Consolidated income statement
for the year ended 31 March

all figures in £ million	Note	2016 Underlying	2016 Specific adjusting items*	2016 Total	2015 Underlying	2015 Specific adjusting items*	2015 Total
Revenue	2, 3	755.7	–	755.7	763.8	–	763.8
Operating costs excluding depreciation, amortisation and impairment		(630.5)	0.3	(630.2)	(636.9)	1.0	(635.9)
Other income	2	9.5	–	9.5	7.6	–	7.6
EBITDA (earnings before interest, tax, depreciation and amortisation)		**134.7**	**0.3**	**135.0**	**134.5**	**1.0**	**135.5**
Depreciation and impairment of property, plant and equipment	3, 16	(23.0)	–	(23.0)	(21.7)	–	(21.7)
Impairment of goodwill		–	(31.9)	(31.9)	–	–	–
Amortisation and impairment of intangible assets	3, 15	(2.8)	(2.0)	(4.8)	(1.5)	(2.8)	(4.3)
Operating profit/(loss)	3	**108.9**	**(33.6)**	**75.3**	**111.3**	**(1.8)**	**109.5**
Gain on business divestments	7	–	16.2	16.2	–	–	–
Finance income	8	1.0	–	1.0	1.3	–	1.3
Finance expense	8	(1.2)	(1.1)	(2.3)	(4.8)	(0.6)	(5.4)
Profit/(loss) before tax	4	**108.7**	**(18.5)**	**90.2**	**107.8**	**(2.4)**	**105.4**
Taxation (expense)/income	9	(12.8)	21.2	8.4	(11.8)	23.8	12.0
Profit for the year from continuing operations		**95.9**	**2.7**	**98.6**	**96.0**	**21.4**	**117.4**
Discontinued operations							
Profit/(loss) before tax – discontinued operations	5	–	7.5	7.5	1.2	(13.7)	(12.5)
Tax in respect of discontinued operations		–	–	–	(0.5)	0.3	(0.2)
Profit/(loss) for the year from discontinued operations		**–**	**7.5**	**7.5**	**0.7**	**(13.4)**	**(12.7)**
Profit for the year attributable to equity shareholders		**95.9**	**10.2**	**106.1**	**96.7**	**8.0**	**104.7**
Earnings per share							
Basic – continuing operations	13	16.3p		16.8p	15.2p		18.6p
Basic – total Group	13	16.3p		18.1p	15.3p		16.6p
Diluted – continuing operations	13	16.2p		16.7p	15.1p		18.5p
Diluted – total Group	13	16.2p		18.0p	15.2p		16.5p

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

Consolidated comprehensive income statement
for the year ended 31 March

all figures in £ million	2016	2015
Profit for the year	106.1	104.7
Items that will not be reclassified to profit or loss:		
Actuarial loss recognised in defined benefit pension schemes	(10.6)	(24.5)
Tax on items that will not be reclassified to profit and loss	2.1	5.1
Total items that will not be reclassified to profit or loss	**(8.5)**	**(19.4)**
Items that may be reclassified to profit or loss:		
Foreign currency translation differences for foreign operations	3.2	11.0
Recycling of currency translation differences to the income statement on disposal of foreign subsidiaries	1.7	(40.9)
Decrease in fair value of hedging derivatives	(0.1)	(0.1)
Reclassification of hedging derivatives to the income statement	–	0.1
Fair value (losses)/gains on available-for-sale investments	(0.6)	0.2
Total items that may be reclassified to profit or loss	4.2	(29.7)
Other comprehensive expense for the year, net of tax	**(4.3)**	**(49.1)**
Total comprehensive income for the year	**101.8**	**55.6**

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 2015	6.1	40.4	147.6	0.1	(6.8)	110.6	**298.0**	0.1	**298.1**
Profit for the year	–	–	–	–	–	106.1	**106.1**	0.1	**106.2**
Other comprehensive income/ (expense) for the year, net of tax	–	–	–	(0.1)	4.9	(9.1)	**(4.3)**	–	**(4.3)**
Purchase of own shares	–	–	–	–	–	(0.7)	**(0.7)**	–	**(0.7)**
Purchase and cancellation of shares	(0.2)	0.2	–	–	–	(46.9)	**(46.9)**	–	**(46.9)**
Share-based payments	–	–	–	–	–	4.7	**4.7**	–	**4.7**
Dividends	–	–	–	–	–	(32.3)	**(32.3)**	–	**(32.3)**
At 31 March 2016	**5.9**	**40.6**	**147.6**	**–**	**(1.9)**	**132.4**	**324.6**	**0.2**	**324.8**
At 1 April 2014	6.6	39.9	147.6	0.1	23.1	160.7	**378.0**	0.1	**378.1**
Profit for the year	–	–	–	–	–	104.7	**104.7**	–	**104.7**
Other comprehensive expense for the year, net of tax	–	–	–	–	(29.9)	(19.2)	**(49.1)**	–	**(49.1)**
Purchase of own shares	–	–	–	–	–	(0.6)	**(0.6)**	–	**(0.6)**
Purchase and cancellation of shares	(0.5)	0.5	–	–	–	(107.1)	**(107.1)**	–	**(107.1)**
Share-based payments settlement	–	–	–	–	–	0.6	**0.6**	–	**0.6**
Share-based payments	–	–	–	–	–	3.2	**3.2**	–	**3.2**
Dividends	–	–	–	–	–	(31.7)	**(31.7)**	–	**(31.7)**
At 31 March 2015	**6.1**	**40.4**	**147.6**	**0.1**	**(6.8)**	**110.6**	**298.0**	**0.1**	**298.1**

Consolidated balance sheet as at 31 March

all figures in £ million	Note	2016	2015
Non-current assets			
Goodwill	14	73.1	107.2
Intangible assets	15	8.3	15.3
Property, plant and equipment	16	233.4	229.6
Other financial assets	25	0.6	0.9
Investments	17	0.9	0.4
Deferred tax	18	4.1	12.9
		320.4	**366.3**
Current assets			
Inventories	19	19.0	18.5
Other financial assets	25	10.8	12.3
Trade and other receivables	20	156.2	159.2
Investments	21	1.7	2.3
Cash and cash equivalents	25	263.5	184.3
		451.2	**376.6**
Total assets		**771.6**	**742.9**
Current liabilities			
Trade and other payables	22	(338.7)	(352.3)
Current tax	23	(39.9)	(15.3)
Provisions	24	(5.3)	(3.0)
Other financial liabilities	25	(0.2)	(1.9)
		(384.1)	**(372.5)**
Non-current liabilities			
Retirement benefit obligation	31	(37.7)	(39.4)
Provisions	24	(13.8)	(22.4)
Other financial liabilities	25	(0.2)	(0.1)
Other payables	22	(11.0)	(10.4)
		(62.7)	**(72.3)**
Total liabilities		**(446.8)**	**(444.8)**
Net assets		**324.8**	**298.1**
Capital and reserves			
Ordinary shares	29	5.9	6.1
Capital redemption reserve		40.6	40.4
Share premium account		147.6	147.6
Hedging and translation reserve		(1.9)	(6.7)
Retained earnings		132.4	110.6
Capital and reserves attributable to shareholders of the parent company		**324.6**	**298.0**
Non-controlling interest		0.2	0.1
Total shareholders' funds		**324.8**	**298.1**

The financial statements were approved by the Board of Directors and authorised for issue on 26 May 2016 and were signed on its behalf by:

Mark Elliott
Chairman

Steve Wadey
Chief Executive Officer

David Mellors
Chief Financial Officer

Consolidated cash flow statement
for the year ended 31 March

all figures in £ million	Note	2016	2015
Net cash inflow from continuing operations before cash flows in respect of specific adjusting items	28	**133.4**	**143.9**
Net cash outflow relating to restructuring		–	(0.6)
Disposal-related pension contribution		–	(6.0)
Cash generated from discontinued operations		–	1.8
Cash inflow from operations		**133.4**	**139.1**
Tax received		27.9	8.8
Interest received		0.9	1.0
Interest paid		(0.6)	(36.4)
Net cash inflow from operating activities		**161.6**	**112.5**
Purchases of intangible assets		(1.6)	(4.2)
Purchases of property, plant and equipment		(28.6)	(24.8)
Proceeds from sale of property, plant and equipment		0.4	–
Investment in available for sale investments		–	(10.0)
Acquisition of businesses	6	(0.6)	(3.7)
Sale of investment in subsidiaries		28.0	79.6
Net cash (outflow)/inflow from investing activities		**(2.4)**	**36.9**
Repayment of bank borrowings		–	(147.1)
Payment of bank loan arrangement fee		–	(1.3)
Purchase of own shares		(48.6)	(106.8)
Dividends paid to shareholders		(32.3)	(31.7)
Capital element of finance lease rental payments		(1.4)	(2.8)
Capital element of finance lease rental receipts		1.5	3.0
Net cash outflow from financing activities		**(80.8)**	**(286.7)**
Increase/(decrease) in cash and cash equivalents		**78.4**	**(137.3)**
Effect of foreign exchange changes on cash and cash equivalents		0.8	0.4
Cash and cash equivalents at beginning of year		184.3	322.2
Cash and cash equivalents disposed		–	(1.0)
Cash and cash equivalents at end of year	25	**263.5**	**184.3**

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

all figures in £ million	Note	2016	2015
Increase/(decrease) in cash and cash equivalents in the year		**78.4**	**(137.3)**
Add back net cash flows not impacting net cash – repayment of bank loans and fees		–	148.4
Add back net cash flows not impacting net cash – investments		–	10.0
Add back net cash flows not impacting net cash – other		(0.1)	(0.2)
Change in net cash resulting from cash flows	25	**78.3**	**20.9**
Cash and cash equivalents disposed		–	(1.0)
Other movements including foreign exchange	25	0.7	5.1
Movement in net cash in the year	25	**79.0**	**25.0**
Net cash at beginning of year	25	195.5	170.5
Net cash at end of year	25	**274.5**	**195.5**

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 nature. Underlying measures of performance exclude specific adjusting items.

Specific adjusting items include:

- amortisation of intangible assets arising from acquisitions;
- pension net finance expense;
- gains/losses on business divestments and disposal of property and investments;
- impairment of goodwill and other intangible assets;
- one-off recovery of research and development tax credits and associated write-off of deferred tax asset in respect of tax losses; and
- other significant non-recurring deferred tax movements.

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 68 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 145 to 146. 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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiary undertakings to 31 March 2016. 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). An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This is the IFRS 10 definition of "control".

The Group comprises certain entities that are operated under the management of a Proxy Board. Details of the Proxy Board arrangements and the powers of the proxy holders and QinetiQ management are set out in the Corporate Governance section of this Annual Report. IFRS 10 is the accounting standard now applicable in respect of consolidation of entities. This does not specifically deal with proxy situations. However, having considered the terms of the Proxy agreement, the Directors consider that the Group meets the requirements of IFRS 10 in respect of control over such affected entities and, therefore, consolidates these entities in the consolidated accounts.

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 IAS18 'Revenue'. When the outcome of a contract involving the rendering of services can be reliably estimated, revenue associated with the transaction is recognised by reference to the stage of completion of the contract activity at the end of the reporting period. 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. No profit is recognised on contracts until the outcome of the contract can be reliably estimated. 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

1. Significant accounting policies continued

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.

Segmental information

Segmental information is presented according to the Group's internal management reporting 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

R&D costs incurred in respect of specific contracts placed by customers 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 R&D 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.

Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held for sale. When an operation is classified as a discontinued operation, the comparative statement of profit and loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

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 goodwill and tangible, 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 are 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. Other receivables will also include insurance recoveries where we are virtually certain of recovery.

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 cash 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.

1. Significant accounting policies continued

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 administrative expenses and the net interest cost. There is no service cost due to the fact the plans are closed to future accrual. The finance element of the pension charge is shown in finance expense and the administration cost element is charged as a component of operating 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.

