extension These improvements more than offset lower margins in US Services

Underlying profit before tax* was £152 1m (2012 £110 2m^) with underlying net finance costs* falling to £16 6m (2012 £49 4m^), reflecting accelerated interest costs of £27 4m in the prior year following the completion of the programme to repay $177m of private placement debt

Full year underlying earnings per share* were 18 9p (2012 13 6p^), a 39% increase, benefitting from the increase in operating profit and the decision in the prior year to pay down private placement debt

Significant adjusting items included a non-cash impairment of £255 8m to the acquired goodwill in the US Services division and a net exceptional restructuring cost of £16 3m (2012 £69 4m gain) primarily resulting from actions to place the US cost base on a more competitive footing, as indicated at the pre-close statement on 28 March 2013 Following the adoption of IAS 19 (revised) 'Employee benefits', net pension finance expense of £1 3m (2012 £7 2m^), is also included in adjusting items Including these significant items, the statutory loss after tax was £133 2m (2012 £246 3m^ profit)

Excluding the impact of £65m received from the Ministry Of Defence (MOD) in April 2012, underlying cash flow from operations* was £175 9m (2012 £235 4m) and underlying operating cash conversion* remained strong at 104% (2012 148%^), despite increased contract-funded capital expenditure in UK Services

At 31 March 2013, the Group had achieved a net cash position of £74 0m, compared with net debt of £122 2m at 31 March 2012

Dividend

The Board proposes a final dividend of 2 70p per share for the year ended 31 March 2013 (31 March 2012 2 00p) making the full year dividend 3 80p (31 March 2012 2 90p) Subject to approval at the Annual General Meeting, the final dividend will be paid on 6 September 2013 to shareholders on the register at 9 August 2013 The full year dividend represents an increase of 31% on the prior period and is in line with the Group's progressive dividend policy, reflecting in-year growth in underlying earnings per share* and the Group's commitment to delivering value to shareholders

Strategy

Good progress has also been made in implementing the next phase of QinetiQ's development, Organic-Plus This programme is focused on building a leading technology-based solutions group with growing sustainable earnings, by applying the innovation and capabilities of our people in targeted sectors The Group portfolio is actively managed to maximise value from strong defensible core businesses, well positioned for growth once markets stabilise, and to explore a number of potentially scalable growth opportunities, while constantly testing emerging technologies for commercialisation

Our people

QinetiQ's success lies in its ability to recruit, retain and develop the skills of its employees We have a track record of attracting some of the most talented scientific and technically minded individuals in the marketplace including apprentices and graduates, giving them the opportunity to use their skills on the most challenging problems in today's world We constantly strive to ensure we attract and develop the most diverse workforce in order that we can leverage this to solve customer challenges Customer feedback recognises the unique skillset of our people and their ability to apply their knowledge to specific challenges We take great pride in employing 'People Who Know How' On behalf of the Board, I would like to thank all of our employees for their commitment and effort during this year

Corporate responsibility

As a business operating across a broad spectrum of communities and geographies, we take our responsibilities as an employer and as a stakeholder in those communities very seriously We are aware of the impact of our operations and have a range of programmes in place including environmental management, business ethics and community investment We are mindful of the unique privilege that we have as a business working with customers with critical missions at their heart

Governance

Effective management of risks and opportunities is essential to the delivery of the Group's strategic objectives, as are achievement of sustainable shareholder value, protection of the Group's reputation and meeting the requirements of good corporate governance The Board is focused on ensuring a high standard of corporate governance is upheld across the Group During the year, we made considerable progress to improve the effectiveness of our risk management processes and procedures (pages 30-33)

Outlook

Overall, the Group has delivered a robust performance in tough markets UK Services was the stand-out performer, demonstrating its unique strengths as well as the benefits of our self-help programme, with Global Products continuing to diversify into non-conflict technologies such as OptaSense®, space technology and power line sensors The decline in performance of US Services reflected the continuing very challenging market conditions and we have decided to initiate a strategic review of this division to determine the best way to maximise its value

A key step in transforming QinetiQ has been the achievement of net cash Having paid down over half a billion pounds of debt in three years, we have both financial resilience and capacity to invest We are now committed to delivering value by building a Group capable of both growth and high quality returns

UK Services is expected to remain steady this year but the heightened uncertainty around US federal services spending is causing low levels of visibility in US Services As anticipated, budgetary pressures and the drawdown effect seen towards the end of last year are continuing to affect the timing and quantity of sales in Global Products While the range of possible outcomes is wider than usual at this stage in the year and the full impact of sequestration remains unclear, the Board is maintaining its expectations for overall Group performance in the current year absent any material changes in customer requirements

Mark Elliott
Chairman
23 May 2013

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People Who Know How to deliver space travel

Our ion engines are ten times more efficient than conventional rockets, making the once impossible possible – like a new generation of leaner, faster, cheaper communications satellites, propelling a spacecraft at seven times the speed of a rifle bullet at the boundary of space or enabling ambitious missions to the inner and outer planets.

People Who Know How to provide real-time information

**We're the world leader in distributed acoustic sensing.
OptaSense® is revolutionising oil well completion, fracking and seismic operations as well as ensuring pipeline integrity, by providing real-time, decision-ready information.
We are building The Earth's Nervous System™.**

People Who Know How to keep people safe

During Hurricane Sandy, real-time social media trending information delivered by Cyveillance® helped New Jersey's emergency services respond more effectively to citizens in desperate need of assistance.

People Who Know How to build confidence on the battlefield

If you know what's happening on the battlefield, you know the difference between victory and defeat. With our robotic systems and controllers, one operator can command multiple unmanned aircraft, vehicles and sensors to make the right decision, right away.

People Who Know How to steer customers in the right direction

If a submarine – or surface ship – runs aground, that's a crisis. The commander has to do specific things in an optimal sequence. That's where our decision support tools and expert advice help in the recovery process.

Good progress has been made in implementing Organic-Plus, our next phase of development, to continue growing sustainable earnings.

For more information visit:
www.QinetiQ.com

Chief Executive's review

Committed to delivering value

QinetiQ's transformation began with a 24 month self-help programme The portfolio was refocused to align with customers' changing needs, to ensure a full understanding of profit potential, and to determine which businesses are scalable into significant core units The Group is now organised as distinct businesses, each representing one of QinetiQ's key areas of capability, with an accountable leader and a clear route map to maximise future performance The new cadre of leaders running these businesses is building an open, commercial culture which has enabled the recent delayering of leadership in both the UK and the US

The self-help programme also addressed the Group's immediate financial situation, driving a reduction in debt of over half a billion pounds in three years Today the Group's balance sheet carries net cash and has the strength to weather challenging defence markets and the capacity for carefully targeted investment choices

The Organic-Plus programme continues the disciplines established during phase one, including a focus on cash generation This in turn enables investments in growth managed through a rigorous process for prioritising resources and monitoring returns The goal is to drive value from the portfolio by investing in 'Core' capabilities which can win market share, while nurturing a select number of established ('Explore') services and solutions to determine their ability to scale into future core businesses Early stage ('Test for Value') technologies and offerings come under evaluation as they are generated, to determine the best route to exploit value, including potential partnerships, divestment or closure

In parallel with the drive for profitable growth, over 1,400 projects have been implemented to date through the My Contribution programme, reducing costs substantially and driving improved productivity Many of these projects directly help customers, so that QinetiQ's people provide a critical point of difference for the Group in delivering 'more for less' The insights, engagement and dedication of the Group's engineers and scientists feed directly into winning and retaining business – a unique value captured not only in the QinetiQ strapline of 'People Who Know How', but in the UK Fellows' network which brings together a cadre of senior people recognised nationally and internationally for their particular technical expertise

A strategic review has been initiated to determine the route to maximum value in US Services This division, which has been restructured, possesses some strong capabilities and market positions, but the Group needs to determine the best way to maximise its performance and potential

A business-by-business update on the Organic-Plus programme is provided in this review

Leo Quinn
Chief Executive Officer

Highlights

Robust overall Group performance in tough markets during 2013

- 6% increase in underlying operating profit* driven by excellent performance in UK Services
- Net cash position achieved through strong cash generation
- 31% increase in full year dividend, reflecting in-year growth in underlying earnings per share* and the Group's commitment to delivering value

Good progress implementing Organic-Plus programme as route to delivering value

- Agreed five-year, £998m re-pricing of Long Term Partnering Agreement (LTPA) with MOD, underpinning core UK Services business
- Non-cash £256m goodwill impairment in US Services, initiating strategic review
- Expanding Global Products portfolio to increase focus on non-conflict markets
- Positioning for sustainable earnings growth over the medium term

* Definitions of underlying measures of performance can be found in the glossary on page 116

Q&A with Leo Quinn

Q Why do you call this a 'transformation', not a 'turnaround'?

A In a turnaround you simply take cost out and rebuild on a leaner base A transformation is about changing the whole culture to embrace new values and operating principles QinetiQ's origins in Government gave it a unique legacy of know-how Over the last three years, we've begun to create a culture from the ground up, a solid foundation that can help the Group survive and thrive in a competitive market All credit to our people for accepting the challenge and embracing such a different ethos

Q What do you think is still left to do?

A Real cultural transformation is a marathon, not a sprint The most visible impact is in the early years after that, the task is to develop consistency and resilience in the organisation by embedding discipline As we implement QinetiQ's next phase, it's also about positioning the portfolio around growth, turning innovations into sustainable business models which deliver repeatable earnings

Q Is UK Services' performance sustainable?

A UK Services provides important independent support for its customers at home and abroad – R&D, test and evaluation, specialist advice – in key relevant areas such as weapons, airworthiness, maritime, C4ISR and security We help them do more with less, enabling them to build something once and derive the benefits many times – our Weapons Science & Technology Centre is a good example And new opportunities continue to emerge because both our customers and the threats to which they must respond continue to change

Q What does it mean to conduct a strategic review of US Services?

A US Services has seen their revenues and profits decline in the face of challenging markets The business has some strong positions with customers and the new management has delayered and taken out cost to retain competitive rates Now over the coming months we will be conducting a strategic review to determine the best way to maximise the performance and potential of the division

Q How does UK Services differ from US Services?

A First and foremost, the two markets are very different in size and structure, and so is our role In the UK, we are a material provider of high-end technical advice and services to the UK Government and also an exporter In the US, we are a provider predominantly to the US Government That is a very large market, which is changing dramatically, and our position is mid-sized Yet in key areas, such as C4ISR, space, cyberspace and unmanned systems, we are highly relevant to our US customer

Q Why categorise the portfolio as 'Core', 'Explore' and 'Test for Value'?

A We need a consistent approach for tracking and extracting value from our investments and emerging businesses This is about focus and choice you have to have a strong methodology for decision-making Each category has a clear role Test for Value is our early-stage technology, Core is the robust, mature underpinning to customer relationships, market position and current shareholder returns In between, Explore is exciting because these are proven businesses we are hoping over the mid-term to scale to significant sustainable revenue, and migrate into our Core

Q What of QinetiQ's ability to generate clever new technologies?

A QinetiQ still retains at its heart the ability of our scientific and engineering community to build innovative solutions Over time those that develop into businesses get supported into growth So our 'People Who Know How' provide the critical point of difference to customers and thus to winning and retaining new business

Q Can you take QinetiQ beyond its current markets?

A Yes QinetiQ has defence at its heart – but it can expand internationally, and also by rolling out its technologies and expertise into new sectors that offer higher growth potential Part of our strategy is constantly to test some of those options to diversify through our Explore businesses And the changing defence market itself throws off new opportunities for our Core

Q Where do you see QinetiQ in five years' time?

A I believe that QinetiQ's renewed focus on its core capabilities will help it continue to grow as a strategic supplier to its present customers and in multiple adjacent markets I could also see the Group transforming through its options in new markets That depends on our achieving what I call breakout success in our strategy of turning technologies into commercial businesses I want QinetiQ to become a byword for all that is innovative and expert in UK science and engineering

A year of achievement

Investing in a new generation

QinetiQ prides itself on the quality of its workforce, employing highly qualified and committed scientists and engineers who are dedicated to making a difference through their work

Our teams combine knowledge, passion, integrity and commitment Combined with their security level clearance, they are able to work on some of the most complex problems that our customers face

The UK has always been a country known for innovation and QinetiQ is playing a key role in maintaining this Recognised as a company with world leading engineers and scientists, QinetiQ gives graduates the opportunity to develop their professional skills via mentoring schemes and professional qualifications to become 'People Who Know How' During 2013 we have committed to increasing our graduate intake to over 80 graduates Our long established graduate programme, listed in 'The Guardian UK 300', provides applicants with a structured two-year programme that helps provide them with the skills to become future business leaders The scheme attracts the country's best science, maths, engineering, business/project management and IT graduates During the current year, QinetiQ will also be increasing its apprentice intake from 34 to 80, helping the Group to move towards its target of 5% of the workforce being young engineers and scientists

Luke Greenaway and Simon Todd celebrating their gold medals at the prestigious 2013 WorldSkills UK competition organised by the National Apprenticeship Service

Supporting a changing MOD

QinetiQ has an established track record of working with the UK Ministry of Defence, as illustrated through the Long Term Partnering Agreement (LTPA)

MOD's trusted advisor

The LTPA provides test and evaluation and training support to the MOD and its military stakeholders The contract enables accurate assessment of military capabilities throughout their lifetime, from concept to disposal, increasing reliability and fitness for purpose Under the LTPA, QinetiQ manages 17 core MOD-owned sites and is responsible for providing test and evaluation (T&E) and training support services, maintaining associated equipment, land and buildings, as well as delivering an investment programme to ensure that the capability is maintained and developed to meet the MOD's evolving needs

Providing the capability life-cycle

In February 2013, the Company successfully completed its regular five-yearly review with the customer and, following demonstration of cost savings being achieved and the agreement of some minor changes in scope, a £998m contract was signed for the third five-year term

Commenting on the signing, Laurence Bryant, DE&S Director Weapons, MOD said "Test and evaluation is essential for the effective management and mitigation of the risk in our acquisition programmes and for the enduring support of our front line capability The LTPA provides this service to our Armed Forces, the MOD and equipment suppliers, and is crucial to maintaining our defence capability"

Driving continuous productivity improvements

As a business that prides itself on innovation, QinetiQ provides a fertile foundation for new ideas to flourish My Contribution is the channel by which employee insight, imagination, energy and enthusiasm are captured for the benefit of the Company and our customers

Business improvement

In November 2010 My Contribution was launched to employees as part of the 24-month self-help plan It became a channel by which employees could be encouraged to look at improved ways of working, ways to drive out unnecessary cost whilst also driving through improved productivity

Tangible outputs

Since launch, year-on-year the quantity of employee ideas has increased to over 12,000, delivering tens of millions of pounds in benefit for the business and our customers Examples of projects arising from the scheme have included the materials management improvement project where the team designed, configured and implemented a SAP investment and production management system which tracks the life of a control material from creation to when it leaves QinetiQ Other ideas include improving the interaction between our design, manufacturing and supply chain process, through the use of computer aided designs replacing the need for cardboard models

Annually we recognise the efforts of our teams at the My Contribution Showcase which forms an integral part of our annual leadership conference

Maximising value by growing sustainable earnings

Our approach

QinetiQ's overarching strategic goal is to maximise the Group's value by growing sustainable earnings through optimising the portfolio This strategy is known as Organic-Plus, and includes

- **Active portfolio management** to optimise business returns
- **Robust financial discipline** to grow and maintain margins
- **Selective investment in 'Core' and 'Explore' portfolios and rigorous evaluation of investment options ('Test for Value')** Investment is prioritised to grow market share in the 'Core' and to support accelerated business development in 'Explore' 'Test for Value' options must demonstrate a viable customer value proposition and a compelling potential to scale
- **Exploitation of customer-funded research and development** into core defence and relevant markets
- **Customer intimacy** to be a partner of choice for the long term, consistently striving to serve our customers better
- **Playing to QinetiQ strengths** and assuming only those risks we are qualified to manage
- Selective use of **partnerships, alliances and acquisitions** to accelerate compelling business development strategies and sustainable earnings growth
- Monetising **knowledge and IP** via increased use of licensing approaches
- **Investment in our people** and leadership development, particularly around commercial, customer engagement and people leadership development skills
- Sustaining, building and leveraging our **brand**
- **Business development and investment in new geographies** (e g Middle East, Scandinavia)

The Value Pipeline

The Value Pipeline consists of a portfolio of present and future earnings streams The Group's principal role is to manage the value pipeline for optimal returns, in large part by regulating the resource flows through the cycle Common features across the portfolio are consistent application of the QinetiQ brand, implementation of a common set of business processes and robust corporate governance, all supported by shared services and functional resources that deliver efficiently and effectively in support of the business

Read more on page 10

Core

Sustainable and defensible businesses, focused on growing market share This is the 'engine' on which the Group's reputation and customer relationships are built, the driver for continual renewal of its expertise and technology, and the source of the majority of its profit and cash flow

Explore

High potential emergent businesses, typically with a proven competitive offering in a growth market, for which the challenge is to demonstrate a business model scalable to significant and sustainable size in order to become value accretive 'Core' businesses which increase diversification of the Group

Test for Value

Portfolio of less mature options, typically based around innovative technology/know-how which must be tested and managed rigorously for commercial viability Investment is required to achieve commercialisation outcome most likely licence revenue/ partnership, discontinuation, or, in certain exceptions, move to 'Explore'

The Role of the Group

The Executive Leadership is responsible for the strategic direction and leadership of the Company

Strategy
- Define the direction and shape of the Group over the long term

Budgeting and planning
- Portfolio management
- Determination of portfolio composition
- Business unit strategy approval, target setting and performance review
- Investment appraisal and review
- Acquisition and disposal strategy

Performance monitoring
- Review and challenge divisional performance
- Resource allocation
- Allocation of capital to investment priorities
- Assignment of talented people
- Sustainment and development of the Company's knowledge, know-how and intellectual property

Business architect
- Determination of business boundaries
- Implementation of a 'One QinetiQ' approach to business process design and functional support

Leadership and people development
- Talent and succession management framework
- Executive coaching and development
- Professional development and reward policies

Governance/risk management
- Plc listing requirements
- Definition and implementation of Group Operating Framework for safety, ethics, security and other regulatory requirements
- Risk management
- Governance of risk and regulatory frameworks
- Investor relations

Brand custodianship
- Sustainment and development of the QinetiQ brand
- Protection of Company's brand, trademarks and corporate presence
- Preservation and promotion of the Company's reputation

Role of the business units

The business units are principally accountable for business unit strategy, sales, delivery and compliance with Group governance requirements Each business unit has a diverse range of demand drivers, customers and competitors providing the Group resilience

Business unit strategy
- Development of domain/sector specific strategy and business plans
- Development and presentation of investment options for approval
- Market entry, marketing and customer development plans

Customer engagement and sales
- Development and execution of key account plans
- Implementation and measurement of sales campaigns
- Establishment of specific sales channels and supporting marketing

Performance contract delivery
- Project delivery
- Business performance management
- Investment project implementation

Human Resource management
- Recruitment, development and motivation of people
- Assignment of people to projects
- People performance management
- Involving and leveraging people for their ideas

Risk management
- Safe and ethical delivery of business activities
- Development and management of business risk register
- Actions to mitigate risks and to capture opportunities
- Remediation plans, where appropriate
- Adherence to Group policy and regulatory frameworks
- Implementation of Group Operating Framework at local level
- Acting at all times in a manner consistent with the QinetiQ brand and values

Read more on UK Services on page 14

Read more on US Services on page 18

Read more on Global Products on page 22

Progress through Organic-Plus

The key elements of our strategy

Core

Sustainable and defensible businesses, focused on growing market share This is the 'engine' on which the Group's reputation and customer relationships are built, the driver for continual renewal of its expertise and technology, and the source of the majority of its profit and cash flow

Revenue

c90%

These businesses are focused on relatively resilient sectors in which the deep domain expertise of QinetiQ's people is used to provide trusted independent advice and solutions for customers' critical operations These are the Group's core capabilities, mostly comprising UK and US Services, and operating largely in the aerospace, defence and security markets They exhibit relatively low risk characteristics with low capital requirements and strong, predictable cash flows Much of the revenue is derived from longer-term contracts, with known dates for renewal and re-tender

QinetiQ's core businesses retain and win market share by applying their technical expertise and their detailed understanding of customer domains to provide support for customers' ongoing and developing needs Core businesses will receive investment on a sustainable basis as these opportunities emerge and where existing expertise can be deployed in adjacent sectors and geographic markets, from the proven platform of UK or US capability

QinetiQ's less mature businesses will be managed through a 'Value Pipeline' with a range of new capabilities at various stages of business readiness

Explore

High potential emergent businesses, typically with a proven competitive offering in a growth market, for which the challenge is to demonstrate a business model scalable to significant and sustainable size in order to become value accretive 'Core' businesses which increase diversification of the Group

Revenue

c8%

These are businesses that have proven technology and customers, but have yet to prove that they can achieve significant scale Examples include Cyveillance®, which delivers cyber intelligence solutions principally for US Fortune 500 customers, the OptaSense® fibre-optic sensing business, and Training & Simulation Services, which is using commercial-off-the-shelf technology to meet customer requirements to reduce the cost of training

The Group will selectively invest in these businesses to create a broader base of significant and, therefore, core businesses for the future

Test for Value

Portfolio of less mature options, typically based around innovative technology/know-how which must be tested and managed rigorously for commercial viability Investment is required to achieve commercialisation outcome most likely licence revenue/partnership, discontinuation, or, in certain exceptions, move to 'Explore'

Revenue

c2%

These are businesses with proven technologies but that have yet to prove commercial viability In some cases, the technology is being developed for a customer-funded programme, such as the E-X-Drive® hybrid electric drive transmission which is being developed as part of a consortium for the technology development phase of the US Army's Ground Combat Vehicle Program
In other cases, the intellectual property is licensed out to reduce implementation and sales risks, with revenue dependent on third-party sales channels

Over the medium term, these early-stage technologies will be managed rigorously to resolution, whether through investment, divestment, closure or trade-through, until project completion

Progress in 2013

UK Services
- Re-pricing of the LTPA contract
- Performance improvement in Australia with increased revenue and margin
- 5-year £7m Royal Navy contract for optimisation of ship and submarine stealth characteristics
- New £6m framework contract for C4ISR research

US Services
- $17m condition-based maintenance award for the US Army
- $80m Tomahawk contract award by Naval Air Systems Command
- Revenue continued to increase on the NASA Engineering Services Contract at the Kennedy Space Center
- $46m infrastructure support contract extension for the Customs and Border Protection Agency

Global Products
- Two key orders totalling $44m for Q-Net®
- New customer contracts from Poland and the Czech Republic for Talon®
- $13m US Government order for Dragon Runner™ 10 robot

Priorities in 2014
- Maximise the Core by winning market share in existing markets and marketing capabilities into new sectors and/or geographical markets
- Assist MOD with its defence transformation programme

OptaSense®
- £10m follow-on contract with Shell

Training & Simulation Services
- £7m extension to Distributed Synthetic Air Land Training (DSALT) programme at RAF Waddington
- £4m enhancement to Army pre-deployment training contract

Cyveillance®
- Grew year-on-year with improvement in productivity

Protective Monitoring
- Cabinet Office GPG13 Accreditation

Space
- Successful launch of Proba V satellite for European Space Agency

- Scale the Explore portfolio
- Rigorous evaluation of investment priorities
- OptaSense® to capitalise on end of exclusivity period with Shell
- Training & Simulation Services to build on its position on the approved companies list for a $2bn IDIQ contract
- Cyveillance to focus on delivery of commercial services, larger and higher margin contracts
- Scale up the Space business

- Sale of Zephyr® to EADS Astrium
- Energy from Waste refocused on core military customers
- Integrated Warrior System™ pipeline opportunities
- New orders for ALARM™
- Smart Sensor Systems™ selected by British Columbia Hydro to support its smart metering programme
- Partnerships developed for GAJT™ GPS and MEWS™ to take products to market

- Continue to assess viability of technology and markets
- Sustain the rigour in Test for Value
- Focus on non-conflict technologies
- Monetise intellectual property

Measuring our progress

Key performance indicators (KPIs)

The Group's strategy is underpinned by focusing on a number of performance indicators This includes a range of financial and non-financial indicators to monitor Group and divisional performance Similar indicators are used to review performance in each of the Group's businesses

The key objectives of Board committees are described in the Governance section of the Annual Report and other non-financial key performance indicators are shown in the Corporate responsibility and sustainability review (pages 34-37)

Relevance to strategy

Our strategy is to grow the businesses through the Organic-Plus programme Progress is measured through key performance indicators Measurements of health and safety, productivity, customer satisfaction and employee engagement underpin sustainability Financial measures such as order intake, organic sales growth, profitability and cash conversion track performance

Read more on page 10

Non-financial KPIs

Health and Safety

(UK RIDDOR[1] rate per 1,000 employees)

1.90

2013	1 90
2012	2 12

Description

The RIDDOR[1] rate is calculated using the total number of incidents reportable under RIDDOR, x1,000 divided by the average number of employees in that year

[1] Reporting of Injuries, Diseases and Dangerous Occurrence Regulations

Comment

Health and Safety performance is monitored to drive continual improvement in minimising risks to employees and to meet our long term objective of zero reportable incidents Further details of the Group's health and safety performance are with the CRS review (pages 34-37)

Productivity

(UK change projects generated)

1,431

2013	1,431
2012	797

Description

My Contribution is a dynamic framework designed to fundamentally develop and grow QinetiQ The latent potential of thousands of ideas contributed by employees are pulled together into a managed process that develops and activates their concepts The financial returns and benefits are measured through the My Contribution tracker

Comment

My Contribution improves how the business delivers both internally and for customers In addition, it improves the work environment for employees

Employee engagement score

(UK on a scale of 0 1,000)

575.0

2013	575 0
2012	569 3

Description

A measure of employee engagement on a scale of 0-1,000, based on the Best Companies Employee Survey Through this channel, 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 annual survey enables comparison between QinetiQ and other UK companies A separate engagement survey is undertaken for the US business

Customer satisfaction overall score

(UK MOD KSM)

8.4

2013	8 4
2012	8 3

Description

The Key Supplier Management (KSM) Framework is a mandatory survey administered annually by the MOD of its top 22 key suppliers The 360-degree survey concentrates on the performance (delivery, engagement and relationship) of the largest and most strategically important contracts, totalling c40 contracts for QinetiQ

Comment

This year the MOD suspended its KSM survey A new survey, agreed by industry parties, will be applied to cover QinetiQ's entire customer base in the coming year In the US, customer satisfaction metrics are reviewed on a contract-by-contract basis and data is therefore not available Work will shortly commence to seek a standardised survey measure across QinetiQ's entire business

* Definitions of underlying measures of performance can be found in the glossary on page 116

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly

Financial KPIs

Orders†
£1,076.8m

2013	£1,076 8m
2012	£1,226 3m

Description
The level of new orders (and amendments to existing orders) booked in the year

† Excludes £998m LTPA repricing

Comment
Provides a measure of the Group's ability to replace completed contracts/business with new contracts/business

Organic revenue growth
-10%

2013	(10%)
2012	(11%)

Description
The Group's organic revenue growth is calculated by taking the increase in revenue over pro forma revenue, at constant exchange rates Prior years pro-forma revenue excludes the impact of acquisition and disposals

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

Underlying operating profit
£168.7m

2013	£168 7m
2012	£159 6m^

Description
The underlying earnings before interest and tax

Comment
Underlying operating profit* is used by the Group for internal performance analysis as a measure of operating profitability that is tracked over time

Underlying operating margin
12.7%

2013	12 7%
2012	10 9%^

Description
The Group's calculation of underlying operating margin* is consistent with previous 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 revenue 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 EPS
18.9p

2013	18 9p
2012	13 6p^

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 Underlying EPS performance also determines the level of payout for certain of the Group's long-term incentive plans

Underlying operating cash conversion
104%

2013	104%
2012	148%^

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

Net cash/debt
£74.0m

2013	£74 0m
2012	(£122 2m)

Description
The Group's measure of borrowings Includes finance lease debtors/creditors and assets/liabilities in respect of derivative financial instruments Refer to note 23 to the financial statements

Comment
The level of net cash/debt provides a measure of the strength of the Group's balance sheet

UK Services

Delivering measurable value

Case study: Weapons

What we do

- Technical assurance based on data generated by experiments, trials, modelling and research underpinned by three long-term contracts

Our competitive advantage

- Over 1,100 employees specialising in weapons expertise and range testing
- Complex safety critical test and evaluation
- Training support at ten sites specifically licensed to work with energetic materials

Our people

60% Range engineers

40% Weapons systems experts

Where we operate

- Future opportunities include building on presence in Australia and Scandinavia to deliver international range capability and aerial target services

1 RAF Donna Nook
2 RAF Holbeach
3 Shoeburyness
4 Fort Halstead
5 Farnborough
6 Boscombe Down
7 Larkhill
8 Bristol
9 RAF Pembrey
10 Pendine
11 Manorbier
12 Aberporth
13 Malvern
14 Eskmeals
15 West Freugh
16 Ardeer
17 Hebrides
18 St Kilda
19 Cape Wrath
20 Tain

UK Services delivered a strong performance with underlying operating profit* increasing 40% to £85.8m (2012: £61.3m^) on relatively flat revenues of £597.3m (2012: £610.1m). The resulting underlying margin* of 14.4% (2012: 10.0%^) reflects improved alignment with customer needs, plus a more competitive cost base and processes for better project execution. The division's performance also benefited from short-term demand in certain areas driving higher levels of utilisation, and the completion of final milestones on certain projects. In February, the division successfully completed the five-yearly periodic re-pricing of the Long Term Partnering Agreement (LTPA), agreeing terms with the MOD for the provision of core test and evaluation and training support services through to March 2018.

Organic-Plus update

UK Services' core business combines world-leading expertise with unique facilities to provide technical assurance, test and evaluation, and training and simulation services. These capabilities are delivered mainly under long-term managed services contracts, which provide strong predictable cash flows and are the target for future sustainable expansion. The successful re-pricing of the 25-year LTPA contract, the key underpinning contract for the division's Air, Weapons and Maritime businesses, represents an endorsement by the customer of the LTPA model as a vehicle for 'building once using multiple times' and delivering 'more for less'. In addition, UK Services is a market leader in the provision of shorter-cycle technical and information services in C4ISR, acquisition services and cyber security.

QinetiQ's Air business de-risks complex aviation programmes by testing military aircraft and equipment, evaluating the risks and assuring safety. Its long-standing relationships with key customers have been enhanced by integrated working and new contracts for test and evaluation that are delivering efficiencies and value. The Air business is also working to build on its strong track record in the provision of Unmanned Air System (UAS) services developed through the delivery of turn-key surveillance solutions to NATO forces operating in Afghanistan.

Extensive testing by QinetiQ saw the introduction of the new sidearm, Glock 17 9mm, into the British Armed Forces.

