Registration number: 03796233

QinetiQ Limited

Annual report and financial statements

for the year ended 31 March 2015

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QinetiQ Limited
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QinetiQ Limited
Company information

Directors	David Mellors Jon Messent Stephen Webster
Company secretary	Jon Messent
Registered office	Cody Technology Park Ively Road Farnborough Hampshire GU14 0LX
Auditor	KPMG LLP Chartered Accountants 15 Canada Square London E14 5GL

QinetiQ Limited

Strategic report for the year ended 31 March 2015

The Directors present their strategic report for the year ended 31 March 2015.

Principal activity

QinetiQ Limited's principal activities during the year were the supply of technical support, test and evaluation, training, technical solutions and high-technology products to customers in the global defence, aerospace and security markets.

Business review

QinetiQ Limited ('the Company') is a subsidiary of QinetiQ Group plc ('the Group'). The Company primarily forms the core of the Group's UK operations.

The Company operates through two customer-focused divisions; EMEA Services and Global Products. Details of the EMEA Services division can be found on pages 38 to 41 of the QinetiQ Group plc Annual Report and Accounts 2015. Details of the Global Products division (including businesses managed directly by other Group companies) can be found on pages 42 to 43 of the QinetiQ Group plc Annual Report and Accounts 2015.

The loss on ordinary activities before taxation was £6.7m (2014: profit of £178.9m). The result included a £140.0m impairment of a loan to a fellow subsidiary company bringing the loan down to its estimated recoverable amount. The prior year result included non-recurring operating income of £28.7m and a profit on disposal of business of £1.1m. Non-recurring operating income in the prior year comprised a reduction in pension liabilities on closure to future accrual of £31.1m, associated pensions scheme closure mitigation costs of £4.0m, a reversal of impairment of tangible fixed assets of £1.4m and profit on disposal of property of £0.2m. During the year the Company received £3.1m (2014: £24.1m) in dividends from Group undertakings.

The Company's key financial and other performance indicators during the year were as follows:

	Unit	2015	2014
Orders	£m	456.3	434.7
Revenue growth	%	2.3	4.2
Operating profit before non-recurring items	£m	108.7	111.3
Operating profit	£m	108.7	140.0
Profit after tax	£m	12.9	149.9

	Notes	2015	2014
Customer satisfaction	1	85%	77%
Employee engagement	2	613	593
Health and safety	3	4.8	4.8

Notes:

1) QinetiQ's customer satisfaction survey was introduced in 2014, following the suspension of the MOD'S survey, to ask all MOD customers with contracts over £200,000 about QinetiQ's delivery, engagement and relationship. 85% of our customers stated that QinetiQ was performing as a 'top 3' supplier, up from 77% last year.

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

3) The Lost Time Incident Rate is calculated using the total number of accidents resulting in at least one day taken off work, multiplied by 1,000 divided by the average number of employees in that year.

Principal risks and uncertainties

The key risks and uncertainties impacting on the Company relate to the following:

- Defence and security spending;
- Complex market characteristics and contract profile;
- Recruitment and retention;
- Breaches of security and failure of IT systems;
- Trading in a global market;
- Significant breach of relevant laws and regulations;
- Defined benefit pension obligations; and
- Tax legislation.

These principal risks and uncertainties could have an impact on the Company's future performance and cause actual results to differ materially from historic and expected performance. These risks and uncertainties are managed and mitigated to minimise their potential impact on the reported performance of the Company.

A more detailed description of the above risks and uncertainties and relevant KPIs is available in the QinetiQ Group plc Annual Report and Accounts 2015.

Approved by the Board on 14 July 2015 and signed on its behalf by:

J. Messent

Jon Messent
Company secretary and director
Cody Technology Park
Ively Road
Farnborough
Hampshire
GU14 0LX

Directors' report for the year ended 31 March 2015

The Directors present their report and the financial statements for the year ended 31 March 2015.

Directors of the Company

The Directors who held office during the year were as follows:

Andrew Brierley (resigned 20 March 2015)

David Mellors

Jon Messent - Company secretary and director

Leo Quinn (resigned 31 December 2014)

Stephen Webster

Research and development

One of the Company's principal business streams is the provision of funded research and development for customers. The Company also invests in the potential commercialisation opportunities presented by promising technologies across all areas of its business.

MOD compliance

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

The Group's Board nominates two senior executives to act as Compliance Implementation Director and Compliance Audit Director. It receives a bi-annual report on the compliance areas that it monitors from the internal audit function. The Committee addresses any issues that would arise if QinetiQ were to fail to comply with the requirements of the generic compliance system. No breaches were noted during the year.