Recent accounting developments

Developments adopted by the Group in 2016 with no material impact on the financial statements

The following UK GAAP and EU-endorsed Standards and amendments, improvements and interpretations of published Standards are effective for accounting periods beginning on or after 1 January 2015 and have been adopted with no material impact on the Group's financial statements:

FRS 100, 101 and 102

FRS 100, 101 and 102 all fall under the new UK GAAP regime. FRS 100 sets out the application of financial reporting requirements in the UK and Republic of Ireland and FRS 101, known as 'IFRS with reduced disclosures' outlines the reduced disclosure framework available for use by qualifying entities choosing to follow the principles of IFRS but under the umbrella of UK GAAP. FRS 102 is applicable in the UK and Republic of Ireland and is known as the 'new UK GAAP'. FRS 102 follows more closely the principles of existing UK GAAP with some exceptions. The mandatory effective date for the new framework of reporting is for accounting periods beginning on or after 1 January 2015. QinetiQ had the choice between applying either full IFRS, or a choice of either FRS 101, or FRS 102 to its subsidiary entities. The two latter options both fall under UK GAAP and either may therefore be applied to subsidiary entities on an entity by entity basis. The Group has adopted the UK GAAP option as of 1 April 2015.

IAS19 Employee Benefits – amendment to clarify requirement that relates to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

Annual improvement 2010-2012 cycle:

- **IFRS 2 Share-based Payment** – amends definitions of 'vesting condition' and 'market condition' and adds definitions for 'performance condition' and 'service condition'.
- **IFRS 3 Business Combinations** – amendment to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date.
- **IFRS 8 Operating Segments** – two amendments relating to disclosure requirements on application of aggregation criteria and reconciliation of assets.
- **IFRS 13 Fair Value Measurement** – amendment relating to short-term receivables and payables with no stated interest rate.
- **IAS16 Property, Plant and Equipment and IAS38 Intangible Assets** – amendment clarifying that under the revaluation method, accumulated depreciation should be restated on a proportionate basis.
- **IFRS 24 Related Party Disclosures** – clarification that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity.

Annual improvement 2011-2013 cycle:

- **IFRS 1 First-time Adoption of IFRS** – amendment relating to first-time application of IFRS.
- **IFRS 3 Business Combinations** – amendment clarifying that IFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- **IAS40 Investment Property** – amendment clarifying the interrelationship of IFRS 3 and IAS40 when classifying property as investment property or owner-occupied property.

Developments expected in future periods of which the impact is being assessed

IFRS 15 Revenue from Contracts with Customers: the final Standard was published in May 2014 and the IASB has taken the decision to defer the effective date of IFRS 15 to 1 January 2018 ie FY19 for QinetiQ. The new Standard introduces a five-step model to the principle of revenue recognition. Briefly, the framework includes identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract and recognising revenue when (or as) the entity satisfies the performance obligations. QinetiQ is currently undertaking an assessment of the impact of the new Standard. Typical issues to be analysed on a contract-by-contract basis include whether the current methodology for recognising revenue over time remains appropriate, the treatment of contract modifications, variable consideration, determination and distinction of performance obligations, collectability and licences (list not exhaustive). QinetiQ is also undertaking an analysis of the transitional guidance which allows for two different approaches: the retrospective method (with optional practical expedients) or the cumulative effect method. Under the retrospective method, QinetiQ would need to restate prior year comparatives and recognise the cumulative effect of applying the new Standard in equity at the start of the earliest presented comparative period. Under the cumulative effect method, QinetiQ would apply the new Standard as of the date of initial application, with no restatement of comparative period amounts. It would record the cumulative effect of initially applying the new Standard – which would affect revenue and costs – as an adjustment to the opening balance of equity at the date of initial application. Under the cumulative effect method, the provisions of the new Standard apply only to contracts that are open (ie not complete) under previous GAAP at the date of initial application.

1. Significant accounting policies continued

Leases: The final Standard IFRS 16 'Leases' was published in January 2016. Under the new Standard, companies will recognise new assets and liabilities, bringing added transparency to the balance sheet. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – ie lessors continue to classify leases as finance and operating leases. The Standard will be effective from 1 January 2019 ie FY20 for QinetiQ subject to EU endorsement.

IFRS 9 Financial Instruments – This new Standard on accounting for financial instruments will replace IAS39 Financial Instruments: Recognition and Measurement. This Standard has not yet been endorsed by the EU. It is expected to come into effect for accounting periods beginning on or after 1 January 2018.

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 14 'Regulatory Deferral Accounts';
- Amendments to IFRS 9, 10 and 11; and
- Amendments to IAS1, 7, 9, 12, 15, 27, 36 and 38.

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 and related goodwill

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 14.

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.

Other payables, provisions and contingent liabilities

The Group holds liabilities in respect of environmental and regulatory issues. The Group operates in regulated environments and a failure to comply with particular regulations could result in fines and/or penalties. There is judgement required in determining the significance of any instances of potential non-compliance and potential liability based on management's assessment of the most likely outcome. The financial statements also disclose contingent liabilities in respect of legal claims and regulatory issues which have not been provided for on the basis that they are not considered to qualify for recognition as provisions. Judgement is required in these assessments.

Post-retirement benefits

The Group's defined benefit pension obligations and net income statement costs are based on key assumptions, including discount rates, mortality and inflation. 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 31.

2. Revenue and other income

Revenue and other income is analysed as follows:

Revenue by category – continuing operations

For the year ended 31 March

all figures in £ million	2016	2015
Sales of goods	66.0	76.9
Services	679.0	688.9
Royalties and licences	10.7	8.0
Revenue	**755.7**	**763.8**
Share of associates' profit/(loss) after tax	0.5	(0.1)
Other income	9.0	7.7
Total other income	**9.5**	**7.6**

Revenue and profit after tax of associates was £7.3m and £1.0m respectively (2015: revenue of £7.7m and loss before tax of £0.1m). The figures in the table above represent the Group share of this profit/loss after tax.

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

Revenue by customer geographic location – continuing operations

For the year ended 31 March

all figures in £ million	2016	2015
United Kingdom	597.8	610.7
US	69.4	69.4
Other	88.5	83.7
Total	**755.7**	**763.8**

Revenue by major customer type – continuing operations

For the year ended 31 March

all figures in £ million	2016	2015
UK Government	531.0	537.6
US Government	53.0	51.2
Other	171.7	175.0
Total	**755.7**	**763.8**

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

3. Segmental analysis

Operating segments

For the year ended 31 March

all figures in £ million	Note	2016 Revenue	2016 Operating profit	2015 Revenue	2015 Operating profit
EMEA Services		616.4	93.8	625.6	93.0
Global Products		139.3	15.1	138.2	18.3
Total operating segments		**755.7**	**108.9**	**763.8**	**111.3**
Reconciliation of operating segment profit to total profit:					
Operating profit before specific adjusting items[1] – underlying operating profit			**108.9**		**111.3**
Specific adjusting items:					
Restructuring			–		1.0
Profit on disposal of property			0.3		–
Impairment of goodwill			(31.9)		–
Amortisation of intangible assets arising from acquisitions			(2.0)		(2.8)
Operating profit			**75.3**		**109.5**
Gain on business divestments	7		16.2		–
Net finance expense	8		(1.3)		(4.1)
Profit before tax			**90.2**		**105.4**
Taxation income	9		8.4		12.0
Profit for the year from continuing operations			**98.6**		**117.4**
Discontinued operations					
Profit/(loss) from discontinued operations, net of tax	5		**7.5**		(12.7)
Profit for the period attributable to equity shareholders			**106.1**		**104.7**

[1] The measure of profit presented to the chief operating decision maker is underlying operating profit (as defined in the glossary on page 149).
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 – excluding specific adjusting items (note 4)

For the year ended 31 March 2016

all figures in £ million	EMEA Services	Global Products	Total continuing operations
Depreciation and impairment of property, plant and equipment	21.1	1.9	**23.0**
Amortisation of purchased or internally developed intangible assets	1.3	1.5	**2.8**
	22.4	**3.4**	**25.8**

For the year ended 31 March 2015

all figures in £ million	EMEA Services	Global Products	Total continuing operations
Depreciation and impairment of property, plant and equipment	19.7	2.0	**21.7**
Amortisation of purchased or internally developed intangible assets	0.8	0.7	**1.5**
	20.5	**2.7**	**23.2**

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

Non-current assets* by geographic location

all figures in £ million	UK	Rest of World	Total
Year ended 31 March 2016	**264.3**	**50.5**	**314.8**

	UK	Rest of World	Total
Year ended 31 March 2015	**262.0**	**91.4**	**353.4**

* excluding deferred tax and financial instruments.

4. Profit before tax

The following auditor's remuneration has been charged in arriving at profit before tax:

all figures in £ million	2016	2015
Fees payable to the auditor and its associates:		
Audit of the Group's annual accounts	0.4	0.4
Audit of the accounts of subsidiaries of the company and its associated pension scheme	0.1	0.2
Audit-related assurance services	0.1	0.1
Total audit fees	**0.6**	**0.7**
Other assurance services	–	–
Corporate finance services – due diligence support	–	–
All other non-audit services	0.2	0.1
Total non-audit fees	**0.2**	**0.1**
Total auditor's remuneration	**0.8**	**0.8**

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

all figures in £ million	2016	2015
Depreciation and impairment of property, plant and equipment:		
Owned assets: depreciation	(23.4)	(20.7)
Owned assets: impairment reversal/(charge)	0.4	(1.0)
Foreign exchange gain/(loss)	**0.2**	**(0.3)**
Research and development expenditure – customer funded contracts	**(277.6)**	**(285.8)**
Research and development expenditure – Group funded	**(23.2)**	**(20.8)**

'Specific adjusting items'

In the income statement, the Group presents specific adjusting items separately. In the judgement of the Directors, for the reader to obtain a proper understanding of the financial information, specific adjusting items need to be disclosed separately because of their size and nature. Underlying measures of performance exclude specific adjusting items. The following specific adjusting items have been (charged)/credited in arriving at profit before tax:

all figures in £ million	Note	2016	2015
Profit on disposal of property		0.3	–
Reversal of unutilised restructuring provisions		–	1.0
Specific adjusting items before amortisation, depreciation and impairment		**0.3**	**1.0**
Impairment of goodwill	14	(31.9)	–
Amortisation of intangible assets arising from acquisitions		(2.0)	(2.8)
Specific adjusting items operating loss		**(33.6)**	**(1.8)**
Gain on business divestments	7	16.2	–
Defined benefit pension scheme net finance expense		(1.1)	(0.6)
Specific adjusting items loss before tax – continuing operations		**(18.5)**	**(2.4)**
Profit on disposal of subsidiary – before accelerated interest expense	5	7.5	15.9
Loss on disposal of subsidiary – accelerated interest expense	5	–	(28.8)
Profit/(loss) on disposal of subsidiary	5	7.5	(12.9)
Amortisation of intangible assets arising from acquisition		–	(0.8)
Specific adjusting items loss before tax – discontinued operations		**7.5**	**(13.7)**
Total specific adjusting items loss before tax		**(11.0)**	**(16.1)**
Specific adjusting items – tax (continuing operations)		21.2	23.8
Specific adjusting items – tax (discontinued operations)		–	0.3
Total specific adjusting items profit after tax		**10.2**	**8.0**

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

	2016	2015
Underlying profit after tax – total Group	**95.9**	**96.7**
Total specific adjusting items profit after tax	10.2	8.0
Total profit for the year attributable to equity shareholders	**106.1**	**104.7**

5. Discontinued operations

In the prior year, on 23 May 2014, the Group completed its sale of the US Services division, comprising QinetiQ North America Inc. and its subsidiaries. The Circular seeking shareholder approval for the sale of the US Services division specified that the proceeds would be applied in settling the remaining private placement ('PP') debt of $248m which was put in place to finance the acquisitions of the US Services business. Accordingly, the penalty of £28.8m incurred on the early redemption of the PP debt was considered to be inextricably linked to the sale of that business and was, therefore, disclosed as an adjustment to the loss on its sale rather than as a finance expense.