Revenue £597.3m		Underlying operating profit* £85.8m		Underlying operating margin* 14.4%	
2013	£597 3m	2013	£85 8m	2013	14 4%
2012	£610 1m	2012	£61 3m^	2012	10 0%^

Working with Lloyd's Register and Strathclyde University, QinetiQ examined the future shape of the marine industry in its Global Marine Trends 2030 report

The Weapons business provides technical assurance based on data generated by experiments, trials, modelling and research, principally at the twenty strategically located ranges it operates and manages on behalf of the MOD Shortly after year end, it was awarded a four-year contract for the management of the joint MOD/industry Weapons Science and Technology Centre and delivery of £8m per annum research into complex weapons, munitions and energetics Weapons is exploring medium-term opportunities presented by QinetiQ's ability to support the MOD in its defence transformation programme and is working with the customer on the assessment of its future options for munitions management The business also operates ranges in Scandinavia and provides range control and safety systems in Australia The pipeline includes opportunities to expand the provision of test and evaluation services to other international customers

QinetiQ's Maritime business enables the frontline to deliver naval advantage and cost-effective capability During the year, the business successfully completed the MOD's first five-year review of the 15-year Maritime Strategic Capability Agreement (MSCA), reaffirming its role in maintaining expertise and strategic maritime capabilities As such, the business has successfully negotiated the renewal of its three long-term underpinning contracts over the past 18 months In addition, the business was awarded a five-year £7m contract for the operational signature services that it delivers to the Royal Navy for the measurement and optimisation of ship and submarine stealth characteristics

Note Year references (2013 and 2012) relate to the year ended 31 March

* Definitions of underlying measures of performance can be found in the glossary on page 116

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly

Case study: Maritime

What we do

- Enable the frontline to deliver naval advantage and effective capability

Our competitive advantage

- A specialist body of maritime knowledge platform design, performance and optimisation, maritime structural analysis and technical advice, through-life command information systems, integrated stealth and ranges and maritime safety
- Technical breadth and depth of domain expertise
- Specialist testing facilities
- Focus on delivering through-life cost savings

Our people

35% Naval engineers

35% Command system specialists

20% Trials engineers and specialists

10% Software developers

Where we operate

- Operating strategic assets across the UK including Haslar, Portsdown and Rosyth
- The business operates three key strategic programmes with the UK MOD
  - Long Term Partnering Agreement
  - Naval Combat System Integration Support Services
  - Maritime Strategic Capabilities Agreement

1 Bristol
2 Plymouth
3 Grove Point
4 Portland Bill
5 Winfrith
6 Haslar
7 Portsdown Technology Park
8 Funtington
9 Chichester Hospital
10 Rona
11 Applecross
12 Kyle of Lochalsh (BUTEC)
13 Loch Goil
14 Rosneath
15 Rosyth
16 Farnborough
17 Malvern

Case study: C4ISR

What we do

- Use research in information management and sensor systems to provide expert technical advice, research and solutions
- Capabilities include
  - Communications and Information Infrastructure – moving data through all forms of radio and fixed communications linked to data management techniques
  - Command and Control Systems – uses interoperability techniques to support system integration at all levels
  - Surveillance Systems – exploits the full spectrum of sensor sources to feed data to any communication and information management system in an open and interoperable manner
  - Survival – offers the latest techniques in saving life and minimising infrastructure damage in military operations and civil crisis management

Our competitive advantage

- A heritage of UK government research in information management and sensor systems
- Joined-up thinking focused on unlocking the benefits of meeting current and imminent technical challenges
- Largest supplier of C4ISR research to UK MOD

Our people

- The expertise of our teams covers
  - Communication system design and operation
  - The efficient management of 'big data'
  - Optimising human interaction with information handling systems
  - Design and prototyping of new sensor systems and techniques
  - Design and implementation of open standard C4ISR networks that enable existing and new systems to be made interoperable
  - Enabling the survival of people in extreme environments and dangers
  - Technical and commercial customer advice in support of complex C4ISR or survival-based procurement programmes

35%
Engineers

25%
Consultants

25%
R&D Specialists

15%
Project managers

QinetiQ's core C4ISR business manages and delivers significant enabling research contracts on behalf of the MOD The deep domain expertise of its employees was reflected by the continued stream of research tasks delivered under contracts for electronic surveillance, secure information infrastructure and battlespace management, and the award of a new £6m framework contract

QinetiQ is a leading supplier of client-side technical services, providing advice to many of the operating centres within the MOD's procurement agency DE&S, principally through its Acquisition Services business While the proposal to introduce a GoCo model for DE&S is creating some short-term uncertainty, over the medium term it presents potential opportunities for QinetiQ There is also demand for advice on the procurement of complex systems from international and non-defence customers, and during the year Acquisition Services extended its reach into the adjacent rail market with the award of a new contract with Transport for London

At the beginning of the year, a new leadership team was appointed for the managed services business in Australia, which reports into the UK Services division The team's initial focus was on integrating the business, strengthening governance, building competitiveness and creating conditions for growth The business is now demonstrating both revenue and margin progression, and changes in the political landscape resulting from the forthcoming federal election may present further opportunities During the year the business won an AU$8m contract with the Australian Directorate General of Technical Airworthiness which underpins much of the core aerospace revenue, and AU$1m of contracts in the rail industry representing an entry point into a new adjacent market

QinetiQ is a world leader in developing applications for information management and exploitation in the intelligence, surveillance and reconnaissance space

Secure hosting provides 24/7/52 critical services

Within the 'Explore' category, the Group is investing in key capabilities to supplement the underlying growth rates of the 'Core' business A key opportunity is the Training and Simulation Services (TSS) business, which uses Commercial-Off-The-Shelf (COTS) technology to reduce the cost of training TSS has grown its UK business through an 18-month, £7m extension to its flagship Distributed Synthetic Air Land Training (DSALT) programme at RAF Waddington, and a £4m enhancement to the pre-deployment training it delivers to the British Army The US market is key to realising the potential of TSS, building on its position on the approved companies list for a $2bn IDIQ (indefinite delivery/indefinite quantity) contract under which the US Navy is able to procure training and simulation services The business is focused on the provision of modelling, simulation and training for the US Army, Navy and Marine Corps, with a new Orlando office due to open in June 2013

QinetiQ's UK Security business protects critical national infrastructure and high-value commercial enterprises through the provision of consultancy, managed security services, secure information exchange, and threat and risk assessments The ability to monitor and identify incidents on IT networks is a key customer concern and the business is investing to scale its protective monitoring solution which this year was accredited by the Cabinet Office under its GPG13 standards – the first time a private sector company has achieved this landmark accreditation

Case study Security

What we do

- Consultancy services including bespoke Cyber Vigilance
- Managed security services covering Cyber Defence
- Commercial-off-the-shelf (COTS) products in our SyBard® range enabling secure information exchange
- Cyber crime threat and risk assessments including
  - Strategic risk assessments
  - Risk management structure and risk mitigation process development
  - Incident reporting, reaction and recovery processes
  - Technical supply chain management and due diligence

Our competitive advantage

- A unique 50-year heritage of acting as strategic advisor to the UK Government at critical national security levels
- Technical expertise across a broad span of technical domains
- Independent of industry suppliers
- Secure operations centre providing 24/7 protective monitoring
- A founding member of the Cyber Security Challenge UK
- In year achieved accreditation by the Cabinet Office under the GPG13 standards – the first time a private sector company has achieved this landmark accreditation

Our people

100%
Cyber specialists

Our customers

- Strong relationships with UK, Australian and Canadian governments
- Leading the Enabling Secure Information Infrastructure (ESII) consortium for supply to MOD's Defence Science and Technology Laboratory
- Supplier to numerous blue chip customers

US Services

Facing up to tough markets

Case study Cyveillance®

What we do

- People, processes and technology for early warning of threats from internet and social media across the globe
- Cyber intelligence required to protect information, infrastructure and employees
- Integrated, agile, open-source, service-orientated architecture and off-the-shelf solutions

Our competitive advantage

- Ability to combine physical and virtual security threats into an overall threat landscape
- Global social media analysis to discover near real-time threats and predictors
- Multi-lingual analysts analyse and prioritise predominant languages on the internet

21%
Cyber analysts

25%
Intelligence analysts

22%
Technical analysts

32%
Other

Current customer base

Financial Services	37%
Technology	14%
Energy	8%
Government	8%
Insurance	8%
Education	7%
Other	18%

Revenue declined 12% on an organic basis at constant currency, impacted by continued budget uncertainty and reduced federal services spending Customers continued to defer decisions, leading to the delay of new and incremental orders, the de-scoping of some existing work, and the cancellation of some re-competes with shorter-term extensions being awarded in their place Some work was also switched to small business set-aside contracts Actions, principally in US Services, to place the US cost base on a more competitive footing resulted in an exceptional charge of $26 1m In the annual year-end assessment of the carrying value of goodwill, the impact of current market conditions resulted in a non-cash impairment charge of £255 8m

Underlying operating profit* was £21 9m (2012 £32 1m) and the underlying margin* was 4 6% (2012 6 0%), as a result of the reduction in volume and the more competitive trading environment In addition there was a change in revenue mix as lower margin NASA work replaced higher margin sales

A strategic review has been initiated to determine the route to maximum value in US Services This division possesses some strong capabilities and market positions, but the Group needs to determine the best way to maximise its performance and potential

Organic-Plus update
US Services has a broad customer base both within and beyond defence Its core business supports customers across the US federal marketplace, delivering mission assurance, engineering, data analysis, software and systems integration, cyber solutions, modelling, training and simulation, logistics, managed services and field support Key sources of competitive advantage include the division's skilled employees, almost all of whom possess high levels of security clearance, and the fact that these businesses enjoy long-standing customer relationships and attractive, longer-term contract vehicles

Due to the 'cost-plus' nature of most federal services contracts, overhead costs have a significant impact on competitiveness, particularly in an environment where government budgets are under pressure Restructuring was undertaken by QinetiQ North America during the year to reduce its cost base and maintain competitive rates The majority of these cost reductions, which resulted in an exceptional charge of $26 1m, were in US Services and were focused on cutting property and infrastructure costs, as well as reducing

Cyveillance provides early warning of internet and social media threats

Revenue	£475.6m
2013	£475 6m
2012	£534 5m

Underlying operating profit*	£21.9m
2013	£21 9m
2012	£32 1m

Underlying operating margin*	4.6%
2013	4 6%
2012	6 0%

Mission Solutions designs, integrates, installs and operates enterprise IT solutions

management layers The focus was on reducing indirect costs while maintaining bid and proposal activity Despite current budget pressures, the US Government contracting market remains large, and the DoD is committed to protecting investments in areas such as C4ISR, space, cyberspace and unmanned systems, in which QinetiQ possesses deep domain expertise At the year end, US Services had over 100 proposals pending decision by federal customers at year end, with a total contract value of more than $1bn

Lifecycle Solutions provides engineering services and helps customers manage their fleets and supply chains New contracts included a $17m award for condition-based maintenance from the US Army's Tank Automotive Command and contracts for technical and logistics support from the US Army's Aviation and Missile Command Condition-based maintenance facilitates greater automation of current processes and QinetiQ's track record with the US Army presents a number of future opportunities

The Software and Systems Engineering business supports the delivery of C4ISR and combat systems, and provides advice on procurement programmes and equipment lifecycles The US Government's increased focus on the Asia-Pacific region represents a resource shift to naval markets, and Software and Systems Engineering is working to build on its good base of support contracts in the maritime domain During the year the business was awarded an $80m contract by Naval Air Systems Command for Tomahawk Command and Control work It was also selected for a five-year blanket purchase agreement with a total ceiling value of $27m by the US Coast Guard National Pollution Funds Center

Case study Mission Solutions

What we do

- Cyber intelligence protecting customers against cyber attack
- Design, integrate, install and operate enterprise solutions including IT and operational systems

Our competitive advantage

- Leading industry experts
- Key client relationships
- Proven track record of best value performance
- Trusted by Government to architect and secure networks in an increasingly hostile cyber environment

32%
Engineers

19%
Technical experts

6%
Scientists

9%
IT specialists

34%
Other

Where we operate

1 Las Vegas NV
2 Albuquerque NM
3 Denver CO
4 Reston VA
5 Springfield VA
6 Washington DC Region
7 Cleveland OH

Note Year references (2013 and 2012) relate to the year ended 31 March

* Definitions of underlying measures of performance can be found in the glossary on page 116

Case study: Defense Solutions

At the end of the year the two defense focused businesses, SSE and Lifecycle Solutions, were integrated creating Defense Solutions

Software & Systems Engineering

- Support the delivery of C4ISR and combat systems, software and IT
- Advice on systems engineering, procurement programmes and equipment lifecycles

Lifecycle Solutions

- Aviation expertise in condition-based maintenance
- Help customers manage their fleets and supply chains

Our competitive advantage

- Highly skilled employees
- Key client relationships
- Track record of improving value for money through tools and process-based efficiencies
- Leading edge open source, open architecture development

50%
Engineers and program managers

26%
IT specialists

7%
Logistics experts

11%
Training & simulation specialists

6%
Other

Where we operate

1 Ft Bliss TX
2 Ft Hood TX
3 Huntsville AL
4 Redstone Arsenal HSV AL
5 Clarksville TN
6 St Charles MO
7 Belcamp MD
8 Hawaii
9 Campbell CA
10 San Diego CA
11 Stennis MS
12 Panama City FL
13 Charleston SC
14 Norfolk VA
15 Quantico VA
16 Arlington VA

At the end of the year, the division's two defence-focused businesses – Lifecycle Solutions and Software & Systems Engineering, were integrated to create Defense Solutions, aligning existing programmes with business development initiatives and removing duplicated overheads

Aerospace Operations and Systems supports spaceflight through testing, engineering and launch services and has expertise across all aspects of a space mission from design to launch Following commencement of work in March 2011, revenue has continued to increase on the NASA Engineering Services Contract at the Kennedy Space Center The business also secured a 16-month extension to the contract for environmental test integration services at the Goddard Space Center Future opportunities exist to leverage this growth in space services to compete for new business with NASA, as well as with commercial space companies and the United States Air Force (USAF) During the year, the business won new mission planning work with the USAF's Electronics Systems Center at the Hanscom Air Force Base, and was selected for the TAASC II IDIQ contract by the USAF Material Command

Mission Solutions provides cyber security, enterprise information technology and software solutions principally to non-defence customers including intelligence agencies and the Department of Homeland Security (DHS) The majority of its employees have high levels of security clearance and work on customer sites During the year the business commenced the provision of cyber security services at the Department of Transportation's Volpe Center to protect US transportation control systems and critical national infrastructure It also received a $46m contract extension from the DHS for infrastructure support for the Customs and Border Protection Agency In IT and software solutions, the business is positioned in a highly competitive market and revenue has come under pressure during the year, but there are future opportunities for its higher end offerings such as the provision of Cloud-based solutions

Software & Systems Engineering helps the US Armed Forces, primarily the Navy and Marine Corps, deliver C4ISR and combat systems to operating forces

Aerospace Operations and Systems is working to upgrade and modify the NASA crawler transporter, supporting NASA's space launch system

The Group is nurturing a select number of 'Explore' businesses including Cyveillance® which identifies and responds to critical, real-time intelligence on the Internet that represents a threat or risk to its customers Its customer base, which includes the majority of the US Fortune 50, is primarily financial services companies but among this year's new awards were customers in the technology, healthcare, FMCG, energy and professional services sectors Following the appointment of a new leader in October 2012, the business grew its revenues year-on-year, delivered improvements in productivity and introduced 24/7 operations Demand for cyber intelligence solutions is likely to increase with growing threats to people, infrastructure, Cloud-based systems, mobile devices and brand reputation Cyveillance® is responding to this demand by focusing on the delivery of commercial services, larger contracts and higher margin offerings, particularly those that aggregate both physical and virtual threat information

Case study Aerospace Operations & Systems

What we do

- Support spaceflight by testing software and spacecraft together with engineering and launch services
- Analyse scientific data and manage risks

Our competitive advantage

- Highly skilled people
- Involved in all aspects of a NASA mission/lifecycle from design to launch
- Program management of complex contracts

55% Engineers and support service managers

16% Systems developers and analysts

17% Program managers and operations

9% Technicians

3% Other

Where we operate

1 Los Angeles CA
2 Denver CO
3 Cleveland OH
4 NASA, Cape Canaveral FL
5 Melbourne FL
6 Greenbelt MD

Global Products

Extending our offerings into wider markets

Case study Survivability

What we do

- Provide innovative products and solutions to US and allied governments, enabling them to protect people and assets, reduce operational costs and save lives

Our competitive advantage

- Sound engineering, product-focused culture
- Innovative, cutting-edge technology base
- Deep understanding of customer problems
- Advanced engineering capabilities enabling rapid innovation to meet urgent mission challenges
- Effective, affordable and timely solutions
- The portfolio includes

EARS®
Acoustic sensors enhancing personal safety

IWS™
Integrated Warrior System™

LAST® Armor
Field Installable Applique Armor System

PADS®
Precision Air Drop system

Q-Net®
Protection against rocket-propelled grenades

Where we operate

Revenue was £254 9m (2012 £325 0m), a 21% decrease on an organic basis at constant currency, and was first half weighted, illustrating the lumpy profile of the division's revenue and its dependency on the timing of shipments of key orders Q-Net® revenue was strong at $120m but there was a reduction in demand for other conflict-related products associated with the drawdown of the US troop presence in Iraq and Afghanistan Underlying operating profit* fell 8% to £61 0m (2012 £66 2m) as the reduction in revenues was partially offset by an improved mix of US product sales, which included a high proportion of spares, and a one-off credit of £6m relating to a contract extension for additional work already undertaken in the UK

Organic-Plus update

Global Products focuses on the provision of product-based solutions to meet customer requirements, complemented by contract-funded research and development The division combines a cutting edge technology base with an intimate understanding of customer problems To reduce the volatility of its revenue profile over time, QinetiQ is seeking to increase its portfolio of products and to find new markets and applications for its existing offerings

The Survivability business provides innovative products to US and allied governments, enabling them to protect people and assets, thereby saving lives In the first half of the year, it delivered two key orders for the Q-Net® vehicle survivability product with a combined value of $44m These orders were for Navistar's MaxxPro® MRAP vehicles and for the US Army's Heavy Expanded Mobility Tactical Truck (HEMTT) – the first time Q-Net® has been fitted to a large haulage vehicle The business is leveraging the convergence of multiple military capabilities in order to expand its range of product offerings At the beginning of 2013, it launched its Integrated Warrior System™ that enables a soldier to plug-and-play multiple sensors through a lightweight, wearable vest and access data via a tablet or smartphone

The Unmanned Systems business is a world-leading provider of military robots Although demand for TALON® robots has reduced as a result of the drawdown of US troops, the business is finding new markets and received $8m of TALON® orders from Poland and the Czech Republic Unmanned Systems is also increasing its portfolio of products, receiving a $13m order from the US Government's Joint IED Defeat Organisation for the new, lightweight Dragon Runner™ 10 robot and a $10m order from the US Army's Rapid Equipping Force for innovative robotic applique kits that convert Bobcats into remote-control and semi-autonomous systems for route clearance missions Other new products include lightweight tactical robotic controllers that can simultaneously command a variety of unmanned assets and unattended ground sensors

1 Waltham and Franklin MA
2 Reston VA

Integrated Warrior System™ provides vital power and data connectivity to improve command and control and situational awareness

Revenue
£254.9m

2013	£254 9m
2012	£325 0m

Underlying operating profit*
£61.0m

2013	£61 0m
2012	£66 2m

Underlying operating margin*
23.9%

2013	23 9%
2012	20 4%

Optasense taking the pulse of the planet

As military budgets are reduced, customer demand is increasing for solutions that extend the life of existing platforms and enhance their capability to meet new mission challenges Global Products is also leveraging the innovative, products-focused culture of its employees to develop technology-based solutions for non-defence markets An early example of this approach is a Smart Sensor System™ that precisely measures voltage and current on power grids to monitor the performance of distribution networks The system was selected by British Columbia Hydro to support its smart metering programme and is currently in the testing and pre-production phase

The OptaSense® fibre-optic sensing business is the most mature of the 'Explore' opportunities in QinetiQ's portfolio The business delivered double digit revenue and profit growth, winning key infrastructure monitoring contracts to protect a strategic pipeline corridor in Iraq and the state-controlled Bijwasan pipeline in India Whilst infrastructure services has been the key early adopter market for OptaSense®, oilfield services represents the biggest opportunity with a multi-billion-pound market potential In this market, the business signed follow-on contracts with Shell to fund £10m of product development over the next three years and enable deployment of the technology throughout Shell within a recurring services model, as well as to other companies The end of the exclusivity period with Shell is a significant milestone in the development of the OptaSense® business, which is now starting to contract with other companies across the oil and gas industry

QinetiQ's Space business has been rigorously assessed over the last year and has the potential to deliver future profitable growth Its key capabilities include ion engines and the Proba family of mini satellites, the latest of which was launched in early May by the European Space Agency

In the 'Test for Value' category, early stage offerings are being tested to determine the best route to maximise value During the year, the Zephyr® High-Altitude-Long-Endurance UAS technology was divested to EADS Astrium for further development and the Energy from Waste business was re-focused on core defence markets A number of capabilities, such as E-X-Drive® hybrid electric drive, continue to be developed for customer-funded programmes Others, such as the GAJT™ GPS anti-jammer and the Modular Electronic Warfare System (MEWS™) are being taken to market by partners, reducing implementation and sales risks Follow-on orders were received for the ALARM™ radar system which provides warning of in-coming rocket fire The licensing of intellectual property remains an important revenue stream, particularly in non-defence markets

Note Year references (2013 and 2012) relate to the year ended 31 March

* Definitions of underlying measures of performance can be found in the glossary on page 116

Case study OptaSense®

What it does

- Distributed acoustic sensing delivering highly valuable data
- Converts standard fibre optic cable into thousands of virtual microphones with the equivalent of one every ten metres
- Provides real-time, actionable data for oil field services including fracking and vertical seismic processing and other vertical markets such as security and border protection

Our competitive advantage

- Exclusive patents and licensing in rapidly expanding global markets
- Proven technology with important commercial reference sites

127
Patent families

40
Countries of operation

Significant expansion of team increasing from 4 to 140 employees over last four years

Where we operate

Oil and Gas
Transport
Defense and Security
Utilities

Chief Financial Officer's review

Net cash position achieved

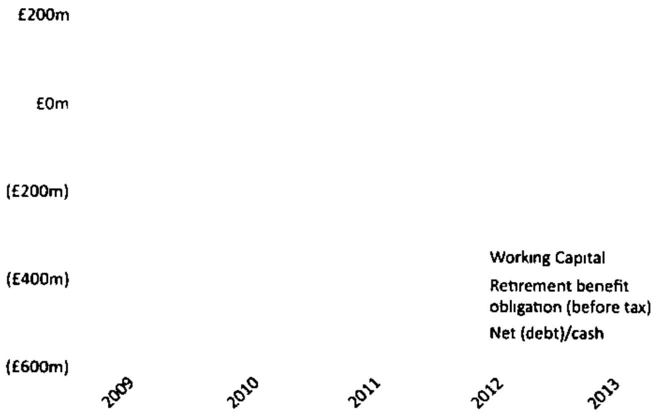
"The Group has reduced its net debt by over £600m and the balance sheet has the strength to weather challenging defence markets and the capacity for carefully targeted investment choices."

David Mellors
Chief Financial Officer

Group results overview

Revenue	2013 £m	2012 £m
UK Services	597 3	610 1
US Services	475 6	534 5
Global Products	254 9	325 0
Total	**1,327 8**	**1,469 6**

Strengthening of the balance sheet



Group revenue was £1,327 8m (2012 £1,469 6m), down 10% on an organic basis at constant currency, excluding a £2 4m reduction in revenue from the divestment of Spectro in the prior year, and a £6 2m increase due to the strengthening of the US dollar exchange rate This reflects the uncertain trading environment in particular the impact of continued budget uncertainty and the expected reduction in the demand for conflict-related products following last year's very strong performance

UK Services revenue was relatively flat at £597 3m (2012 £610 1m) In February, the five-yearly periodic review of the Long Term Partnering Agreement (LTPA) was successfully completed, agreeing terms with the MOD under which the customer will pay £998m for the provision of core test and evaluation and training support services through to March 2018

US Services revenue was £475 6m (2012 £534 5m), a 12% decrease on an organic basis at constant currency, reflecting continued budget uncertainty and reduced federal services spending Customers continued to defer decisions as a result of this uncertainty, leading to the delay of new and incremental orders, the de-scoping of some existing work, and the cancellation of some re-competes with shorter term extensions being awarded in their place In the annual year-end assessment of the carrying value of goodwill, the impact of current market conditions resulted in a non-cash impairment charge of £255 8m

Global Products revenue was £254 9m (2012 £325 0m), a 21% decrease on an organic basis at constant currency, and was weighted to the first half of the year illustrating the division's lumpy revenue profile and its dependency on the timing of shipment of key orders Q-Net® revenue was strong at $120m, but, as expected, there was a reduction in demand for other conflict-related products associated with the drawdown of the US troop presence in Iraq and Afghanistan

Overview Business review Corporate governance Financial statements Additional information

Revenue by customer 2013 £1,327 8m

MOD	35%
DoD	26%
DHS	2%
NASA	10%
Commercial Defence	6%
Civil/Other Government agencies	21%

Revenue by customer 2012 £1,469 6m

MOD	31%
DoD	29%
DHS	5%
NASA	9%
Commercial Defence	7%
Civil/Other Government agencies	19%

Group summary

	2013	2012^
Revenue (£m)	1,327 8	1,469 6
Organic change at constant currency	(10)%	(11)%
Underlying operating profit* (£m)	168 7	159 6
Underlying operating margin*	12 7%	10 9%
Underlying profit before tax* (£m)	152 1	110 2
Underlying net finance expense (£m)	16 6	49 4
Underlying effective tax rate*	19 2%	19 5%
Basic earnings per share	(20 5)p	37 9p
Underlying earnings per share*	18 9p	13 6p
Dividend per share	3 80p	2 90p
Underlying net cash from operations (post capex) (£m)*	175 9	235 4
Underlying operating cash conversion*	104%	148%
Net cash/(debt) (£m)	74 0	(122 2)
Average US$/£ exchange rate	1 58	1 60
Closing US$/£ exchange rate	1 52	1 60

Underlying operating profit*

	2013 £m	2012^ £m
UK Services	85 8	61 3
US Services	21 9	32 1
Global Products	61 0	66 2
Total	**168 7**	**159 6**
Underlying operating margin*	12 7%	10 9%

* Definitions of underlying performance measures can be found in the glossary on page 116

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly

UK Services delivered a strong performance with underlying operating profit* increasing 40% to £85 8m (2012 £61 3m^) The resulting underlying margin* of 14 4% (2012 10 0%^) reflects improved alignment with customer needs plus a more competitive cost base and processes for better project execution as well as the completion of final milestones on certain projects

US Services underlying operating profit* was £21 9m (2012 £32 1m) and the underlying margin* was 4 6% (2012 6 0%) as a result of the reduction in volume and the more competitive trading environment In addition, there was a change in revenue mix as lower margin NASA work replaced higher margin sales

Global Products underlying operating profit* fell by 8% to £61 0m (2012 £66 2m) as the reduction in revenues was partially offset by an increase in underlying profit margin* from 20 4% in 2012 to 23 9% The margin improvement reflects the mix of US product sales which included a high proportion of spares and a one-off credit of £6m relating to a contract extension for additional work already undertaken in the UK

The overall Group underlying operating margin* increased from 10 9%^ to 12 7%

Finance costs

Net finance costs were £17 9m (2012 £56 6m^) The underlying net finance costs were £16 6m (2012 £49 4m^), with an additional £1 3m (2012 £7 2m^) in respect of the pension net finance expense reported within specific adjusting items The reduction in underlying net finance costs* reflects the accelerated interest costs of £27 4m in the prior year, following the election to make early repayment of $177m of private placement debt, which also resulted in a reduction in the interest payable on the debt to £11 9m (2012 £17 5m)

Taxation

The Group's underlying effective tax rate* was 19 2% (2012 19 5%^) The rate is primarily dependent on the geographic split of profits between the UK and US businesses and the availability of Research and Development relief

The UK Government has been consulting on its proposal to introduce an 'above the line' credit for research and development to be recognised in operating profit as a replacement for the current credit, which is recognised in the tax line The mandatory move to 'above the line' treatment of R&D credits will now be delayed until April 2016 subject to the Finance Bill receiving Royal Assent in early summer of 2013

At 31 March 2013 the Group has unused tax losses of £202 7m (2012 £200 0m) that are available to offset against future profits

Specific adjusting items*

The performance of the Group after allowing for specific adjusting items is shown below

	2013 £m	2012^ £m
Underlying profit for the year attributable to equity shareholders of the parent company	122 9	88 7
Impairment of goodwill	(255 8)	–
Amortisation of intangible assets arising from acquisitions	(14 0)	(20 3)
Net restructuring (charges)/recoveries	(16 3)	69 4
Pension past service gain	–	141 4
Pension net finance expense	(1 3)	(7 2)
Net gain in respect of previously capitalised DTR programme bid costs	–	4 1
Impairment of property	(4 0)	(1 9)
Gain on disposal of property	–	9 0
Gain on business divestments and disposals of investments	2 9	11 6
Impairment of investments	(0 6)	–
Tax impact of items above	33 0	(48 5)
(Loss)/profit for the year attributable to equity shareholders of the parent company	**(133 2)**	**246 3**

The resulting statutory loss after tax was £133 2m (2012 £246 3m^ profit)

There has been a non-cash impairment of the acquired goodwill in the US Services division of £255 8m, reflecting a severely constrained budget environment, exacerbated by the enactment of sequestration on 1 March 2013 Headroom in the cash generating units within the UK Services and Global Products divisions remains significant

The net restructuring cost of £16 3m primarily reflects a charge of $26 1m in QNA resulting from actions to place the US cost base on a more competitive footing This programme will allow the business to maintain competitive rates The majority of the cost reductions are in the US Services division and are focused on cutting property and infrastructure costs, as well as reducing management layers The focus was on reducing indirect costs while maintaining bid and proposal activity

A charge of £4 0m (2012 £1 9m) was taken in the year against the Group's owned properties These properties are no longer occupied and, as no external tenant has been found, the assets are no longer generating a return

The £2 9m gain on business divestment (2012 £11 6m) reflects the $4 8m profit on the disposal of its investment in Infoscitex by QNA An income statement charge of £0 6m (2012 nil) was taken in the year as a result of the impairment of the Group's investment in Sciemus

Earnings per share

Underlying earnings per share* were 18 9p compared with 13 6p^ for the year ended 31 March 2012 benefitting from the increase in operating profit and from last year's decision to pay down private placement debt Basic earnings per share reduced to (20 5)p (2012 37 9p^)

Dividend

The Board proposes a final dividend of 2 70p per share for the year ended 31 March 2013 (31 March 2012 2 00p) Subject to approval at the Annual General Meeting, the final dividend will be paid on 6 September 2013 to shareholders on the register at 9 August 2013

Other financials

Cash flow

The Group's cash flow from operations before net restructuring recoveries/costs but after capital expenditure was £175 9m (2012 £235 4m) Underlying operating cash conversion* remained strong at 104% (2012 148%^), despite the impact of increased contract-funded capital expenditure in UK Services The net cash inflow in the year on restructuring was £63 1m (2012 £8 9m outflow), which includes the impact of £65m received from MOD in April 2012 relating to the March 2012 settlement which discharged the MOD from its accumulated liabilities for rationalisation costs incurred in previous years

Net proceeds received from the disposal of investments/businesses totalled £3 8m (2012 £13 9m), largely reflecting the disposal of its investment in Infoscitex by QNA

At 31 March 2013, net cash was £74 0m, (2012 net debt of £122 2m) This reflected the strong operating cash performance together with the receipt of £65m from MOD in April 2012

Total committed facilities available to the Group at year end amounted to £446 3m (2012 £429 4m) and the remaining Group debt has no maturity before 2016

Pensions

The net pension deficit under IAS 19 (revised), after deducting deferred tax, was £40 4m (2012 £18 2m) The increase in net pension deficit is primarily driven by macro-economic factors, principally the reduction in the corporate bond yields that drive the liability discount rate, partially offset by the impact of the increase in the value of the equity and bond assets

The technical provisions basis of calculating scheme funding requirements differs from IAS 19 in that it does not use corporate bonds as a basis for the discount rate but instead uses the risk free rate from UK gilts, prudently adjusted for long-term expected returns for pre-retireds Given the current extremely low gilt yields, perhaps exacerbated by quantitative easing, a funding valuation of the scheme would probably have resulted in a bigger deficit than the IAS 19 methodology if performed at the year end

The adoption of IAS 19 (revised) 'Employee benefits' has no impact on the closing net pension liability The key assumptions used in the IAS 19 valuation of the scheme are

Assumption	2013	2012
Discount rate	4 4%	4 8%
Inflation	2 7%	2 6%
Salary increase	3 7%	3 6%
Life expectancy – male (currently aged 40)	90	90
Life expectancy – female (currently aged 40)	92	92

* Definitions of underlying performance can be found in the glossary on page 116

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly

Assumption	Change in assumption	Indicative effect on scheme liabilities (before deferred tax)
Discount rate	Increase/decrease by 0 1%	Decrease/increase by £25m
Inflation	Increase/decrease by 0 1%	Increase/decrease by £26m
Salary increase	Increase/decrease by 0 1%	Increase/decrease by £4m
Life expectancy	Increase by 1 year	Increase by £28m

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 above

The market value of the assets at 31 March 2013 was £1,256 5m (2012 £1,107 9m) and the present value of scheme liabilities was £1,310 6m (2012 £1,139 4m)

The most recent full actuarial valuation of the defined benefit section of the QinetiQ Pension Scheme was undertaken as at 30 June 2011 and resulted in an actuarially assessed deficit of £74 7m On the basis of this full valuation, the Trustees of the scheme and the Company agreed the employer contribution rate of 12 7% from 30 June 2011, and past service deficit recovery payments of £10 5m per year for a six-year period from 1 April 2012 As part of a package of measures to stabilise the scheme, the Company has also contributed an asset in the form of an interest through a Scottish limited partnership in a future income stream of approximately £2 5m per annum, increasing in line with the Consumer Price Index, for 20 years secured on certain properties owned by the Group

Finally, the Company and Trustees also agreed the key provision that the Trustee will select the Consumer Price Index rather than the Retail Price Index as the relevant index for the increase of pensions in payment in respect of service before 1 June 2008 and for the revaluation of preserved benefit, resulting in the one-off past service credit of £141 4m in the year ended 31 March 2012 The next scheduled triennial valuation will be performed as at 30 June 2014

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 2013 the Group's total equity was £438 5m (2012 £599 4m) Net cash as defined by the Group was £74 0m (2012 net debt £122 2m)

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 2xEBITDA

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

	2013	2012
£/US$ – average rate	1 58	1 60
£/US$ – closing rate	1 52	1 60
£/US$ – opening rate	1 60	1 60

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

QinetiQ's tax strategy is to ensure compliance with all relevant tax legislation, wherever we do business, whilst managing our effective and cash tax rates Tax is managed in alignment with our corporate responsibility strategy in that we strive to be responsible in all our business dealings These principles are applied in a consistent 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 in, 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 7% to 9,498 at 31 March 2013 The decline primarily reflects headcount reductions in the US to maintain competitiveness in the challenging market

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 is 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 financial statements

David Mellors
Chief Financial Officer
23 May 2013

Employees by sector 2013 9,498

UK Services	54%
US Services	35%
Global Products	11%

Employees by sector 2012 10,180

UK Services	51%
US Services	39%
Global Products	10%

* Definitions of underlying measures of performance can be found in the glossary on page 116