As well as monitoring adherence to the generic compliance system, the Committee has two other primary functions:

- To oversee the sound operation of the Company's non-financial risk management systems;
- To monitor non-financial risk exposures, including security, trade controls, ethics, corporate social responsibility and health, safety and environment.

The Company will continue with rigorous management of potential conflicts of interest while ensuring that proportionate governance is maintained.

Foreign exchange risk management

The majority of the Company's income and expenditure is settled in sterling. The Company's policy is to use financial instruments to hedge all material transaction exposure at the point of commitment to the underlying transaction. The Company does not typically hedge uncommitted future transactions, although transaction risks are fully considered and appropriately mitigated when bidding for new work.

Dividends

The Company paid a dividend of £nil (2014: £184.0m) during the year to its parent company, QinetiQ Holdings Limited, and received £3.1m (2014: £24.1m) from subsidiary undertakings.

Political donations

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

These may include legitimate interactions in making MPs and others in the political world aware of key industry issues and matters that affect the Company, and that make an important contribution to their understanding of the Company, the markets in which it operates and the work of their constituents.

Diversity and inclusion

Inclusion of all employees is a key objective. In the UK, the Company works with the Employers Network for Equality and Inclusion and, using tools they have developed, the Company has undertaken a gap analysis to evaluate areas for improvement in our approach to diversity and inclusion. This will form the baseline to measure improvement. With the Global Working Centre of Excellence being set up to look at issues related to the increased activity across the global market, they will also give consideration to diversity and inclusion issues across the territories and regions in which we work. For more information see page 27 of the QinetiQ Group plc Annual Report and Accounts.

Employee engagement

We regularly communicate with employees to ensure they understand QinetiQ strategy and business priorities. Company performance is shared to ensure our employees are aware of what the results mean to our business, how we have made progress against our strategic direction and the market challenges we face. We do this through a wide range of communications channels, e.g. the intranet, roadshows and townhalls. Our UK Employee Engagement Group (EEG) is an independent consultative forum. Representatives, elected by employees, share views with leadership teams at local, divisional and executive level; so everyone gets to have their say. The EEG listens, gathers feedback and represents employees through times of change; whether it's a local or Company-wide issue. The representatives are the employee voice to constructively challenge policy decisions and actions that have an effect on employees' working lives or wellbeing. The annual independent Employee Engagement Survey is one of the key tools used to gain feedback from our employees. The response rate in 2015 was 73%, which is high in comparison to industry norms, and we scored 613, up from 593, which places us in Best Companies 'Ones to watch' category. The leadership teams develop specific action plans to address areas identified for improvement, e.g. collaboration between teams.

Additional information in respect of employee safety and wellbeing, employee development and employee engagement is provided on pages 26 to 27 of the QinetiQ Group plc Annual Report and Accounts 2015.

Environment

The Company continues to maintain ISO14001:2004 certification for its estates and those sites managed on behalf of the MOD. Additional information on environmental issues is provided on page 29 of the QinetiQ Group plc Annual Report and Accounts 2015.

Disclosure of information to auditor

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

Reappointment of auditor

The auditor KPMG LLP is deemed to be reappointed under section 487(2) of the Companies Act 2006.

Approved by the Board on 14 July 2015 and signed on its behalf by:

J. Messent

Jon Messent
Company secretary and director
Cody Technology Park
Ively Road
Farnborough
Hampshire
GU14 0LX

QinetiQ Limited
Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

QinetiQ Limited
Independent auditor's report

We have audited the financial statements of QinetiQ Limited for the year ended 31 March 2015, set out on pages 10 to 48. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' responsibilities (set out on page 7), the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

....
Anthony Sykes (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

Date: 17 July 2015

QinetiQ Limited
Profit and loss account for the year ended 31 March 2015

	Note	2015 £ m	2014 £ m
Turnover	**2**	**628.5**	**614.6**
Operating costs before non-recurring items		(519.8)	(503.3)
Operating profit before non-recurring income		**108.7**	**111.3**
Non-recurring operating income	3	-	28.7
Operating profit	**3**	**108.7**	**140.0**
Profit on disposal of business	4	-	1.1
Loss on impairment of loan to fellow subsidiary company	4	(140.0)	-
(Loss)/profit on ordinary activities before net finance income		**(31.3)**	**141.1**
Income from shares in Group undertakings		3.1	24.1
Net finance income	5	21.5	13.7
(Loss)/profit on ordinary activities before taxation		**(6.7)**	**178.9**
Tax on (loss)/profit on ordinary activities	6	19.6	(29.0)
Profit for the financial year		**12.9**	**149.9**

All amounts derive from continuing operations.