Net cash inflow in respect of this transaction was £78.6m in the year to 31 March 2015, with a further £28.8m outflow in respect of the associated PP early redemption expense. Additional deferred consideration, the earn-out, was payable on a sliding scale between zero and $50m based on gross profit generated by the disposed business in the financial year to 31 March 2015. Actual gross profit delivered by the disposed business resulted in deferred consideration of £6.2m (in line with expectations and matching the prior year book value of deferred consideration receivable) becoming due, which was paid in full in the year to 31 March 2016.

In the current year, an income statement impact of this transaction occurred from the release of opening warranty and indemnity liabilities following expiry of the contractual warranty clauses and an assessed remote possibility of claims under the extant indemnity clauses of the sale agreement.

The full impact of the disposal is given below:

a) Results of discontinued operations

all figures in £ million	**2016**	2015
Revenue	–	55.7
Operating costs excluding depreciation, amortisation and impairment	–	(54.2)
EBITDA (earnings before interest, tax, depreciation and amortisation)	**–**	**1.5**
Depreciation, amortisation and impairment of assets	–	(0.3)
Underlying operating profit	**–**	**1.2**
Amortisation of intangible assets arising from acquisitions	–	(0.8)
Operating profit	**–**	**0.4**
Finance expense	–	–
Profit before tax	**–**	**0.4**
Taxation expense	–	(0.2)
Results from operating activities, net of tax	**–**	**0.2**
Profit on sale of discontinued operations – before accelerated interest costs	7.5	15.9
Loss on sale of discontinued operations – accelerated interest costs	–	(28.8)
Gain/(loss) for the period	**7.5**	**(12.7)**
Basic gain/(loss) per share	1.3p	(2.0)p
Diluted gain/(loss) per share	1.3p	(2.0)p

b) Cash flows from discontinued operations

all figures in £ million	**2016**	2015
Net cash from operating activities	–	1.8
Net cash inflow for the year from the disposed entity	**–**	**1.8**
Cash outflow in respect of accelerated interest expense – included within 'Interest paid'	–	(28.8)
Net cash outflow related to discontinued operations	**–**	**(27.0)**

c) Effect of disposal on the financial position of the Group

all figures in £ million	**2016**	2015
Consideration received (net of transaction costs), satisfied in cash	6.2	79.6
Cash and cash equivalents disposed	–	(1.0)
Net cash inflow in the year	**6.2**	**78.6**

6. Business combinations

The Group made two acquisitions in the prior year to 31 March 2015: SR2020 and Redfern Integrated Optics Inc. Consideration (of £0.4m) for the acquisition of SR2020 was paid in full in the prior year and no further payments, or adjustments to the assets acquired, were made in the year to 31 March 2016. The total consideration for the acquisition of Redfern Integrated Optics Inc. was £3.9m, of which £3.3m was paid in the prior year. The remaining consideration of £0.6m was paid in the current year.

7. Gain on business divestments – continuing operations

For the year ended 31 March

all figures in £ million	2016	2015
Gain on business divestments	**16.2**	**–**

The gain on business divestments relates to the sale of the Cyveillance business on 11 December 2015 for consideration before costs of $34.1m and a gain on disposal of £16.2m. There is no deferred consideration receivable.

8. Finance income and expense – continuing operations

For the year ended 31 March

all figures in £ million	2016	2015
Receivable on bank deposits	1.0	1.1
Finance lease income	–	0.2
Finance income	**1.0**	**1.3**
Amortisation of recapitalisation fee	(0.3)	(0.7)
Payable on bank loans and overdrafts	(0.6)	(0.9)
Payable on US dollar private placement debt	–	(2.6)
Finance lease expense	–	(0.2)
Unwinding of discount on financial liabilities	(0.3)	(0.4)
Finance expense before specific adjusting items	**(1.2)**	**(4.8)**
Specific adjusting items:		
Defined benefit pension scheme net finance expense	(1.1)	(0.6)
Total finance expense	**(2.3)**	**(5.4)**
Net finance expense	**(1.3)**	**(4.1)**

9. Taxation – continuing operations

all figures in £ million	2016			2015		
	Before specific adjusting items*	Specific adjusting items*	Total	Before specific adjusting items*	Specific adjusting items*	Total
Analysis of charge						
Current UK tax expense/(income)	2.2	(35.6)	(33.4)	0.5	–	0.5
Overseas corporation tax						
Current year	2.4	–	2.4	1.4	(0.5)	0.9
Adjustment for prior year	–	–	–	(1.0)	0.6	(0.4)
Current tax expense/(income)	**4.6**	**(35.6)**	**(31.0)**	**0.9**	**0.1**	**1.0**
Deferred tax expense/(income)	7.7	20.0	27.7	11.3	(22.9)	(11.6)
Deferred tax impact of change in rates	(0.2)	–	(0.2)	(0.4)	–	(0.4)
Deferred tax in respect of prior years	0.7	(5.6)	(4.9)	–	(1.0)	(1.0)
Deferred tax expense/(income)	**8.2**	**14.4**	**22.6**	**10.9**	**(23.9)**	**(13.0)**
Taxation expense/(income) – continuing operations	**12.8**	**(21.2)**	**(8.4)**	**11.8**	**(23.8)**	**(12.0)**
Factors affecting tax charge/(credit) in year						
Principal factors reducing the Group's current year tax charge below the UK statutory rate are explained below:						
Profit/(loss) before tax	108.7	(18.5)	90.2	107.8	(2.4)	105.4
Tax on profit/(loss) before tax at 20% (2015: 21%)	**21.7**	**(3.7)**	**18.0**	**22.6**	**(0.5)**	**22.1**
Effect of:						
Expenses not deductible for tax purposes and non-taxable items	3.7	4.5	8.2	(7.9)	1.7	(6.2)
Research and development credits/reliefs	(13.7)	(36.8)	(50.5)	(10.7)	–	(10.7)
Tax in respect of an FY09 US acquisition – payable to the tax authorities	16.2	–	16.2	–	–	–
Tax in respect of an FY09 US acquisition – recoverable from insurers	(16.2)	–	(16.2)	–	–	–
Utilisation/(recognition) of deferred tax asset in respect of UK trading losses	–	25.2	25.2	–	(25.2)	(25.2)
Current tax losses for which no deferred tax asset was recognised	–	–	–	6.9	–	6.9
Deferred tax impact of change in rates	(0.2)	–	(0.2)	(0.4)	–	(0.4)
Deferred tax in respect of prior years	0.7	(5.6)	(4.9)	0.9	–	0.9
Other deferred tax movements	–	(4.8)	(4.8)	–	–	–
Effect of different rates in overseas jurisdictions	0.6	–	0.6	0.4	0.2	0.6
Taxation expense/(income) – continuing operations	**12.8**	**(21.2)**	**(8.4)**	**11.8**	**(23.8)**	**(12.0)**
Effective tax rate	**11.8%**		**(9.3%)**	**10.9%**		**(11.4%)**

* Details of specific adjusting items can be found in note 4.

UK Group companies have now elected to obtain tax benefits in respect of allowable R&D expenditure through the R&D Expenditure Credit ('RDEC') process rather than through the previous treatment as a super-deduction in the tax computations. This election was made retrospectively back to 1 April 2013 and the incremental impact on the tax expense for the years ending 31 March 2014 and 31 March 2015 has been reported in the current year as a specific adjusting item. The change of regime results in the utilisation of previously capitalised UK trading losses and the associated deferred tax asset has been written off in the current year, also reported as a specific adjusting item. Other deferred tax movements includes the effect of changes in estimates in respect of the apportionment of book values between qualifying and non-qualifying property, plant and equipment.

Deferred tax has been calculated using the enacted future statutory tax rates.

At 31 March 2016 the Group had unused tax losses of £154.8m (2015: £291.6m) which are available for offset against future profits. £26.1m of these losses are time limited of which £6.3m will expire in 2034 and £19.8m will expire in 2035. Certain UK tax losses had been recognised on the balance sheet as at 31 March 2015 as a deferred tax asset of £25.2m. As noted above those tax losses have now been utilised following the election into the RDEC regime. No deferred tax asset is recognised in respect of the remaining tax losses due to uncertainty over the timing and extent of their utilisation.

Factors affecting future tax charges

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

10. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2016 and 2015 is provided below:

	Pence per share	£m	Date paid/ payable
Interim 2016	1.9	11.1	Feb 2016
Final 2016 (proposed)	3.8	21.6	Sept 2016
Total for the year ended 31 March 2016	**5.7**	**32.7**	
Interim 2015	1.8	11.1	Feb 2015
Final 2015	3.6	21.2	Sept 2015
Total for the year ended 31 March 2015	**5.4**	**32.3**	

The Directors propose a final dividend of 3.8p (2015: 3.6p) per share. The dividend, which is subject to shareholder approval, will be paid on 2 September 2016. The ex-dividend date is 4 August 2016 and the record date is 5 August 2016.

11. 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 Executive Directors, analysed by business segment, were:

	As at 31 March		Monthly average	
	2016 Number	2015 Number	2016 Number	2015 Number
EMEA Services	5,514	5,576	5,595	5,521
Global Products	693	674	671	706
Continuing operations	6,207	6,250	6,266	6,227
US Services	–	–	–	227
Total	**6,207**	**6,250**	**6,266**	**6,454**

The aggregate payroll costs of these persons were as follows:

all figures in £ million	Note	2016	2015
Wages and salaries		263.7	284.0
Social security costs		27.2	27.6
Pension costs		37.0	35.1
Share-based payments costs	30	4.7	3.6
Total employee costs		**332.6**	**350.3**

The reduction in costs reflects the disposal of the US Services business in 2015.

12. Directors and other senior management personnel

The Directors and other senior management personnel of the Group during the year to 31 March 2016 comprise the Board of Directors and the Executive Committee. The remuneration and benefits provided to Directors and the Executive Committee are summarised below:

all figures in £ million	2016	2015
Short-term employee remuneration including benefits	6.9	6.1
Post-employment benefits	0.1	0.1
Share-based payments costs	1.2	1.4
Termination benefits	–	0.1
Total	**8.2**	**7.7**

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

13. 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 29). For diluted earnings per share the weighted average number of shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares arising from unvested share-based awards including share options.

For the year ended 31 March		**2016**	2015
Weighted average number of shares	Million	587.0	630.9
Effect of dilutive securities	Million	3.7	3.7
Diluted number of shares	Million	590.7	634.6

Underlying basic earnings per share figures are presented below, in addition to the basic and diluted earnings per share, because the Directors consider this gives a more relevant indication of underlying business performance and reflects the adjustments to basic earnings per share for the impact of specific adjusting items (see note 4) and tax thereon.