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly

Risks and uncertainties

Understanding and managing our risks

Considerable progress has been made in the last year to improve the effectiveness of QinetiQ's risk management processes This has included greater clarification regarding the Board's risk appetite specifically linked to the Company's growth agenda and our Organic-Plus strategy

With the change of the Compliance Committee to the Risk & CSR Committee and its focus on risks where the primary impact is non-financial, the Audit Committee retains a focus on purely financial risks The differentiation between pure financial and non-financial risk has aided both the Executive and Board risk review process, allowing for greater focus on the effectiveness of relevant mitigations

Risks continue to be assessed according to the likelihood of an event's occurrence and its impact The Group risk register includes an analysis of the potential exposures and severity of each risk (as a function of its likelihood and impact), the assumptions underlying each risk and the mitigation required to manage it

The Group risk register considers

- The authority, resources and coordination of those involved in the identification, assessment and management of the significant risks the organisation faces,
- 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 Group risk register is reviewed by the Executive and 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
Defence market	The financial burden on both UK and US government budgets from the current economic downturn and the requirement to reduce budget deficits 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 2015 and, in addition, is seeking to remove significant overheating in its equipment programme In the US, sequestration was enacted on 1 March 2013 and government departments are working through its impact on levels of expenditure and future project priorities 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	Our focus on a range of markets in aerospace, defence, security and intelligence provides 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 Whilst UK government expenditure remains under pressure the MOD has made considerable progress in balancing its budget In defence research, where QinetiQ is the private sector market leader, spending has been stabilised at about £390m pa until 2015
	Current plans of both US and UK governments are to drawdown troops from Afghanistan by the end of 2014 A significant shift in policy by either the US Administration or the UK Government, which resulted in a significant reduction in the number of forces personnel present in Afghanistan, or a change in the timing, may have a materially adverse impact on the Group's financial performance	The Group manages this by maintaining a market focus and competitive positioning in adjacent markets, including defence services (which are not directly conflict-related), aerospace, space, security and intelligence, which provides a degree of portfolio diversification The Group is also seeking to increase its portfolio of products and to find new markets and applications for its existing offerings
	The aerospace, defence and security markets are highly competitive The Group's financial performance may be adversely affected should it not be able to compete in the markets in which it aims to operate	QinetiQ 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
	Government customers seek to prevent Organisational Conflicts of Interest (OCI) occurring where the companies provide solutions as part of the defence supply chain and consultancy services as a technical advisor	QinetiQ takes proactive steps to manage any potential OCI and to maintain its ability to provide independent advice through its consulting and systems engineering activities A formal compliance regime operates in the UK with the MOD In March 2012, QinetiQ agreed with the MOD that it could adopt the generic compliance regime in use with other companies, replacing a QinetiQ-specific one This change will not affect the rigour of the compliance process

Risk	Potential impact	Mitigation
Contract profile	A material element of the Group's revenue 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 In the current year, the LTPA directly contributed 14% of the Group's revenue and supported a further 8% through tasking services using LTPA managed facilities The loss, cancellation or termination of, or significant reduction in, this contract would have a material, adverse impact on the Group's future reported performance	In February 2013, the Group successfully completed the five-yearly periodic review of the LTPA, agreeing terms with the MOD for the provision of core test, evaluation and training support services through to March 2018 The Group continues to achieve customer performance and satisfaction levels, and significantly exceeded the agreed minimum performance rating of 80% in 2012 While achieving the performance scores, the Group has achieved significant cost savings for the MOD on repeated services
	The amounts payable under some government contracts can be significant and the timing of the receipt of 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
	Some of the Group's revenue is derived from contracts that have a fixed price There is a risk that the costs required for the delivery of a contract could be higher than those agreed in the contract, as a result of the performance of new or developed products, operational over-runs 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 many 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 a result, mitigates the risk of costs escalating The Group ensures that its fixed-price bids and projects are reviewed for early detection and management of issues which may result in cost over-run
Pension scheme	The Group operates a defined benefit pension scheme in the UK There is currently a deficit between the projected liability of the scheme and the value of the assets it holds 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 cash available for other purposes	Pension scheme performance 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 2011, resulted in a deficit of £74 7m The Group and trustees have agreed a package of measures to enhance the security of the scheme, including deficit recovery payments over six years, the use of CPI rather than RPI for indexation purposes, and an asset-backed funding programme The next funding valuation of the scheme is at 30 June 2014 The Group and the Trustees continue to work on the de-risking of the liability profile of the scheme
US foreign ownership regulations	In the US, the Group undertakes work that is deemed to be of importance to US national security and is therefore subject to foreign ownership regulations Arrangements are in place to insulate these activities from undue foreign influence as a result of foreign ownership Failure to comply with the regulations could result in sanctions, and suspension or debarment from government contracts, as well as reputational damage to the QinetiQ brand	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 This section entitled 'Management and control of US subsidiaries' on page 45 of this report provides details of the proxy agreement between QinetiQ North America and the US DoD, that regulates the ownership, management and operation of QinetiQ's principal US subsidiaries

Risk	Potential impact	Mitigation
Significant breach of relevant laws and regulations	The Group operates in highly-regulated environments and is subject to numerous domestic and international laws The Group recognises that its operations have the potential to have an impact on a variety of stakeholders and that 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 **Key areas of focus for the organisation include,**	The Group has procedures and, where appropriate, training in place to ensure that it meets all current regulations Together, these ensure the Group manages corporately and at local business level, the effective identification, measurement, and control of regulatory risk 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
	Safety liability from failure of a product, service or advice as well as workplace health, safety and environmental matters	Robust training, policy and processes exist to ensure the safety of products, services and advice and to protect employees and others affected by QinetiQ operations Recent successes include external accreditation of our Safety Management System and continuing authorisations for regulated design and maintenance services in the aviation arena (page 34) QinetiQ also undertakes human factor and behavioural safety training to embed its safety culture
	Bribery and Ethics	The QinetiQ Code of Conduct outlines a strong stance on anti-bribery supported by annual training of all employees, procedures and systems for managing international business, payments to commercial intermediaries, gifts and hospitality Performance was reviewed externally and benchmarked against others in this sector (page 34)
	US Proxy Regime	Procedures are in place to ensure that these regulations are adhered to, specifically with regard to communication with staff at QinetiQ's principal US subsidiaries Compliance data is maintained and monitored by the Executive and Board
	International Trade Controls	Ongoing compliance has been supported by a programme to improve QinetiQ's handling of legacy materials as well as to improve our systems and processes for the handling and management of new materials and electronic data Investment in this area supports our plans for growth in the international arena as well as building confidence in how we manage existing regulatory requirements
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 are sought on potential changes in tax legislation in both the UK and the US This enables the Group to plan for and mitigate potential changes in legislation The Group is currently actively engaging with HM Treasury on the proposal to move R&D tax credits out of the tax charge and 'above the line' into operating profit Legislation has been published in the UK which, subject to Royal Assent, will bring a mandatory 'above the line' approach from 1 April 2016 This could increase the Group's effective tax rate over time towards a blend of the US and UK corporation tax rates The Group has £202 7m of tax losses carried forward as at 31 March 2013 (2012 £200 0m)

Risk	Potential impact	Mitigation
Breaches of data security and failure of IT systems	The Group operates in a highly-regulated information technology environment The data held by QinetiQ is highly confidential and needs to be totally secure, particularly against a background of increasing cyber threat A failure of systems could have an impact on contract delivery leading to a loss of customer satisfaction A breach of data security could have an impact on our customers' operations and have a significant reputational impact, as well as lead to the possibility of exclusion from some types of government contracts, with a detrimental impact on the Group's financial performance	Information systems are designed with consideration of single points of failure and the removal of risk through minor and major system failures The business maintains business continuity plans that cover both geography, e g sites and business units, and the technical capability of staff These plans cover a range of scenarios, including loss of access to information technology systems The plans are tested at appropriate intervals Data security is assured through a multi-layered approach that provides a hardened environment, including robust physical security arrangements, data resilience strategies and 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 24/7 basis
	The Group's financial systems are required to be adequate to support US and UK government contracting regulations	A significant amount of effort is invested in engaging with US and UK government contracting audit agencies to enable them to test and opine on relevant financial systems and data, and on implementing any recommended improvement plans
Working in a global market place	QinetiQ operates internationally The risks associated with having a large geographic footprint may include regulation and administration changes, changes in taxation policy, political instability, civil unrest, and differences in culture and terms of reference, leading to a lack of common understanding with customers Any such events could disrupt some of the Group's operations and have a material impact on its future financial performance	While the core activities of the Group are confined to the UK and the US, it continues to explore potential customer 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
	The Group is exposed to volatility in exchange rates as a result of 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 revenue and related costs are often borne in the same currency, principally US dollars or sterling Of the Group's total revenue, approximately 45% is contracted in sterling, 50% in US dollars and 5% in other currencies	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, thereby partially mitigating the risk as US dollar earnings are used to service and repay US dollar-denominated debt
	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 to the extent borrowings are issued at floating interest rates	The Group maintains a prudent level of committed funding facilities a five-year multi-currency facility totalling £282 8m was provided by its relationship banks and signed in 2011 This is currently undrawn The Group also uses fixed-rate debt instruments issued to US private placement investors with maturity dates up to 2019
Recruitment & retention	QinetiQ operates in many specialised engineering, technical and scientific domains There is a risk that key capabilities and competencies are lost through failure to recruit and retain employees within the organisation due to internal factors as well as across the sector due to macro factors affecting the desirability, intake and training of engineers, scientists and technologists	The Group conducts regular activity to identify key roles and personnel Succession plans are in place looking internally at suitable candidates ready now or in need of development to fill particular roles as well as external activity to identify talent in industry the organisation may wish to attract

Corporate responsibility and sustainability review

Meeting stakeholder expectations

"Managing risk, protecting our reputation and operating responsibly and safely are key priorities."
Leo Quinn, CEO

Governance and strategy

The Group Risk & CSR Committee (page 47 of this report) meets regularly and receives reports on ethics, environment, health and safety and broader corporate responsibility and sustainability issues In the US, the QNA Board oversees these activities, obtaining independent assurance on the adequacy of its compliance programmes on an ongoing basis

Key policies and management systems underpin our corporate responsibility programmes In the UK these include our environmental management system certified to ISO 14001, and our health and safety management system certified to OHSAS 18001 In the UK, a business assurance tool assists the assurance and monitoring process Our US business has established policies, procedures and programmes in place to ensure compliance with US federal labour, environmental, health and safety and other laws and regulations QNA has ISO 9001 2008 and ISO 9001 AS9100 certified at three key sites

In accordance with our corporate responsibility strategy, we aim to continue to embed our programmes such that 'how we do business' aligns with stakeholders' expectations of responsible business New initiatives that are designed to help us continuously improve our performance are also regularly introduced

Meaningful stakeholder engagement

We seek to engage with key stakeholders to help shape our strategy and priorities We regularly engage with investors directly and provide information to relevant ratings agencies We have a regular dialogue with the MOD on sustainability Employees are informed and involved in programmes through a range of channels such as the UK Employee Engagement Group as well as regular townhalls and employee surveys

Pursuing high ethical standards

The Group's Code of Conduct provides clear guidance on ethical standards and guides employee behaviour in business activities Annual business ethics training is mandatory for all employees and the Group Board We also run additional training for those in higher risk roles Our Chief Ethics Officers are senior executives Risk management is embedded in business processes and we use third parties for due diligence, where appropriate

Employee involvement

Safety, health and wellbeing

The safety, health and wellbeing of our people remains a priority with a continuous focus on driving down accidents by providing training, raising awareness of safe working practice and improved reporting QinetiQ's UK occupational safety record continues to be strong, for example, the UK RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) rate for 2013 is 1 90 per 1,000 employees which is well below the Health and Safety Executive 'all industries' benchmark of 4 46 per 1,000 employees There were no prosecutions or prohibition or improvement notices issued by regulators during year

Meeting our 2013 objective, our UK health and safety management system was certified to OHSAS 18001 supported by initiatives such as the QinetiQ Visible Active Leadership campaign, focusing on safety culture and behaviour and the Actions Speak Louder Than Words programme, empowering employees to take action and be active in accident prevention

"We are delighted that our UK safety management system has been certified to OHSAS 18001, meeting our 2013 objective."

In our US operations, health and safety training is focused on empowering employees to operate safely We have rolled out five specialist courses in health and safety within Technology Solutions Additionally on our NASA contracts we have 980 employees trained in the NASA Voluntary Protection Program and 40 NASA Area Safety Representatives

Lost time incidents per 1,000 employees*	2013	2012
QinetiQ Group (excluding QNA)	5 36	5 53
QNA	1 45	1 12
QinetiQ Group	3 70	3 55

It is important to the Company that we support our employees in their health and wellbeing In the US, the Vitality Wellness Program introduced in 2011 as part of the existing Health in Motion initiative, supports employees and their families Programme incentives include reduced health insurance premiums, prizes for attaining point levels and discounts on health clubs and equipment 60% of employees who participate in Company medical insurance are engaged in the programme The UK Wellbeing Programme provides practical help and assistance on a wide range of personal and work-related issues, including the provision of a confidential resource for support and information In the UK, employees have access to a competitive range of employee benefits through QinetiQ Benefits+, a flexible benefits package

* Two QNA incidents have been reclassified and so 2012 LTI for QNA and for Group are slightly lower than reported last year

Safety objectives and performance

2013 objectives	Progress and achievements	Status	2014 objective
• Reduction in reportable UK incidents to zero by 2014	• We continue to work towards zero reportable incidents by 2014	• Ongoing	• Reduction in reportable UK incidents by 2014
• Attainment of OHSAS 18001 in the UK by 2013	• We have attained OHSAS 18001 certification in the UK	• Achieved	

Case study Safety stop

On 20 July the employees in QinetiQ's Air, Weapons and Maritime businesses stopped their daily activities and dedicated two hours to focus on the topic of safety The event was designed to signal that safety comes first As part of the 'Safety Stop' employees, together with some of our customers, discussed safety issues and how to improve safety further The feedback generated over 800 safety ideas, many of which have been taken forward into daily operation

Safety of products, services and advice

Whether providing traditional products, specialist advice or other services, delivering safely underpins our offering to customers In recent years QinetiQ has invested heavily to attract and maintain competent engineers, technologists and scientists with specialist safety expertise In the UK, Technical Assurance and Independent Design Review have been fully integrated into our day-to-day business delivery processes Improvements continue to be driven by our Engineering and Technical Leadership Team, supported by independent assurance activity In addition to maintaining and developing its design and maintenance accreditations for safety critical work, through various committees and working groups, QinetiQ actively supports collaborative working with its main UK customer, MOD, and other industry organisations to develop and implement common safety standards and practices Our US business continues to use technical excellence to improve the safety and usability of their products and as a critical component in delivering support services in unique and safety critical environments for the Department of Defence and NASA

Involving our people

An independent UK annual employee engagement survey had a response rate of 74% Action planning is taking place at a divisional level to build on successes and address areas for improvement The UK Employee Engagement Group (EEG) comprises 40 representatives at local and national level, elected by employees to improve engagement and act as a consultative body on developments within the Company In the last year the EEG has become established and played an active role in monitoring and feeding back on employee views, with consultation on topics such as pay, pensions and employee wellbeing In the US an employee survey response rate of 63% was achieved For every employee submission, QNA made a charitable donation to the Fisher House Foundation, which helps veterans and their families with housing and medical requirements, resulting in a total donation of $13,000

Future plans for engagement in the US business include employee focus groups Senior leaders from across the Group met at the annual QinetiQ Leadership conference in April this year

The Company operates the 'My Contribution' programme which enables employees to actively take part in business improvement

People Who Know How

At QinetiQ, we aim to grow sustainable earnings and to increase our customer satisfaction It is our 'People Who Know How', who will give QinetiQ its competitive advantage and consistently exceed our customers' expectations To ensure we increase our capability, QinetiQ UK is building a foundation for the future in Learning and People Development, providing our employees with the tools and opportunities to drive their own career, maximise potential and knowledge share Performance will be supported through development toolkits, increased online learning capability and bespoke programmes delivered in house and by award winning suppliers Our people agenda demonstrates QinetiQ's commitment to offer development to all employees

We have increased the number of UK apprenticeships and, as well as the traditional subjects such as aeronautical engineering that we have been offering at our apprentice school for over 40 years, we have included new apprenticeships in areas such as facilities management

Sam Prichard, Apprentice (left), receiving an award for Mechanical Apprentice of the Year from Gaz Borland, MD Air

Case study · My Contribution – Energy Saving

My Contribution offers QinetiQ employees the opportunity to get involved in business improvement, both in terms of making suggestions and being empowered to put them into action

This year's My Contribution 'Quick Win of the Year' was awarded to Norman Terrill, Advisor – Shore Integration Facility, based at Portsdown Technology Park, whose achievements were recognised at the 2013 My Contribution Showcase

Norman identified a number of improvements which would help his local site to save energy This included installing sensors and timers, putting in a process for turning off heavy equipment when not in use and introducing a 'switch-off' activity to the end of day security close down – all aimed at making sure that when rooms and equipment are not in use we're not wasting electricity

Dr Sam Healy, Head of Sustainability and Corporate Responsibility, said "It's great to see someone with so much passion and energy recognised for their contribution My Contribution empowers people to make a difference"

Norman Terrill (centre) receiving his award from Leo Quinn (left) and Mark Elliott (right)

In the US, the employee performance appraisal process has been enhanced to improve employee ownership of career development, planning by supervisors and to better align employee development with our US business objectives Employees are supported in the attainment of professional and technical certifications and degrees Our US business is an ITIL (Information Technology Infrastructure Library) Foundation Certification Training provider, with two certified instructors US employee service and accomplishments are recognised through a variety of bonus programs

Diversity and inclusion

QinetiQ provides an environment of respect and inclusion that recognises and values the unique skills, experiences and perspectives that each employee contributes toward our business success In the US, a Diversity Recruiting Strategy has been introduced to focus on the recruitment of under-represented groups This strategy will particularly focus on creating a rich pipeline of candidates from these target groups for future positions In the UK, we are committed to launching a new diversity and inclusion programme Currently the percentage of women working in the UK business is 20% and 28% of the US workforce is female We are committed to the fair treatment of people with disabilities in relation to applications, training, promotion and career development If an existing employee becomes disabled, the Group's policy is to provide continuing employment and training, wherever practicable We have Two Ticks accreditation in the UK, demonstrating we are committed to employing disabled people

We value the diversity of experience which drives the creativity and innovation of our engineers and scientists – People Who Know How The different approaches that our people take in solving our customers' challenges gives us competitive advantage and the ability to retain and win new business

Environmental stewardship

The reduction of the environmental impact of our operations remains a priority Our UK Environmental Management System is certified to ISO 14001 and covers our estate and the sites we manage on behalf of the MOD The delivery of test and evaluation and training support services is conducted on MOD sites, many of which are designated conservation areas of national and international importance, including St Kilda, a World Heritage Site As a result, sustainability appraisals are regularly carried out to identify and mitigate any impact to the flora, fauna and any other sensitive receptors of the activities undertaken

Greenhouse gas emissions

Monitoring of our UK carbon footprint shows a year-on-year reduction in emissions Arrangements for data capture of greenhouse emissions across the Group have been rolled out using guidance and emission factors published by the Department of Environment, Food and Rural Affairs A 15% reduction in carbon emissions over three years (with a 2012 baseline) is our target in the UK This will be achieved by making infrastructure more energy efficient and engaging employees to change behaviour The theme of our UK annual Environment Week campaign in 2013 was focused on more sustainable travel

Environmental objectives and performance

2013 objectives	Progress	Status	2014 objectives
• 15% reduction in UK carbon emissions by 2015 – to be delivered through investment projects, reducing business travel and improving employee engagement	• Programmes underway, absolute emissions reduced by 2%	• Ongoing	• Reduce carbon emissions in the UK by 15% (2012 baseline) by 2015 • Data streams to capture greenhouse gas emissions for Group
• Continue to improve waste management in the UK in relation to the whole waste hierarchy, not simply recycling	• Training delivered and improved mapping of waste streams	• Ongoing	• Encouraging reduction in waste, increased re-use of assets, and enhanced segregation of waste streams for recycling

The emissions data in the table below shows UK emissions for 2013 Our Australia business reported 333 tonnes CO_2e from electricity use

UK Emissions (ktonnes CO_2e)	2013	2012
Scope 1 – gas[1]	9 51	8 22
Scope 1 – oil	5 06	5 61
Scope 1 – travel[2]	5 69	5 45
Scope 2 – electricity	44 19	45 57
Scope 3 – travel[3]	5 40	6 43
Total emissions	69 85	71 29

[1] Gas usage up due to adverse weather conditions

[2] Travel includes land vehicles and aircraft

[3] Travel includes flights and cars but excludes trains and ferries

UK waste management

We continue to focus on improving waste management through training, mapping waste streams, improving data collection processes and encouraging re-use of assets Total waste this year was 4,904 tonnes, including 211 tonnes of hazardous waste This represents an increase on last year's total due to significant footprint rationalisation and building works, combined with the improved capture/robustness of data There has been a significant diversion of waste from landfill (approximately 85%) The aim for 2014 is to continue encouraging reduction in waste, increased re-use of assets, and enhanced segregation of waste-streams for recycling

Sustainable procurement

As a key supplier, our active engagement with the MOD on sustainability reflects our commitment to sustainable procurement

Investment in our community

Our commitment to enthusing and attracting the next generation of scientists and engineers is reflected in our work undertaken on STEM (Science, Technology, Engineering and Maths) Outreach This programme plays to the strengths of a highly skilled technical workforce and helps young people discover new opportunities for learning and for their future In the UK our employee engagement scores on 'giving something back' rose by 6% due to the maturing of our volunteering programme, regularly celebrating the success of our community activities and getting employees actively involved in choosing our new UK charity partners In the US we support educational enrichment through the National Guard Youth Foundation, World Affairs Council, Naval Historical Foundation and various robotics education programmes There is also a particular focus on supporting wounded military and their families by contributions to a range of specialist organisations

Across the Group we have corporately donated £180,492 this year to registered charities Of this amount £31,314 was donated to our UK corporate charities, £72,942 for education, £17,067 for military charities (other than the corporately chosen military charity) and £59,169 for diverse other causes In addition employees have raised £30,184 for our UK corporate charities, chosen in April 2012 (RNLI, Cancer Research UK and Help for Heroes) for which they received matched funding and £31,633 through UK payroll giving

For detailed information on Corporate Responsibility and Sustainability visit
www QinetiQ com/responsibility

Case study · Powerboat Challenge

The QinetiQ Schools' Powerboat Challenge provides pupils with an exciting and valuable opportunity to understand the importance of STEM within the marine industry The annual competition is held in the Ocean Basin at Haslar by the Maritime Division In 2012, 13 teams from ten schools in Hampshire and Dorset designed, built and raced their own model powerboats The pupils were given a design brief by QinetiQ, along with some of the equipment and parts they need to build the boats and were supported by QinetiQ scientists and engineers throughout the project They then raced their boats against each other and were judged by a panel of our experts Commenting on the event Sarah Kenny, MD Maritime, said "This event was about encouraging more youngsters to take up science subjects and become the marine engineers of the future There's a national skills shortage in engineering and part of QinetiQ's commitment is to bring local schools here "

Sarah Kenny, MD Maritime, at the Powerboat Challenge

Board of Directors

Mark Elliott
Non-executive Chairman
(64)

Appointment to the Board
Appointed Non-executive Chairman in March 2010, Non-executive Director between June 2009 and February 2010

Committee memberships
- Nominations Committee (Chairman)
- Remuneration Committee
- Risk & CSR Committee

Skills and experience
Mark is a Non-executive Director of G4S plc He was a Non-executive Director of Reed Elsevier Group plc (and also Chairman of its Remuneration Committee) and Reed Elsevier NV from April 2003 until April 2013

He was previously General Manager of IBM Europe, Middle East and Africa and was a member of IBM's Worldwide Management Council

The Board considers that Mark's extensive experience in the technology services sector, in the US and Europe, together 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 of addressing the strategic issues that affect the Group

Leo Quinn
Chief Executive Officer
(56)

Appointment to the Board
Appointed Chief Executive Officer in November 2009

Committee memberships
- Nominations Committee
- Risk & CSR Committee
- Security Committee

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

David Mellors
Chief Financial Officer
(44)

Appointment to the Board
Appointed Chief Financial Officer in August 2008

Committee memberships
- Risk & CSR Committee
- Security Committee

Skills and experience
David was previously deputy Chief Financial Officer of Logica plc He was also Chief Financial Officer of Logica's international division, covering operations in North America, Australia, the Middle East and Asia and, before that, was the Group Financial Controller His earlier experience includes various roles with CMG plc, Rio Tinto plc and Price Waterhouse He is a member of the Institute of Chartered Accountants in England & Wales

Michael Harper
Deputy Chairman and Senior Independent Non-executive Director
(68)

Appointment to the Board
Appointed Non-executive Director in November 2011
Appointed Deputy Chairman and Senior Independent Non-executive Director in February 2012

Committee memberships
- Audit Committee
- Nominations Committee
- Remuneration Committee
- Risk & CSR Committee
- Security Committee

Skills and experience
Michael was appointed Chairman of BBA Aviation plc in June 2007, having joined the Board in February 2005 He is also Chairman of Ricardo plc He was Chairman of Vitec Group plc from 2004 to 2012 and was previously a Director of Williams plc where, at the time of the demerger in 2000, he became Chairman of Kidde plc

The Board considers that Michael's wealth of operational and corporate experience enables him to make a significant contribution to the Board

Colin Balmer
Non-executive Director
(66)

Appointment to the Board
Appointed Non-executive Director in February 2003

Committee memberships
- Audit Committee
- Nominations Committee
- Remuneration Committee
- Risk & CSR Committee (Chairman)
- Security Committee (Chairman)

Skills and experience
Colin is currently a member of the Board of the Royal Mint and Chair of its Audit Committee He has held senior posts in government, including Managing Director of the Cabinet Office from 2003 until his retirement in 2006 He was previously Finance Director of the MOD and was responsible for QinetiQ's privatisation

Notwithstanding that Colin has served on the Board for more than nine years, the Board considers that he remains independent in character and judgement Further, the Board considers that Colin's extensive knowledge of the development of QinetiQ, and his in-depth understanding of the working of government, continue to provide the Board with a unique insight into the issues government faces in delivering its procurement objectives

Noreen Doyle
Non-executive Director
(64)

Appointment to the Board
Appointed Non-executive Director in October 2005

Committee memberships
- Audit Committee
- Nominations Committee
- Remuneration Committee (Chairman)
- Risk & CSR Committee

Skills and experience
Noreen is a member of the Board of Credit Suisse Group (Zurich) and Chair of its UK regulated subsidiaries She is a Non-executive Director of Newmont Mining Corporation (Denver), where she is Chair of the Audit Committee From 2005 through 2012 she served on the Board of Rexam plc, where she was Chair of the Finance Committee She was First Vice President of the European Bank for Reconstruction and Development (EBRD) Before EBRD, she worked in corporate finance and leveraged financing at Bankers Trust Company (now Deutsche Bank)

The Board considers that Noreen's extensive international business experience, particularly in corporate finance, risk management and banking, is of significant benefit to the Board

Admiral Sir James Burnell-Nugent
Non-executive Director
(63)

Appointment to the Board
Appointed Non-executive Director in April 2010

Committee memberships
- Audit Committee
- Remuneration Committee
- Risk & CSR Committee
- Nominations Committee
- Security Committee

Skills and experience
Sir James commanded the aircraft carrier HMS Invincible and three other ships and submarines during a 37-year career in the Royal Navy that culminated in his appointment as Commander-in-Chief Fleet Between operational duties he held several positions at 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
(51)

Appointment to the Board
Appointed Non-executive Director in October 2010

Committee memberships
- Audit Committee (Chairman)
- Nominations Committee
- Remuneration Committee
- Risk & CSR Committee
- Security Committee

Skills and experience
Paul is currently a Non-executive Director and Chair of the Audit & Risk Committee at Royal Mail Holdings plc He is also a Director of Naked Energy Ltd and Knowledge Peers plc and 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
(49)

Appointment
Appointed as Company Secretary and Group General Counsel in January 2011

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

Board statistics

Board experience

75%	Finance
75%	Operational
75%	International
75%	Other PLC

Board composition

25%	Executive
75%	Non-executive
87 5%	Male
12 5%	Female

Board tenure

12 5%	0-2 years
12 5%	2-3 years
50%	3-5 years
25%	5-11 years

Corporate governance report

Mark Elliott
Chairman

Ensuring effective governance processes and systems of control within the Company continues to be a priority of the Board to ensure the optimum stewardship of the business and to provide a solid basis on which to build value and promote the long-term success of the Company

In my role as Chairman of the Board, I am pleased to report that the Board continues to demonstrate the range of expertise and engagement to challenge constructively and help develop strategy effectively

During the year, the terms of reference of the Board Committees were reviewed and updated where necessary, succession planning at both Executive Director and Non-executive Director level was reviewed and the skills matrix of the Board updated, to identify areas for development and to ensure that future appointments to the Board complement and enhance the existing capabilities Diversity continues to be a key factor when considering the composition of the Board, not only in terms of gender but also in terms of background and experience

As a Board, we are mindful of our duties as Directors, particularly in terms of strategy and leadership, and we continue to maintain a dialogue with our key stakeholders on matters that are important to them

During the year, the Company consulted with its key investors in respect of issues such as executive remuneration and responses to market conditions, the Board met with business leaders in both the US and the UK to present the strategy and general direction of the Group as a whole, the Audit Committee maintained an ongoing dialogue with the external auditors and the internal audit function, non-financial risk oversight was transferred to the Risk & CSR Committee, and the full Board was available at the 2012 Annual General Meeting to meet with individual shareholders

The governance process will continue to evolve to allow for changes in regulation and best practice and to continue to promote the principles of good governance within the Company

Mark Elliott
Chairman

The Board considers that QinetiQ has complied with the provisions of the 2010 version of the UK Corporate Governance Code (the 'UK Code') throughout the last financial year In addition, during the year QinetiQ took steps to comply with the changes contained in the 2012 version of the Code within the required timeframe Both versions of the UK Code and associated guidance are publicly available on the Corporate Governance page of the Financial Reporting Council's website, www frc org uk/corporate This report provides details of the way the principles of the UK Code have been applied during the year

The Board – governance, processes and systems

Board objectives

To demonstrate the highest standards of corporate governance in accordance with the UK Code to

- Ensure the continuing evolution and implementation of the Group's strategy to deliver 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 of conduct to the highest standards of ethics,
- Provide support and constructive challenges to the Chief Executive Officer 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

Details of the Board of Directors are on pages 38-39 The Board currently has eight members the Non-executive Chairman, five other Non-executive Directors, and two Executive Directors – the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) There have been no changes to the Board during the year

Non-executive Chairman	1
Non-executive Directors	5
Executive Directors	2
Total	**8**

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

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 that they bring to their duties, which prevents any individual or small group from dominating its decision-making

The Board has due regard to the benefits of diversity (including gender diversity) when considering its composition It 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 statement on pages 5-11 of this report) in the past year In addition, the quoted company experience of 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 of Directors

- is responsible for overseeing the Executive Directors' management of operations and, in this capacity, determines the Group's strategic and investment policies,
- monitors the performance of the Group's senior management team and organises its business to have regular interaction with key members of senior management, and
- is responsible for overseeing the management of the business of the Group

Its 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, and the Board has clearly articulated their responsibilities in writing

The Chairman, Mark Elliott

- is responsible for the effective operation of the Board, and
- is responsible for ensuring that all Directors are enabled and encouraged to play their full part in its 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 Michael Harper Michael is also the Deputy Chairman of the Board

The Senior Independent Director, Michael Harper

- serves as an additional point of contact for shareholders should they feel that their concerns are not being addressed through the normal channels, and
- 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 all the Non-executive Directors 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 Notwithstanding that Colin Balmer has served on the Board for more than nine years, the Board considers that he remains independent in character and judgement and the Board has found no information or circumstances to lead it to conclude otherwise As detailed on page 38, the Board views Colin's considerable knowledge of the history of QinetiQ, and his experience of working in government, as highly beneficial to the Board as a whole Colin is assisting with the search for a new Non-Executive director to refresh the Board membership, as detailed in the section on the Nominations Committee on page 46 The Board considers that more than half its members were independent Non-executive Directors throughout the last financial year

Performance of the Board

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

An external evaluation of the Board's effectiveness was carried out by Independent Audit Limited in the year ended 31 March 2012 and reported in that year's annual report and accounts During the year, the following progress was made against the actions arising from that external review

- With regard to risk strategy and the oversight of risk management, the Compliance Committee has evolved into a Risk & CSR Committee with an increased focus on reviewing the Group's risk appetite and overseeing the management of non-financial risks,
- Non-executive Directors are provided with opportunities to meet members of senior management and site visits are organised on request,
- The manner in which information is presented to the Board has been revised to provide greater clarity and to identify the actions required, and
- Closer links continue to be fostered with the Board of the US business to improve oversight of matters specific to that business

In addition to considering progress against the external review, the following evaluations took place during the year

Board Effectiveness questionnaire A Board Effectiveness questionnaire was circulated to each member of the Board for completion and the results evaluated by the Chairman and considered at the May Board meeting The questionnaire covered the following areas

- The role of the Board and its skills mix, including background, knowledge, experience and diversity,
- The clarity of the Board decision-making process and information provided to the Board,
- The assessment of Risk Appetite and the oversight of Group risks, and
- The level of engagement with management and other stakeholders