Underlying EPS – continuing operations

For the year ended 31 March		**2016**	2015
Profit attributable to equity shareholders	£ million	98.6	117.4
Remove loss after tax in respect of specific adjusting items	£ million	(2.7)	(21.4)
Underlying profit after taxation	**£ million**	**95.9**	**96.0**
Weighted average number of shares	Million	587.0	630.9
Underlying basic EPS – continuing operations	**Pence**	**16.3**	**15.2**
Diluted number of shares	Million	590.7	634.6
Underlying diluted EPS – continuing operations	**Pence**	**16.2**	**15.1**

Underlying EPS – total Group

For the year ended 31 March		**2016**	2015
Profit attributable to equity shareholders	£ million	106.1	104.7
Remove loss after tax in respect of specific adjusting items	£ million	(10.2)	(8.0)
Underlying profit after taxation	**£ million**	**95.9**	**96.7**
Weighted average number of shares	Million	587.0	630.9
Underlying basic EPS – total Group	**Pence**	**16.3**	**15.3**
Diluted number of shares	Million	590.7	634.6
Underlying diluted EPS – total Group	**Pence**	**16.2**	**15.2**

Basic and diluted EPS – continuing operations

For the year ended 31 March		**2016**	2015
Profit attributable to equity shareholders	£ million	98.6	117.4
Weighted average number of shares	Million	587.0	630.9
Basic EPS – continuing operations	**Pence**	**16.8**	**18.6**
Diluted number of shares	Million	590.7	634.6
Diluted EPS – continuing operations	**Pence**	**16.7**	**18.5**

Basic and diluted EPS – total Group

For the year ended 31 March		**2016**	2015
Profit attributable to equity shareholders	£ million	106.1	104.7
Weighted average number of shares	Million	587.0	630.9
Basic EPS – total Group	**Pence**	**18.1**	**16.6**
Diluted number of shares	Million	590.7	634.6
Diluted EPS – total Group	**Pence**	**18.0**	**16.5**

14. Goodwill

all figures in £ million	2016	2015
Cost		
At 1 April	183.3	541.4
Acquisitions	–	0.1
Disposals	(16.2)	(370.1)
Foreign exchange	4.4	11.9
At 31 March	**171.5**	**183.3**
Impairment		
At 1 April	(76.1)	(400.1)
Disposals	11.0	328.9
Impairment	(31.9)	–
Foreign exchange	(1.4)	(4.9)
At 31 March	**(98.4)**	**(76.1)**
Net book value at 31 March	**73.1**	**107.2**

Goodwill as at 31 March 2016 was allocated across various cash-generating units (CGUs) in the following segments: EMEA Services (two) and Global Products (two). Goodwill previously allocated to an EMEA Services CGU (the Cyveillance business) of £5.2m was written off in the year on disposal of that CGU.

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

Impairment testing is dependent on management's estimates and 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 CGUs with the exception of US Global Products, 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 CGUs.

Key assumptions

Cash flows

The value-in-use calculations generally use discounted future cash flows based on financial plans approved by the Board covering a two-year period. Discounted cash flows for the US Global Products CGU were based on a Board-approved three-year plan, reflecting increases in revenue from new product lines. Cash flows for periods beyond these periods are extrapolated based on the last year of the plans, with a terminal growth-rate assumption applied.

Terminal growth rates

The specific plans for each of the CGUs have been extrapolated using a terminal growth rate of 2.0% – 2.4% (2015: 2.0% – 3.0%). The US terminal growth rate was 2.4% (2015: 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 EMEA Services CGUs were 11.7% and 14.7%, for the UK Global Products CGU was 11.7% and for the US Global Products CGU was 11.3%.

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

Significant CGUs

US Global Products

The carrying value of the goodwill for the US Global Products CGU as at 31 March 2016 was £37.9m (2015: £67.2m). The decrease results from an impairment of £31.9m in the year following a reduction in the value in use, calculated using the assumptions noted above. The impairment is primarily due to the combined impact of changes to the discount rate and terminal growth rate. Sensitivity analysis has then been undertaken to assess the impact of changes to the key assumptions. Applying a sensitivity to remove new product growth would increase the impairment by £4.5m. Alternatively, increasing the discount rate by another 1% would increase the impairment by £6.0m and reducing the terminal growth rate by 1% would increase the impairment by £5.3m. The carrying value of net operating assets as at 31 March 2016 was £82.8m.

Other CGUs

The UK Global Products CGU and the two individual CGUs within EMEA 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 UK Global Products CGU as at 31 March 2016 was £5.5m (2015: £5.2m). The carrying values of goodwill for the two EMEA Services CGUs as at 31 March 2016 were £27.5m and £2.2m (2015: £27.5m and £2.1m). The Directors have not identified any other likely changes in other significant assumptions between 31 March 2016 and the signing of the financial statements that would cause the carrying value of the recognised goodwill to exceed its recoverable amount.

15. Intangible assets

Year ended 31 March 2016

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 2015	39.0	58.9	4.1	17.0	42.3	161.3
Additions – internally developed	–	–	–	0.4	0.5	0.9
Additions – purchased	–	–	–	0.1	0.6	0.7
Disposals	–	–	–	–	(0.5)	(0.5)
Divestments	(7.7)	(7.3)	(2.2)	–	–	(17.2)
Transfers	–	–	–	1.0	(0.9)	0.1
Foreign exchange	0.6	1.1	0.2	–	0.2	2.1
At 31 March 2016	**31.9**	**52.7**	**2.1**	**18.5**	**42.2**	**147.4**
Amortisation and impairment						
At 1 April 2015	33.0	57.8	2.6	15.0	37.6	146.0
Amortisation charge for year	0.3	1.6	0.1	1.2	1.3	4.5
Impairments	–	–	–	0.3	–	0.3
Disposals	–	–	–	–	(0.2)	(0.2)
Divestments	(2.9)	(9.3)	(1.3)	–	–	(13.5)
Foreign exchange	0.8	1.0	0.1	–	0.1	2.0
At 31 March 2016	**31.2**	**51.1**	**1.5**	**16.5**	**38.8**	**139.1**
Net book value at 31 March 2016	**0.7**	**1.6**	**0.6**	**2.0**	**3.4**	**8.3**

Divestments are in respect of the disposal of the Cyveillance business (see note 7).

Year ended 31 March 2015

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 2014	141.4	53.5	9.2	17.0	35.8	256.9
Additions – internally developed	–	–	–	0.4	1.3	1.7
Additions – purchased	–	–	–	–	2.5	2.5
Additions – recognised on acquisition	–	3.3	–	–	–	3.3
Divestments	(108.9)	(2.0)	(6.0)	(0.3)	(1.7)	(118.9)
Transfers	–	–	–	(0.1)	0.7	0.6
Foreign exchange	6.5	4.1	0.9	–	3.7	15.2
At 31 March 2015	**39.0**	**58.9**	**4.1**	**17.0**	**42.3**	**161.3**
Amortisation and impairment						
At 1 April 2014	105.5	49.9	8.1	14.5	34.7	212.7
Amortisation charge for year	1.4	2.1	0.1	0.6	0.9	5.1
Divestments	(79.0)	(1.0)	(5.9)	(0.1)	(0.3)	(86.3)
Transfers	–	–	–	–	(0.2)	(0.2)
Foreign exchange	5.1	6.8	0.3	–	2.5	14.7
At 31 March 2015	**33.0**	**57.8**	**2.6**	**15.0**	**37.6**	**146.0**
Net book value at 31 March 2015	**6.0**	**1.1**	**1.5**	**2.0**	**4.7**	**15.3**

16. Property, plant and equipment

Year ended 31 March 2016

all figures in £ million	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Assets under construction	Total
Cost					
At 1 April 2015	312.6	174.3	41.5	37.1	565.5
Additions – purchased	2.2	2.9	1.9	21.6	28.6
Additions – acquisition	–	–	–	–	–
Disposals	(0.2)	(1.0)	(2.2)	(1.2)	(2.8)
Divestments	(0.2)	–	(1.8)	–	(2.0)
Transfers	3.8	14.0	7.8	(25.7)	(0.1)
Foreign exchange	0.2	0.5	0.2	–	0.9
At 31 March 2016	**318.4**	**190.7**	**49.2**	**31.8**	**590.1**
Depreciation					
At 1 April 2015	152.3	147.0	36.2	0.4	335.9
Charge for year	10.2	9.7	3.5	–	23.4
Impairment charge / (reversal)	–	–	–	(0.4)	(0.4)
Disposals	(0.1)	(0.7)	(0.3)	–	(1.1)
Divestments	(0.1)	–	(1.6)	–	(1.7)
Foreign exchange	0.1	0.4	0.1	–	0.6
At 31 March 2016	**162.4**	**156.4**	**37.9**	**–**	**356.7**
Net book value at 31 March 2016	**156.0**	**34.3**	**11.3**	**31.8**	**233.4**

Divestments are in respect of the disposal of the Cyveillance business (see note 7).

Year ended 31 March 2015

all figures in £ million	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Assets under construction	Total
Cost					
At 1 April 2014	317.6	164.5	50.0	24.9	557.0
Additions – purchased	0.3	1.2	1.0	22.3	24.8
Additions – acquisition	–	0.3	0.1	–	0.4
Disposals	(0.8)	(0.5)	(0.2)	(1.2)	(2.7)
Divestments	(3.4)	(1.4)	(11.5)	–	(16.3)
Transfers	(1.9)	8.9	1.3	(8.9)	(0.6)
Foreign exchange	0.8	1.3	0.8	–	2.9
At 31 March 2015	**312.6**	**174.3**	**41.5**	**37.1**	**565.5**
Depreciation					
At 1 April 2014	145.9	137.5	39.8	–	323.2
Charge for year	9.7	8.5	2.8	–	21.0
Impairment	–	0.5	0.1	0.4	1.0
Disposals	(0.8)	(0.5)	(0.1)	–	(1.4)
Divestments	(1.9)	(1.0)	(7.5)	–	(10.4)
Transfers	(1.1)	1.1	0.2	–	0.2
Foreign exchange	0.5	0.9	0.9	–	2.3
At 31 March 2015	**152.3**	**147.0**	**36.2**	**0.4**	**335.9**
Net book value at 31 March 2015	**160.3**	**27.3**	**5.3**	**36.7**	**229.6**

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 32.

17. Non-current investments

As at 31 March

all figures in £ million	2016 Joint venture and associates financial results	2016 Group net share of joint ventures and associates	2015 Joint venture and associates financial results	2015 Group net share of joint ventures and associates
Non-current assets	0.2	0.1	0.3	0.1
Current assets	12.8	6.1	8.0	3.9
	13.0	6.2	8.3	4.0
Current liabilities	(11.2)	(5.4)	(7.6)	(3.7)
Net assets of joint ventures and associates	**1.8**	**0.8**	**0.7**	**0.3**
Other non-current investments		0.1		0.1
Total	**1.8**	**0.9**	**0.7**	**0.4**

During the year ended 31 March 2016 there were sales to associates of £3.2m (2015: £3.0m). At the year end there were outstanding receivables from associates of £0.4m (2015: £0.3m).

18. 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 2016

Deferred tax asset

all figures in £ million	Pension liability	Short-term timing differences	Trading losses	Total
At 1 April 2015	1.6	7.6	25.2	34.4
(Charged)/credited to income statement	(2.3)	0.6	(25.2)	(26.9)
Credited/(charged) to other comprehensive income	2.2	(0.1)	–	2.1
Foreign exchange	–	0.1	–	0.1
Eliminated on disposal	–	(0.2)	–	(0.2)
Gross deferred tax asset at 31 March 2016	**1.5**	**8.0**	**–**	**9.5**
Less: liability available for offset				(5.4)
Net deferred tax asset at 31 March 2016				**4.1**

Deferred tax liability

all figures in £ million	Accelerated capital allowances	Amortisation	Total
At 1 April 2015	(17.7)	(3.8)	(21.5)
Credited to income statement	4.2	0.1	4.3
Eliminated on disposal	(0.1)	1.5	1.4
Foreign exchange	0.1	(0.1)	–
Transferred to current tax	10.4	–	10.4
Gross deferred tax liability at 31 March 2016	**(3.1)**	**(2.3)**	**(5.4)**
Less: asset available for offset			5.4
Net deferred tax liability at 31 March 2016			**–**

UK Group companies have now elected to obtain tax benefits in respect of allowable R&D expenditure through the R&D Expenditure Credit ('RDEC') process rather than through the previous treatment as a super-deduction in the tax computations. This election was made retrospectively back to 1 April 2013 and the incremental impact on the tax expense for years ending 31 March 2014 and 31 March 2015 has been reported in the current year as a specific adjusting item. The change of regime results in the utilisation of previously capitalised UK trading losses and the associated deferred tax asset has been charged to the income statement (see note 9).