Individual performance reviews The Chairman carried out a review of the performance of the Non-executive Directors and the Executive Directors, and the Senior Independent Non-executive Director carried out a review of the performance of the Chairman In carrying out the reviews, feedback was obtained from fellow directors, the Company Secretary and senior management

The overall conclusion of these reviews was that the Board continues to be effective in its fulfilment of its governance responsibilities and that the actions agreed following the previous year's external evaluation were being embedded in the Board processes and would continue to evolve and be reviewed as part of a process of continuous improvement

Directors' induction, ongoing training and information

All newly-appointed Directors take part in an induction programme which is tailored to meet their specific needs in relation to information on the Group The induction programme includes an induction pack, which is refreshed to ensure that it contains the most up-to-date information available In addition, a series of visits to Group sites, giving the opportunity to meet the senior management, is provided to new Directors to enable them to gain a full understanding of the business All Directors are encouraged to visit QinetiQ's principal sites, and to meet a wide cross-section of employees (including members of the senior management team) Training is also available on key business issues or developments in policy, regulation or legislation on an 'as needed' basis The Company provides business-wide computer-based training for employees and the Board in relation to compliance with its business ethics policies and practices

As part of the corporate planning process, the Board has the opportunity to question the Business Managing Directors and the Executive Directors on the formulation of the corporate plan at Division level and the plan's impact on Group strategy

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 Changes to the 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 In line with best practice reflected in the UK Code, however, 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 Seven scheduled Board meetings and one Board meeting via telephone conference 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 with the process of relationship building and to ensure that key strategic initiatives were discussed thoroughly During the year, the Chairman and the Non-executive Directors met on four occasions without Executive Directors present

The table below shows the number of meetings of the Board and its principal committees held during the last financial year, and individual Directors' attendance

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 Executive Directors and other layers of management in 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 that have an impact on the Group, from which the corporate plan is generated It is also regularly kept up to date on strategic issues throughout the year

The Board has a clearly articulated set of matters which are specifically reserved to it for consideration These include

- reviewing the annual budgets,
- raising indebtedness,
- granting security over Group assets,
- approving Group strategy and the corporate plan,
- approving the annual and interim report and accounts,
- approving significant investment, bid, acquisition and divestment transactions,
- approving human resources policies (including pension arrangements),
- reviewing material litigation, and
- monitoring the overall system of internal controls, including risk management

Attendance at meetings of the Board and its Committees – April 2012 to March 2013*

		Committee			
Members	Board	Audit	Nominations	Remuneration	Risk & CSR
Mark Elliott	8/8	5/5	4/4	6/6	5/5
Colin Balmer	7/8	4/5	3/4	5/6	5/5
Admiral Sir James Burnell-Nugent	8/8	5/5	4/4	6/6	5/5
Noreen Doyle	8/8	5/5	4/4	5/6	4/5
Michael Harper	8/8	5/5	4/4	6/6	5/5
David Mellors	8/8	–	–	–	5/5
Paul Murray	8/8	5/5	4/4	6/6	5/5
Leo Quinn	8/8	–	4/4	–	5/5

* Any absences from meetings were owing to illness or travel difficulties

Operation of the Board

The Board receives a written report from the CEO and CFO, 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 that affect the Group

The CEO's and CFO's Executive report addresses the key strategic initiatives which have had an impact on the Group since the previous Board meeting, with particular focus on the progress of each of the businesses Other key areas of focus include health, safety and environmental matters, employee and organisational issues, corporate responsibility, the status of key account management/customer relationship initiatives, the pipeline of potential bids, acquisitions, disposals and investments, and the post-acquisition performance of recently acquired businesses

The Board also receives updates from key functional areas 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 include

- succession planning,
- strategy,
- the proxy regime in respect of the US business,
- liaison with the MOD in respect of specific changes to the Company's UK defined benefit pension scheme, and
- the review of the LTPA contract

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 Annual Report and financial statements and the auditor's responsibilities for reporting on those statements are on pages 64-65

Other Directors' information

Details of Executive Directors' service contracts and the Non-executive Directors' letters of appointment are set out in the Report of the Remuneration Committee on page 58 Copies of Directors' service contracts and letters of appointment will be available for inspection at the Company's Annual General Meeting

Other management committees

During the year, responsibility for the day-to-day management of the Group's activities, with the exception of QinetiQ's US operations (which are managed through the Proxy Board, as described in the section on page 45 headed 'Management and control of US subsidiaries'), was conducted through the QinetiQ Executive Team (QET) The QET comprised the Group CEO, Group CFO, functional directors and the Sector MDs of each of the three UK business divisions The QET met on a monthly basis, and received weekly updates on key operational issues by way of pre-scheduled conference calls The activities of the QET were supplemented by the QinetiQ North America (QNA) Board and its Executive Management Team Since the end of the year, the QET has been re-designated as an Operating Committee, with a specific focus on the achievement of the Group's strategic goals in respect of growth and operational excellence The Committee membership has been adjusted to comprise the Group CEO, Group CFO, UK Divisional MDs, HR, Business Development and Operations Directors

Board Committees

The Board has established five principal Committees the Audit Committee, the Nominations Committee, the Remuneration Committee, the Risk & CSR 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 the website, www QinetiQ com

Where a Committee is not attended by the full Board, details of the key issues discussed, and decisions taken, are circulated to all members of the Board after the relevant Committee meeting Details of each of these Committees are summarised on pages 46-49 The composition of the Committee memberships was reviewed by the Board at its meeting in November 2012 It was agreed to continue with all-Director membership of Committees, other than where prohibited by the UK Code or statutory requirements Details of each Committee member's attendance at Committee meetings are set out in the table on page 42

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 The 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

Identification and review of risks

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, the Audit Committee and the Risk & CSR Committee regularly review significant risks to the business

Self-certification process

An annual process of hierarchical self-certification, which provides a documented and auditable trail of accountability for the operation of the system of internal control, has been established This self-certification process is informed by a rigorous and structured self-assessment that addresses compliance with Company policy It 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

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 and the UK executives are involved in the process A similar process is undertaken within the Company's QNA business, thereby providing assurance on the adequacy and efficacy of internal controls in this business

The risk management process and the system of internal control necessary to manage risks are managed by the Audit Committee (financial risks) and the Risk & CSR Committee (non-financial risks) and each Committee presents its findings to the Board The internal audit function independently reviews the risk identification and control processes implemented by management and reports to the respective Committee

The Audit Committee and the Risk & CSR Committee also review the assurance process, ensuring that an appropriate mix of techniques is used to obtain the level of assurance required by the Board Each Committee 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 2013 The Board also routinely challenges management to ensure that the systems of internal control are constantly improving to maintain their effectiveness

The internal control and risk management systems described above, as well as finance policy and codes of practice, apply to the Company's process of financial reporting and the preparation of consolidated accounts A structured approach to the review and challenge of financial information is also an essential element of the process

Anti-bribery and the prevention of corruption
QinetiQ has internal procedures in place that are designed to ensure compliance with the UK Bribery Act, and other international regulations and best practice relating to the prevention of corruption, which are applicable to its business Compliance is managed through a risk-based approach, using a combination of internal expertise and external, internationally recognised organisations, such as TRACE, international law firms and other expert service providers, who conduct anti-corruption due diligence reviews of all third-party commercial intermediaries used by QinetiQ's businesses

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 Statement on pages 5-11 The CFO's Review on pages 24-29 sets out details of the financial position of the Group, the cash flows, committed borrowing facilities, liquidity and the Group's policies and processes for managing its capital and financial risks Note 25 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, 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 maintained regular dialogue with institutional shareholders and the financial community, which included presentations of the full-year and half-year results, 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 Annual General Meeting in July 2012 and was available to take questions

The Chairman proactively offers to attend meetings with key shareholders on a regular basis In addition, the Chairman, the Senior Independent Director and Non-executive Directors routinely attend key financial calendar events and make themselves available to meet shareholders as required All shareholders and potential shareholders can gain access to the Annual Report, presentations to investors and other significant information about QinetiQ in the 'Investors' section of the Company's website, www QinetiQ com

Holders of ordinary shares have the opportunity to attend the Company's Annual General Meeting (AGM) and to ask questions The Chairs of the Audit, Remuneration, Nominations, Risk & CSR 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 Notice of Meeting 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 in the 'Investors' 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 CEO and the CFO, assisted by an investor relations function 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 to explore with investors any additional practical means by which it can give effect to the requirements of the Financial Reporting Council's UK Stewardship Code for institutional investors, and of the UK Code

Details of the Company's share capital, which are required to be disclosed in accordance with rule 7 2 6 of the FCA's Disclosure and Transparency Rules, and the Directors' powers in relation to issuing and buying back shares can be found on page 63 in the Other Statutory Information section of this Annual Report

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), a wholly-owned subsidiary of QinetiQ in the US and the holding company for the substantive part of QinetiQ's US operations, and the US DoD, have entered into a proxy agreement that regulates the 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), who hold the requisite US security clearances, as proxy holders to exercise the voting rights in QNA 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, and agree, to perform their role in the best interests of shareholders (including the legitimate economic interest), and in a manner consistent with the national security interests of the US

QinetiQ Group plc does not have any representation on the boards of the subsidiaries covered by the proxy agreement, but regularly attends board meetings QinetiQ Group plc may not remove the proxy holders other than 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, the proxy holders cannot carry out any of the below without QinetiQ's express approval

- sell or dispose of, 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

Unlike minority interest holders with protective veto rights, QinetiQ can unilaterally require the above to be carried out and these are, therefore, considered to be significant participative features In addition, QinetiQ can require the payment of dividends, and the pay-down of parent company loans, from QNA

The Boards and Board Committees of each of the Company and QNA meet on a regular basis and review and discuss the important commercial and governance activities taking place within QNA Group policies are shared with QNA and, to the extent they are suitable in QNA's security, market and operational circumstances, are applicable within QNA, subject always to the requirement that QNA must conduct its business affairs without external control or influence, and to the requirements necessary to protect the US national security interest In addition, the Company extends its involvement in QNA's activities through the conduct of regular and frequent business meetings and communications at the CEO, CFO, HR and Legal levels in the interests of transparency and good governance

Security Committee

Colin Balmer
Chair
Security Committee

Membership
The Security Committee is chaired by Colin Balmer The other Committee members are Admiral Sir James Burnell-Nugent, Michael Harper, David Mellors, Paul Murray and Leo Quinn

Main responsibilities
The Committee was established in June 2009 to enable UK nationals on the Board to consider matters of a UK national security dimension that have an impact on QinetiQ's UK business There was no requirement for the Committee to meet during the year

Nominations Committee

Mark Elliott
Chair
Nominations Committee

Membership
The Nominations Committee is chaired by Mark Elliott The other Committee members are Colin Balmer, Admiral Sir James Burnell-Nugent, Noreen Doyle, Michael Harper, Paul Murray and Leo Quinn

Main responsibilities
The role of the Committee is to ensure that the composition of the Board and Committees has the optimum balance of skills, knowledge and experience, and to oversee succession planning for the Board and senior management It considers diversity, including skills mix, international industry experience and gender, when seeking to appoint a new Director to the Board The Committee meets as necessary and when called by its Chair During the financial year ended 31 March 2013, the Committee met on four occasions

Overview
Key areas of focus during the year were

- the review of the size and composition of the Board and its Committees,
- the review and updating of the matrix recording the skills and experience of the current Board, and
- the review of succession planning processes at Executive Director, Non-executive Director and senior management levels

Board Diversity policy
During the year, the Nominations Committee recommended, and the Board approved, a Board Diversity Policy The key statement and objectives of that policy (the full text of which is available on the Group's website) are as follows

Statement

- The QinetiQ Board recognises the benefits of diversity Diversity of skills, background, knowledge, international and industry experience, and gender, amongst many other factors, will be taken into consideration when seeking to appoint a new Director to the Board Notwithstanding the foregoing, all Board appointments will always be made on merit

Objectives

- The Board should ensure an appropriate mix of skills and experience to ensure an optimum Board and efficient stewardship,
- The Board should ensure that it comprises Directors who are sufficiently experienced and independent in character and judgement, and
- The Board aims to increase the proportion of women on the Board to 25% by 2015 Thereafter, the Board aims to maintain a minimum Board composition of 25% women, such percentage to be reviewed annually

Details of the steps being taken in respect of diversity within the Group generally can be found in the Corporate Responsibility and Sustainability Review on pages 34-37

Succession planning
As a result of the succession planning review, a specification was prepared of the role and capabilities required to refresh the Board within the required timescale The Committee recommended, and the Board appointed, two executive search firms, The Zygos Partnership in the UK and Spencer Stuart in the USA, to progress the search for potential Non-executive Director candidates Both firms are signatories to the Voluntary Code of Conduct for Executive Search Firms, which requires them to ensure that at least 30% of the candidates are women, and have no other connections with the Company As at the date of this report, the search remains ongoing

Remuneration Committee

Noreen Doyle
Chair
Remuneration Committee

Membership
The Remuneration Committee is chaired by Noreen Doyle The Committee sets remuneration and incentives for Executive Directors and approves and monitors remuneration and incentives for senior executives of the Group The other Committee members are Colin Balmer, Admiral Sir James Burnell-Nugent, Mark Elliott, Michael Harper and Paul Murray

Other attendees
The CEO, the CFO, the HR Director and the Group Reward Director normally attend meetings to provide information and advice

Overview
The Committee meets as necessary, although normally at least three times a year During the financial year ended 31 March 2013, it met on six occasions

During the year, the Committee received advice from its appointed independent advisors, Towers Watson, who also provided market data and advice to help the Committee determine whether performance targets had been met Towers Watson also provided other consulting services during the year to QinetiQ, but did not provide advice on executive remuneration matters other than to the Committee

The Committee has reviewed the remuneration and rewards of the Company's Executive Directors and senior management and has processes in place 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

No Executive Director or employee of QinetiQ is permitted to be present or participate in the Committee's discussions about their own remuneration

During the year, the Committee's Terms of Reference were reviewed and updated to be consistent with best practice

Further information on the activities of the Remuneration Committee during the last financial year is set out in the Remuneration Report on pages 50-51

Risk & CSR Committee

Colin Balmer
Chair
Risk & CSR Committee

Membership
The Risk & CSR Committee is chaired by Colin Balmer All of the other members of the Board are members of the Committee

The name of the Committee was changed from the Compliance Committee in 2012 as a result of a review of risk governance arrangements and the move from the bespoke MOD Compliance Regime to a generic MOD conflict of interest management system (the "generic compliance system") in alignment with that followed by other defence companies This change was effected by way of the amendment of the rights attaching to the Special Share held by HM Government, following receipt of the requisite MOD approval and shareholder approval at the 2012 Annual General Meeting The Committee's Terms of Reference were reviewed and updated in 2012 to take account of the changes

Main responsibilities
The Committee has three primary functions

- to oversee the sound operation of the Company's non-financial risk management systems,
- to monitor non-financial risk exposures, including security, trade controls, ethics, corporate social responsibility and health, safety and environment, and
- to monitor adherence to the generic compliance system

The Committee has an annual calendar of activities and meets as necessary, although normally not less than four times a year During the financial year ended 31 March 2013, the Committee met on five occasions

Overview
During the past year, the Committee continued to carry out its core functions by way of regular reporting in accordance with its annual calendar The Committee continued to oversee health, safety and environment, trade controls, ethics and security through quarterly reports from the heads of those functions in 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 and Sustainability Review on pages 34-37

Key areas of focus during the year were

- the operation of the QNA Proxy Regime,
- the move to the generic MOD compliance system,
- a review of the Company's risk management processes,
- a review of the Risk Register in accordance with FRC recommendations,
- a review of the Company's risk appetite and providing clarity to executive management on acceptable levels of risk, and
- trials involving human subjects that fall within the scope of the Helsinki Protocol

Generic compliance system
The Committee continues to monitor the generic compliance system, which is designed to give the MOD customer confidence that QinetiQ is able to provide impartial advice during any competitive evaluation of a procurement where the Company wishes to operate on both the 'buy' and the 'supply' sides The aim is to achieve a balance between meeting the needs of the procurement customers in the MOD (principally Defence Equipment & Support) and the need to allow QinetiQ the flexibility to exploit research into the supply chain and pursue its planned commercial activities, without compromising the defence or security interests of the UK Oversight of the operation of the system is provided by the Committee

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 The Committee addresses any issues that would arise if QinetiQ were to fail to comply with the requirements of the generic compliance system No breaches were noted during the year The Company will continue with rigorous management of potential conflicts of interest while ensuring that proportionate governance is maintained by the Board

Audit Committee

Paul Murray
Chair
Audit Committee

Membership
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 other members of the Committee are Colin Balmer, Admiral Sir James Burnell-Nugent, Noreen Doyle and Michael Harper, all of whom the Board considers to be independent The members bring extensive experience of corporate management in senior executive positions to the Company

Other attendees
The CEO, CFO, Director of Group Finance, Group Internal Audit Manager, the QinetiQ North America (QNA) Internal Audit Manager and representatives of the external auditor normally attend Audit Committee meetings

Main responsibilities
The Audit Committee monitors the Group's integrity in financial reporting and reviews the effectiveness of the financial risk management framework The Committee has an annual calendar of activities, in addition to which it identifies particular areas of focus during the year

The Audit Committee meets as necessary and at least four times a year During the financial year ended 31 March 2013, 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, and in accordance with its terms of reference, the Committee met with QinetiQ's external auditor on three separate occasions, without Executive Directors present, to discuss the audit process The Committee also met with the Group Internal Audit Manager on two separate occasions, without Executive Directors present

Overview
Key areas of focus during the year were

- QNA risks, issues and mitigating actions,
- effectiveness of internal controls,
- effectiveness of governance arrangements,
- effectiveness of external audit, and
- review of audit process for full-year and half-year results

QNA risks, issues and mitigating actions
As detailed on page 45 concerning 'Management and control of US subsidiaries', the Company's holding of its QNA assets is regulated by a proxy agreement This arrangement, whose purpose is to insulate QNA from foreign ownership control or influence, directly impacts the way in which the Company's Board is able to gain comfort on the effectiveness of QNA's systems of internal control

QNA is subject to external audit, by the same auditor as for the Company, KPMG The Company has the opportunity to meet with QNA's external auditor independently Further, the Company is able to review in detail, with the Chair of the QNA Audit Committee and the QNA Internal Audit Manager, the audit work within QNA and to gain an understanding of the systems of internal control, and their effectiveness

Review of internal controls
The Audit Committee continually reviews the effectiveness of the systems of internal control to gain assurance that an effective control framework is maintained Reports on the effective operation of the control framework are received from management and reviewed by the Committee along with key policies and processes including whistleblowing arrangements Regular reports on the operation of internal controls and risk management processes are also received from the internal audit function Particular attention is given to the timely and effective implementation of remedial actions, either identified by the business directly, or by internal audit The Committee also regularly reviews the effectiveness of the financial risk management framework, including reviewing key financial risks and assessing the effectiveness of management's remedial action plans As detailed above, the Committee meets regularly with the Chair of the QNA Audit Committee and the QNA Internal Audit Manager to gain assurance on the effectiveness of the QNA internal controls framework In addition, the Committee, on behalf of the Board, undertakes an annual assessment of the control environment

Governance reviews
As reported in the Report and Accounts in respect of the year ended 31 March 2012, during that year the Committee undertook externally-facilitated governance reviews in respect of the effectiveness of the Committee itself, the internal audit function and risk governance

The recommendations from those reviews were progressed by the Committee Chairman during the past financial year and resulted in the reconfiguration of the Audit and Compliance Committees into an Audit Committee and a Risk & CSR Committee, with the former dealing with financial risks and the latter with non-financial risks, as well as oversight of the overall risk management process The Terms of Reference of both Committees were amended to reflect the change and the schedules of annual activity updated accordingly In addition, changes were made to the structure and linkage between the Committee and the QNA Audit Committee to improve regulatory and governance reporting

During the current year, reviews of the effectiveness of the Audit Committee and the Internal Audit function were carried out as follows

- a review by the Committee Chairman of the recommendations from the previous year's externally-facilitated reviews and of the performance against those recommendations, and
- high-level questions and answers completed by the Non-executive Directors and reviewed by the Committee Chairman

The results of the reviews were considered at the May Committee meeting and the outcome showed that the governance improvements had been effective and had been embedded in the business The implementation of some actions, particularly in relation to QNA, remain ongoing but in line with agreed action plans

External Audit effectiveness review

The effectiveness and independence of the external audit process was assessed by the Internal Audit function during the year The review comprised the following elements

- a questionnaire which was completed by the Non-executive Directors and senior QinetiQ staff,
- interviews with the KPMG partner and senior managers, and
- interviews with senior business managers

The results of the review were considered at the March Committee meeting and it was noted that the external audit function continued to be both independent and effective A small number of recommendations regarding audit scoping and reporting have been made which will be adopted by KPMG in their future work

Other areas of review

During the year, the Committee also reviewed the activities of the tax, insurance and treasury functions, 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

Financial statements

The Committee reviews whether suitable accounting policies have been adopted, whether management has made appropriate estimates and judgements and also seeks support from the external auditors to assess them The Committee reviewed the following main issues for the year ended 31 March 2013

- The basis of and key assumptions relating to management's assessment of the carrying value of the goodwill associated with the US Services business
- The basis for and judgements made by management in determining the liabilities recorded for litigation, potential claims and other disputes
- The accounting for longer term contracts and, in particular, the basis of the estimates of forecast costs to complete on a significant contract
- The key assumptions and their sources used in accounting for the Group's defined benefit retirement obligations
- The disclosures in the preliminary announcement and annual report and accounts, in particular those relating to risk, goodwill, specific overlying items and the operation of the proxy regime in the US
- The adoption and application of new accounting standards, and in particular IAS19 (revised)

Based upon the business assurance process and discussions with management and the external auditors, the Committee was satisfied that the disclosures and assumptions were reasonable and appropriate for a business of the Company's size and complexity, that the auditors had fulfilled their responsibilities in scrutinising the financial statements for any material misstatements and that the disclosures were satisfactory

The Audit Committee will consider in 2013 how to adapt, if necessary, the Group's procedures to provide advice to the Board to meet with the requirements of the new 2012 UK Corporate Governance Code (as applicable to the Group for its next financial year, ending 31 March 2014, and beyond) on whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide all information necessary to a shareholder to assess the Group's performance, business model and strategy

External Auditor independence Non-audit services

The Company views it as essential that the external auditor is both independent of any conflict of interest and perceived to be so To safeguard auditor independence and objectivity, the Company has a Code of Practice within its Operating Framework which sets out the principles for regulating the award of non-audit work to the external auditor The policy clearly articulates the non-audit services which are prohibited, the non-audit services which can be purchased and the key approval requirements for non-audit work Pursuant to the policy, the Committee ensures that any other advisory and/or consulting services provided by the external auditor do not conflict with its statutory audit responsibilities and are conducted through entirely separate working teams, such advisory and/or consulting services generally only cover regulatory reporting, tax, and mergers and acquisitions work

The cost and nature of non-audit work undertaken by the auditor is regularly reviewed by the Committee during the financial year and is included at regular intervals in its annual schedule as a standing item 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 It is also QinetiQ's policy that no KPMG employee may be appointed to a senior position within the QinetiQ Group without the prior approval of the CFO

Any non-audit services conducted by the auditor require the consent of the CFO or the Chairman of the Audit Committee before being initiated, any services exceeding £50,000 in value require the consent of the Audit Committee as a whole In the last financial year, there have not been any non-audit services conducted by KPMG that exceeded £50,000 in value The Committee concluded, therefore, that there had not been any conflict of interest that might compromise the independence of KPMG's audit work

Auditor reappointment

KPMG has been the auditor of the QinetiQ Group since its formation in 2001 as the result of a competitive tender, and the Company's auditor since its incorporation in 2002 During that time, there have been periodic changes in audit partners in accordance with professional and regulatory standards to protect independence and objectivity 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 2012 and it is anticipated that the new lead audit partner will continue in this role for a maximum of five years

Having reviewed the effectiveness and the independence of the external auditor, the Committee has not considered it necessary to conduct a tender process for the appointment of its auditor The Committee has recommended to the Board that KPMG be reappointed for the financial year ending 31 March 2014 In accordance with FRC guidance on transitional arrangements for the implementation of the 2012 version of the UK Code, it is the Company's current intention to align the process for putting the external audit contract out to tender with the conclusion of the five-year tenure of the audit partner The Committee will continue, however, with the annual review of the performance of the external auditor and act accordingly

Remuneration report

Noreen Doyle
Chair
Remuneration Committee

Introduction

I am pleased to present the Remuneration Committee's report on Directors' compensation for the year to 31 March 2013

The primary objectives of our remuneration policy are

- Attracting and retaining top talent,
- Incentivising key executives and managers,
- Ensuring an approach which values the diversity of our workforce,
- Driving superior performance in both the short and long term, and
- Alignment with the interests of shareholders

Beginning in 2009, QinetiQ has created and implemented a self-help programme to support its transformation Following on from the success of this effort, the Company has begun its transition to the next stage in its development Accordingly, with input from its advisors, Towers Watson, the Remuneration Committee undertook a market review and developed a revised compensation package which was endorsed at the Annual General Meeting in July 2012

- The Value Sharing Plan (VSP) was designed in 2010 for the Company's self-help phase and was considered to be a time bound Long Term Incentive Plan (LTIP) The current phase for the Company is aimed at resumption of growth, both in the UK and the USA, despite defence markets forecast to be flat or falling, and therefore a new Performance Share Plan (PSP) was adopted to align with this objective
- To enhance further management's alignment with shareholder interests, the mandatory deferral for Executive Directors under the Deferred Annual Bonus (DAB) plan was increased to 50% of bonus earned
- In addition, we match our stretch business objectives to an increased Annual Cash Bonus plan opportunity for our Executive Directors

These changes were implemented during the year ended March 2013 after shareholder approval and as we are only part way through the next phase of our journey we are not proposing to alter our remuneration policy for the coming financial year We believe the plan we have in place supports the business goals and ensures commensurate levels of remuneration with business performance This is demonstrated in reward attributed to the closing financial year as, despite challenging markets, 2013 has been a strong year which is reflected in our Executive Directors' performance-based remuneration Since 2010, our total shareholder return has increased by 60% which demonstrates the significant return on shareholder value

In line with our overall remuneration policy, the Committee has determined 3% salary increases for the CEO and CFO which will be effective July 2013

To help develop clarity around our Executive Directors' remuneration, we have improved the format and flow of our report in line with best practice

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

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 statutory and regulatory requirements

Membership and Governance

Members of the Committee are appointed by the Board The Committee comprises at least three members (not including the Group Chairman of the Board), all of whom are independent non-Executive Directors The Group Chairman of the Board also serves on the Committee as an additional member if he or she was considered independent on appointment as Chairman

Only members of the Committee have the right to attend Committee meetings However, other individuals such as the Chief Executive, the Group HR Director and external advisers are invited to attend for all or part of any meeting, as and when appropriate

The Board appoints the Committee Chairman who is an independent, non-executive director In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting who would qualify under these terms of reference to be appointed to that position by the Board The Chairman of the Board is not permitted to be Chairman of the Committee

The following Non-executive Directors were members of the Remuneration Committee for the year ended 31 March 2013

- Noreen Doyle (Chair)
- Mark Elliott (Group Chairman)
- Colin Balmer
- Admiral Sir James Burnell-Nugent
- Paul Murray
- Michael Harper

The full Terms of Reference of the Committee can be found on the QinetiQ website (www QinetiQ com)

Activities

During the year, the Committee met six times

The Committee received advice from its appointed independent advisors, Towers Watson, who also provided market data and advised on the comparator group's TSR so that the Committee could determine whether share plan performance targets had been met

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

The Committee meetings covered a number of topics including

May	• 2012 Annual Cash Bonus plan results • Revised Performance Share Plan rules prior to shareholder approval
July	• Share plan allocations and nominations • Share plan performance and vesting
November	• Government reforms • Remuneration Committee programme for the year • Review of Executive team shareholding • Reward and retention – all employee • IAS 19 impact on incentives*
January	• Executive pay trends • Executive incentive arrangements • Changes to the Directors' Remuneration Report
March	• Projected share plan vesting • Executive team salary review • Executive team Annual Bonus Plan design • Share plan allocations

* In November 2012, the Committee discussed the impact of accounting changes on incentives IAS 19 (revised) 'Employee benefits' has been adopted for the year ended 31 March 2013 and the prior year comparatives have been restated accordingly, which has had specific impacts on the income statement The reporting changes resulted in the baseline financials for the Performance Share Plan, Deferred Annual Bonus plan and Annual Cash Bonus plan being revised to accommodate the accounting changes while retaining the incentive structure

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
- is 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,
- all decisions are made taking into account the diversity of our people at Director level, 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 set at the beginning of each year,
- competitive market practice and remuneration levels based on a consistent competitor group reviewed annually, and
- the general economic environment, particularly in the defence sector

Each year, the packages are benchmarked independently by our advisors, Towers Watson, using two comparator groups one group is based on company size, measured by market capitalisation and revenue and the second group is sector specific The first group is used as the primary reference with cross checking against the second group to capture any industry specific features, there are approximately 20 companies in each group The lower quartile, mid-market and upper quartile reference points are captured and the packages of the CEO and CFO are then benchmarked against these to ensure they remain competitive at the mid-market level

The Executive Directors' remuneration package is made up of the following components

Base Salary	**Annual Cash Bonus**	**Long-Term Incentives** PSP & DAB	**Benefits** Pension, Car Allowance	**Remuneration Package**

Performance driven

The table below shows our overarching policy and framework for Executive Directors' remuneration The application of this policy is detailed within this report

Element	Purpose	Operation and performance measures
Base salary	To attract and retain the talent needed to lead our business	Executive Directors salaries are reviewed annually, along with those of all other members of the executive team by the Remuneration Committee and any change is effective 1 July Reference is made to both the internal and external environment Specifically to the external environment, reference is made to the market data provided by the advisors to the Remuneration Committee which covers all aspects of reward Other factors taken into account when considering whether or not to award a base salary increase • The performance of the Executive over the previous twelve months, • The business environment for the year ahead, • Potential all employee salary review budget for the coming year, • All other aspects of remuneration (the reward mix), • The critical nature of the appointment with respect to delivering business results, • An executive's position in terms of career development, potential and lifecycle, and • Retention risk and the ability to replace higher value skills if needed in the market
Annual Cash Bonus	To recognise exceptional and stretching business performance with exceptional reward	Executive Directors participate in an annual bonus plan which is non-pensionable Bonuses are determined by Group performance targets for operating profit, underlying operating cash flow, and underlying EPS • The bonus accrues on a linear basis between entry, target and maximum performance thresholds • The relative performance against financial targets for each measure will trigger a payment which may be adjusted at Remuneration Committee discretion The targets are set at the beginning of each year and amended if applicable to reflect • Acquisitions and disposals • Restructuring costs • Business structure changes • Restated corporate allocations • Board approved budget adjustments • Final IAS 19 pensions finance cost A percentage of all annual cash bonuses earned are deferred and paid in shares under the Deferred Annual Bonus Plan (DAB) as detailed below Specifics around the Annual Bonus Plan reward potential for Executive Directors for the coming year can be found on page 56 and the achievement of bonus for year ended 31 March 2013 can also be found here
Deferred Annual Bonus Plan (DAB) – Current	The Deferred Annual Bonus Plan aligns the interests of executives with shareholders and contributes to the retention of key individuals by ensuring that executives take part of their annual bonus awards in shares rather than cash	Any deferred bonus will be matched by the Company based on underlying EPS performance up to a maximum match of 100% of the deferred element In order for the matching shares to vest, underlying EPS growth, measured over three years, must exceed defined targets The matching element of the DAB begins to vest at 25% once the underlying EPS CAGR hits 3%, rising on a linear scale until maximising at 100% match for 10% CAGR in EPS

Opportunity

Aim to pay base salaries in line with the market median against the comparator groups detailed above No minimum or maximum increases to base salary are determined

Changes for coming financial year

No changes to policy but details of the salary increases for the coming financial year can be found on page 56

For year ended 31 March 2013, the on-target and maximum bonus opportunities were increased to 75% and 150% of base salary, respectively, to bring QinetiQ's Executive Directors in line with the market median

There are no changes to policy for the coming financial year

Executive Directors have a mandatory deferral of 50% of any bonus earned For others in the executive team, the mandatory deferral is 20% with an additional voluntary deferral of up to 30% (50% total)

Any deferred bonus will be matched by the Company up to a maximum match of 100%

No changes to policy for the coming financial year

Element	Purpose	Operation and performance measures
Performance Share Plan (PSP) – Current	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 The current Long Term Incentive Plan mechanism for Executive Directors is the PSP which is also provided to other senior leaders This replaced the Value Sharing Plan (see below) in July 2012 and better aligns to our current phase of resurrecting growth	PSP awards are contingent on meeting pre-determined performance criteria Awards are earned based on an equal weighting of relative Total Shareholder Return (TSR) performance and absolute underlying Earnings per Share (EPS) growth The underlying EPS performance criterion for the PSP awards begin to vest at 25% once the underlying EPS CAGR hits 3% rising on a linear scale until maximising at 100% for 10% CAGR TSR performance is measured against the constituents of the FTSE 250 excluding Investment Trusts 30% of the TSR awards begin to vest once performance reaches the median of the comparator group rising on a linear basis until performance reaches the upper quartile Further detail of the thresholds for both measures can be found on page 56
Deferred Annual Bonus Plan (DAB) – Closed	No longer in use – unvested awards from previous years	For awards made prior to the year ended 31 March 2013, the matching element of the DAB begins to vest (25%) once the underlying EPS CAGR exceeds 7%, maximising at 100% match for 15% CAGR in underlying EPS
Performance Share Plan (PSP) – Closed	No longer in use – unvested awards from previous years	Awards are earned based on an equal weighting of relative Total Shareholder Return (TSR) performance and absolute underlying Earnings per Share (EPS) growth The underlying EPS performance criterion for the PSP awards begin to vest at 25% once the underlying EPS CAGR hits 7% rising on a linear scale until maximising at 100% for 15% CAGR TSR performance is measured against the constituents of a bespoke sector related peer group of companies 30% of the TSR awards begin to vest once performance reaches the median of the comparator group rising on a linear basis until our performance reaches the upper quartile
Value Sharing Plan (VSP) – Closed	The VSP was approved by shareholders in July 2010 It is a long-term incentive plan which was designed to reinforce QinetiQ's strategy of focusing on shareholder value creation This plan is no longer in use – unvested awards from previous years	Under the VSP, additional shareholder value created is measured in two ways • Total shareholder return (TSR) – 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 also satisfied that this is justified by the underlying financial performance of the Company over the performance period • Underlying Profit Before Tax (PBT) – determined by PBT growth above the cost of equity of 8 5% a year, adjusted by the dividend yield VSP awards granted in May 2011 were weighted equally between the two performance indicators 50% Total Shareholder Return (TSR) and 50% underlying Profit Before Tax (PBT) For awards made in July 2010, the weighting was 70% PBT and 30% TSR Any awards earned will vest 50% after three years and 50% after four years
Pension and other benefits	To ensure Executive Directors' total remuneration remains attractive and competitive	N/A
Personal shareholding policy	The Board 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	In November 2011 the Committee reviewed the executive shareholding policy and increased the length of time allowed to accumulate the required shareholding from four to five years to align with market norms The CEO and CFO are required to hold shares in QinetiQ with a value equivalent to one times their base salary in QinetiQ shares

Opportunity	Changes for coming financial year
Individual participants' award levels are determined by the Committee annually Executive Directors are eligible to receive awards with a maximum value of 200% of base salary per annum However, the intention is to normally set the awards at 150%	No changes to policy for the coming financial year
Prior to the year ended 31 March 2013, Executive Directors had a mandatory deferral of 40% of any bonus earned and were permitted to voluntarily defer an additional 10% of their bonus into QinetiQ shares up to a maximum of 50% Any deferred bonus will be matched up to a maximum of 100%	This Plan is no longer in use, however, there remain awards unvested
Leo Quinn has outstanding awards under this plan based on his joining arrangements and details of the vesting which will occur in June 2013 can be found on page 56	This Plan is no longer in use, however, there remain awards unvested
The VSP provided executives with a pre-defined number of shares for each £1m of Additional Shareholder Value created Previous awards issued to Executive Directors are due to vest between July 2013 and May 2015 More details of the VSP can be found on page 57, together with the vestings of awards made in July 2010	This Plan is no longer in use, however, there remain awards unvested
Benefits include a pension or contribution in lieu, car allowance, health insurance, life assurance 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 29 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	No changes to policy for the coming financial year
N/A	No changes to policy for the coming financial year

Policy Implementation

The following section of this report details the implementation of the above policies during year ended March 2013 (2013) and how they will be implemented for the coming financial year (2014)

Base salary

Executive Director	2014	2013
Leo Quinn	£615,322	£597,400
David Mellors	£391,400	£380,000

Based on the market review, salary increases of £11,400 p a (3%) were approved for the CFO and £17,922 (3%) for the CEO respectively, effective 1 July 2013, based on performance and their compensation level, vis a vis the market

Annual bonus

	2014				2013
Executive Director	On Target payment	Maximum payment	On Target payment	Maximum payment	Actual bonus earned
Leo Quinn	75%	150%	75%	150%	150%
David Mellors	75%	150%	75%	150%	150%

The 2013 and 2014 bonus potential and 2013 actual awards are set out above, expressed as a percentage of salary

The annual cash bonus opportunity will remain unchanged for 2014 and the measures used to determine performance will also remain unchanged Part of all annual cash bonuses earned are deferred and paid in shares, as described below

Both the CFO and CEO were measured against Group targets as shown below

Group Underlying Operating Profit* 60%
Group Underlying Cash Flow* 20%
Underlying Earnings per Share* 20%

In 2013 the stretch financial targets were exceeded and therefore drove the maximum bonus achievement of 150% of base salary, which is also captured in the Directors' Remuneration table later in this report

Deferred Annual Bonus (DAB) Plan

In 2013 the CEO deferred 50% and the CFO deferred 40% of their 2012 annual cash bonus plans These will vest in three years (June 2015) and according to future underlying EPS performance any deferred bonus will be matched, up to 100%, based on the following underlying EPS* performance

Underlying EPS* CAGR over three years	Percentage of Shares Vesting
Less than 3%	0%
3%	25%
Between 3% and 10%	between 25% and 100% (linear)
10% or more	100%

50% of the 2013 annual cash bonus will be deferred into the DAB and will be matched on the same performance basis as the above in three years (June 2016)

* Definitions of underlying measures of performance can be found in the glossary on page 116

Performance Share Plan (PSP)

In 2013 the VSP was replaced by the Performance Share Plan (PSP)

The value of the awards made to the Executive Directors in 2013 are detailed below

	2014 Award	2013 Award
Leo Quinn	150% of base salary	150% of base salary
David Mellors	150% of base salary	150% of base salary

The graph below shows the targets against which the performance will be measured and the vesting mechanics

TSR Performance vs FTSE 250 (excluding investment trusts) – 50% of award

Award vesting
Percentile performance
100%
30%
Median
Upper quartile

Underlying EPS* Performance – 50% of award

% award vesting
CAGR underlying EPS*
100%
25%
3%
10%

PSP vesting June 2013

When the CEO was recruited in 2009, the Board agreed to

- an award of 420,900 shares under the PSP and
- a variation of the existing PSP whereby Leo Quinn would receive a matching PSP award for his investment of £1m shares of QinetiQ, which equated to 725,688 shares

Based on the underlying EPS* and TSR performance criteria in effect at the time of these grants, a portion of these grants will vest on 1 June 2013

The actual and required performance for these awards is as detailed below

TSR Performance vs comparator Group – 50% of award

Award vesting
Percentile performance
100%
30%
Median
Upper quartile

The TSR for the performance period was 49 1% against a comparator group median performance of 56 1% (including delisted companies) resulting in QinetiQ's performance being placed at the 42nd percentile Therefore all of the TSR-related shares will lapse

Underlying EPS* Performance – 50% of award

% award vesting

CAGR EPS*

100%

25%

7%

15%

Based on underlying EPS* of 11 2p^ at 31 March 2010 and 18 9p at 31 March 2013, the three year growth of 69% exceeds the maximum performance threshold and therefore all awards allocated to EPS performance will vest in full resulting in 573,294 shares vesting to Leo Quinn on 1 June 2013

Value Sharing Plan (VSP) – closed

Since the VSP was replaced by the PSP in year ending 31 March 2013, there were no awards made under the VSP during this financial year However, shares previously awarded during year ending 31 March 2011 and 2012 remain unvested

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

Details of outstanding awards made in previous years under this plan can be found on page 60 within the table of interests of Executive Directors under long-term incentive plans

Performance of awards made in July 2010 has been measured against Total Shareholder Return and underlying Profit Before Tax as at 31 March 2013 Details of this performance and the relative vesting (provided the Executive Director remains in service) in July 2013 and July 2014 are detailed below

2010 VSP – Total Shareholder Return

30% of the shares were awarded for a TSR measure of growth in market capitalisation plus net equity cash flows to shareholders over and above the equivalent return from investing in the FTSE 250 index (excluding investment trusts)

Leo Quinn was awarded 600 shares per £1m TSR ASV

David Mellors was awarded 300 shares per £1m TSR ASV

Calculation

QinetiQ's TSR over the period was 49 1% and the TSR for the FTSE 250 Index was 56 4%

Additional shareholder value based on TSR is therefore

QinetiQ TSR out-performance of -7 3% (= 49 1%-56 4%)

Therefore, despite a strong increase in total shareholder return, TSR awards will lapse

2010 VSP – Underlying Profit Before Tax

70% of the shares were awarded for growth in value based on PBT (times a fixed multiple, plus net equity cash flows to shareholders) over and above a hurdle return rate of 8 5% P A The fixed multiple was calculated from the average market cap in the PBT measure of growth in market capitalisation plus net equity cash flows to shareholders over and above the equivalent return from investing in the FTSE 250 index (excluding investment trusts)

Leo Quinn was awarded 1400 shares per £1m PBT ASV

David Mellors was awarded 700 shares per £1m PBT ASV

Calculation

QinetiQ's average market cap over the three months to 31 March 2010 was £905 8m

Group adjusted PBT for the financial year ended 31 March 2010 was £88 2m

Market cap as a (fixed) multiple of PBT for 2010 VSP awards is therefore 10 27 (= £905 8m / £88 2m), Group adjusted PBT for the financial year ending 31 March 2013 is £152 1m, and dividends to shareholders over the three-year period amount to £36 5m

Additional shareholder value based on PBT is therefore

PBT in 2013 of £152 1m multiplied by the fixed multiple of 10 27 equals a value of £1,562 07m (= £152 1m x 10 27)

plus £36 5m (paid dividends) equals £1,598 57m (= £1,562 07m +£36 5m)

less hurdle rate of £1,157 00m (= £905 8m x $(1+8\ 5\%)^3$)

equals additional shareholder value for PBT element of award of £441 57m (= £1,598 51m-£1,157 00m)

Therefore, Leo Quinn will be eligible for 618,204 (1,400 x 441 57) shares,

David Mellors will be eligible for 309,102 (700 x 441 57) shares

50% of these shares will vest in July 2013 and the remaining 50% will vest in July 2014

^ IAS 19 (revised) 'Employee benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly

Benefits

In 2013, Leo Quinn received contributions of 25% of base salary (£148,262) 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 with any contributions above the annual allowance of £50,000, paid as cash in lieu of pension

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

	2013	2012
Executive Directors		
David Mellors	£50,000	£50,000

The value of other benefits can be found in the Directors Remuneration table which can be found on page 59

* Contributions to the DC pension scheme paid by the Company were £38,675 with additional contributions arising through salary sacrifice

Personal shareholding policy

The CEO achieved his required personal shareholding upon joining the Company and the CFO reached his 100% base salary requirement in November 2012

Directors' terms and conditions

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

	Date of most recent service agreement	Date of appointment
Executive Directors		
Leo Quinn	28 October 2009	November 2009
David Mellors	20 May 2008	August 2008
Non-executive Directors		
Mark Elliott (Group Chairman)	10 February 2010	June 2009
Colin Balmer	20 January 2006	February 2003
Noreen Doyle	20 January 2006	October 2005
Admiral Sir James Burnell-Nugent	10 April 2010	April 2010
Paul Murray	25 October 2010	October 2010
Michael Harper	22 November 2011	November 2011

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, Executive Directors do not have 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' letters of appointment are renewed on a rolling twelve-month basis subject to reappointment at the Annual General Meeting There are no provisions for compensation on early termination

Non-executive Directors' 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 2012, using independent market research, which resulted in an increase of £3,000 per annum in the basic fee for Non-executive Directors and an increase of £2,000 per annum in the fee for chairing a committee, as detailed in the following table

	Fees from 1/4/12 to 31/7/12	Fees from 1/8/2012
Non-executive Chairman	£225,000	£225,000
Basic fee for UK Non-executive Director	£40,000	£43,000
Basic fee for US resident Non-executive Director	\$100,000 or £50,000	\$100,000 or £50,000
Additional fee for chairing a committee	£7,000	£9,000
Additional fee to Deputy Chairman/Senior Independent Non-executive Director	£10,000	£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 \$4,000 is payable to US-resident Non-executive Directors per UK Board Meeting UK resident Non-executive Directors are paid an additional fee of £2,500 per meeting held in the USA

Management of share-based rewards

The Committee also oversees arrangements for share-based rewards 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 2013 grants were subject to a vesting schedule which was partly time-based and partly based on the achievement of growth targets

% Organic operating income growth achieved	% RSU Award Vesting
<5%	0%
5%-12 5%	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 above

Dilution limits

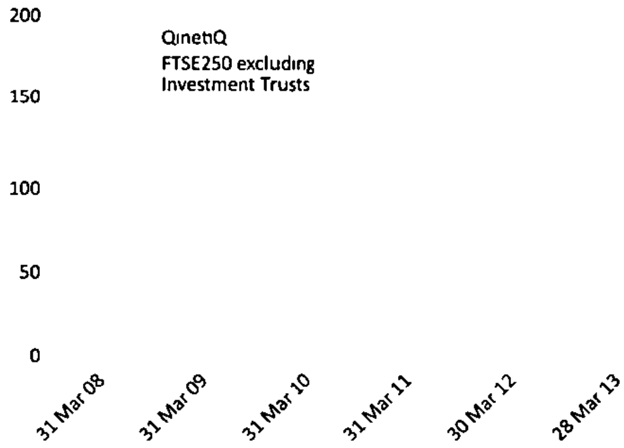
In accordance with ABI guidelines, no more than 10% of the Company's issued share capital will be used under all of the Company's share schemes during a 10-year period The dilution as at 31 March 2013 was significantly below this 10% level, and below 5% in respect of executive schemes In addition, the Board intends to continue to satisfy a proportion of awards with purchased shares held in an employee benefit trust

Five-year Total Shareholder Return

The graph shows the Company's TSR over the period from 31 March 2008 to 31 March 2013 compared to the FTSE 250 index (excluding investment trusts) over the same period based on spot values

The Committee has chosen to demonstrate the Company's performance against FTSE 250 (excluding investment trusts) as it is an appropriate sector comparison within the index in which the Company is listed

TSR Summary



Audited information

Directors' remuneration

The information about Directors' remuneration and Directors' interests on pages 59-61 has been audited

The table below shows the aggregate remuneration of the Directors for the year ended 31 March 2013

	Salary/fees (a)	Bonus (b)	Other benefits (c)	Payment in lieu of pension	Total 2013	Total 2012
Executives						
Leo Quinn (d)	£593,050	£896,100	£52,106	£148,262	£1,689,518	£1,495,284
David Mellors (e)	£377,500	£570,000	£21,183	£36,825	£1,005,508	£866,644
Total for Executive Directors	£970,550	£1,466,100	£73,289	£185,087	£2,695,026	£2,361,928
Non Executives						
Mark Elliott	£225,000	–	£75,000	–	£300,000	£300,000
Colin Balmer	£55,333	–	–	–	£55,333	£46,167
Noreen Doyle	£55,333	–	–	–	£55,333	£52,000
Paul Murray	£55,333	–	–	–	£55,333	£52,000
Admiral Sir James Burnell-Nugent	£47,000	–	–	–	£47,000	£45,000
Michael Harper	£57,000	–	–	–	£57,000	£18,577
Former Directors						
Sir David Lees (g)	–	–	–	–	–	£55,834
Admiral Ed Giambastini (h)	–	–	–	–	–	£21,292
David Langstaff (i)	–	–	–	–	–	£2,115
Total for Non-executive Directors	£494,999	–	£75,000	–	£569,999	£592,985
Total – All Directors	£1,465,549	£1,466,100	£148,289	£185,087	£3,265,025	£2,954,913

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 for Group Chairman

d) Salary for Leo Quinn reflects increase from £580,000 to £597,400 effective 1 July 2012

e) Salary for David Mellors reflects increase from £370,000 to £380,000 effective 1 July 2012

f) Fees for NEDs increased on 1 August 2013 (page 58)

g) Sir David Lees resigned from the Board on 31 Jan 2012

h) Admiral Ed Giambastini resigned from the Board on 2 August 2011

i) David Langstaff resigned from the Board on 18 April 2011

Pensions

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

For the year ended 31 March	2013	2012
Executive Directors		
David Mellors	£50,000	£50,000

Contributions for David Mellors to the scheme paid by the Company were £38,675 with additional contributions arising through salary sacrifice

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

Interests of Executive Directors under long-term incentive share plans as at 31 March 2013

	Grant date	Number at 1 April 2012	Granted in year (maximum potential of awards)	Exercised/ vested in year	Lapsed in year	Number at 31 March 2013	Market price on date of grant	Earliest vest date	Latest vest date
Leo Quinn									
Matching award TSR (b)	16/12/09	362,844	–	–	–	362,844	165p (a)	01/06/13	01/06/13
Matching award EPS (b)	16/12/09	362,845	–	–	–	362,845	165p (a)	01/06/13	01/06/13
PSP Mirror TSR (b)	16/12/09	210,450	–	–	–	210,450	165p (a)	01/06/13	01/06/13
PSP Mirror EPS (b)	16/12/09	210,450	–	–	–	210,450	165p (a)	01/06/13	01/06/13
VSP TSR	29/07/10	271,800	–	–	–	271,800	124 9p	29/07/13	29/07/13
VSP TSR	29/07/10	271,800	–	–	–	271,800	124 9p	29/07/14	29/07/14
VSP PBT	29/07/10	634,200	–	–	–	634,200	124 9p	29/07/13	29/07/13
VSP PBT	29/07/10	634,200	–	–	–	634,200	124 9p	29/07/14	29/07/14
VSP TSR	26/05/11	382,950	–	–	–	382,950	112 3p	26/05/14	26/05/14
VSP TSR	26/05/11	382,950	–	–	–	382,950	112 3p	26/05/15	26/05/15
VSP PBT	26/05/11	382,950	–	–	–	382,950	112 3p	26/05/14	26/05/14
VSP PBT	26/05/11	382,950	–	–	–	382,950	112 3p	26/05/15	26/05/15
DAB Match	01/07/11	226,777	–	–	–	226,777	129 1p	01/07/14	01/07/14
PSP EPS	09/08/12	–	280,032	–	–	280,032	166 0p	09/08/15	09/08/15
PSP TSR	09/08/12	–	280,032	–	–	280,032	166 0p	09/08/15	09/08/15
DAB Match	29/06/12	–	229,596	–	–	229,596	157 1p	30/06/15	30/06/15
Total Leo Quinn		4,717,166	789,660	–	–	5,506,826			
David Mellors									
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	124 9p	29/07/13	29/07/13
VSP TSR	29/07/10	135,900	–	–	–	135,900	124 9p	29/07/14	29/07/14
VSP PBT	29/07/10	317,100	–	–	–	317,100	124 9p	29/07/13	29/07/13
VSP PBT	29/07/10	317,100	–	–	–	317,100	124 9p	29/07/14	29/07/14
VSP TSR	26/05/11	191,475	–	–	–	191,475	112 3p	26/05/14	26/05/14
VSP TSR	26/05/11	191,475	–	–	–	191,475	112 3p	26/05/15	26/05/15
VSP PBT	26/05/11	191,475	–	–	–	191,475	112 3p	26/05/14	26/05/14
VSP PBT	26/05/11	191,475	–	–	–	191,475	112 3p	26/05/15	26/05/15
DAB Match	01/07/11	70,379	–	–	–	70,379	129 1p	01/07/14	01/07/14
PSP EPS	09/08/12	–	178,125	–	–	178,125	166 0p	09/08/15	09/08/15
PSP TSR	09/08/12	–	178,125	–	–	178,125	166 0p	09/08/15	09/08/15
DAB Match	29/06/12	–	117,173	–	–	117,173	157 1p	30/06/15	30/06/15
Total David Mellors		1,949,138	473,423	–	206,859	2,215,702			
Total Executive Directors		**6,666,304**	**1,263,083**	–	**206,859**	**7,722,528**			

a) Shares awarded to the CEO in 2009 were based on an average market price of 138 0p representing the average price over the ten days before joining

b) 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 awards in the table above are subject to the performance conditions described on page 54 The price of a QinetiQ share at 31 March 2013 was 207 4p The highest and lowest prices of a QinetiQ share during the year ended 31 March 2013 were 214 6p and 141 5p respectively

There have been no changes to the interests shown above between 31 March 2013 and 23 May 2013

There is no exercise price for any of the above awards

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

	Interest as at 1 April 2012	Partnership and dividend shares acquired during year	Interest as at 31 March 2013	Interest as at 23 May 2013
Leo Quinn	2,398	921	3,319	3,450
David Mellors	3,595	947	4,542	4,673

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

Directors' interests in shares

The table below shows the beneficial interests in ordinary shares (including, where applicable, shares held under the SIP and DAB) of the Directors who were in office as at 31 March 2013 and their connected persons

	Number 1p Ord Shares held at 23 May 2013	Number 1p Ord Shares held at 31 March 2013	Number 1p Ord Shares held at 1 April 2012
Executive Directors			
Leo Quinn	1,112,580	1,112,449	882,716
David Mellors	215,860	215,729	98,500
Non-executive Directors			
Mark Elliott	125,000	125,000	125,000
Colin Balmer	7,662	7,662	7,662
Noreen Doyle	24,662	24,662	24,662
Admiral Sir James Burnell-Nugent	11,419	11,419	11,419
Paul Murray	56,077	56,077	56,077
Michael Harper	20,000	20,000	10,000

Approved by the Board and signed on its behalf

Noreen Doyle
Chair of the Remuneration Committee
23 May 2013

Noreen Doyle

Corporate governance

Other statutory information

Directors' Report
For the purposes of the Companies Act 2006, the Directors' Report, which includes the Business Review, is set out on pages 1-64

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 £335 6m (2012 £346 3m) of total R&D-related expenditure, of which £311 0m (2012 £331 1m) was customer-funded work and £24 6m (2012 £15 2m) was internally funded Additionally, £0 3m (2012 £0 3m) of late-stage development costs was capitalised and £0 9m (2012 £2 3m) 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 The Group has a policy of agreeing payment terms of not less than 60 days with suppliers, except in exceptional circumstances At 31 March 2013, the trade payables of the Group represented 31 days of annual purchases (2012 24 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 that affect QinetiQ, and that make an important contribution to their understanding of QinetiQ, the markets in which it operates, and the work of their constituents

Charitable donations during the year across the Group amounted to £180,492 (2012 £108,400) Information on charitable activities can be found in the Corporate Responsibility and Sustainability Review on pages 34-37

Share capital
As at 31 March 2013, 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 a nominal value of £1

Details of the shares in issue during the financial year are shown in note 27 on page 102

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 that 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 27 on page 102

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

In 2012, the rights attaching to the Special Share were amended following receipt of the requisite MOD approval and shareholder approval at the 2012 Annual General Meeting The amendments included removal of the MOD's right to veto any transaction or activity and the introduction of a generic MOD conflict of interest management system in alignment with that followed by other defence companies

Directors' interests in contracts
At the date of this Report, there is no contract or arrangement with the Company or any of its subsidiaries that is significant in relation to the business of the Group as a whole in which a Director of the Company is materially interested

Indemnities
The directors of QinetiQ Pension Scheme Trustee Limited, a Group company and the trustee of the QinetiQ Pension Scheme (QPS), benefit from an indemnity contained in the rules of the QPS The indemnity would be provided out of the QPS assets

Change of control – significant agreements
The following significant agreements contain provisions entitling the counterparties 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 ceases to be a UK company

- The Combined Aerial Target Service contract is a 20-year contract awarded to QinetiQ by the 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 – 'material' is defined as being 10% or more of the share capital In addition, 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 under which 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 the 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, that expires on 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$125m 5 50% Senior Notes due 6 December 2016 $77m has been repaid early and the remaining debt outstanding as at 31 March 2013 was $48m Under the terms of the agreement, if either (1) the MOD ceases to retain in its capacity as Special Shareholder its Special Shareholder's Rights, or (2) there is a change of control of the Company, and 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 (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 $100m has been repaid early and the remaining debt outstanding as at 31 March 2013 was $43m of 7 13% Senior Notes and $157m of 7 62% Senior Notes Under the terms of the agreement, if either (1) the MOD ceases to retain in its capacity as Special Shareholder its Special Shareholder's 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

During 2013 the Group completed the previously announced programme to repay $177m of private placement debt

Financial instruments

Information on the Group's financial risk management objectives and policies, and its exposure to credit risk, liquidity risk, interest rate risk and foreign currency risk is in note 25 on page 93

Branches

The Company and its subsidiaries have established branches in a number of different countries in which they operate, their results are, however, not material to the Group's financial results

Major shareholders

At 31 March 2013, the Group had been notified under DTR5 of the following shareholdings

Shareholder	Number of ordinary shares	% of issued share capital
Artisan Partners*	92,608,147	14 02
Ruane Cunniff & Goldfarb, Inc	64,117,000	9 71
Schroders	35,429,785	5 36
Investec	33,160,928	5 02
Norges Bank	33,123,896	5 02
Fidelity Management and Research Company	32,986,143	4 99
Fidelity International Limited	31,258,590	4 73

* Since 31 March 2013, the Company has been notified by Artisan Partners that their interest has changed

At 21 May 2013, being the latest practicable date prior to the issue of this report, the most recent interest notified by Artisan consisted of 85,419,672 ordinary shares (12 93% of the issued share capital) The Company had received no other notification of any further interests or of any changes in the interests detailed above

Allotment/purchase of own shares

At the Company's Annual General Meeting (AGM) held in July 2012, 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 2013 AGM During the year, the Company provided funding to the QinetiQ Group plc Employee Benefit Trust (the 'Trust'), which holds shares in connection with 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 28 on page 103 As at 31 March 2013, the Trust held 10,478,906 ordinary shares of 1p each (the 'Trust Shares') The trustees of the Trust have agreed to waive their entitlement to dividends payable on the Trust Shares The Trust holds further ordinary shares in respect of deferred shares held on behalf of participants in the Company's Deferred Annual Bonus Plan Dividends received by the Trust in respect of the deferred shares are paid direct to the plan participants on receipt and are not retained in the Trust

Restrictions on transfer of shares

As outlined in note 27 on page 102, the Special Share confers certain rights under the Company's Articles of Association to require certain persons with an interest in QinetiQ's shares that exceed certain prescribed thresholds to dispose of some or all of their ordinary shares on the grounds of national security or conflict of interest

Articles of Association

Save in 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 who hold 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 using such corporate nominee service, and will vote on all resolutions proposed at general meetings in accordance with the instructions received

Annual General Meeting

The Company's AGM will be held on Thursday 25 July 2013 at 11 00am, at The Royal Berkshire Hotel, London Road, Sunninghill, Ascot, Berkshire, SL5 0PP Details of the business to be proposed and voted on at the meeting are contained in the Notice of the Annual General Meeting, which is sent to all shareholders and is also published on the Company's website, www QinetiQ com

Auditor

Following their intention to gradually wind down the activity in the registered firm, KPMG Audit Plc have notified the Company that they are not seeking reappointment as auditor A resolution to appoint KPMG LLP, an intermediate parent of KPMG Audit Plc, will be proposed at the AGM

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

Statement of disclosure of information to the 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 should 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

Responsibility statement of the Directors in respect of the Annual Report

The Directors in office as at the date of this Report confirm that to the best of their 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

J. Messent

Jon Messent
Company Secretary

Cody Technology Park
Ively Road
Farnborough
Hampshire GU14 0LX

23 May 2013

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 2013 set out on pages 66-114 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 64, 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 Financial Reporting Council's website at www frc org uk/auditscopeukprivate

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 2013 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 44, in relation to going concern,
- the part of the corporate governance statement on pages 40-49 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and
- certain elements of the report to shareholders by the Board on Directors' remuneration

A J Sykes

Anthony Sykes
Senior Statutory Auditor

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

23 May 2013

Consolidated income statement

for the year ended 31 March

all figures in £ million	Note	2013 Underlying	2013 Specific adjusting items*	2013 Total	2012 (restated^) Underlying	2012 (restated^) Specific adjusting items*	2012 (restated^) Total
Revenue	2, 3	**1,327 8**	**–**	**1,327 8**	**1,469 6**	**–**	**1,469 6**
Operating costs excluding depreciation, amortisation and impairment		(1,132 9)	(16 3)	(1,149 2)	(1,275 6)	223 9	(1,051 7)
Other income	2	5 8	–	5 8	5 2	–	5 2
EBITDA (earnings before interest, tax, depreciation and amortisation)		**200 7**	**(16 3)**	**184 4**	**199 2**	**223 9**	**423 1**
Depreciation and impairment of property, plant and equipment	3, 14	(28 0)	(4 0)	(32 0)	(30 6)	(1 9)	(32 5)
Impairment of goodwill	12	–	(255 8)	(255 8)	–	–	–
Amortisation of intangible assets	13	(4 0)	(14 0)	(18 0)	(9 0)	(20 3)	(29 3)
Group operating (loss)/profit	3	**168 7**	**(290 1)**	**(121 4)**	**159 6**	**201 7**	**361 3**
Gain on business divestments and disposal and impairment of investments	5	–	2 3	2 3	–	11 6	11 6
Finance income	6	1 7	–	1 7	2 2	–	2 2
Finance expense	6	(18 3)	(1 3)	(19 6)	(51 6)	(7 2)	(58 8)
(Loss)/profit before tax	4	**152 1**	**(289 1)**	**(137 0)**	**110 2**	**206 1**	**316 3**
Taxation income/(expense)	7	(29 2)	33 0	3 8	(21 5)	(48 5)	(70 0)
(Loss)/profit for the year attributable to equity shareholders		**122 9**	**(256 1)**	**(133 2)**	**88 7**	**157 6**	**246 3**
Earnings per share							
Basic	11	18 9p		(20 5)p	13 6p		37 9p
Diluted	11	18 7p		(20 5)p	13 5p		37 6p

* For details of 'specific adjusting items' refer to note 4 to the financial statements

^ IAS 19 (revised) 'Employee Benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly Refer to note 1 to the financial statements

Consolidated statement of comprehensive income

for the year ended 31 March

all figures in £ million	2013	2012 (restated^)
(Loss)/profit for the year	**(133 2)**	**246 3**
Items that will not be reclassified to profit or loss		
Actuarial loss recognised in defined benefit pension schemes	(42 1)	(102 9)
Tax on items that will not be reclassified to profit and loss	10 1	27 0
Total items that will not be reclassified to profit or loss	**(32 0)**	**(75 9)**
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation differences for foreign operations	24 6	(1 9)
Decrease in fair value of hedging derivatives	(0 1)	(0 4)
Reclassification of hedging derivatives to the income statement	–	0 2
Impairment loss on revalued investments	(4 1)	–
Fair value gains/(losses) on available-for-sale investments	0 3	(1 2)
Tax on items that may be reclassified to profit or loss	–	0 1
Total items that may be reclassified subsequently to profit or loss	**20 7**	**(3 2)**
Other comprehensive expense for the year, net of tax	**(11 3)**	**(79 1)**
Total comprehensive (expense)/income for the year	**(144 5)**	**167 2**

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 2012	6 6	39 9	147 6	0 1	19 7	385 4	**599 3**	0 1	**599 4**
Loss for the year	–	–	–	–	–	(133 2)	**(133 2)**	–	**(133 2)**
Other comprehensive income/(expense) for the year, net of tax	–	–	–	(0 1)	24 6	(35 8)	**(11 3)**	–	**(11 3)**
Purchase of own shares	–	–	–	–	–	(0 4)	**(0 4)**	–	**(0 4)**
Share-based payments settlement	–	–	–	–	–	0 7	**0 7**	–	**0 7**
Share-based payments	–	–	–	–	–	3 4	**3 4**	–	**3 4**
Dividends	–	–	–	–	–	(20 1)	**(20 1)**	–	**(20 1)**
At 31 March 2013	**6 6**	**39 9**	**147 6**	**–**	**44 3**	**200 0**	**438 4**	**0 1**	**438 5**
At 1 April 2011	6 6	39 9	147 6	0 2	21 6	241 5	**457 4**	0 1	**457 5**
Profit for the year (restated^)	–	–	–	–	–	246 3	**246 3**	–	**246 3**
Other comprehensive expense for the year, net of tax (restated^)	–	–	–	(0 1)	(1 9)	(77 1)	**(79 1)**	–	**(79 1)**
Purchase of own shares	–	–	–	–	–	(12 0)	**(12 0)**	–	**(12 0)**
Share-based payments	–	–	–	–	–	3 1	**3 1**	–	**3 1**
Dividends	–	–	–	–	–	(16 4)	**(16 4)**	–	**(16 4)**
At 31 March 2012	**6 6**	**39 9**	**147 6**	**0 1**	**19 7**	**385 4**	**599 3**	**0 1**	**599 4**

^ IAS 19 (revised) 'Employee Benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly
Refer to note 1 to the financial statements