Deferred tax has been calculated using the enacted future statutory tax rates.

At 31 March 2016 the Group had unused tax losses of £154.8m (2015: £291.6m) which are available for offset against future profits. £26.1m of these losses are time limited of which £6.3m will expire in 2034 and £19.8m will expire in 2035. Certain UK tax losses had been recognised on the balance sheet as at 31 March 2015 as a deferred tax asset of £25.2m. As noted above those tax losses have now been utilised following the election into the RDEC regime. No deferred tax asset is recognised in respect of the remaining tax losses due to uncertainty over the timing and extent of their utilisation.

Deferred tax eliminated on disposal relates to the disposal of the Cyveillance business (see note 7).

Year ended 31 March 2015

Deferred tax asset

all figures in £ million	Pension liability	Trading losses	Short-term timing differences	Total
At 1 April 2014	1.3	–	27.5	28.8
(Charged)/credited to income statement	(4.8)	25.2	(7.4)	13.0
Credited to other comprehensive income	5.1	–	–	5.1
Foreign exchange	–	–	1.9	1.9
Eliminated on disposal	–	–	(14.4)	(14.4)
Gross deferred tax asset at 31 March 2015	**1.6**	**25.2**	**7.6**	**34.4**
Less: liability available for offset				(21.5)
Net deferred tax asset at 31 March 2015				**12.9**

Deferred tax liability

all figures in £ million	Accelerated capital allowances	Amortisation	Total
At 1 April 2014	(17.5)	(8.2)	(25.7)
(Charged)/credited to income statement	(1.3)	0.9	(0.4)
Prior year adjustment	0.7	4.1	4.8
Foreign exchange	–	(0.6)	(0.6)
Deferred tax impact of change in rates	0.4	–	0.4
Gross deferred tax liability at 31 March 2015	**(17.7)**	**(3.8)**	**(21.5)**
Less: asset available for offset			21.5
Net deferred tax liability at 31 March 2015			**–**

19. Inventories

As at 31 March

all figures in £ million	2016	2015
Raw materials	10.0	9.6
Work in progress	4.0	3.3
Finished goods	5.0	5.6
	19.0	**18.5**

20. Trade and other receivables

As at 31 March

all figures in £ million	2016	2015
Trade receivables	64.8	82.0
Amounts recoverable under contracts	54.0	51.6
Other receivables	26.3	15.8
Prepayments	11.1	9.8
	156.2	**159.2**

In determining the recoverability of trade receivables, the Group considers any change 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 government agencies. Accordingly, the Directors believe that no credit provision in excess of the allowance for doubtful debts is required. As at 31 March 2016 the Group carried a provision for doubtful debts of £4.1m (2015: £3.3m).

Ageing of past due but not impaired receivables

all figures in £ million	2016	2015
Up to three months	8.0	13.0
Over three months	1.4	0.7
	9.4	**13.7**

Movements in the doubtful debt provision

all figures in £ million	2016	2015
At 1 April	3.3	2.9
Created	2.1	1.8
Released	(0.2)	(0.5)
Utilised	(1.1)	(0.3)
Divestments	–	(0.6)
At 31 March	**4.1**	**3.3**

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. Divestments were in respect of the disposal of the US Services division (see note 5).

21. Current asset investments
As at 31 March

all figures in £ million	2016	2015
Current asset investments	**1.7**	**2.3**

At 31 March 2016 the Group held a 4.9% shareholding in pSivida Limited (31 March 2015: 4.9%), a company listed on NASDAQ and the Australian and Frankfurt Stock Exchanges. The investment is held at fair value using the closing share price at 31 March 2016 of AUS$3.56 per share (31 March 2015: AUS$5.08 per share).

22. Trade and other payables
As at 31 March

all figures in £ million	2016	2015
Trade payables	32.9	29.5
Other tax and social security	32.3	31.9
Deferred income	111.3	122.0
Accrued expenses and other payables	162.2	168.9
Total current trade and other payables	**338.7**	**352.3**
Payments received on account	9.9	9.6
Other payables	1.1	0.8
Total non-current trade and other payables	**11.0**	**10.4**
Total trade and other payables	**349.7**	**362.7**

23. Current tax
As at 31 March

all figures in £ million	2016	2015
Current tax liability	**39.9**	**15.3**

The increase in the current tax liability is primarily due to a tax liability crystallising in the US following a court decision in respect of taxes payable in respect of the Group's acquisition of Dominion Technology Resources, Inc. in 2008. An insurance policy was taken out by the Group at the point of acquisition and if, subject to an appeal, the court's decision is final then the funds required to settle this dispute will be provided by the insurers and an escrow account funded by the vendors. Hence, an offsetting receivable is reported on the balance sheet as at 31 March 2016 (included within trade and other receivables).

24. Provisions
Year ended 31 March 2016

all figures in £ million	Property	Warranty and indemnities	Other	Total
At 1 April 2015	13.5	6.4	5.5	25.4
Created in year	1.8	–	1.3	3.1
Released in year	(0.5)	(6.7)	(0.6)	(7.8)
Unwind of discount	0.3	–	–	0.3
Utilised in year	(1.7)	–	(0.5)	(2.2)
Foreign exchange	–	0.3	–	0.3
At 31 March 2016	**13.4**	**–**	**5.7**	**19.1**
Current liability	3.2	–	2.1	5.3
Non-current liability	10.2	–	3.6	13.8
At 31 March 2016	**13.4**	**–**	**5.7**	**19.1**

Property provisions 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 ten years.

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

25. Net cash

As at 31 March

all figures in £ million	2016			2015		
	Assets	**Liabilities**	**Net**	Assets	Liabilities	Net
Current financial assets/(liabilities)						
Deferred financing costs	0.3	–	0.3	0.3	–	0.3
Borrowings	0.3	–	0.3	0.3	–	0.3
Available-for-sale investment	9.9	–	9.9	10.0	–	10.0
Derivative financial instruments	0.6	(0.2)	0.4	0.5	(0.5)	–
Finance lease debtor/(creditor)	–	–	–	1.5	(1.4)	0.1
Total current financial assets/(liabilities)	**10.8**	**(0.2)**	**10.6**	**12.3**	**(1.9)**	**10.4**
Non-current assets/(liabilities)						
Deferred financing costs	0.5	–	0.5	0.8	–	0.8
Borrowings	0.5	–	0.5	0.8	–	0.8
Derivative financial instruments	0.1	(0.2)	(0.1)	0.1	(0.1)	–
Total non-current financial assets/(liabilities)	**0.6**	**(0.2)**	**0.4**	**0.9**	**(0.1)**	**0.8**
Cash	68.4	–	68.4	41.6	–	41.6
Cash equivalents	195.1	–	195.1	142.7	–	142.7
Total cash and cash equivalents	**263.5**	**–**	**263.5**	**184.3**	**–**	**184.3**
Total net cash as defined by the Group			**274.5**			**195.5**

At 31 March 2016 £1.6m (2015: £1.3m) of cash was held by the Group's captive insurance subsidiary, including £0.1m (2015: £0.1m) that was restricted in its use.

Reconciliation of net cash flow to movement in net cash

all figures in £ million	**2016**	2015
Increase/(decrease) in cash and cash equivalents in the year	78.4	(137.3)
Repayment of US$ private placement notes	–	147.1
Outflow in respect of the purchase of available for sale investments	–	10.0
Payment of bank loan arrangement fee	–	1.3
Capital element of finance lease payments	1.4	2.8
Capital element of finance lease receipts	(1.5)	(3.0)
Change in net cash as defined by the Group resulting from cash flows	**78.3**	**20.9**
Cash and cash equivalents disposed	–	(1.0)
Amortisation of deferred financing costs	(0.3)	(0.7)
Finance lease receivables	–	0.3
Finance lease payables	–	(0.2)
Foreign exchange and other non-cash movements	1.0	5.7
In-year movement in net cash as defined by the Group	**79.0**	**25.0**
Net cash as defined by Group at the beginning of the year	195.5	170.5
Net cash as defined by Group at the end of the year	**274.5**	**195.5**
Less: other financial assets and liabilities	(11.0)	(11.2)
Total cash and cash equivalents	**263.5**	**184.3**

25. Net cash continued

Finance leases

Group as a lessor

The minimum lease receivables under finance leases fall due as follows:

all figures in £ million	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	**2016**	2015
Amounts receivable under finance leases				
Within one year	–	1.5	–	1.5
	–	**1.5**	**–**	**1.5**

Group as a lessee

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

all figures in £ million	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	**2016**	2015
Amounts payable under finance leases				
Within one year	–	1.4	–	1.4
	–	1.4	–	**1.4**
Classified as follows:				
Financial liability – current			–	1.4
			–	**1.4**

26. Operating leases

Group as a lessor

The Group receives rental income on certain properties. Primarily these are properties partially occupied by Group companies, with vacant space sub-let to third-party tenants. The Group had contracted with tenants for the following future minimum lease payments:

all figures in £ million	**2016**	2015
Within one year	6.5	7.3
In the second to fifth years inclusive	13.6	19.1
Greater than five years	7.2	10.9
	27.3	**37.3**

Group as a lessee

all figures in £ million	**2016**	2015
Lease and sub-lease income statement expense for the year	**5.3**	**6.1**

The Group had the following total future minimum lease payment commitments:

all figures in £ million	**2016**	2015
Within one year	9.4	5.0
In the second to fifth years inclusive	8.1	6.8
Greater than five years	1.5	1.2
	19.0	**13.0**

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.

27. Financial risk management

The Group's international operations 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. There have been no changes in any risk management policies since the year end.

A) Fair values of financial instruments

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

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

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

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

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2016:

all figures in £ million	Note	Level 1	Level 2	Level 3	Total
Assets					
Available for sale investments	25	9.9	–	–	9.9
Current other investments	21	1.7	–	–	1.7
Current derivative financial instruments	25	–	0.6	–	0.6
Non-current other investments		–	–	0.1	0.1
Non-current derivative financial instruments	25	–	0.1	–	0.1
Liabilities					
Current derivative financial instruments	25	–	(0.2)	–	(0.2)
Non-current derivative financial instruments	25	–	(0.2)	–	(0.2)
Total		**11.6**	**0.3**	**0.1**	**12.0**

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2015:

all figures in £ million	Note	Level 1	Level 2	Level 3	Total
Assets					
Available for sale investments	25	10.0	–	–	10.0
Current other investments	21	2.3	–	–	2.3
Current derivative financial instruments	25	–	0.5	–	0.5
Non-current other investments		–	–	0.1	0.1
Non-current derivative financial instruments	25	–	0.1	–	0.1
Liabilities					
Current derivative financial instruments	25	–	(0.5)	–	(0.5)
Non-current derivative financial instruments	25	–	(0.1)	–	(0.1)
Total		**12.3**	**–**	**0.1**	**12.4**

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

27. Financial risk management continued

All financial assets and liabilities had a fair value that is identical to book value at 31 March 2016 and 31 March 2015. Detailed analysis is provided in the tables below:

As at 31 March 2016

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							
Derivative financial instruments	25	–	–	–	0.1	0.1	0.1
Other investments	17	0.1	–	–	–	0.1	0.1
Current							
Trade and other receivables	20	–	156.2	–	–	156.2	156.2
Derivative financial instruments	25	–	–	–	0.6	0.6	0.6
Current asset investments	21	1.7	–	–	–	1.7	1.7
Available for sale investment		9.9	–	–	–	9.9	9.9
Cash and cash equivalents	25	–	263.5	–	–	263.5	263.5
Total financial assets		**11.7**	**419.7**	**–**	**0.7**	**432.1**	**432.1**
Financial liabilities							
Non-current							
Trade and other payables	22	–	–	(11.0)	–	(11.0)	(11.0)
Deferred financing costs	25	–	–	0.5	–	0.5	0.5
Derivative financial instruments	25	–	–	–	(0.2)	(0.2)	(0.2)
Current							
Trade and other payables	22	–	–	(338.7)	–	(338.7)	(338.7)
Derivative financial instruments	25	–	–	–	(0.2)	(0.2)	(0.2)
Deferred financing costs	25	–	–	0.3	–	0.3	0.3
Total financial liabilities		**–**	**–**	**(348.9)**	**(0.4)**	**(349.3)**	**(349.3)**
Total		**11.7**	**419.7**	**(348.9)**	**0.3**	**82.8**	**82.8**

As at 31 March 2015

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							
Derivative financial instruments	25	–	–	–	0.1	0.1	0.1
Other investments	17	0.1	–	–	–	0.1	0.1
Current							
Finance leases	25	–	1.5	–	–	1.5	1.5
Trade and other receivables	20	–	159.2	–	–	159.2	159.2
Derivative financial instruments	25	–	–	–	0.5	0.5	0.5
Current asset investments	21	2.3	–	–	–	2.3	2.3
Available for sale investment		10.0	–	–	–	10.0	10.0
Cash and cash equivalents	25	–	184.3	–	–	184.3	184.3
Total financial assets		**12.4**	**345.0**	**–**	**0.6**	**358.0**	**358.0**
Financial liabilities							
Non-current							
Trade and other payables	22	–	–	(10.4)	–	(10.4)	(10.4)
Bank and other borrowings	25	–	–	0.8	–	0.8	0.8
Finance leases	25	–	–	–	(0.1)	(0.1)	(0.1)
Current							
Trade and other payables	22	–	–	(352.3)	–	(352.3)	(352.3)
Derivative financial instruments	25	–	–	–	(0.5)	(0.5)	(0.5)
Finance leases	25	–	–	(1.4)	–	(1.4)	(1.4)
Deferred financing costs	25	–	–	0.3	–	0.3	0.3
Total financial liabilities		**–**	**–**	**(363.0)**	**(0.6)**	**(363.6)**	**(363.6)**
Total		**12.4**	**345.0**	**(363.0)**	**–**	**(5.6)**	**(5.6)**

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. 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 2016 none (2015: 100%) of the Group's borrowings were at fixed rates with no adjustment for interest rate swaps.

Financial assets/(liabilities)

As at 31 March 2016

	Financial asset			Financial liability		
all figures in £ million	**Fixed or capped**	**Floating**	**Non-interest bearing**	**Fixed or capped**	**Floating**	**Non-interest bearing**
Sterling	–	246.6	10.6	–	–	(0.4)
US dollar	–	8.9	0.1	–	–	–
Euro	–	2.1	–	–	–	–
Australian dollar	–	3.6	1.7	–	–	–
Other	–	2.3	–	–	–	–
	–	**263.5**	**12.4**	**–**	**–**	**(0.4)**

As at 31 March 2015

	Financial asset			Financial liability		
all figures in £ million	Fixed or capped	Floating	Non-interest bearing	Fixed or capped	Floating	Non-interest bearing
Sterling	1.5	163.9	10.6	(1.4)	–	(0.6)
US dollar	–	14.7	0.1	–	–	–
Euro	–	1.9	–	–	–	–
Australian dollar	–	3.0	2.3	–	–	–
Other	–	0.8	–	–	–	–
	1.5	**184.3**	**13.0**	**(1.4)**	**–**	**(0.6)**

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

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

	2016			2015		
	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	–	–	–	1.5	13.4	0.5
Total financial assets	**–**	**–**	**–**	**1.5**	**13.4**	**0.5**
Financial liabilities:						
Sterling	–	–	–	(1.4)	12.1	0.5
Total financial liabilities	**–**	**–**	**–**	**(1.4)**	**12.1**	**0.5**

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

27. Financial risk management continued

Interest rate risk management

The Group private placement borrowings were repaid during the prior year and were fixed-rate, while the revolving credit facility is floating-rate and undrawn as at 31 March 2016.

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 £ million	US$	Euro	AUS$	Other	Total
31 March 2016 – sterling	**5.8**	**1.7**	**0.2**	**0.6**	**8.3**
31 March 2015 – sterling	(5.9)	2.0	(0.1)	0.8	(3.2)

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 2016 against sterling are net US dollars sold £13.5m (US$19.3m) and net euros sold £3.4m (€4.3m).

Translational currency exposure

The Group has significant investments in overseas operations, particularly in the US. As a result, the sterling value of the Group's balance sheet can be significantly affected by movement in exchange rates. The Group does not hedge against translational currency exposure to overseas net assets.

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 £275.9m (2015: £198.8m). The Group held cash and cash equivalents of £263.5m at 31 March 2016 (2015: £184.3m), 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 £145.1m (2015: £142.7m) was invested in AAA-rated money funds at the year end and £40m (2015: £50m) was invested in deposits collateralised by security, where the security was gilts.

E) Liquidity risk

Borrowing facilities

As at 31 March 2016 the Group had a revolving credit facility (RCF) of US$100m and £166m (2015: US$100m and £166m).

The RCF is contracted until 2019 and is unutilised as shown in the table below:

	Interest rate: LIBOR plus	Total £m	Drawn £m	Undrawn £m
Committed facilities 31 March 2016	0.65%	235.6	–	235.6
Freely available cash and cash equivalents				263.4
Available funds 31 March 2016				**499.0**
Committed facilities 31 March 2015	0.65%	233.3	–	233.3
Freely available cash and cash equivalents				184.2
Available funds 31 March 2015				**417.5**

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 2016

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	(349.7)	(349.7)	(338.7)	(11.0)	–	–
Recapitalisation fee	0.8	–	–	–	–	–
Derivative financial liabilities						
Forward foreign currency contracts – cash flow hedges	(0.4)	(0.4)	(0.2)	(0.1)	(0.1)	–
	(349.3)	**(350.1)**	**(338.9)**	**(11.1)**	**(0.1)**	**–**

As at 31 March 2015

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	(362.7)	(362.7)	(352.3)	(10.4)	–	–
Recapitalisation fee	1.1	–	–	–	–	–
Finance leases	(1.4)	(1.4)	(1.4)	–	–	–
Derivative financial liabilities						
Forward foreign currency contracts – cash flow hedges	(0.6)	(0.6)	(0.5)	(0.1)	–	–
	(363.6)	**(364.7)**	**(354.2)**	**(10.5)**	**–**	**–**

F) Derivative financial instruments

As at 31 March

	2016			2015		
all figures in £ million	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
Forward foreign currency contracts – cash flow hedges	0.7	(0.4)	0.3	0.6	(0.6)	–
Derivative assets/(liabilities) at the end of the year	**0.7**	**(0.4)**	**0.3**	**0.6**	**(0.6)**	**–**

As at 31 March

	2016			2015		
all figures in £ million	Asset gains	Liability losses	Net	Asset gains	Liability losses	Net
Expected to be recognised:						
In one year or less	0.6	(0.2)	0.4	0.5	(0.5)	–
Between one and two years	0.1	(0.1)	–	–	(0.1)	(0.1)
More than two years	–	(0.1)	(0.1)	0.1	–	0.1
Derivative assets/(liabilities) at the end of the year	**0.7**	**(0.4)**	**0.3**	**0.6**	**(0.6)**	**–**

27. Financial risk management continued

G) Maturity of financial liabilities

As at 31 March 2016

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	338.7	(0.3)	0.2	338.6
Due in more than one year but not more than two years	11.0	(0.3)	0.1	10.8
Due in more than two years but not more than five years	–	(0.2)	0.1	(0.1)
Due in more than five years	–	–	–	–
	349.7	**(0.8)**	**0.4**	**349.3**

As at 31 March 2015

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	352.3	(0.3)	1.9	353.9
Due in more than one year but not more than two years	10.4	(0.3)	0.1	10.2
Due in more than two years but not more than five years	–	(0.5)	–	(0.5)
Due in more than five years	–	–	–	–
	362.7	**(1.1)**	**2.0**	**363.6**

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 2016 is set out in the following table. 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 the Group's assets other than financial assets and liabilities is not included in this analysis.

As at 31 March 2016

	1% decrease in interest rates		10% weakening in sterling	
all figures in £ million	Equity[1]	Profit before tax	Equity	Profit before tax
Sterling	–	(2.5)	–	–
US dollar	–	(0.1)	1.0	–
Other	–	(0.1)	1.1	–

	1% increase in interest rates		10% strengthening in sterling	
all figures in £ million	Equity[1]	Profit before tax	Equity	Profit before tax
Sterling	–	2.5	–	–
US dollar	–	0.1	(0.8)	–
Other	–	0.1	(0.9)	–

As at 31 March 2015

	1% decrease in interest rates		10% weakening in sterling	
all figures in £ million	Equity[1]	Profit before tax	Equity	Profit before tax
Sterling	–	(1.6)	–	–
US dollar	–	(0.1)	1.6	–
Other	–	(0.1)	0.9	–

	1% increase in interest rates		10% strengthening in sterling	
all figures in £ million	Equity[1]	Profit before tax	Equity	Profit before tax
Sterling	–	1.6	–	–
US dollar	–	0.1	(1.3)	–
Other	–	0.1	(0.7)	–

[1] This relates to the impact on items charged directly to equity and excludes the impact on profit/loss for the year flowing into equity.

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 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 2016, 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 2016, with all other variables remaining constant. Such analysis is for illustrative purposes only – in practice market rates rarely change in isolation.

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 also result in a minimal decrease in profit before tax.

28. Cash flows from operations

For the year ended 31 March

all figures in £ million	2016	2015
Profit after tax for the year	**106.1**	**104.7**
Adjustments for:		
Taxation income	(8.4)	(11.8)
Net finance costs	1.3	4.1
(Profit)/loss on business divestments and disposal of investments	(23.7)	12.9
Reversal of unutilised restructuring provisions	–	(1.0)
Amortisation and impairment of purchased or internally developed intangible assets	2.8	1.5
Amortisation of intangible assets arising from acquisitions	2.0	3.6
Impairment of goodwill	31.9	–
Depreciation and impairment of property, plant and equipment	23.0	22.0
Loss on disposal of property, plant and equipment	1.2	1.2
Share of post-tax (profit)/loss of equity accounted entities	(0.5)	0.1
Share-based payments charge	4.7	3.6
Changes in retirement benefit obligations	(13.4)	(7.9)
Net movement in provisions	(0.3)	(1.6)
	126.7	131.4
(Increase)/decrease in inventories	(0.2)	2.6
Decrease in receivables	13.8	27.3
Decrease in payables	(6.9)	(22.2)
Changes in working capital	**6.7**	**7.7**
Cash generated from operations	**133.4**	**139.1**
Add back: cash outflow relating to restructuring	–	0.6
Add back: disposal-related pension contribution	–	6.0
Less: cash generated from discontinued operations	–	(1.8)
Net cash flow from operations before specific adjusting items	**133.4**	**143.9**

Reconciliation of net cash flow from operations before specific adjusting items to underlying operating cash flow

all figures in £ million	2016	2015
Net cash flow from operations before specific adjusting items	133.4	143.9
Purchases of intangible assets	(1.6)	(4.2)
Purchases of property, plant and equipment	(28.6)	(24.8)
Proceeds from sale of property, plant and equipment	0.4	–
Underlying operating cash flow	**103.6**	**114.9**

29. 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 2014	**6,604,764**	**660,476,373**	**1**	**1**	**6,604,765**	**660,476,374**
Cancelled in the year	(518,664)	(51,866,369)	–	–	(518,664)	(51,866,369)
At 31 March 2015	**6,086,100**	**608,610,004**	**1**	**1**	**6,086,101**	**608,610,005**
Issued in the year	–	–	–	–	–	–
Cancelled in the year	(219,288)	(21,928,804)	–	–	(219,288)	(21,928,804)
At 31 March 2016	**5,866,812**	**586,681,200**	**1**	**1**	**5,866,813**	**586,681,201**

Except as noted below all shares in issue at 31 March 2016 rank pari-passu in all respects.