Consolidated balance sheet
as at 31 March

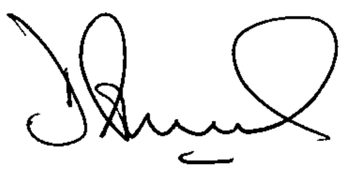
all figures in £ million	Note	2013	2012
Non-current assets			
Goodwill	12	290 4	519 3
Intangible assets	13	57 8	71 8
Property, plant and equipment	14	241 4	246 6
Other financial assets	23	4 3	6 9
Investments	15	0 4	5 8
Deferred tax asset	16	32 4	17 0
		626 7	**867 4**
Current assets			
Inventories	17	25 5	31 2
Other financial assets	23	2 6	2 4
Trade and other receivables	19	284 2	404 8
Investments	18	1 4	1 1
Assets classified as held for sale	20	–	5 1
Cash and cash equivalents	23	240 4	117 8
		554 1	**562 4**
Total assets		**1,180 8**	**1,429 8**
Current liabilities			
Trade and other payables	21	(458 0)	(498 7)
Current tax		(14 2)	(13 7)
Provisions	22	(12 4)	(3 4)
Other financial liabilities	23	(2 0)	(84 9)
		(486 6)	**(600 7)**
Non-current liabilities			
Retirement benefit obligation	29	(54 1)	(31 5)
Provisions	22	(22 7)	(13 2)
Other financial liabilities	23	(171 3)	(164 4)
Other payables	21	(7 6)	(20 6)
		(255 7)	**(229 7)**
Total liabilities		**(742 3)**	**(830 4)**
Net assets		**438 5**	**599 4**
Capital and reserves			
Ordinary shares	27	6 6	6 6
Capital redemption reserve		39 9	39 9
Share premium account		147 6	147 6
Hedging and translation reserve		44 3	19 8
Retained earnings		200 0	385 4
Capital and reserves attributable to shareholders of the parent company		**438 4**	**599 3**
Non-controlling interest		0 1	0 1
Total shareholders' funds		**438 5**	**599 4**

The financial statements were approved by the Board of Directors and authorised for issue on 23 May 2013 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	2013	2012
Net cash inflow from operations before restructuring costs	26	**194 4**	**250 8**
Net cash inflow/(outflow) relating to restructuring		63 1	(8 9)
Cash inflow from operations		**257 5**	**241 9**
Tax paid		(1 6)	(23 3)
Interest received		0 8	1 0
Interest paid		(35 8)	(39 5)
Net cash inflow from operating activities		**220 9**	**180 1**
Purchases of intangible assets		(0 6)	(0 7)
Purchases of property, plant and equipment		(27 1)	(22 0)
Proceeds from sale of property, plant and equipment		9 2	7 3
Equity accounted investments and other investment funding		3 8	3 6
Purchase of subsidiary undertakings		–	(0 9)
Proceeds from sale of interests in subsidiary undertakings		–	11 2
Net cash outflow from investing activities		**(14 7)**	**(1 5)**
Repayment of bank borrowings		(63 0)	(133 6)
Settlement of forward contracts		(1 3)	(1 6)
Purchase of own shares		(0 4)	(12 0)
Dividends paid to shareholders		(20 1)	(16 4)
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		**(84 6)**	**(163 4)**
Increase in cash and cash equivalents		**121 6**	**15 2**
Effect of foreign exchange changes on cash and cash equivalents		1 0	0 4
Cash and cash equivalents at beginning of year		117 8	102 2
Cash and cash equivalents at end of year	23	**240 4**	**117 8**

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

all figures in £ million	Note	2013	2012
Increase in cash and cash equivalents in the year		121 6	15 2
Add back net cash flows not impacting net debt		64 1	135 0
Change in net debt resulting from cash flows	23	**185 7**	**150 2**
Other movements including foreign exchange	23	10 5	(11 5)
Movement in net debt in the year	23	**196 2**	**138 7**
Net debt at beginning of year	23	(122 2)	(260 9)
Net cash/(debt) at end of year	23	**74 0**	**(122 2)**

Notes to the financial statements

1. Significant accounting policies

Accounting policies

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

Specific adjusting items include

- amortisation of intangibles arising from acquisitions,
- pension curtailment gains/losses,
- pension past service credits/costs,
- pension net finance expense,
- gains/losses on business divestments and disposal of investments,
- restructuring costs,
- gains/losses on disposal of property,
- impairment of property,
- impairment of goodwill and other intangible assets,
- net gain in respect of previously capitalised DTR programme bid costs, and
- tax on the above items

Pension finance income and pension finance expense were, prior to this accounting period, reported within underlying performance With effect from this accounting period the pension net finance expense is included within specific adjusting items in the middle column of the income statement and the comparative financial information has been restated accordingly In the judgement of the Directors the exclusion of this non-cash financial item (which can swing from net expense to net income) leads to a better understanding of the financial information, given its volatility

Basis of preparation

The Group's financial statements, approved by the Directors, have been prepared on a going concern basis as discussed in the Directors' Report on page 44 and in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS') and the Companies Act 2006 applicable to companies reporting under IFRS The Company has elected to prepare its parent company financial statements in accordance with UK GAAP, these are presented on pages 112-114 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 £100,000

The Company has implemented IAS 19 (revised) 'Employee benefits' in the year ended 31 March 2013, electing to adopt this standard early There are three specific impacts on the income statement, as outlined below

- A reclassification of the administration costs of the defined benefit pension scheme, including the levy for the Pension Protection Fund, from finance expense to underlying operating profit,
- A change in the calculation of the interest income on plan assets This was previously based on the expected returns on the various asset types held within the investment portfolio It is now calculated at the same rate used to calculate the interest expense on the pension liability, being a discount rate derived from corporate bonds The difference between this calculated return and the actual return is reported as an actuarial gain/loss through reserves, and
- The reporting of a combined net figure within finance expense, rather than showing the pension interest income and pension interest expense gross, within finance income and finance expense respectively

Subsequent to the early adoption of IAS 19 (revised) 'Employee benefits', the Group has also elected to disclose the finance expense on the net pension liability as a specific adjusting item within the middle column of the consolidated income statement The comparative figures for the income statement for the year ended 31 March 2012 have been restated to show the effect of this early adoption and the reclassification as a specific adjusting item

The effect of adopting IAS 19 (revised) on the Group's profit for the prior full-year period is to reduce both underlying and total reported profit after tax by £11 6m The subsequent effect of the reclassification of net finance expense from underlying performance to within specific adjusting items is to increase underlying profit by £5 5m, although it has no impact on total reported profit The combined effect of the two adjustments on the Group's profit for the full-year period to 31 March 2012 is therefore to reduce the underlying profit after tax by £6 1m to £88 7m and to reduce total reported profit after tax by £11 6m to £246 3m

If the reclassification of pension finance income and pension finance expense had been made in isolation, without early adoption of IAS 19 (revised), there would have been no impact on the Group's total reported profit for the period Underlying profit after tax for the year ended 31 March 2012 would have decreased by £4 9m, with an equal increase in profit after tax in respect of specific adjusting items in the middle column of the income statement

The full impact on the income statement, for the year ended 31 March, is set out in the table below

all figures in £ million	2012 (restated) Underlying	2012 (restated) Specific adjusting items*	2012 (restated) Total	2012 (reported) Underlying	2012 (reported) Specific adjusting items*	2012 (reported) Total
Operating profit	**159 6**	**201 7**	**361 3**	**161 3**	**201 7**	**363 0**
Gain on disposals	–	11 6	11 6	–	11 6	11 6
Finance income	2 2	–	2 2	69 8	–	69 8
Finance expense	(51 6)	(7 2)	(58 8)	(112 8)	–	(112 8)
Tax	(21 5)	(48 5)	(70 0)	(23 5)	(50 2)	(73 7)
Profit after tax	**88 7**	**157 6**	**246 3**	**94 8**	**163 1**	**257 9**
EPS – basic	13 6p		37 9p	14 6p		39 6p
EPS – diluted	13 5p		37 6p	14 5p		39 4p

* For details of 'specific adjusting items' refer to note 4 to the financial statements

The impact on the statement of comprehensive income, for the year ended 31 March, is as follows

all figures in £ million	2012 (restated)	2012 (reported)
Profit for the year	246 3	257 9
Other comprehensive income for the year, net of tax	(79 1)	(90 7)
Total comprehensive income for the year attributable to equity shareholders	**167 2**	**167 2**

There is no change to the net pension liability or to net assets as a result of the early adoption of IAS 19 (revised) As a result no restatement of the balance sheet is required

Basis of consolidation
The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings to 31 March 2013 The purchase method of accounting has been adopted Those subsidiary undertakings acquired or disposed of in the period are included in the consolidated income statement from the date control is obtained to the date that control is lost (usually on acquisition and disposal respectively) A subsidiary is an entity over which the Group has the power to govern financial and operating policies in order to obtain benefits Potential voting rights that are currently exercisable or convertible are considered when determining control

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

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

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

Revenue
Revenue represents the value of work performed for customers, and is measured net of value added taxes 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 No profit is recognised on contracts until the outcome of the contract can be reliably estimated When the outcome of a contract can be reliably estimated, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date This is normally measured by the proportion of contract costs incurred for work performed to date compared with the estimated total contract 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 either to perpetual licences or to limited licences Limited licences are granted for a specified period and revenue is recognised over the period of the licence Perpetual licences are granted for unlimited time frames and revenue is 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 the markets in which it operates 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 mainly comprise specific adjusting items Specific adjusting items are referred to in note 4 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 These costs are recognised within operating costs and revenue is recognised in respect of the R&D services performed 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 finance income and finance expense Financing also includes the net finance expense in respect of defined benefit pension schemes

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 changes 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 offset only 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 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 either at 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

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 one and nine 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	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
At each reporting date the Group assesses 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 (CGU) are written down to their recoverable amounts The recoverable amount of an asset or CGU 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 CGU calculated using an appropriate pre-tax discount rate Impairment losses are expensed to the income statement

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, other than impairment losses, being recognised directly in equity When these investments are derecognised, 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 is based on 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

1. Significant accounting policies continued

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 initially 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 an appropriate discount rate reflecting the level of risk and the time value of money

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 de-recognition 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 when the instrument 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

Leased assets
Leases are classified as finance leases when substantially all 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 bi-annually 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 cost charged to the income statement consists of current service cost, net interest cost, and past service cost The finance element of the pension charge is shown in finance expense and the remaining service cost element is charged as a component of employee costs in the income statement Actuarial gains and losses and re-measurement gains and losses are recognised immediately in full 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

Recent accounting developments
Significant developments adopted by the Group in 2013
IAS 19 (revised) 'Employee benefits' The amendments became effective for accounting periods beginning on or after 1 January 2013 QinetiQ has elected to early-adopt the revised standard during 2013 The main impact on QinetiQ is the change in measurement of the expected return on scheme assets in the income statement, now measured with reference to the discount rate previously applied solely to scheme liabilities Under the previous requirements, expected return on assets was measured at an appropriately calculated rate which was normally higher than the discount rate As a result, there is likely to be an increase in the net pension finance expense in the profit and loss account, offset by changes in the actuarial gains/losses recognised in other comprehensive income Other amendments include changes to the recognition and treatment of curtailment gains, presentation of scheme administration expenses and the removal of the corridor method The latter had not previously been applied by the Group

Developments adopted by the Group in 2013 with no material impact on the financial statements
The following EU-endorsed amendments, improvements and interpretations of published standards are effective for accounting periods beginning on or after 1 April 2012 and have been adopted with no material impact on the Group's financial statements

IFRS 7 'Financial Instruments – Disclosures' The amendment introduces new requirements about transfers of financial assets including disclosure for financial assets that are not derecognised in their entirety, and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement

IAS 12 'Income Taxes' The amendment introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 'Investment Property'

IFRS 1 'First Time Adoption of IFRS' This change adds an exemption that an entity can apply at the date of transition to IFRSs after being subject to severe hyperinflation

Developments expected in future periods of which the impact is being assessed
FRS 100, 101 and 102 FRS 100 sets out the application of financial reporting requirements in the UK and Republic of Ireland and FRS 101 or 'IFRS with reduced disclosures' outlines the reduced disclosure framework available for use by qualifying entities choosing to report under IFRS FRS 102 is applicable in the UK and Republic of Ireland and is known as the 'new UK GAAP' The mandatory effective date for the new framework of reporting is for accounting periods beginning on or after 1 January 2015 A qualifying entity is defined as a parent or subsidiary undertaking which is consolidated in publicly available consolidated financial statements QinetiQ's subsidiaries meet the criteria, they currently report under UK GAAP and it is likely that the new FRS 102 will be the preferred option – a full analysis is currently being undertaken

Revenue from Contracts with Customers The Group awaits the final publication of the new IFRS standard 'Revenue from Contracts with Customers' which is expected to be published by June 2013 The new Standard will replace IAS 18 'Revenue' and IAS 11 'Construction Contracts' It will become effective for accounting periods on or after 1 January 2017 and will therefore be applied for the first time to the Group accounts in 2018, the IASB have indicated that early adoption will not be permitted The Group has begun a systematic review of all existing major contracts to ensure that the impact and effect of the new Standard is fully understood and any changes to current accounting procedures are highlighted and acted upon well in advance of the effective date

Leases Following the issue of the first exposure draft in 2011, the IASB and FASB are reconsidering the proposed accounting standard for lease accounting A revised exposure draft is expected by June 2013 The first exposure draft removes the distinction between finance leases and operating leases and requires all leased assets to be accounted for in a similar way to finance leases A right-of-use asset and matching liability will be recognised on the balance sheet, with lease expenditure and depreciation reported in the income statement

1. Significant accounting policies continued

Developments expected in future periods with no material impact on the Group's financial statements

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

- IFRS 7 'Financial Instruments Disclosures',
- IFRS 1 'First-time Adoption of IFRS',
- IAS 1 'Presentation of Financial Statements',
- Annual Improvements IFRS 2009-2011 cycle,
- IFRS 9 'Financial Instruments',
- IFRS 10 'Consolidated Financial Statements',
- IFRS 11 'Joint Arrangements',
- IFRS 12 'Disclosure of Interests in Other Entities',
- IFRS 13 'Fair Value Measurement',
- IAS 27 'Separate Financial Statements', and
- IAS 28 'Investments in Associates'

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 that are uncertain and 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 relies on the use of estimates of the future profitability and cash flows of its CGUs which may differ from the actual results delivered In addition, the Group 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 12

Consolidation of US subsidiaries

As described on page 49, the Group and the US Department of Defense (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 discount rates, mortality, inflation and future salary and pension increases Management exercises its 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 of these assumptions are set out in note 29

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 on the adequacy of future demand and the 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

For the year ended 31 March

all figures in £ million	2013	2012
Sales of goods	201 7	253 2
Services	1,118 7	1,209 4
Royalties and licences	7 4	7 0
Revenue	**1,327 8**	**1,469 6**

Share of joint ventures' and associates' profit after tax	0 1	0 1
Other income	5 7	5 1
Total other income	**5 8**	**5 2**

Revenue and profit after tax of joint ventures and associates was £17 0m and £0 3m respectively (2012 £26 1m and £0 2m respectively) The figures in the table above represent the Group share of this profit after tax

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

Revenue by customer geographic location

For the year ended 31 March

all figures in £ million	2013	2012
North America	672 7	788 7
United Kingdom	560 4	570 1
Other	94 7	110 8
Total	**1,327 8**	**1,469 6**

Revenue by major customer type

For the year ended 31 March

all figures in £ million	2013	2012
UK Government	480 3	482 8
US Government	620 8	730 5
Other	226 7	256 3
Total	**1,327 8**	**1,469 6**

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

3. Segmental analysis

Operating segments

For the year ended 31 March

all figures in £ million	Note	2013 Revenue	2013 Operating profit	2012 (restated^) Revenue	2012 (restated^) Operating profit
UK Services		597 3	85 8	610 1	61 3
US Services		475 6	21 9	534 5	32 1
Global Products		254 9	61 0	325 0	66 2
Total operating segments		**1,327 8**	**168 7**	**1,469 6**	**159 6**
Operating profit before specific adjusting items[1]			**168 7**		**159 6**
Specific adjusting items before amortisation, depreciation and impairment	4		(16 3)		223 9
Impairment of property			(4 0)		(1 9)
Impairment of goodwill	12		(255 8)		–
Amortisation of intangible assets arising from acquisitions			(14 0)		(20 3)
Operating (loss)/profit			**(121 4)**		**361 3**
Gain on business divestments and disposal and impairment of investments	5		2 3		11 6
Net finance expense	6		(17 9)		(56 6)
(Loss)/profit before tax			**(137 0)**		**316 3**
Taxation income/(expense)	7		3 8		(70 0)
(Loss)/profit for the year			**(133 2)**		**246 3**

[1] The measure of profit presented to the chief operating decision maker is operating profit stated before specific adjusting items

^ IAS 19 (revised) 'Employee Benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly For details refer to note 1 to the financial statements

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

Depreciation and amortisation by business segment

For the year ended 31 March 2013

all figures in £ million	UK Services	US Services	Global Products	Total
Depreciation of property, plant and equipment	21 6	2 6	3 8	28 0
Amortisation of purchased or internally developed intangible assets	3 6	0 2	0 2	4 0
	25 2	**2 8**	**4 0**	**32 0**

For the year ended 31 March 2012

all figures in £ million	UK Services	US Services	Global Products	Total
Depreciation of property, plant and equipment and impairment of plant and equipment	23 2	3 0	4 4	30 6
Amortisation and impairment of purchased or internally developed intangible assets	8 4	0 3	0 3	9 0
	31 6	**3 3**	**4 7**	**39 6**

Excludes specific adjusting items not included within the measure of operating profit reported to the chief operating decision maker

Non-current assets (excluding deferred tax) by geographic location

all figures in £ million	UK	Rest of World	Total
Year ended 31 March 2013	**262 6**	**331 7**	**594 3**

	UK	Rest of World	Total
Year ended 31 March 2012	**281 1**	**569 3**	**850 4**

4. Profit/loss before tax

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

all figures in £ million	2013	2012 (restated^)
Fees payable to the auditor		
Audit of the Group's annual accounts	0 6	0 6
Audit of the accounts of subsidiaries of the Company and its associated pension scheme	0 2	0 2
Audit-related assurance services	0 1	0 1
All other non-audit services	–	0 1
Total auditor's remuneration	**0 9**	**1 0**

The Group has adopted the statutory changes in relation to the disclosure of the Group auditor's remuneration in line with the UK Companies' Regulations 2011 (Statutory Instrument 2011/2198) for the year ended 31 March 2013 2012 fees have been reclassified accordingly

all figures in £ million	2013	2012
Depreciation of property, plant and equipment		
Owned assets before impairment	(28 0)	(28 2)
Owned assets impairment	(4 0)	(4 3)
Foreign exchange gain	**1 0**	**0 2**
Research and development expenditure – customer funded contracts	**(311 0)**	**(331 1)**
Research and development expenditure – Group funded	**(24 6)**	**(15 2)**

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

all figures in £ million	Note	2013	2012 (restated^)
Net restructuring (charges)/recoveries		(16 3)	69 4
Pension past service gain		–	141 4
Gain on disposal of property		–	9 0
Net gain in respect of previously capitalised DTR programme bid costs		–	4 1
Specific adjusting items before amortisation, depreciation and impairment		**(16 3)**	**223 9**
Impairment of goodwill	12	(255 8)	–
Impairment of property	14	(4 0)	(1 9)
Intangible impairment and acquisition amortisation	13	(14 0)	(20 3)
Specific adjusting items operating (loss)/profit		**(290 1)**	**201 7**
Gain on business divestments and disposal of investments	5	2 9	11 6
Unrealised impairment of investments	5	(0 6)	–
Gain on business divestments and disposal/impairment of investments	5	**2 3**	**11 6**
Defined benefit pension scheme net finance expense		(1 3)	(7 2)
Total specific adjusting items (loss)/profit before tax		**(289 1)**	**206 1**

The net restructuring recovery of £69 4m in 2012 primarily relates to the agreement with the UK MOD in March 2012 involving a payment to QinetiQ of £65 0m that was received in April 2012 The agreement involves the discharging of MOD from its accumulated liabilities for restructuring costs incurred in previous years, together with MOD agreement to changes in its Special Shareholder rights, and certain other operational issues

^ IAS 19 (revised) 'Employee Benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly For details refer to note 1 to the financial statements

5. Gain on business divestments and disposal and impairment of investments

For the year ended 31 March

all figures in £ million	2013	2012
Gain on business divestments	–	8 0
Gain on disposal of investments	2 9	3 6
Unrealised impairment of investments	(0 6)	–
	2 3	**11 6**

The gain on business divestments relates to the disposal of QinetiQ's investment in Infoscitex Inc

The prior year gain on business divestments includes the disposal of Spectro Inc , a business within the Global Products division, for consideration before costs of US$20 5m and a gain on disposal of £4 7m Of the £3 6m prior year gain on disposal of investments, £2 8m relates to the sale of QinetiQ's investment in Nomad Holdings Limited

6. Finance income and expense

For the year ended 31 March

all figures in £ million	2013	2012 (restated^)
Receivable on bank deposits	1 0	1 3
Finance lease income	0 7	0 9
Finance income	**1 7**	**2 2**
Amortisation of recapitalisation fee	(0 6)	(0 6)
Payable on bank loans and overdrafts	(1 4)	(1 6)
Payable on US dollar private placement debt[1]	(14 2)	(46 8)
Finance lease expense	(0 6)	(0 8)
Unwinding of discount on financial liabilities	(1 5)	(1 8)
Finance expense before specific adjusting items	**(18 3)**	**(51 6)**
Defined benefit pension scheme net finance expense	(1 3)	(7 2)
Finance expense	**(19 6)**	**(58 8)**
Net finance expense	**(17 9)**	**(56 6)**

[1] During 2012, the Group elected to make early repayment of US$177m of private placement debt from surplus cash Net finance expense in 2012 was affected by an accelerated interest charge of £27 4m in respect of these early repayments

^ IAS 19 (revised) 'Employee Benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly For details refer to note 1 to the financial statements

7. Taxation

all figures in £ million	2013 Before specific adjusting items*	2013 Specific adjusting items*	2013 Total	2012 (restated^) Before specific adjusting items*	2012 (restated^) Specific adjusting items*	2012 (restated^) Total
Analysis of charge						
Current UK tax expense/(income)	0 8	(0 2)	0 6	–	13 1	13 1
Overseas corporation tax						
Current year	(0 2)	1 5	1 3	15 5	2 3	17 8
Adjustment for prior year	–	0 4	0 4	(2 3)	–	(2 3)
Current tax expense	**0 6**	**1 7**	**2 3**	**13 2**	**15 4**	**28 6**
Deferred tax expense/(income)	28 0	(34 4)	(6 4)	5 3	33 1	38 4
Deferred tax impact of change in rates	0 6	(0 9)	(0 3)	1 4	–	1 4
Deferred tax in respect of prior years	–	0 6	0 6	1 6	–	1 6
Taxation expense/(income)	**29 2**	**(33 0)**	**(3 8)**	**21 5**	**48 5**	**70 0**
Factors affecting tax charge in year						
Principal factors reducing the Group's current year tax charge below the UK statutory rate are explained below						
Profit/(loss) before tax	152 1	(289 1)	(137 0)	110 2	206 1	316 3
Tax on profit/(loss) before tax at 24% (2012 26%)	**36 5**	**(69 4)**	**(32 9)**	**28 6**	**53 6**	**82 2**
Effect of						
Expenses not deductible for tax purposes, research and development relief and non-taxable items	(12 4)	49 0	36 6	(11 8)	(2 5)	(14 3)
Current tax losses for which no deferred tax asset was recognised	(2 2)	–	(2 2)	(4 3)	–	(4 3)
Deferred tax impact of change in rates	0 7	(0 1)	0 6	1 4	–	1 4
Deferred tax in respect of prior years	0 1	–	0 1	0 9	–	0 9
Effect of different rates in overseas jurisdictions	6 5	(12 5)	(6 0)	6 7	(2 6)	4 1
Taxation expense/(income)	**29 2**	**(33 0)**	**(3 8)**	**21 5**	**48 5**	**70 0**
Effective tax rate	**19 2%**		**2 8%**	**19 5%**		**22 1%**

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 tax legislation changes and the geographic mix of profits The 2013 Finance Bill allows the continued recognition of R&D tax credits in the tax line until April 2016, when mandatory 'Above The Line' treatment is introduced, which could increase the Group's effective tax rate over time to a blend of the US and UK corporation tax rates

The 2013 Budget delivered on 20 March 2013 announced that the UK corporation tax rate will reduce to 21% on 1 April 2014 and to 20% on 1 April 2015 A reduction in the rate from 24% to 23% (effective from 1 April 2013) was substantively enacted on 3 July 2012 These changes will reduce the Group's future tax charge accordingly The deferred tax asset at 31 March 2013 has been calculated based on the rate of 23% substantively enacted at the balance sheet date It has not yet been possible to quantify the full anticipated effect of the announced rate reductions in 2014 and 2015, although these will further reduce the Group's future tax charge and reduce the Group's deferred tax asset accordingly

At 31 March 2013, the Group had unused tax losses of £202 7m (2012 £200 0m) potentially available for offset against future profits

*Definitions of underlying measures of performance and specific adjusting items can be found in the glossary on page 116

^IAS 19 (revised) 'Employee Benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly For details refer to note 1 to the financial statements

8. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2013 and 2012 is provided below

	Pence per share	£m	Date paid/ payable
Interim 2013	1 10	7 1	Feb 2013
Final 2013 (proposed)	2 70	17 6	Sept 2013
Total for the year ended 31 March 2013	**3 80**	**24 7**	
Interim 2012	0 90	5 8	Feb 2012
Final 2012	2 00	13 0	Sept 2012
Total for the year ended 31 March 2012	**2 90**	**18 8**	

The Directors propose a final dividend of 2 70p (2012 2 00p) per share The dividend, which is subject to shareholder approval, will be paid on 6 September 2013 The ex-dividend date is 7 August 2013 and the record date is 9 August 2013

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, were

	As at 31 March		Monthly average	
	2013 Number	2012 Number	2013 Number	2012 Number
UK Services	5,145	5,157	5,141	5,170
US Services	3,350	3,940	3,607	4,349
Global Products	1,003	1,083	1,024	1,118
Total	**9,498**	**10,180**	**9,772**	**10,637**

The aggregate payroll costs of these persons were as follows

all figures in £ million	Note	2013	2012
Wages and salaries		496 0	561 9
Social security costs		38 8	41 5
Pension costs		41 0	42 2
Share-based payments costs	28	5 5	4 2
Employee costs before US restructuring costs		**581 3**	**649 8**
US restructuring costs		7 3	–
Total employee costs		**588 6**	**649 8**

10. Directors and other senior management personnel

The Directors and other senior management personnel of the Group during the year to 31 March 2013 comprise the Board of Directors and the QinetiQ Executive Team The remuneration and benefits provided to Directors and the QinetiQ Executive Team are summarised below

all figures in £ million	2013	2012
Short-term employee remuneration including benefits	6 7	6 8
Post-employment benefits	0 2	0 2
Share-based payments costs	2 3	1 9
Termination benefits	0 9	–
Total	**10 1**	**8 9**

Short-term employee remuneration and benefits include salary, bonus, and benefits Post-employment benefits relate to pension amounts

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

For the year ended 31 March		2013	2012 (restated^)
Basic EPS			
(Loss)/profit attributable to equity shareholders	£ million	(133 2)	246 3
Weighted average number of shares	Million	648 7	650 5
Basic EPS	Pence	**(20 5)**	**37 9**
Diluted EPS			
(Loss)/profit attributable to equity shareholders	£ million	(133 2)	246 3
Weighted average number of shares	Million	648 7	650 5
Effect of dilutive securities[1]	Million	–	4 0
Diluted number of shares	Million	648 7	654 5
Diluted EPS	Pence	**(20 5)**	**37 6**

[1] The loss attributable to equity shareholders in the year ended March 2013 results in the effect of dilutive securities on the weighted average number of shares being nil in 2013

		2013	2012 (restated^)
Underlying basic EPS			
(Loss)/profit attributable to equity shareholders	£ million	(133 2)	246 3
Loss/(profit) after tax in respect of acquisition amortisation and specific adjusting items	£ million	256 1	(157 6)
Underlying profit after taxation	£ million	122 9	88 7
Weighted average number of shares	Million	648 7	650 5
Underlying basic EPS	Pence	**18 9**	**13 6**
Underlying diluted EPS			
(Loss)/profit attributable to equity shareholders	£ million	(133 2)	246 3
Loss/(profit) after tax in respect of specific adjusting items	£ million	256 1	(157 6)
Underlying profit after taxation	£ million	122 9	88 7
Weighted average number of shares	Million	648 7	650 5
Effect of dilutive securities	Million	7 1	4 0
Diluted number of shares	Million	655 8	654 5
Underlying diluted EPS	Pence	**18 7**	**13 5**

^ IAS 19 (revised) 'Employee Benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly For details refer to note 1 to the financial statements

12. Goodwill

all figures in £ million	2013	2012
Cost		
At 1 April	564 2	566 2
Disposals	–	(3 0)
Foreign exchange	28 8	1 0
At 31 March	**593 0**	**564 2**
Impairment		
At 1 April	(44 9)	(45 1)
Disposals	–	0 3
Impairment	(255 8)	–
Foreign exchange	(1 9)	(0 1)
At 31 March	**(302 6)**	**(44 9)**
Net book value at 31 March	**290 4**	**519 3**

12. Goodwill continued

Goodwill at 31 March 2013 was allocated across various CGUs in the following segments UK Services (two), Global Products (two) and US Services (one)

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

Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates Significant headroom exists in all CGU's with the exception of US Services, discussed below, and management considers that there are no likely variations in the key assumptions which would lead to an impairment being recognised in any of the other CGU's

Key assumptions

Cash flows

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 Cash flows of the US Services division in 2013 were affected adversely by the continued budget uncertainty and reduced Federal spending which resulted in 12% organic reduction in revenue compared to the prior year Customers continue to defer decisions leading to delay of new and incremental orders, the de-scoping of some existing work and the cancellation of some contract re-competes with shorter-term extensions being awarded in their place The cash flow assumptions for the US Services CGU reflect the challenges described above

Terminal growth rates

The specific plans for each of the CGUs have been extrapolated using a terminal growth rate of 2 0%-3 0% (2012 2 0%-3 0%) Growth rates are based on management's estimates which take into consideration the long-term nature of the industry in which the CGUs operate and external forecasts as to the likely growth of the industry in the longer term

Discount rates

The Group's weighted average cost of capital was used as a basis in determining the discount rate to be applied adjusted for risks specific to the market characteristics of CGUs as appropriate on a pre-tax basis This is considered to appropriately estimate a market participant discount rate The pre-tax discount rates applied for the two UK Services CGUs were 10 6% and 10 7%, for the US Services CGU 9 7%, and for the Global Products CGUs 9 7% and 10 4%

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

Significant CGUs

The value in use of the US Services CGU, calculated using the key assumptions discussed above, was lower than the carrying value of the CGU's net operating assets which resulted in an impairment of £255 8m Sensitivity analysis shows that a decrease or increase of 1% in the discount rate assumption would result in an impairment of £180 2m or £301 2m respectively Sensitivity analysis also shows that a decrease or increase of 1% in the terminal growth rate would result in an impairment of £300 0m or £182 1m The carrying value of goodwill for this CGU as at 31 March 2013, after impairment, was £142 8m and its net operating assets excluding goodwill were £88 0m A reduction of 5% in the value of the terminal year cash flows would result in an additional £12 4m reduction in the carrying value of goodwill

The Technology Solutions CGU in the US has significant headroom An increase in the discount rate or a decrease in the terminal growth rate of 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 £111 7m

The Technology Solutions CGU in the UK and the individual CGUs within UK Services all have significant headroom An increase in the discount rate or a decrease in the terminal growth rate by 1% would not cause the net operating assets to exceed their recoverable amount The carrying value of goodwill for the Technology Solutions CGU in the UK as at 31 March was £5 7m The carrying value of goodwill for the two UK Services CGUs as at 31 March was £27 5m and £2 7m

The Directors have not identified any other likely changes in other significant assumptions between 31 March 2013 and the signing of the financial statements that would cause the carrying value of the recognised goodwill to exceed its recoverable amount

13. Intangible assets

Year ended 31 March 2013

all figures in £ million	Acquired intangible assets: Customer relationships	Acquired intangible assets: Intellectual property	Acquired intangible assets: Brand names	Development costs	Other intangible assets	Total
Cost						
At 1 April 2012	147 7	55 2	9 6	14 4	36 6	263 5
Additions – internally developed	–	–	–	0 3	–	0 3
Additions – purchased	–	–	–	–	0 3	0 3
Disposals	–	–	–	–	(1 2)	(1 2)
Transfers	–	–	–	0 1	0 5	0 6
Foreign exchange	7 5	2 1	0 5	–	0 3	10 4
At 31 March 2013	**155 2**	**57 3**	**10 1**	**14 8**	**36 5**	**273 9**
Amortisation and impairment						
At 1 April 2012	92 8	46 5	6 0	13 3	33 1	191 7
Amortisation charge for year	10 0	2 6	1 4	0 9	3 1	18 0
Disposals	–	–	–	–	(1 2)	(1 2)
Foreign exchange	5 0	1 9	0 4	–	0 3	7 6
At 31 March 2013	**107 8**	**51 0**	**7 8**	**14 2**	**35 3**	**216 1**
Net book value at 31 March 2013	**47 4**	**6 3**	**2 3**	**0 6**	**1 2**	**57 8**

Year ended 31 March 2012

all figures in £ million	Acquired intangible assets: Customer relationships	Acquired intangible assets: Intellectual property	Acquired intangible assets: Brand names	Development costs	Other intangible assets	Total
Cost						
At 1 April 2011	147 3	55 3	13 9	13 9	36 8	267 2
Additions – internally developed	–	–	–	0 3	–	0 3
Additions – purchased	–	–	–	–	0 4	0 4
Disposals	–	–	–	–	(0 4)	(0 4)
Disposals – recognised on divestments	–	–	(4 2)	–	–	(4 2)
Transfers	–	–	–	0 2	(0 2)	–
Foreign exchange	0 4	(0 1)	(0 1)	–	–	0 2
At 31 March 2012	**147 7**	**55 2**	**9 6**	**14 4**	**36 6**	**263 5**
Amortisation and impairment						
At 1 April 2011	79 5	40 9	6 1	10 8	26 7	164 0
Amortisation charge for year	12 9	5 7	1 7	2 3	4 2	26 8
Impairments	–	–	–	–	2 5	2 5
Disposals	–	–	–	–	(0 1)	(0 1)
Disposals – recognised on divestments	–	–	(1 8)	–	–	(1 8)
Transfers	–	–	–	0 2	(0 2)	–
Foreign exchange	0 4	(0 1)	–	–	–	0 3
At 31 March 2012	**92 8**	**46 5**	**6 0**	**13 3**	**33 1**	**191 7**
Net book value at 31 March 2012	**54 9**	**8 7**	**3 6**	**1 1**	**3 5**	**71 8**

Impairment of other intangible assets of £2 5m was incurred in the UK Services business segment and related to certain software assets no longer being utilised

14. Property, plant and equipment

Year ended 31 March 2013

all figures in £ million	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Assets under construction	Total
Cost					
At 1 April 2012	307 8	153 6	48 6	18 4	528 4
Additions	0 3	1 5	0 6	24 7	27 1
Disposals	(1 1)	(3 1)	(2 8)	(4 9)	(11 9)
Transfers	4 0	10 2	5 7	(20 5)	(0 6)
Transfer from 'assets classified as held for sale'	8 4	–	–	–	8 4
Foreign exchange	0 6	0 9	1 0	0 1	2 6
At 31 March 2013	**320 0**	**163 1**	**53 1**	**17 8**	**554 0**
Depreciation					
At 1 April 2012	121 6	121 3	38 9	–	281 8
Charge for year	11 8	11 8	4 4	–	28 0
Impairment	4 0	–	–	–	4 0
Disposals	(0 8)	(2 9)	(2 6)	–	(6 3)
Transfers	0 1	–	(0 1)	–	–
Transfer from 'assets classified as held for sale'	3 3	–	–	–	3 3
Foreign exchange	0 5	0 6	0 7	–	1 8
At 31 March 2013	**140 5**	**130 8**	**41 3**	**–**	**312 6**
Net book value at 31 March 2013	**179 5**	**32 3**	**11 8**	**17 8**	**241 4**

Impairment of land and buildings of £4 0m (2012 £1 9m), expensed in the consolidated income statement as a specific adjusting item, relates to vacant owned properties where there have been no external tenants following vacancies arising in the year

Year ended 31 March 2012

all figures in £ million	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Assets under construction	Total
Cost					
At 1 April 2011	305 8	150 1	48 2	13 1	517 2
Additions	0 5	2 8	1 0	17 7	22 0
Disposals	(0 4)	(3 9)	(3 1)	(2 0)	(9 4)
Disposals – recognised on divestments	(0 1)	(1 0)	(0 4)	–	(1 5)
Transfer	2 0	5 6	2 8	(10 4)	–
Foreign exchange	–	–	0 1	–	0 1
At 31 March 2012	**307 8**	**153 6**	**48 6**	**18 4**	**528 4**
Depreciation					
At 1 April 2011	110 3	112 2	33 8	–	256 3
Charge for year	10 7	12 0	5 5	–	28 2
Impairment	1 9	0 8	1 6	–	4 3
Disposals	(0 4)	(3 5)	(2 0)	–	(5 9)
Disposals – recognised on divestments	(0 1)	(0 6)	(0 4)	–	(1 1)
Transfer	(0 8)	0 4	0 4	–	–
At 31 March 2012	**121 6**	**121 3**	**38 9**	**–**	**281 8**
Net book value at 31 March 2012	**186 2**	**32 3**	**9 7**	**18 4**	**246 6**

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 30

15. Non-current investments

As at 31 March

all figures in £ million	2013 Joint venture and associates financial results	2013 Group net share of joint ventures and associates	2012 Joint venture and associates financial results	2012 Group net share of joint ventures and associates
Non-current assets	0 3	0 1	1 7	0 5
Current assets	2 3	1 1	8 7	2 8
	2 6	1 2	10 4	3 3
Current liabilities	(2 0)	(0 9)	(5 2)	(2 0)
Non-current liabilities	–	–	(1 0)	(0 3)
	(2 0)	(0 9)	(6 2)	(2 3)
Net assets of joint ventures and associates	**0 6**	**0 3**	**4 2**	**1 0**
Other non-current investments	–	0 1	–	4 8
Total	**0 6**	**0 4**	**4 2**	**5 8**

There were no material transactions with joint ventures and associates

16. Deferred tax

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to do so 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 2013

Deferred tax asset

all figures in £ million	Pension liability	Accelerated capital allowances	Hedging	Short-term timing differences	Total
At 1 April 2012	13 3	3 1	–	34 2	50 6
Released through income statement	(9 2)	(2 3)	–	(5 9)	(17 4)
Created through equity	10 1	–	–	–	10 1
Prior-year adjustment	–	(0 1)	–	0 3	0 2
Foreign exchange	–	–	–	1 9	1 9
Transfer to current tax	–	–	–	(0 6)	(0 6)
Deferred tax impact of change in rates	(0 5)	(0 1)	–	–	(0 6)
Gross deferred tax asset at 31 March 2013	**13 7**	**0 6**	**–**	**29 9**	**44 2**
Less liability available for offset					(11 8)
Net deferred tax asset at 31 March 2013					**32 4**

Deferred tax liability

all figures in £ million	Amortisation	Total
At 1 April 2012	(33 6)	(33 6)
Created through the income statement	23 8	23 8
Foreign exchange	(2 0)	(2 0)
Gross deferred tax liability at 31 March 2013	**(11 8)**	**(11 8)**
Less asset available for offset		11 8
Net deferred tax liability at 31 March 2013		**–**

At the balance sheet date the Group had unused tax losses of £202 7m (2012 £200 0m) potentially available for offset against future profits No deferred tax asset has been recognised in respect of this amount because of uncertainty over the timing of its utilisation These losses can be carried forward indefinitely

16. Deferred tax continued

Year ended 31 March 2012

Deferred tax asset

all figures in £ million	Pension liability	Accelerated capital allowances	Hedging	Short-term timing differences	Total
At 1 April 2011	32 4	0 6	0 1	37 6	70 7
(Released)/created through income statement	(48 7)	3 2	(0 2)	–	(45 7)
Created through equity	30 7	–	0 1	–	30 8
Prior-year adjustment	–	(0 5)	–	(1 1)	(1 6)
Foreign exchange	–	–	–	0 1	0 1
Transfer to current tax	–	0 1	–	(2 4)	(2 3)
Deferred tax impact of change in rates	(1 1)	(0 3)	–	–	(1 4)
Gross deferred tax asset at 31 March 2012	**13 3**	**3 1**	**–**	**34 2**	**50 6**
Less liability available for offset					(33 6)
Net deferred tax asset at 31 March 2012					**17.0**

Deferred tax liability

all figures in £ million	Amortisation	Total
At 1 April 2011	(36 9)	(36 9)
Created through the income statement	3 6	3 6
Foreign exchange	(0 1)	(0 1)
Transfer to deferred tax asset	(0 2)	(0 2)
Gross deferred tax liability at 31 March 2012	**(33 6)**	**(33 6)**
Less asset available for offset		33 6
Net deferred tax liability at 31 March 2012		**–**

17. Inventories

As at 31 March

all figures in £ million	2013	2012
Raw materials	16 5	20 2
Work in progress	4 7	1 2
Finished goods	4 3	9 8
	25 5	**31 2**

18 Current asset investments

As at 31 March

all figures in £ million	2013	2012
Available for sale investment	**1 4**	**1 1**

At 31 March 2013 the Group held a 4 9% shareholding in pSivida Limited (31 March 2012 4 9%), a company listed on NASDAQ and the Australian and Frankfurt Stock Exchanges The investment is held at fair value of £1 4m (2012 £1 1m) using the closing share price at 31 March 2013 of AUS$2 22 per share (31 March 2012 AUS$1 94 per share)

19 Trade and other receivables

As at 31 March

all figures in £ million	2013	2012
Trade receivables	143 4	164 5
Amounts recoverable under contracts	112 2	141 6
Other receivables	15 2	82 9
Prepayments	13 4	15 8
	284 2	**404 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 to the reporting date Credit risk is limited as a result of the high percentage of revenue derived from UK and US defence and other government agencies Accordingly, the Directors believe that no credit provision in excess of the allowance for doubtful debts is required As at 31 March 2013 the Group carried a provision for doubtful debts of £1 9m (2012 £4 0m) Other receivables decreased significantly from 2012 due to the receipt of £65m from MOD in respect of the recovery of prior year restructuring costs

Ageing of past due but not impaired receivables

all figures in £ million	2013	2012
Up to three months	37 1	36 5
Over three months	3 4	4 1
	40 5	**40 6**

Movements in the doubtful debt provision

all figures in £ million	2013	2012
At 1 April	4 0	5 8
Created	0 7	3 7
Released	(1 9)	(4 2)
Utilised	(0 9)	(1 3)
At 31 March	**1 9**	**4 0**

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. Assets classified as held for sale

As at 31 March

all figures in £ million	2013	2012
Property, plant and equipment	–	5 1
Total assets held for sale	**–**	**5 1**

The Group does not hold any assets classified as held for sale as at the balance sheet date Assets previously held for sale included various properties in the UK that are surplus to the Group's requirements and are being marketed for sale These assets no longer meet the criteria for disclosure under IFRS 5, the prospective buyer has withdrawn and hence the sale of these assets is no longer expected to complete within the forthcoming twelve months

21. Trade and other payables

As at 31 March

all figures in £ million	2013	2012
Trade payables	43 7	38 5
Other tax and social security	25 9	48 2
Other payables	16 9	17 7
Accruals and deferred income	371 5	394 3
Total current trade and other payables	**458 0**	**498 7**
Payments received on account	7 0	20 3
Other payables	0 6	0 3
Total non-current trade and other payables	**7 6**	**20 6**
Total trade and other payables	**465 6**	**519 3**

22. Provisions

Year ended 31 March 2013

all figures in £ million	Restructuring	Property	Other	Total
At 1 April 2012	0 1	–	16 5	16 6
Reclassification	–	11 9	(11 9)	–
Created in year	17 0	3 0	3 5	23 5
Released in year	–	(0 3)	(1 9)	(2 2)
Unwind of discount	–	0 7	–	0 7
Utilised in year	(1 9)	(1 7)	–	(3 6)
Foreign exchange	0 1	–	–	0 1
At 31 March 2013	**15 3**	**13 6**	**6 2**	**35 1**
Current liability	9 9	2 4	0 1	12 4
Non-current liability	5 4	11 2	6 1	22 7
At 31 March 2013	**15 3**	**13 6**	**6 2**	**35 1**

Restructuring provisions relate mainly to cost reduction initiatives in the US and include redundancy and vacant property provisions Redundancy provisions are expected to be utilised within 12 months and provisions in respect of vacant property will be utilised in line with the remaining lease period Lease periods extend out to 2019

Property provisions, other than those relating to restructuring discussed above, relate to under-utilised properties in the UK The extent of the provision is affected by the timing of when properties can be sub-let and the proportion of space that can be sub-let Based on current assessment the provision will be utilised within 13 years

Other provisions relate to environmental and other liabilities, the magnitude and timing of utilisation of which are determined by a variety of factors

23. Net cash/debt

As at 31 March

all figures in £ million	2013 Assets	2013 Liabilities	2013 Net	2012 Assets	2012 Liabilities	2012 Net
Current financial assets/(liabilities)						
US$ private placement notes – 7 13%	–	–	–	–	(15 9)	(15 9)
US$ private placement notes – 7 62%	–	–	–	–	(67 3)	(67 3)
Deferred financing costs	–	0 6	0 6	–	0 6	0 6
Borrowings	–	0 6	0 6	–	(82 6)	(82 6)
Derivative financial instruments	0 1	(0 2)	(0 1)	0 1	(0 1)	–
Finance lease debtor/(creditor)	2 5	(2 4)	0 1	2 3	(2 2)	0 1
Total current financial assets/(liabilities)	**2 6**	**(2 0)**	**0 6**	**2 4**	**(84 9)**	**(82 5)**
Non-current assets/(liabilities)						
US$ private placement notes – 7 13%	–	(29 2)	(29 2)	–	(26 6)	(26 6)
US$ private placement notes – 5 50%	–	(32 1)	(32 1)	–	(30 4)	(30 4)
US$ private placement notes – 7 62%	–	(106 4)	(106 4)	–	(102 0)	(102 0)
Deferred financing costs	–	0 5	0 5	–	1 0	1 0
Borrowings	–	(167 2)	(167 2)	–	(158 0)	(158 0)
Derivative financial instruments	–	(0 1)	(0 1)	0 1	–	0 1
Finance lease debtor/(creditor)	4 3	(4 0)	0 3	6 8	(6 4)	0 4
Total non-current financial assets/(liabilities)	**4 3**	**(171 3)**	**(167 0)**	**6 9**	**(164 4)**	**(157 5)**
Cash	32 6	–	32 6	46 2	–	46 2
Cash equivalents	207 8	–	207 8	71 6	–	71 6
Total cash and cash equivalents	**240 4**	**–**	**240 4**	**117 8**	**–**	**117 8**
Total net cash/(debt) as defined by the Group			**74 0**			**(122 2)**

At 31 March 2013 £2 7m (2012 £5 2m) of cash was held by the Group's captive insurance subsidiary, including £0 2m (2012 £0 2m) that was restricted in its use

All US$ private placement notes have been issued as fixed-rate bonds and have not been converted to floating-rate Further analysis of the terms and maturity dates for financial liabilities are set out in note 25 In the year ended 31 March 2013 the Group completed the previously announced programme to repay US$177m of private placement debt

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

all figures in £ million	2013	2012
Increase in cash and cash equivalents in the year	121 6	15 2
Repayment of US$ private placement notes	63 0	133 6
Settlement of forward contracts	1 3	1 6
Capital element of finance lease payments	2 8	2 8
Capital element of finance lease receipts	(3 0)	(3 0)
Change in net cash/debt resulting from cash flows	**185 7**	**150 2**
Amortisation of deferred financing costs	(0 5)	(0 6)
Finance lease receivables	0 7	0 9
Finance lease payables	(0 6)	(0 8)
Foreign exchange and other non-cash movements	10 9	(11 0)
Movement in net cash/debt in year	**196 2**	**138 7**
Net debt at beginning of year	(122 2)	(260 9)
Net cash/(debt) at 31 March 2013	**74 0**	**(122 2)**

23. Net cash/debt continued

Finance leases

Group as a lessor

The minimum lease receivables under finance leases fall as follows

all figures in £ million	Minimum lease payments 2013	Minimum lease payments 2012	Present value of minimum lease payments 2013	Present value of minimum lease payments 2012
Amounts receivable under finance leases				
Within one year	3 0	3 0	2 5	2 3
In the second to fifth years inclusive	4 5	7 5	4 3	6 8
	7 5	10 5	6 8	9 1
Less unearned finance income	(0 7)	(1 4)	–	–
Present value of minimum lease payments	**6 8**	**9 1**	**6 8**	**9 1**

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

Group as a lessee

The minimum lease payments under finance leases fall due as follows

all figures in £ million	Minimum lease payments 2013	Minimum lease payments 2012	Present value of minimum lease payments 2013	Present value of minimum lease payments 2012
Amounts payable under finance leases				
Within one year	2 8	2 8	2 4	2 2
In the second to fifth years inclusive	4 2	7 1	4 0	6 4
	7 0	9 9	6 4	8 6
Less future finance charges	(0 6)	(1 2)	–	–
Present value of minimum lease payments	**6 4**	**8 7**	**6 4**	**8 6**
Classified as follows				
Financial liability – current			2 4	2 2
Financial liability – non-current			4 0	6 4
			6 4	**8 6**

The Group utilises certain buildings under finance leases Average lease terms are typically between two and ten years (31 March 2012 between two and ten years)

24. 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	2013	2012
Within one year	7 8	7 1
In the second to fifth years inclusive	23 8	23 4
Greater than five years	3 4	1 6
	35 0	**32 1**

Group as a lessee

all figures in £ million	2013	2012
Lease and sub-lease income statement expense – minimum lease payments	**23 1**	**22 1**

The Group had the following total future minimum lease payment commitments

all figures in £ million	2013	2012
Within one year	21 4	18 9
In the second to fifth years inclusive	58 1	67 8
Greater than five years	20 5	22 5
	100 0	**109 2**

Operating lease payments represent rentals payable by the Group on certain property, plant and equipment Principal operating leases are negotiated for a term of approximately ten years

25. Financial risk management

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

Treasury and risk management policies, which are set by the Board, specify 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 – measured using quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2 – measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i e as prices) or indirectly (i e derived from prices), and

Level 3 – measured using 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 2013

all figures in £ million	Note	Level 1	Level 2	Level 3	Total
Assets					
Current other investments	18	1 4	–	–	1 4
Current derivative financial instruments	23	–	0 1	–	0 1
Non-current other investments		–	–	0 1	0 1
Liabilities					
Current derivative financial instruments	23	–	(0 2)	–	(0 2)
Non-current derivative financial instruments	23	–	(0 1)	–	(0 1)
Total		**1 4**	**(0 2)**	**0 1**	**1 3**

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

25. Financial risk management continued

All financial assets and liabilities have a fair value that is identical to book value at 31 March 2013 and 31 March 2012 except where noted below

As at 31 March 2013

all figures in £ million	Note	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							
Finance leases	23	–	4 3	–	–	4 3	4 4
Other investments	15	0 1	–	–	–	0 1	0 1
Current							
Finance leases	23	–	2 5	–	–	2 5	3 0
Trade and other receivables	19	–	284 2	–	–	284 2	284 2
Derivative financial instruments	23	–	–	–	0 1	0 1	0 1
Current asset investments	18	1 4	–	–	–	1 4	1 4
Cash and cash equivalents	23	–	240 4	–	–	240 4	240 4
Total financial assets		**1 5**	**531 4**	**–**	**0 1**	**533 0**	**533 6**
Financial liabilities							
Non-current							
Trade and other payables	21	–	–	(7 6)	–	(7 6)	(7 6)
Bank and other borrowings	23	–	–	(167 2)	–	(167 2)	(197 7)
Finance leases	23	–	–	(4 0)	–	(4 0)	(4 2)
Derivative financial instruments	23	–	–	–	(0 1)	(0 1)	(0 1)
Current							
Trade and other payables	21	–	–	(458 0)	–	(458 0)	(458 0)
Derivative financial instruments	23	–	–	–	(0 2)	(0 2)	(0 2)
Finance leases	23	–	–	(2 4)	–	(2 4)	(2 8)
Bank overdraft, finance cost and private placement	23	–	–	0 6	–	0 6	0 6
Total financial liabilities		**–**	**–**	**(638 6)**	**(0 3)**	**(638 9)**	**(670 0)**
Total		**1 5**	**531 4**	**(638 6)**	**(0 2)**	**(105 9)**	**(136 4)**

As at 31 March 2012

all figures in £ million	Note	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							
Finance leases	23	–	6 8	–	–	6 8	7 2
Derivative financial instruments	23	–	–	–	0 1	0 1	0 1
Other investments	15	4 8	–	–	–	4 8	4 8
Current							
Finance leases	23	–	2 3	–	–	2 3	3 0
Trade and other receivables	19	–	404 8	–	–	404 8	404 8
Derivative financial instruments	23	–	–	–	0 1	0 1	0 1
Current asset investments	18	1 1	–	–	–	1 1	1 1
Cash and cash equivalents	23	–	117 8	–	–	117 8	117 8
Total financial assets		**5 9**	**531 7**	**–**	**0 2**	**537 8**	**538 9**
Financial liabilities							
Non-current							
Trade and other payables	21	–	–	(20 6)	–	(20 6)	(20 6)
Bank and other borrowings	23	–	–	(158 0)	–	(158 0)	(185 7)
Finance leases	23	–	–	(6 4)	–	(6 4)	(6 8)
Current							
Trade and other payables	21	–	–	(498 7)	–	(498 7)	(498 7)
Derivative financial instruments	23	–	–	–	(0 1)	(0 1)	(0 1)
Finance leases	23	–	–	(2 2)	–	(2 2)	(2 8)
Bank overdraft, finance cost and private placement	23	–	–	(82 6)	–	(82 6)	(82 6)
Total financial liabilities		**–**	**–**	**(768 5)**	**(0 1)**	**(768 6)**	**(797 3)**
Total		**5 9**	**531 7**	**(768 5)**	**0 1**	**(230 8)**	**(258 4)**

25. Financial risk management continued

B) Interest rate risk

The Group operates an interest rate policy designed to optimise interest costs and to 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, which is achieved primarily through fixed-rate borrowings, and through the use of interest rate swaps Where there are significant changes in the level and/or structure of debt, policy permits borrowings to be 100% fixed, with regular Board reviews of the appropriateness of this fixed percentage At 31 March 2013 100% (2012 100%) of the Group's borrowings were at fixed rates with no adjustment for interest rate swaps

Financial assets/(liabilities)

As at 31 March 2013

	Financial asset			Financial liability		
all figures in £ million	Fixed or capped	Floating	Non-interest bearing	Fixed or capped	Floating	Non-interest bearing
Sterling	6 8	219 6	0 1	(6 4)	–	(0 3)
US dollar	–	9 2	0 1	(167 7)	–	–
Euro	–	0 9	–	–	–	–
Australian dollar	–	8 2	1 4	–	–	–
Other	–	2 5	–	–	–	–
	6 8	**240 4**	**1 6**	**(174 1)**	**–**	**(0 3)**

As at 31 March 2012

	Financial asset			Financial liability		
all figures in £ million	Fixed or capped	Floating	Non interest bearing	Fixed or capped	Floating	Non-interest bearing
Sterling	9 1	95 2	4 9	(8 6)	–	(0 1)
US dollar	–	14 9	–	(242 2)	–	–
Euro	–	0 2	–	–	–	–
Australian dollar	–	5 5	1 1	–	–	–
Other	–	2 0	–	–	–	–
	9 1	**117 8**	**6 0**	**(250 8)**	**–**	**(0 1)**

Floating-rate financial assets attract interest based on the relevant national LIBID equivalent Floating-rate financial liabilities bear interest at the relevant national LIBOR equivalent Trade and other receivables/payables 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

	2013			2012		
	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	6 8	13 4	2 5	9 1	13 4	3 5
Financial liabilities						
Sterling	(6 4)	12 1	2 5	(8 6)	12 1	3 5
US dollar	(167 7)	7 1	4 9	(242 2)	7 2	4 3
Total financial liabilities	**(174 1)**	**7 3**	**4 8**	**(250 8)**	**7 4**	**4 3**

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

Interest rate risk management

The Group private placement borrowings are fixed-rate, while the revolving credit facility is floating-rate and undrawn as at 31 March

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

Functional currency of the operating company

	Net foreign currency monetary assets/(liabilities)				
all figures in £ millions	US$	Euro	AUS$	Other	Total
31 March 2013 – sterling	**0 9**	**(2 5)**	**1 5**	**1 9**	**1 8**
31 March 2012 – sterling	13 4	1 7	6 6	2 2	23 9

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 2013 against sterling are net US dollars bought £2 5m (US$4 0m) and net euros sold £10 8m (€12 8m)

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

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 a Board-approved policy of only selecting counterparties with a strong investment grade long-term credit rating for cash deposits 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 £248 8m (2012 £133 0m) The Group held cash and cash equivalents of £240 4m at 31 March 2013 (2012 £117 8m), which represents the maximum credit exposure on these assets The cash and cash equivalents were held with different financial institutions which were rated single A or better, although £207 8m was invested in AAA-rated money funds at the year end

25. Financial risk management continued

E) Liquidity risk

Borrowing facilities

As at 31 March 2013, the Group had a Revolving Credit Facility (RCF) of US$250m and £118m (2012 US$250m and £118m) The RCF is contracted until 2016 and is unutilised as shown in the table below

	Interest rate LIBOR plus	Total £m	Drawn £m	Undrawn £m
Committed facilities 31 March 2013	1 20%	282 8	–	282 8
Freely available cash and cash equivalents				240 2
Available funds 31 March 2013				**523 0**
Committed facilities 31 March 2012	1 20%	274 2	–	274 2
Freely available cash and cash equivalents				112 6
Available funds 31 March 2012				**386 8**

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 have an impact on profit or loss in the periods shown

As at 31 March 2013

all figures in £ million	Book value	Contractual cash flows	1 year or less	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Trade and other payables	(465 6)	(465 6)	(458 0)	(7 6)	–	–
US private placement debt	(167 7)	(226 8)	(11 6)	(11 6)	(89 8)	(113 8)
Recapitalisation fee	1 1	–	–	–	–	–
Finance leases	(6 4)	(7 0)	(2 8)	(2 8)	(1 4)	–
Derivative financial liabilities						
Forward foreign currency contracts – cash flow hedges	(0 3)	(0 3)	(0 2)	(0 1)	–	–
	(638 9)	**(699 7)**	**(472 6)**	**(22 1)**	**(91 2)**	**(113 8)**

As at 31 March 2012

all figures in £ million	Book value	Contractual cash flows	1 year or less	1-2 years	2-5 years	More than 5 years
Non-derivative financial liabilities						
Trade and other payables	(519 3)	(519 3)	(498 7)	(20 6)	–	–
US private placement debt	(242 2)	(310 9)	(95 3)	(11 1)	(87 8)	(116 7)
Recapitalisation fee	1 6	–	–	–	–	–
Finance leases	(8 6)	(9 8)	(2 8)	(2 8)	(4 2)	–
Derivative financial liabilities						
Forward foreign currency contracts – cash flow hedges	(0 1)	(0 1)	(0 1)	–	–	–
	(768 6)	**(840 1)**	**(596 9)**	**(34 5)**	**(92 0)**	**(116 7)**

F) Derivative financial instruments

As at 31 March

all figures in £ million	2013 Asset gains	2013 Liability losses	2013 Net	2012 Asset gains	2012 Liability losses	2012 Net
Forward foreign currency contracts – cash flow hedges	0 1	(0 3)	(0 2)	0 2	(0 1)	0 1
Derivative assets/(liabilities) at the end of the year	**0 1**	**(0 3)**	**(0 2)**	**0 2**	**(0 1)**	**0 1**

As at 31 March

all figures in £ million	2013 Asset gains	2013 Liability losses	2013 Net	2012 Asset gains	2012 Liability losses	2012 Net
Expected to be recognised						
In one year or less	0 1	(0 2)	(0 1)	0 1	(0 1)	–
Between one and two years	–	(0 1)	(0 1)	0 1	–	0 1
	0 1	**(0 3)**	**(0 2)**	**0 2**	**(0 1)**	**0 1**

G) Maturity of financial liabilities

As at 31 March 2013

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	458 0	(0 6)	2 6	460 0
Due in more than one year but not more than two years	7 6	(0 5)	2 8	9 9
Due in more than two years but not more than five years	–	61 3	1 3	62 6
Due in more than five years	–	106 4	–	106 4
	465 6	**166 6**	**6 7**	**638 9**

As at 31 March 2012

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	498 7	82 6	2 3	583 6
Due in more than one year but not more than two years	20 6	(0 6)	2 0	22 0
Due in more than two years but not more than five years	–	56 5	4 4	60 9
Due in more than five years	–	102 1	–	102 1
	519 3	**240 6**	**8 7**	**768 6**

25. Financial risk management continued

H) Sensitivity analysis

The Group's sensitivity to changes in foreign exchange rates and interest rates on financial assets and liabilities as at 31 March 2013 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 that certain market conditions occur Actual results in the future may differ materially from those projected as a result of developments in the global financial markets that may cause fluctuations in interest and exchange rates to vary from the hypothetical amounts disclosed in the table below, which should not, therefore, be considered to be 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 2013, 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 2013, with all other variables remaining constant Such analysis is for illustrative purposes only – in practice market rates rarely change in isolation The figures shown below relate primarily to the translational impact on the Group's US$ debt This debt is held in the US so there is no transactional impact The impact of transactional risk on the Group's monetary assets/liabilities that are not held in the functional currency of the entity holding those assets/liabilities is minimal A 10% weakening in sterling would result in a £0 1m increase in profit before tax

As at 31 March 2013

	1% decrease in interest rates		10% weakening in sterling	
all figures in £ million	Equity	Profit before tax	Equity	Profit before tax
Sterling	–	(2 2)	–	–
US dollar	–	(0 1)	(17 6)	(1 3)
Other	–	(0 1)	1 4	–

	1% increase in interest rates		10% strengthening in sterling	
all figures in £ million	Equity	Profit before tax	Equity	Profit before tax
Sterling	–	2 2	–	–
US dollar	–	0 1	14 4	1 1
Other	–	0 1	(1 2)	–

As at 31 March 2012

	1% decrease in interest rates		10% weakening in sterling	
all figures in £ million	Equity	Profit before tax	Equity	Profit before tax
Sterling	–	(0 7)	–	–
US dollar	–	–	(25 3)	(2 0)
Other	–	(0 1)	1 0	–

	1% increase in interest rates		10% strengthening in sterling	
all figures in £ million	Equity	Profit before tax	Equity	Profit before tax
Sterling	–	1 0	–	–
US dollar	–	0 1	20 7	1 6
Other	–	0 1	(1 0)	–

26. Cash flows from operations

For the year ended 31 March

all figures in £ million	2013	2012 (restated^)
(Loss)/profit after tax for the year	**(133 2)**	**246 3**
Adjustments for		
Taxation (income)/expense	(3 8)	70 0
Net finance costs	17 9	56 6
Gain on business divestments and disposal of investments	(2 9)	(11 6)
Impairment of investments	0 6	–
Amortisation of purchased or internally developed intangible assets	4 0	9 0
Amortisation of intangible assets arising from acquisitions and impairments	14 0	20 3
Impairment of goodwill	255 8	–
Depreciation and impairment of property, plant and equipment	32 0	32 5
Loss/(gain) on disposal of property, plant and equipment	0 8	(5 8)
Share of post-tax profit of equity accounted entities	(0 1)	(0 1)
Share-based payments charge	5 5	4 2
Gain in respect of previously capitalised DTR programme bid costs	–	(4 1)
Changes in retirement benefit obligations	(20 1)	(60 7)
Pension curtailment gain	(0 7)	(1 1)
Pension past service gain	–	(141 4)
Net movement in provisions	17 7	(15 8)
	187 5	198 3
Decrease in inventories	6 6	12 1
Decrease in receivables	124 1	1 2
(Decrease)/increase in payables	(60 7)	30 3
Changes in working capital	**70 0**	**43 6**
Cash generated from operations	**257 5**	**241 9**
Add back cash (inflow)/outflow relating to restructuring	(63 1)	8 9
Net cash flow from operations before restructuring costs	**194 4**	**250 8**

^ IAS 19 (revised) 'Employee Benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly Refer to note 1 to the financial statements

27. 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 2011	6,604,764	660,476,373	1	1	6,604,765	660,476,374
Issued in the year	–	–	–	–	–	–
At 31 March 2012	6,604,764	660,476,373	1	1	6,604,765	660,476,374
Issued in the year	–	–	–	–	–	–
At 31 March 2013	**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 2013 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 on-going commercial relationship between the MOD and QinetiQ, and to promote and reinforce the Compliance Principles, the MOD holds a Special Share in QinetiQ QinetiQ obtained MOD consent to changes in its Special Shareholder rights, which were approved by shareholders at the 2012 AGM The changes to the Special Share were disclosed in the 2012 Annual Report Subsequent to the changes approved at the 2012 AGM the Special Share confers certain rights on the holder

a) to require the Group to implement and maintain the Compliance System (as defined in the Articles of Association) so as to make at all times effective its and each member of QinetiQ Controlled Group's application of the Compliance Principles, in a manner acceptable to the Special Shareholder,
b) to refer matters to the Board for its consideration in relation to the application of the Compliance Principles,
c) to require the Board to obtain Special Shareholder's consent
   i) if at any time when the chairman is not a British Citizen, it is proposed to appoint any person to the office of chief executive, who is not a British Citizen, and
   ii) if at any time when the chief executive is not a British Citizen, it is proposed to appoint any person to the office of chairman, who is not a British Citizen,
d) to require the Board to take action to 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 interests of the United Kingdom, and
e) 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 30 for further details)

The Special Share may only be issued to, held by and transferred to HM 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, which was created following the redemption of preference share capital and the bonus issue of shares, cannot be distributed

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 2013 are 11,238,669 shares (2012 12,819,460 shares)

28 Share-based payments

The Group operates a number of share-based payment plans for employees The total share-based payment expense in the year was £5 5m of which £3 8m related to equity settled schemes and £1 7m related to cash settled schemes (year to 31 March 2012 £4 2m, of which £3 7m related to equity settled schemes and £0 5m to cash settled schemes)