In May 2014 the company initiated a £150m capital return to shareholders by way of a share buyback. At 31 March 2016 this programme was complete. A new £50m share buyback was announced in November 2015 and by 31 March 2016 the Group had completed £3m of the programme.

Rights attaching to the Special Share

QinetiQ carries out activities which are important to UK defence and security interests. To protect these interests in the context of the ongoing commercial relationship between the MOD and QinetiQ, and to promote and reinforce the Compliance Principles, the MOD holds a Special Share in QinetiQ. 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 32 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 2016 are 4,862,182 shares (2015: 5,443,881 shares).

30. 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 £4.7m, of which £4.7m related to equity-settled schemes and nil related to cash-settled schemes (year to 31 March 2015: £3.6m, of which £3.4m related to equity-settled schemes and £0.2m to cash-settled schemes).

Performance Share Plan (PSP)

In the year, the Group made awards of conditional shares to certain UK senior employees under the PSP. The awards vest after three years with 50% of the awards subject to TSR conditions and 50% subject to EPS conditions as detailed in the Report from the Remuneration Committee.

	2016 Number of shares	2015 Number of shares
Outstanding at start of year	9,457,408	8,090,260
Granted during year	3,842,409	4,310,206
Exercised during the year	(2,304,189)	(461,196)
Forfeited/lapsed during year	(2,081,068)	(2,481,862)
Outstanding at end of year	**8,914,560**	**9,457,408**

PSP awards are equity-settled awards and those outstanding at 31 March 2016 had an average remaining life of 1.4 years (2015: 1.3 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 22% (2015: 24%) for the average share price volatility of the FTSE comparator group and 53% (2015: 51%) for the average correlation to the comparator group. The weighted average fair value of grants made during the year was £1.79 (2015: £1.57). The weighted average share price at date of exercise was £2.51 (2015: £1.97). Of the options outstanding at the end of the year nil were exercisable (2015: nil).

Restricted Stock Units (RSU)

In prior years 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 2014 awards, and 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.

	2016 Number of shares	2015 Number of shares
Outstanding at start of year	175,187	3,819,001
Exercised during year	(9,375)	(196,154)
Forfeited/lapsed during year	(141,437)	(3,447,660)
Outstanding at end of year	**24,375**	**175,187**

RSUs are equity-settled awards; those outstanding at 31 March 2016 had an average remaining life of 0.4 years (2015: 1.1 years). There is no exercise price for these RSU awards. The weighted average share price at date of exercise was £2.35 (2015: £2.09). Of the awards outstanding at the end of the year nil were exercisable (2015: nil).

Value Sharing Plan (VSP)

In 2012 and 2011, the Group granted VSP awards to certain senior UK employees under the VSP. The awards vest over a three-year performance period: 50% of the 2012 awards and 70% of the 2011 awards (which vested in 2014) are/were 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/were dependent on 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.

	2016 Number of shares	2015 Number of shares
Outstanding at start of year	153,848	5,018,288
Exercised during year	(153,848)	(1,210,650)
Forfeited/lapsed during year	–	(3,653,790)
Outstanding at end of year	**–**	**153,848**

VSP awards are equity-settled awards; those outstanding at 31 March 2016 had an average remaining life of nil years (2015: 0.2 years). There is no exercise price for these VSP awards. The weighted average share price at date of exercise was £2.37 (2015: £2.04). Of the awards outstanding at the end of the year nil were exercisable (2015: nil).

30. Share-based payments continued

Group Share Incentive Plan (SIP)

Under the QinetiQ SIP the Group offers UK employees the opportunity of purchasing up to £150 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.

	2016 Number of matching shares	2015 Number of matching shares
Outstanding at start of year	647,821	725,904
Awarded during year	322,597	280,267
Exercised during year	(123,202)	(309,350)
Forfeited during year	(41,431)	(49,000)
Outstanding at end of year	**805,785**	**647,821**

SIP matching shares are equity-settled awards; those outstanding at 31 March 2016 had an average remaining life of 1.5 years (2015: 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 (2015: nil).

Group Deferred Annual Bonus Plan (DAB)

Under the QinetiQ DAB 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 Report from the Remuneration Committee.

	2016 Number of matching shares	2015 Number of matching shares
Outstanding at start of year	464,115	1,162,896
Granted during year	–	303,639
Exercised during the year	–	(85,126)
Forfeited during year	(152,615)	(917,294)
Outstanding at end of year	**311,500**	**464,115**

DAB matching shares are equity-settled awards; those outstanding at 31 March 2016 had an average remaining life of 0.7 years (2015: 1.2 years). The weighted average fair value of grants made during the prior year was £2.08. The weighted average share price at date of exercise during the prior year was £2.08. There is no exercise price for these DAB awards. Of the shares outstanding at the end of the year nil were exercisable (2015: nil).

Cash Alternative Units (CAUs)

During the year, the Group granted CAU awards to certain employees in the UK and US.

	2016 Number of awards	2015 Number of awards
Outstanding at start of year	290,022	1,229,541
Awarded during year	20,000	94,894
Exercised during the year	(135,352)	(364,362)
Forfeited during year	(139,670)	(670,051)
Outstanding at end of year	**35,000**	**290,022**

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 2016 had an average remaining life of 0.5 years (2015: 0.8 years). There is no exercise price for these awards. The fair value of the grants at 31 March 2016 was £2.28 (2015: £1.91) being the Group's closing share price on that day. The weighted average share price on the date of exercise was £2.34 (2015: £2.08). The carrying amount of the liability of the grants at the balance sheet date was nil (2015: £0.3m). Of the awards outstanding at the end of the year nil were exercisable.

Bonus Banking Plan (BBP)

During the year, the Group granted BBP awards to certain senior executives in the UK.

	2016 Number of awards	2015 Number of awards
Outstanding at start of year	330,725	–
Granted during the year	493,505	330,725
Exercised during the year	(5,711)	–
Forfeited during year	(3,741)	–
Outstanding at end of year	**814,778**	**330,725**

The BBP is a remuneration scheme that runs for four years with effect from 1 April 2014. Refer to the Directors' Remuneration Report for further details. Under the BBP a contribution will be made by the company into the participant's plan account at the start of each plan year. 50% of the plan account balance for Executive Directors and 75% for all other participants will be paid in cash or shares (at the company's discretion) at the end of each plan year. 100% of the balance in year four will be paid in shares to the participant. During the four-year plan period, 50% of the retained balance is at risk of forfeiture based on a minimum level of performance determined annually by the Audit Committee.

At 31 March 2016, the awards had an average remaining life of 2.3 years (2015: 1.7 years). There is no exercise price for these awards. The fair value of the awards at 31 March 2016 was £2.34 (2015: £1.91) being the Group's 30 day average share price in the period running up to 31 March. 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 DAB awards, have been valued at the share price at grant, less attrition.

31. Post-retirement benefits

Defined contribution plans

In the UK the Group operates two defined contribution plans for the majority of its UK employees: a Group Personal Pension Plan (GPP) and a defined contribution section of the QinetiQ Pension Scheme. These are both defined contribution schemes 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. 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

In the UK the Group operates the QinetiQ Pension Scheme (the 'Scheme') for a significant proportion of its UK employees. The Scheme closed to future accrual on 31 October 2013. After this date, defined benefit members transferred to a defined contribution scheme.

The Scheme is a final salary plan, which provides benefits to members in the form of a guaranteed level of pension payable for life. The level of benefits provided depends on the members' length of service and their final pensionable earnings at closure to future accrual. In the Scheme, pensions in payment are generally updated in line with the Consumer Price Index (CPI). 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 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.

The expected employer cash contribution to the Scheme for the year ending 31 March 2017 is £13.0m. The Group has no further payment obligations once the contributions have been paid.

Triennial funding valuation

The most recent completed full actuarial valuation of the Scheme was undertaken as at 30 June 2014 and resulted in an actuarially assessed surplus of £31.0m.

The agreed recovery plan requires £13.0m contributions per annum until 31 March 2018, the same annual funding level as previously in place. This includes £2.5m p.a. distributions to the Scheme, indexed by reference to CPI, from the Group's Pension Funding Partnership.

31. Post-retirement benefits continued

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 replaced 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 IAS19, 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 2016 amounted to £nil (2015: £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	**2016**	2015
Equities – quoted	347.9	447.2
Equities – unquoted	66.1	70.0
LDI investment*	362.8	323.4
Corporate bonds	314.2	311.4
Alternative bonds**	176.6	176.3
Property	126.6	113.4
Cash and other	16.2	12.9
Total market value of assets	**1,410.4**	**1,454.6**
Present value of Scheme liabilities	(1,448.1)	(1,494.0)
Net pension liability before deferred tax	**(37.7)**	**(39.4)**
Deferred tax asset	1.5	1.6
Net pension liability after deferred tax	**(36.2)**	**(37.8)**

* The Scheme has assets invested in a Liability Driven Investment portfolio. As at 31 March 2016 this hedges against 40% of the interest rate and 100% 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.

The company has an unconditional right to a refund of any surplus that may arise on cessation of the Scheme.

Changes to the fair value of Scheme assets

all figures in £ million	2016	2015
Opening fair value of Scheme assets	1,454.6	1,304.6
Interest income on Scheme assets	46.3	53.9
Re-measurement (loss)/gain on Scheme assets	(75.8)	116.3
Contributions by the employer	14.6	9.2
Net benefits paid out and transfers	(28.1)	(28.1)
Administrative expenses	(1.2)	(1.3)
Closing fair value of Scheme assets	**1,410.4**	**1,454.6**

Changes to the present value of the defined benefit obligation

all figures in £ million	2016	2015
Opening defined benefit obligation	(1,494.0)	(1,326.8)
Interest cost	(47.4)	(54.5)
Actuarial gain/(loss) on Scheme liabilities based on:		
Change in financial assumptions	40.4	(128.3)
Experience gains	24.8	7.8
Change in demographic assumptions	–	(20.3)
Net benefits paid out and transfers	28.1	28.1
Closing defined benefit obligation	**(1,448.1)**	**(1,494.0)**

Changes to the net pension liability

all figures in £ million	2016	2015
Opening net pension liability	(39.4)	(22.2)
Net finance cost	(1.1)	(0.6)
Administrative expenses	(1.2)	(1.3)
Net actuarial loss	(10.6)	(24.5)
Contributions by the employer	14.6	9.2
Closing net pension liability	**(37.7)**	**(39.4)**

Total expense recognised in the income statement

all figures in £ million	2016	2015
Net interest on the net defined benefit liability	1.1	0.6
Administrative expenses	1.2	1.3
Total expense recognised in the income statement (gross of deferred tax)	**2.3**	**1.9**

Assumptions

The major assumptions used in the IAS19 valuation of the Scheme were:

	2016	2015
Discount rate applied to Scheme liabilities	3.4%	3.2%
CPI inflation assumption	2.1%	2.1%
Assumed life expectancies in years:		
Future male pensioners (currently aged 60)	89	88
Future female pensioners (currently aged 60)	91	91
Future male pensioners (currently aged 40)	91	91
Future female pensioners (currently aged 40)	93	93

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 2016 and 31 March 2015 were 90% of S2PMA for males and 90% of S2PFA for females, based on year of birth making allowance for improvements in mortality in line with CMI_2013 Core Projections and a long-term rate of improvement of 1.5% per annum.

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 (and other assets) 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 20 years.

31. Post-retirement benefits continued

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 £27m
Rate of inflation	Increase/decrease by 0.1%	Increase/decrease by £25m
Rate of mortality	Increase by one year	Increase by £36m

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 plan, the Group is exposed to a number of risks, the most significant of which are detailed below:

Volatility in market conditions	Results under IAS19 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 IAS19 pension finance 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.