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

	2013		2012	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at start of year	461,242	2 3p	544,640	2 3p
Exercised during year	(68,080)	2 3p	(40,848)	2 3p
Forfeited during year	(40,848)	2 3p	(42,550)	2 3p
Outstanding at end of year	**352,314**	**2 3p**	**461,242**	**2 3p**

The 2003 ESOS are equity-settled awards, those outstanding at 31 March 2013 had an average remaining life of 0 3 years (2012 1 3 years) In respect of the share options exercised during the year, the average share price on the date of exercise was 178 2p (2012 125 4p) The exercise price of the outstanding options was 2 3p Of the outstanding awards at the year end 352,314 were exercisable (2012 461,242)

QinetiQ Share Option Scheme (QSOS)

No new options were granted during the year under the QSOS All outstanding share options vested and were forfeited during the prior year The exercise price of QSOS options was equal to the average market price of the Group's shares at the date of the grant For 2012, the vesting of options outstanding at the end of the year depended on the growth of earnings per share (EPS) over the measurement period, 25% of options would vest if underlying EPS growth were 22 5% for the period and 100% would vest if growth were at least 52% No options would vest if EPS growth were below 22 5% Options would vest on a straight-line basis if EPS growth were between 22 5% and 52% None of the performance conditions were met

	2013		2012	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at start of year	–	–	3,349,939	198 7p
Forfeited during year	–	–	(3,349,939)	198 7p
Outstanding at end of year	**–**	**–**	**–**	**–**

QSOS grants are equity-settled awards and those outstanding at 31 March 2013 had an average remaining life of nil years (2012 nil years) There were no QSOS awards in 2013 (2012 nil) No options were outstanding at the year end (2012 nil)

Performance Share Plan (PSP)

In the year, the Group made awards of conditional shares to certain UK senior employees 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 Remuneration Report

	2013 Number of shares	2012 Number of shares
Outstanding at start of year	3,684,486	3,438,612
Granted during year	4,857,004	1,240,500
Forfeited/lapsed during year	(1,190,283)	(994,626)
Outstanding at end of year	**7,351,207**	**3,684,486**

PSP awards are equity-settled awards and those outstanding at 31 March 2013 had an average remaining life of 1 8 years (2012 1 1 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 29% (2012 34%) for the average share price volatility of the FTSE comparator group and 47% (2012 36%) for the average correlation to the comparator group The weighted average fair value of grants made during the year was £1 35 (2012 £0 88) Of the options outstanding at the end of the year nil were exercisable (2012 nil)

28. Share-based payments continued

Restricted Stock Units (RSU)
In the year the Group granted RSU awards to certain senior US employees under the RSU plan The awards vest over one, two, three and four years Of the awards granted before 2012 half 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 continual service up to the date of vesting QNA organic profit growth is measured over the most recent financial year compared with the previous financial year, with 125% of this element awarded at a QNA organic profit growth rate above 15%, 100% awarded at 12 5%, 75% awarded at 10% and 25% awarded at 5% The 2012 grants are entirely dependent on achieving QNA organic profit growth targets 67 5% of the 2013 grants are dependent on achieving QNA organic profit growth targets and 32 5% are dependent on a time-based criterion

	2013 Number of shares	2012 Number of shares
Outstanding at start of year	5,458,526	7,936,513
Granted during year	2,379,877	1,651,250
Exercised during year	(694,197)	(2,478,688)
Forfeited/lapsed during year	(1,894,345)	(1,650,549)
Outstanding at end of year	**5,249,861**	**5,458,526**

RSUs are equity-settled awards, those outstanding at 31 March 2013 had an average remaining life of 1 4 years (2012 1 3 years) There is no exercise price for these RSU awards The weighted average share price at date of exercise was £1 47 (2012 £1 14) The weighted average fair value of grants made during the year was £1 73 (2012 £1 10) Of the awards outstanding at the end of the year 24,031 were exercisable (2012 20,724)

Value Sharing Plan (VSP)
In 2012 and 2011, the Group granted VSP awards to certain senior UK employees under the VSP Plan The awards vest over a three-year performance period 50% of the 2012 awards and 70% of the 2011 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, 50% of the 2012 awards and 30% of the 2011 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 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 54

	2013 Number of shares	2012 Number of shares
Outstanding at start of year	11,105,340	6,287,640
Granted during year	–	5,361,300
Forfeited during year	(255,300)	(543,600)
Outstanding at end of year	**10,850,040**	**11,105,340**

VSP awards are equity-settled awards, those outstanding at 31 March 2013 had an average remaining life of 0 7 years (2012 1 7 years) There is no exercise price for these VSP awards Of the awards outstanding at the end of the year nil were exercisable (2012 nil)

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

	2013 Number of matching shares	2012 Number of matching shares
Outstanding at start of year	1,319,468	1,382,025
Awarded during year	217,899	358,350
Exercised during year	(450,015)	(331,536)
Forfeited during year	(77,689)	(89,371)
Outstanding at end of year	**1,009,663**	**1,319,468**

SIP matching shares are equity-settled awards, those outstanding at 31 March 2013 had an average remaining life of 1 5 years (2012 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 (2012 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 on EPS performance The number that will vest is dependent on 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 CAGR is less than 7% for options granted prior to 2013 and 3% for 2013 grants

	2013 Number of matching shares	2012 Number of matching shares
Outstanding at start of year	448,682	6,859
Granted during year	470,119	480,922
Forfeited during year	(4,180)	(39,099)
Outstanding at end of year	**914,621**	**448,682**

DAB matching shares are equity-settled awards, those outstanding at 31 March 2013 had an average remaining life of 1 8 years (2012 2 2 years) There is no exercise price for these DAB awards Of the shares outstanding at the end of the year nil were exercisable (2012 nil)

Cash Alternative Units (CAU)

In the year, the Group granted CAU awards to certain employees in the UK and US

	2013 Number of shares	2012 Number of shares
Outstanding at start of year	1,309,000	–
Awarded during year	1,407,729	1,321,000
Exercised during the year	(298,500)	–
Forfeited during year	(171,250)	(12,000)
Outstanding at end of year	**2,246,979**	**1,309,000**

CAUs are cash-settled awards which vest over one, two, three and four years from the date of grant The CAUs have no performance criteria attached, other than the requirement that the employee remains in employment with the Group Those awards outstanding at 31 March 2013 had an average remaining life of 1 7 years (2012 1 8 years) There is no exercise price for these awards The fair value of the grants at 31 March 2013 was £2 07 (2012 £1 59) being the Group's closing share price on that day The share price on the date of exercise was £1 67 The carrying amount of the liability of the grants at the balance sheet date was £1 8m (2012 £0 5m) Of the awards outstanding at the end of the year nil were exercisable

Share-based award pricing – other

Share-based awards that vest based on 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 before the issue of the share options Before the IPO in February 2006, there was no active market for the Company's shares and expected volatility was, therefore, determined using the average volatility for a comparable selection of businesses Since the Group had no established pattern of dividend payments at this time, no dividends were assumed in this model

29. Post-retirement benefits

The Company has implemented IAS 19 (revised) 'Employee benefits' in the year ended 31 March 2013, electing to adopt this standard early Comparative figures have been restated to show the effect of this early adoption Refer to note 1 to the financial statements

Defined contribution plans

In the UK the Group operates the Group Personal Pension Plan (GPP) for the majority of its UK employees This is a defined contribution scheme managed by Zurich A defined contribution plan is a pension plan under which the Group and employees pay fixed contributions to a third party financial provider The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis The Group has no further payment obligations once the contributions have been paid The contributions are recognised as an employee benefit expense when they are due Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available

Defined benefit pension plans

A defined benefit plan is a pension plan that is not a defined contribution plan Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and final pensionable earnings

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets The defined benefit obligation is calculated bi-annually by independent actuaries using the projected unit credit method The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation In countries where there is no deep market in such bonds, the market rates on government bonds are used

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise Past-service costs are recognised immediately in income

In the UK the Group operates the QinetiQ Pension Scheme ('the Scheme') for a significant proportion of its UK employees This 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 The Scheme is a final salary plan, which provides benefits to members in the form of a guaranteed level of pension payable for life The level of benefits provided depends on the members' length of service and their salary in the final years leading up to retirement In the Scheme, pensions in payment are generally updated in line with the consumer price index The benefit payments are made from trustee-administered funds Plan assets held in trusts are governed by UK regulations as is the nature of the relationship between the Group and the Trustees and their composition Responsibility for the governance of the Scheme – including investment decisions and contribution schedules – lies jointly with the Company and the Board of Trustees The Board of Trustees must be composed of representatives of the Company and plan participants in accordance with the Scheme's regulations The expected employer cash contribution to the Scheme for the year ending 31 March 2014 is £20 6m (2013 £40 8m) The Group has no further payment obligations once the contributions have been paid

Triennial funding valuation

The most recent full actuarial valuation of the Scheme was undertaken as at 30 June 2011 and resulted in an actuarially assessed deficit of £74 7m On the basis of this full valuation, the Trustees of the Scheme and the Company agreed the employer contribution rate of 12 7% from 30 June 2011, past service deficit recovery payments of £10 5m a year for a six-year period from 1 April 2012 and an immediate one-off contribution of £40m into the Scheme As part of a package of measures to provide stability to the Scheme, the Company has also contributed an asset in the form of an interest through a Scottish limited partnership (see below) in a future income stream of approximately £2 5m per annum, increasing in line with the Consumer Price Index, for 20 years secured on certain properties owned by the Group

Finally, the Company and Trustees also agreed, in the year to 31 March 2012, the key provision that the Trustees will select the Consumer Price Index rather than the Retail Price Index as the relevant index for the increase of pensions in payment in respect of service before 1 June 2008 and for the revaluation of preserved benefits Prior to this the Retail Price Index had always been used as the relevant index This change resulted in a one-off past service credit of £141 4m in 2012 The next scheduled triennial valuation will be performed as at 30 June 2014

QinetiQ's Pension Funding Partnership Structure

Following the 30 June 2011 valuation, a package of pension changes has been agreed with the Trustees to provide stability to the Scheme As part of the package of proposals, on 26 March 2012 QinetiQ established the QinetiQ PFP Limited Partnership (the 'Partnership') with the Scheme Under this arrangement, properties to the capitalised value of £32 3m were transferred to the Partnership The transfers were affected through a 20-year sale and leaseback agreement The Scheme's interest in the Partnership entitles it to an annual distribution of approximately £2 5m for 20 years, indexed with reference to CPI These contributions will replace part of the regular contributions made under the past deficit recovery payments plan The Scheme's interest in the Partnership will revert back to QinetiQ Limited in 2032

The Partnership is controlled by QinetiQ and its results are consolidated by the Group Under IAS 19, the interest held by the Scheme in the Partnership does not qualify as a plan asset for the purposes of the Group's consolidated financial statements and is therefore not included within the fair value of plan assets As a result, the Group's consolidated financial statements are unchanged by the Partnership In addition, the value of the property transferred to the Partnership and leased back to QinetiQ remains on the balance sheet QinetiQ retains the operational flexibility to substitute properties of equivalent value within the Partnership and has the option to settle outstanding amounts due under the interest before 2032 if it so chooses

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 2013 amounted to £nil (2012 £nil) QinetiQ also offers employees access to a Group Self Invested Personal Pension Plan, but no Company contributions are paid to this arrangement

QinetiQ Pension Scheme net pension liability

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

all figures in £ million	2013	2012	2011	2010	2009
Equities	487 3	583 2	564 1	714 6	473 7
LDI investment*	205 9	–	–	–	–
Corporate bonds	276 8	194 6	158 7	69 5	78 4
Alternative bonds**	174 8	–	–	–	–
Government bonds	–	183 5	165 3	69 6	83 2
Property	81 3	82 4	78 0	53 4	–
Other	30 4	64 2	15 0	8 8	12 1
Total market value of assets	**1,256 5**	**1,107 9**	**981 1**	**915 9**	**647 4**
Present value of Scheme liabilities	(1,310 6)	(1,139 4)	(1,105 7)	(1,063 2)	(752 6)
Net pension liability before deferred tax	**(54 1)**	**(31 5)**	**(124 6)**	**(147 3)**	**(105 2)**
Deferred tax asset	13 7	13 3	32 4	41 2	29 4
Net pension liability	**(40 4)**	**(18 2)**	**(92 2)**	**(106 1)**	**(75 8)**

* The Scheme has assets invested in a Liability Driven Investment portfolio As at 31 March 2013 this hedges against approximately 14% of the interest rate and 11% of the inflation rate risk, as measured on the Trustees' gilt-funding basis

** Includes allocations to high-yield bonds, secured loans and emerging market debt

29 Post-retirement benefits continued

Changes to the fair value of Scheme assets

all figures in £ million	2013	2012 (restated^)
Opening fair value of Scheme assets	1,107 9	981 1
Interest income on Scheme assets	53 3	54 0
Re-measurement gain on Scheme assets	78 4	18 2
Contributions by the employer	40 8	83 2
Contributions by plan participants	0 1	0 1
Net benefits paid out and transfers	(22 0)	(27 0)
Administrative expenses	(2 0)	(1 7)
Closing fair value of Scheme assets	**1,256 5**	**1,107 9**

Changes to the present value of the defined benefit obligation

all figures in £ million	2013	2012 (restated^)
Opening defined benefit obligation	1,139 4	1,105 7
Current service cost	18 7	20 8
Interest cost	54 6	61 2
Contributions by plan participants	0 1	0 1
Actuarial loss/(gain) on Scheme liabilities based on		
Change in financial assumptions	103 8	113 2
Change in demographic assumptions	-	18 7
Experience losses/(gains)	16 7	(10 8)
Curtailment gain	(0 7)	–
Past service gain	–	(142 5)
Net benefits paid out and transfers	(22 0)	(27 0)
Closing defined benefit obligation	**1,310 6**	**1,139 4**

Total income/expense recognised in the income statement

all figures in £ million	2013	2012 (restated^)
Pension costs charged to the income statement		
Current service cost	18 7	20 8
Past service gain (including curtailments)	(0 7)	(142 5)
Net interest on the net defined benefit liability	1 3	7 2
Administrative expenses	2 0	1 7
Total expense/(income) recognised in the income statement (gross of deferred tax)	**21 3**	**(112 8)**

^ IAS 19 (revised) 'Employee Benefits' has been adopted for 2013 and the 2012 comparatives have been restated accordingly Refer to note 1 to the financial statements

Assumptions

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

	2013	2012
Rate of increase in salaries	3 7%	3 6%
Discount rate applied to Scheme liabilities	4 4%	4 8%
CPI inflation assumption	2 7%	2 6%
Assumed life expectancies in years		
Future male pensioners (currently aged 60)	88	88
Future female pensioners (currently aged 60)	90	90
Future male pensioners (currently aged 40)	90	90
Future female pensioners (currently aged 40)	92	92

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, because of the timescale covered, may not necessarily be borne out in practice It is important to note that these assumptions are long term and, in the case of the discount rate and the inflation rate, are measured by external market indicators The mortality assumptions as at 31 March 2013 were 90% of S1PMA for males and 100% of S1PFA for females, based on year of birth making allowance for improvements in mortality in line with CMI_2011 Core Projections and a long-term rate of improvement of 1 25% per annum These assumptions are the same as in the prior year

The balance sheet net pension liability is a snapshot view which can be significantly influenced by short-term market factors The calculation of the surplus or deficit depends, therefore, on factors which are beyond the control of the Group – principally the value at the balance sheet date of 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 and investment advisors

The weighted average duration of the defined benefit obligation is approximately twenty years

Sensitivity analysis of the principal assumptions used to measure Scheme liabilities

Assumption	Change in assumption	Indicative impact on Scheme liabilities (before deferred tax)
Discount rate	Increase/decrease by 0 1%	Decrease/increase by £25m
Rate of inflation	Increase/decrease by 0 1%	Increase/decrease by £26m
Salary increase	Increase/decrease by 0 1%	Increase/decrease by £4m
Rate of mortality	Increase by one year	Increase by £28m

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

Risks

Through its defined benefit pension plans, the Group is exposed to a number of risks, the most significant of which are detailed below

Volatility in market conditions	Results under IAS 19 can change dramatically depending on market conditions The defined benefit obligation is linked to yields on AA-rated corporate bonds, while many of the assets of the Scheme are invested in other assets Changing markets in conjunction with discount rate volatility will lead to volatility in the net pension liability on the Group's balance sheet and in other comprehensive income To a lesser extent this will also lead to volatility in the IAS 19 pension expense in the Group's income statement
Choice of accounting assumptions	The calculation of the defined benefit obligation (DBO) involves projecting future cash flows from the Scheme many years into the future This means that the assumptions used can have a material impact on the balance sheet position and profit and loss charge In practice future experience within the Scheme may not be in line with the assumptions adopted For example, members could live longer than foreseen or inflation could be higher or lower than allowed for in the DBO calculation
Inflation rate risk	The majority of the plan's benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities

The accounting assumptions noted above are used to calculate the year-end net pension liability in accordance with the relevant accounting standard, IAS 19 (revised) 'Employee benefits' Changes in these assumptions have no impact on the Group's cash payments into the Scheme The payments into the Scheme are reassessed after every triennial valuation The triennial valuations are calculated on a funding basis and use a different set of assumptions, as agreed with the pension Trustees

30. Transactions with the MOD

The MOD continues to own its Special Share in QinetiQ which conveys certain rights as set out in note 27 Transactions between the Group and the MOD are disclosed as follows

Recovery of UK restructuring costs

QinetiQ reached agreement with the UK MOD in March 2012 involving a payment to QinetiQ of £65m that was received after the year end in April 2012 The agreement involves the discharging of the MOD from its accumulated liabilities for restructuring costs incurred in previous years, together with MOD agreement to changes in its Special Shareholder rights, and certain other operational issues

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

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 the MOD The MOD also has the right to purchase any strategic assets in certain circumstances

ii) Property claw-back 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 claw-back 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 that reduces over time from 50% to 9% and at 31 March 2013 stood at 9% (2012 16%) The July 2001 valuation was approximately 16% greater in aggregate than the consideration paid for the land and buildings on 1 July 2001

MOD's generic compliance regime

In the year ended 31 March 2013 the Group moved from the bespoke MOD Compliance Regime to a generic MOD conflict of interest management system (the 'generic compliance system') in alignment with that followed by other Defence companies Adherence to the generic compliance system is monitored by the Risk & CSR Committee Refer to the Corporate Governance Report on page 47

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 2013 was £1 4m (2012 £1 5m)

Long-Term Partnering Agreement

On 27 February 2003 QinetiQ Limited entered into a Long-Term Partnering Agreement to provide 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 the MOD, under which QinetiQ Limited is committed to providing T&E services with increasing efficiencies through cost saving and innovative service delivery

31. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £54 3m at 31 March 2013 (2012 £55 1m) in the ordinary course of business

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

The Group has not recognised contingent amounts receivable relating to the Chertsey property which was disposed of during 2004 or the Fort Halstead property disposed of in September 2005 Additional consideration, subject to clawback due to the MOD pursuant to the arrangements referred to in note 30, is potentially due on the purchasers obtaining additional planning consents, with the quantum dependent on the scope of the consent achieved

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

32. Capital commitments

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

all figures in £ million	2013	2012
Contracted	**18 0**	**14 1**

Capital commitments at 31 March 2013 include £15 8m (2012 £13 0m) in relation to property, plant and equipment that will be wholly-funded by a third-party customer under long-term contract arrangements

33. Subsidiaries

The companies listed below are those which were part of the Group at 31 March 2013 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 on page 62

Company balance sheet
as at 31 March

all figures in £ million	Note	2013	2012
Fixed assets			
Investments in subsidiary undertaking	2	451 4	447 6
		451 4	**447 6**
Current assets			
Debtors	3	77 7	–
		77 7	**–**
Current liabilities			
Creditors amounts falling due within one year	4	(140 1)	(118 3)
Net current assets		**(62 4)**	**(118 3)**
Net assets		**389 0**	**329 3**
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	194 9	135 2
Capital and reserves attributable to shareholders		**389 0**	**329 3**

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 23 May 2013 and 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 at 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 are disclosed in note 28 to 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	2013	2012
Subsidiary undertaking – 100% of ordinary share capital of QinetiQ Holdings Limited	424 3	424 3
Capital contributions arising from share-based payments to employees of subsidiaries	27 1	23 3
	451 4	**447 6**

A list of all principal subsidiary undertakings of QinetiQ Group plc is disclosed in note 33 to the Group financial statements

3 Debtors

As at 31 March

all figures in £ million	2013	2012
Amounts owed by Group undertakings	77 7	–

4. Creditors

As at 31 March

all figures in £ million	2013	2012
Amounts owed to Group undertakings	140 1	118 3

5. Share capital

The Company's share capital is disclosed in note 27 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 1 April 2012	6 6	39 9	147 6	135 2	329 3
Profit	–	–	–	75 7	75 7
Purchase of own shares	–	–	–	(0 4)	(0 4)
Share based payments – settlement	–	–	–	0 7	0 7
Dividend paid	–	–	–	(20 1)	(20 1)
Share-based payments	–	–	–	3 8	3 8
At 31 March 2013	**6 6**	**39 9**	**147 6**	**194 9**	**389 0**
At 1 April 2011	6 6	39 9	147 6	145 0	339 1
Profit	–	–	–	14 8	14 8
Purchase of own shares	–	–	–	(11 9)	(11 9)
Dividend paid	–	–	–	(16 4)	(16 4)
Share-based payments	–	–	–	3 7	3 7
At 31 March 2012	**6 6**	**39 9**	**147 6**	**135 2**	**329 3**

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 28 to the Group financial statements

8. Other information

Directors' emoluments, excluding Company pension contributions, were £3 3m (2012 £3 0m) 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 Remuneration Report

The remuneration of the Company's auditors for the year to 31 March 2013 was £146,000 (2012 £15,000), which was for audit of the Group's annual accounts and audit related assurance 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		2013	2012[5]	2011[4 5]	2010[3]	2009[2]
UK Services	£m	597 3	610 1	652 7		
US Services	£m	475 6	534 5	607 3		
Global Products	£m	254 9	325 0	442 6		
Revenue	£m	**1,327 8**	**1,469 6**	**1,702 6**		
UK Services	£m	85 8	61 3	45 7		
US Services	£m	21 9	32 1	45 9		
Global Products	£m	61 0	66 2	52 1		
Underlying operating profit[1]	£m	**168 7**	**159 6**	**143 7**		
QinetiQ North America	£m				800 1	765 6
EMEA	£m				818 8	842 3
Ventures	£m				6 5	9 4
Revenue	£m				**1,625 4**	**1,617 3**
QinetiQ North America	£m				67 7	83 0
EMEA	£m				61 1	84 2
Ventures	£m				(8 5)	(15 6)
Underlying operating profit[1]	£m				**120 3**	**151 6**
Underlying operating margin[1]	%	12 7	10 9	8 4	7 4	9 4
Underlying profit before tax[1]	£m	152 1	110 2	103 8	85 7	130 2
Profit/(loss) before tax	£m	(137 0)	316 3	7 9	(66 1)	114 0
Profit/(loss) after tax	£m	(133 2)	246 3	(8 8)	(63 3)	93 6
Underlying basic EPS[1] (pence)	Pence	18 9	13 6	13 0	11 1	15 9
Basic EPS (pence)	Pence	(20 5)	37 9	(1 3)	(9 7)	14 3
Diluted EPS (pence)	Pence	(20 5)	37 6	(1 3)	(9 7)	14 3
Dividend per share	Pence	3 80	2 90	1 60	1 58	4 75
Underlying net cash from operations (post capex)[1]	£m	175 9	235 4	265 8	169 2	175 2
Net cash/(debt)	£m	74 0	(122 2)	(260 9)	(457 4)	(537 9)
Average number of employees		9,772	10,637	12,033	13,604	13,882
Orders	£m	1,076 8	1,226 3	1,559 7	1,400 9	1,596 0

[1] Underlying measures are stated before specific adjusting items Definitions of underlying measures of performance are in the glossary on page 116 Underlying financial measures are presented because the Board believes these provide a better representation of the Group's long-term performance trend

[2] Operating profit and operating margins for 2009 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 Segmental data for 2009 and 2010 has been retained on the old structure as reported in previous financial statements

[4] The 2011 figures have been restated to reflect the transfer of businesses from Global Products to UK Services and US Services at the beginning of the 2012 financial year

[5] IAS 19 (revised) 'Employee Benefits' has been adopted for 2013 and the 2012 and 2011 comparatives have been restated accordingly Refer to note 1 to the financial statements

Glossary

ABI	Association of British Insurers
AGM	Annual General Meeting
Book to bill ratio	Ratio of funded orders received in the year to revenue for the year, adjusted to exclude revenue from the 25-year LTPA contract
BPS	Basis points
BSI	British Standards Institution
CAGR	Compound Annual Growth Rate
C4ISR	Command, control, communications, computers, intelligence, surveillance and reconnaissance
COTS	Commercial off-the-shelf
CPI	Consumer Price Index
CR	Corporate Responsibility
DAB	Deferred Annual Bonus
DERA	Defence Evaluation and Research Agency, the majority of which was transferred into QinetiQ in 2001
DHS	US Department of Homeland Security
DoD	US Department of Defense
DTR	MOD's Defence Training Rationalisation programme
DE&S	MOD's Defence, Equipment and Support organisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EMEA	Europe, Middle East and Australasia
EPS	Earnings per share
Funded backlog	The expected future value of revenue from contractually committed and funded customer orders (excluding £3 4bn value of the remaining 15 years of the LTPA contract)
Gearing ratio	This is the ratio of net debt to adjusted EBITDA in accordance with the Group's credit-facility ratios EBITDA is adjusted to exclude charges for share-based payments Net debt is adjusted to reflect the same exchange rates as used for EBITDA and to reflect other requirements of the debt-holders' covenant calculations
GWh	Giga-Watt hours
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)
OHSAS	Occupational Health and Safety Advisory Services
Organic Growth	The level of year-on-year growth, expressed as a percentage, calculated at constant foreign exchange rates, adjusting comparatives to incorporate the results of acquired entities but excluding the results for any disposals or discontinued operations for the same duration of ownership as the current period
PBT	Profit before tax
PSP	Performance Share Plan
QNA	QinetiQ North America
QSOS	QinetiQ Share Option Scheme
R&D	Research and development
ROCE	Return on Capital Employed
RSU	Restricted Stock Unit
Specific adjusting items	Net restructuring charges/recoveries, net pension finance expense, pension curtailment gains, pension past service gains, contingent payments on acquisition treated as remuneration, net gain/loss in respect of previously capitalised DTR programme bid costs, impairment of property, impairment of intangible assets, gain/loss on business combinations and divestments, gain/loss on disposal of investments, and tax thereon
TSR	Total Shareholder Return
UK Corporate Governance Code	Guidelines of the Financial Reporting Council to address the principal aspects of corporate governance
UK GAAP	UK Generally Accepted Accounting Practice
Underlying basic earnings per share	Basic earnings per share as adjusted to exclude 'specific adjusting items'
Underlying effective tax rate	The tax charge for the year excluding the tax impact of 'specific adjusting items' expressed as a percentage of underlying profit before tax
Underlying net cash from operations (post capex)	Net cash inflow from operations before restructuring costs less net cash outflow on purchase/sale of intangible assets and property, plant and equipment
Underlying net finance costs	Interest cost on the defined benefit pension scheme's liability offset by the interest income on the scheme's assets
Underlying operating cash conversion	The ratio of underlying net cash from operations (post capex) to underlying operating profit excluding share of post-tax result of equity-accounted joint ventures and associates
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue
Underlying operating profit	Operating profit as adjusted to exclude 'specific adjusting items'
Underlying profit before tax	Profit before tax as adjusted to exclude 'specific adjusting items'
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
VSP	Value Sharing Plan

Shareholder information

Share administration

The Company's registrar is Equiniti If you have any queries regarding your shareholding, including dividend payments and change of address notifications, please contact Equiniti, either in writing at the address shown on the next page, by telephone on 0871 384 2021* or online at https //help shareview co uk – from here, if you need further assistance, you will be able to email Equiniti securely Equiniti also offers Shareview, a free of charge service enabling you to access and maintain your shareholding online Through Shareview you can register for electronic communications, see details of balance movements and complete certain amendments online, such as changes to dividend mandate instructions To take advantage of Shareview, register online at www shareview co uk, click on 'Register' and follow the steps

* Lines are open 8 30am to 5 30pm, Monday to Friday, excluding Bank Holidays Calls to 0871 numbers are charged at 8p per minute plus network extras

Direct dividend payments

If you would like to have your dividend paid directly into a UK bank or building society account, please contact Equiniti or complete the dividend mandate attached to your dividend cheque The associated tax voucher will still be sent to your registered address If you live outside the UK, Equiniti offers a global payments service which is available in certain countries and could enable you to receive your dividends direct into your bank account in your local currency Further details can be obtained direct from Equiniti or online at www shareview co uk

Consolidated tax vouchers

Shareholders who have dividends paid direct into a bank or building society account receive a Consolidated Tax Voucher which details all dividends paid for the year Under this process, a shareholder's dividend is paid direct to their bank account each time a dividend is paid and once a year they receive a tax voucher detailing all dividends paid for that year Shareholders who prefer to continue receiving tax vouchers with each dividend payment can contact Equiniti Registrars to request this

Electronic communications

The Company offers shareholders the option to receive documentation and communications electronically, via the Company's website The wider use of electronic communications enables fast receipt of documents, reduces the Company's printing, paper and postal costs and reduces the Company's environmental impact Shareholders can register for electronic communications at www shareview co uk and may also cast their vote for the 2013 AGM online quickly and easily using the Sharevote service by visiting www sharevote co uk

Donating shares to charity

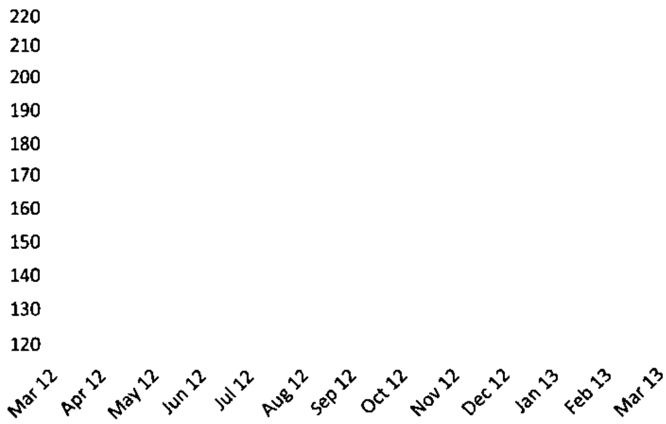
Shareholders with small numbers of shares which may be uneconomic to sell may wish to consider donating them to the charity ShareGift (registered charity no 1052686) Details are available at www sharegift org uk or by telephone on 020 7930 3737

Unsolicited telephone calls or correspondence

We are aware that some shareholders might have received unsolicited telephone calls or correspondence concerning investment matters These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments These 'brokers' can be very persistent and extremely persuasive If you receive any unsolicited investment advice, check that the firm is properly authorised by the Financial Conduct Authority by visiting www fca gov uk and selecting Financial Services Register, or report the matter to the FCA by calling 0800 111 6768 If the calls persist, hang up If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme

Share price

Details of current and historical share prices can be found on the Company's website at www QinetiQ com/investors The table below shows the share price trend during the year ended 31 March 2013



The share prices used in the graph above are the mid-market closing prices as derived from the London Stock Exchange Daily Official List

Analysis of Share Register at 31 March 2013

		Number of holdings	% of total holdings	Shares held	% of share capital
By type of holder	Individuals	6,338	87 13%	7,623,106	1 15%
	Institutions and Others	936	12 87%	652,853,267	98 85%
	Total	**7,274**	**100 00%**	**660,476,373**	**100 00%**
By size of holding	1-500	4,534	62 33%	937,002	0 14%
	501-1,000	710	9 76%	573,836	0 09%
	1,001-5,000	1,288	17 71%	3,150,133	0 48%
	5,001-10,000	252	3 46%	1,883,532	0 28%
	10,001-100,000	260	3 58%	9,257,487	1 40%
	Over 100,000	230	3 16%	644,674,383	97 61%
	Total	**7,274**	**100 00%**	**660,476,373**	**100 00%**

Additional information

Key dates

25 July 2013	Interim management statement
25 July 2013	Annual General Meeting
7 August 2013	Ordinary shares marked ex-dividend
9 August 2013	Final 2013 dividend record date
6 September 2013	Final 2013 dividend payment date
30 September 2013	Half year financial period end
21 November 2013	Half-yearly results announcement
February 2014	Interim management statement (provisional date)
31 March 2014	Financial year end
May 2014	Preliminary results announcement

Corporate website

The Company's website is www QinetiQ com The QinetiQ Annual Report 2013 can be viewed at www QinetiQ com/Investors together with shareholder information and information on the Company, its performance, the Annual General Meeting and latest presentations

From the website, you can access the following

Latest information
- Latest and historic share prices
- Financial calendar
- Regulatory (RNS) news
- Corporate governance

Shareholder services
- Register online via Shareview
- Common questions
- Dividend history

Archive information
- Financial results and trading updates
- Company reports
- Company presentations

Contacts
- Investor contacts

Corporate responsibility
- Further details of our corporate responsibility policy can be found at www QinetiQ com/cr

Investor relations app

The QinetiQ Annual Report 2013 can also be viewed on our investor relations app for the iPad downloadable from the App Store

Company information

Registered office
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Company Registration Number 4586941

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