The accounting assumptions noted above are used to calculate the year end net pension liability in accordance with the relevant accounting standard, IAS19 (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. Given the current extremely low gilt yields, a funding valuation of the Scheme would probably have resulted in a bigger deficit than the IAS19 methodology if one had been performed at the year end.

32. Transactions with the MOD

The MOD continues to own its Special Share in QinetiQ which conveys certain rights as set out in note 29. Transactions between the Group and the MOD are disclosed as follows:

Freehold land and buildings and surplus properties

Under the terms of the Group's acquisition of part of the business and certain assets of DERA from the MOD on 1 July 2001, the MOD retained certain rights in respect of the freehold land and buildings transferred.

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.

MOD's generic compliance regime

Adherence to the generic compliance system is monitored by the Risk & CSR Committee. Refer to the Committee's report within the Corporate Governance Statement on page 75.

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 2016 was £7.2m (2015: £7.5m).

Long Term Partnering Agreement

On 27 February 2003 QinetiQ Limited entered into a Long Term Partnering Agreement (LTPA) 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.

Other contracts with MOD

The LTPA is the most significant contract QinetiQ has with the MOD. In total approximately 70% of the Group's revenue comes directly from contracts with the MOD.

33. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £32.8m at 31 March 2016 (2015: £36.2m) 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 remote.

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 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.

34. Capital commitments

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

all figures in £ million	2016	2015
Contracted	**35.5**	**30.8**

Capital commitments at 31 March 2016 include £30.8m (2015: £30.5m) in relation to property, plant and equipment that will be wholly funded by a third-party customer under long-term contract arrangements.

35. Subsidiaries

The full list of companies which were part of the Group as at 31 March 2016 is detailed below:

Name of company	Country of incorporation
Subsidiaries[1,2,3]	
BJ Trustee Limited	England & Wales
Boldon James Holdings Limited	England & Wales
Boldon James Inc	US
Boldon James Limited	England & Wales
Cody US Limited	England & Wales
Commerce Decisions Limited	England & Wales
Commerce Decisions Pty Ltd	Australia
CueSim Limited	England & Wales
Foster-Miller Canada Limited	Canada
Foster-Miller Inc	US
Graphic Research Corporation Limited	England & Wales
Gyldan 1 Limited	England & Wales
Gyldan 2	England & Wales
Gyldan 3 Limited	England & Wales
Gyldan 4 Limited	England & Wales
Leading Technology Limited	England & Wales
Metrix UK Limited	England & Wales
Optasense Canada Limited	Canada
Optasense Holdings Limited	England & Wales
Optasense Inc	US
Optasense Limited	England & Wales
Precis (2187) Limited	England & Wales
Precis (2188) Limited	England & Wales
Q Shelf Limited	England & Wales
QinetiQ Aerostructures Pty Ltd	Australia
QinetiQ Australia Pty Ltd	Australia
QinetiQ Canada Operations Limited	Canada
QinetiQ Consulting Pty Ltd	Australia
QinetiQ Corporate Finance Limited	England & Wales
QinetiQ Defence Training Limited	England & Wales

Name of company	Country of incorporation
Subsidiaries[1,2,3]	
QinetiQ Target Services Limited	England & Wales
QinetiQ Estates Limited	Scotland
QinetiQ GP Limited	Scotland
QinetiQ Group Holdings Limited	England & Wales
QinetiQ Holdings Limited	England & Wales
QinetiQ Inc	US
QinetiQ Insurance PCC Limited	Guernsey
QinetiQ Investments Limited	England & Wales
QinetiQ Limited	England & Wales
QinetiQ Novare Pty Ltd	Australia
QinetiQ Overseas Holdings (2) Limited	England & Wales
QinetiQ Overseas Holdings Limited	England & Wales
QinetiQ Overseas Trading Limited	England & Wales
QinetiQ Partnership Finance Limited	England & Wales
QinetiQ Pension Scheme Trustee Limited	England & Wales
QinetiQ PFP LP	Scotland
QinetiQ Philippines Company, Inc	Philippines
QinetiQ Pty Ltd	Australia
QinetiQ Services Holdings Pty Ltd	Australia
QinetiQ Space N.V.	Belgium
QinetiQ Sweden AB	Sweden
QinetiQ US Holdings, Inc.	US
Redu Operational Services S.A.	Belgium
Sensoptics Limited	England & Wales
Tarsier Limited	England & Wales
Trusted Experts Limited	England & Wales
TSG International LLC	US
Associates[4]	
Redu Space Services S.A.	Belgium
Trillium International – I, L.P.	Cayman Islands

1 Accounting reference date is 31 March. All subsidiary undertakings listed above have financial year ends of 31 March.
2 The Group owned 100% of the ordinary shares of the subsidiary undertakings except for Redu Operational Services S.A. (52%).
3 QinetiQ Group Holdings Limited is a direct subsidiary of QinetiQ Group plc. All other subsidiaries are held indirectly by other subsidiaries of QinetiQ Group plc.
4 The Group owned 48% of Redu Space Services S.A. and 25% of Trillium International – I, L.P.

Company balance sheet
as at 31 March

all figures in £ million	Note	2016	2015
Fixed assets			
Investments in subsidiary undertaking	2	462.9	458.2
		462.9	**458.2**
Current assets			
Debtors	3	185.0	81.6
		185.0	**81.6**
Current liabilities			
Creditors – amounts falling due within one year	4	(291.0)	(205.5)
Net current liabilities		**(106.0)**	**(123.9)**
Total assets less current liabilities		**356.9**	**334.3**
Net assets		**356.9**	**334.3**
Capital and reserves			
Equity share capital	6	5.9	6.1
Capital redemption reserve	6	40.6	40.4
Share premium account	6	147.6	147.6
Profit and loss account	6	162.8	140.2
Capital and reserves attributable to shareholders		**356.9**	**334.3**

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 26 May 2016 and were signed on its behalf by:

Mark Elliott
Chairman

Steve Wadey
Chief Executive Officer

David Mellors
Chief Financial Officer

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

all figures in £ million	Issued share capital	Capital redemption reserve	Share premium	Profit and loss	Total equity
At 1 April 2015	6.1	40.4	147.6	140.2	334.3
Profit for the year	–	–	–	97.8	97.8
Purchase of own shares	–	–	–	(0.7)	(0.7)
Purchase and cancellation of shares	(0.2)	0.2	–	(46.9)	(46.9)
Dividend paid	–	–	–	(32.3)	(32.3)
Share-based payments	–	–	–	4.7	4.7
At 31 March 2016	**5.9**	**40.6**	**147.6**	**162.8**	**356.9**
At 1 April 2014	6.6	39.9	147.6	275.6	469.7
Profit for the year	–	–	–	0.2	0.2
Purchase of own shares	–	–	–	(0.6)	(0.6)
Purchase and cancellation of shares	(0.5)	0.5	–	(107.1)	(107.1)
Share-based payments – settlement	–	–	–	0.6	0.6
Dividend paid	–	–	–	(31.7)	(31.7)
Share-based payments	–	–	–	3.2	3.2
At 31 March 2015	**6.1**	**40.4**	**147.6**	**140.2**	**334.3**

The capital redemption reserve is not distributable and was created following redemption of preference share capital.

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.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101"). In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

- A Cash Flow Statement and related notes;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel;
- Disclosures of transactions with a management entity that provides key management personnel services to the company;
- IFRS 2 Share Based Payments in respect of Group settled share based payments; and
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7.

In the transition to FRS 101, the company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. No adjustments were required as part of that transition.

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 30 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	2016	2015
Subsidiary undertaking – 100% of ordinary share capital of QinetiQ Group Holdings Limited	424.3	424.3
Capital contributions arising from share-based payments to employees of subsidiaries	38.6	33.9
	462.9	**458.2**

A list of all principal subsidiary undertakings of QinetiQ Group plc is disclosed in note 35 to the Group financial statements.

3. Debtors

As at 31 March

all figures in £ million	2016	2015
Amounts owed by Group undertakings	**185.0**	**81.6**

Amounts owed by Group undertakings includes a dividend from its subsidiary of £100m (2015: nil) received during the year.

4. Creditors

As at 31 March

all figures in £ million	2016	2015
Amounts owed to Group undertakings	**291.0**	**205.5**

5. Share capital

The company's share capital is disclosed in note 29 to the Group financial statements.

6. Share-based payments

The company's share-based payment arrangements are set out in note 30 to the Group financial statements.

7. Other information

Directors' emoluments, excluding company pension contributions, were £3.6m (2015: £2.9m). 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 auditor for the year to 31 March 2016 was £170,000 (2015: £178,000), which was for audit of the Group's annual accounts and audit related assurance services. No other services were provided by the auditor to the company.

Five-year record
For the years ended 31 March (unaudited)

		2016	2015	2014	2013[3]	2012[2,3]
EMEA Services (formerly UK Services)	£m	616.4	625.6	607.0	594.6	620.9
Global Products	£m	139.3	138.2	175.6	269.4	325.0
Revenue – continuing operations	£m	755.7	763.8	782.6	864.0	945.9
Discontinued operations (US Services)	£m	–	55.7	408.8	463.8	523.7
Revenue – total Group	£m	**755.7**	**819.5**	**1,191.4**	**1,327.8**	**1,469.6**
EMEA Services (formerly UK Services)	£m	93.8	93.0	86.7	84.8	56.3
Global Products	£m	15.1	18.3	27.0	60.2	66.2
Underlying operating profit[1] – continuing operations	£m	108.9	111.3	113.7	145.0	122.5
Discontinued operations (US Services)	£m	–	1.2	19.0	23.7	37.1
Underlying operating profit[1] – total Group	£m	**108.9**	**112.5**	**132.7**	**168.7**	**159.6**
Profit/(loss) before tax	£m	97.7	92.9	4.1	(137.0)	316.3
Profit/(loss) attributable to equity shareholders	£m	106.1	104.7	(12.7)	(133.2)	246.3
Underlying basic EPS[1]	Pence	16.3	15.3	16.0	18.9	13.6
Basic EPS	Pence	18.1	16.6	(1.9)	(20.5)	37.9
Diluted EPS	Pence	18.0	16.5	(1.9)	(20.5)	37.6
Dividend per share	Pence	5.7	5.4	4.6	3.8	2.9
Underlying net cash from operations (post capex)[1]	£m	103.6	116.7	136.5	175.9	235.4
Net cash/(debt)	£m	274.5	195.5	170.5	74.0	(122.2)
Average number of employees		6,266	6,454	9,134	9,772	10,637
Continuing operations[4]:						
Orders	£m	659.8	613.6	596.9	626.1	706.8
Underlying operating margin[1]	%	14.4	14.6	14.5	16.8	13.0
Underlying profit before tax[1]	£m	108.7	107.8	101.2	128.4	73.1
Profit before tax	£m	90.2	105.4	84.0	103.7	288.3
Profit after tax	£m	98.6	117.4	68.0	89.9	233.9
Underlying basic EPS[1]	Pence	16.3	15.2	13.8	16.6	10.5
Basic EPS	Pence	16.8	18.6	10.4	13.9	36.0
Underlying net cash from operations (post capex)[1]	£m	103.6	114.9	106.2	137.7	217.3

1 Underlying measures are stated before specific adjusting items. Definitions of underlying measures of performance are in the glossary on page 149. Underlying financial measures are presented because the Board believes these provide a better representation of the Group's long-term performance trend. For details of specific adjusting items refer to note 4 of the financial statements.
2 IAS19 (revised) 'Employee Benefits' was adopted for 2013 and the 2012 comparatives have been restated accordingly.
3 The 2013 figures have been restated to reflect the reclassification of product sales from UK Services to Global Products and the reclassification of Cyveillance® from US Services to EMEA Services. 2012 has also been restated to reflect the reclassification of Cyveillance® from US Services to EMEA Services.
4 Continuing operations excludes the financial results of the US Services business disposed in 2015.