No note of historical cost profits has been prepared as the historical cost profits and losses are not materially different to those detailed in the above profit and loss account.

The notes on pages 13 to 48 form an integral part of these financial statements.

QinetiQ Limited
Balance sheet as at 31 March

	Note	2015 £ m	2014 £ m
Fixed assets			
Intangible assets	8	2.2	0.8
Tangible assets	9	225.2	222.3
Investments	10	5.1	9.5
		232.5	**232.6**
Current assets			
Stocks	11	5.5	6.7
Debtors	12	431.0	361.4
Investments	13	11.7	1.5
Cash at bank and in hand		160.9	271.4
		609.1	**641.0**
Creditors: amounts falling due within one year	14	(331.0)	(358.1)
Net current assets		**278.1**	**282.9**
Total assets less current liabilities		**510.6**	**515.5**
Creditors: amounts falling due after more than one year	15	(87.9)	(93.3)
Provisions for liabilities	17	(17.4)	(17.6)
Net assets excluding pension (liabilities)/assets		**405.3**	**404.6**
Defined benefit pension scheme (liabilities)/assets	24	(6.6)	11.4
Net assets		**398.7**	**416.0**
Capital and reserves			
Called up share capital	19	200.0	200.0
Profit and loss account	20	198.7	216.0
Shareholders' funds		**398.7**	**416.0**

The financial statements of QinetiQ Limited (company number 03796233) were approved by the Board on 1st July 2015 and signed on its behalf by:

David Mellors
Director

The notes on pages 13 to 48 form an integral part of these financial statements.

QinetiQ Limited
Statement of total recognised gains and losses for the year ended 31 March

	Note	2015 £ m	2014 £ m
Profit for the financial year		12.9	149.9
Foreign currency translation gains		0.7	2.1
Actuarial loss on pension schemes		(39.4)	(17.9)
Deferred tax relating to actuarial loss on pension scheme	18	8.5	4.2
Total recognised gains and losses relating to the year		**(17.3)**	**138.3**

Reconciliation of movements in equity shareholders' funds for the year ended 31 March

	2015 £ m	2014 £ m
Profit attributable to the members of the Company	12.9	149.9
Other recognised gains and losses relating to the year	(30.2)	(11.6)
Dividends paid	-	(184.0)
Net reduction to shareholders funds	**(17.3)**	**(45.7)**
Shareholders' funds at 1 April	416.0	461.7
Shareholders' funds at 31 March	**398.7**	**416.0**

QinetiQ Limited

Notes to the financial statements

1 Basis of preparation and accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention rules.

Exemption from preparing group accounts

The Company has taken the exemption under s.400 of the Companies Act 2006 from the requirement to prepare group financial statements on the grounds that the ultimate parent undertaking includes the Company in its own published consolidated financial statements. Accordingly these financial statements present information about the Company as an individual undertaking and not as a group.

Cash flow statement

The Company is exempt under FRS1 from the requirement to prepare a cash flow statement on the grounds that the ultimate parent undertaking includes the Company in its own published consolidated financial statements.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Related party disclosures

As the Company is a wholly owned subsidiary of QinetiQ Group plc the Company has taken the advantage of the exemption contained in FRS 8 and not disclosed transactions or balances with entities which form part of the Group. The consolidated financial statements of QinetiQ Group plc, within which this Company is included, can be obtained from the address given in note 27.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

1 Basis of preparation and accounting policies (continued)

Turnover

Service contracts: Turnover is recognised once the Company has obtained the right to consideration in exchange for its performance. When the outcome of a contract can be estimated reliably, turnover and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion of contract costs incurred for work performed to date compared to 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.

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

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

The Company has taken the exemption from the requirement to disclose segmental reporting as segmental information is provided in the QinetiQ Group plc Annual Report and Accounts 2015.

Cost of sales and operating expenses have not been separately disclosed on the face of the profit and loss account, as the Directors believe that operating profit most reliably reflects the financial performance of the Company.

Research and development expenditure

Research and development costs incurred on behalf of a customer as part of a specific project are chargeable to the customer on whose behalf the work is undertaken. The costs and the related income are included in operating costs and turnover respectively.

Internally funded development expenditure is capitalised on 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 exist to complete the project. Such capitalised costs are written off over the forecast period of sales resulting from the development.

All other research and development costs are written off to the profit and loss account in the period in which they are incurred.

1 Basis of preparation and accounting policies (continued)

Intangible assets

Internally generated intangible assets are recorded at cost, including labour, directly attributable overhead 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

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Freehold land is not depreciated. Other tangible fixed 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	Over the unexpired term of the lease
Plant & machinery	3-10 years
Office equipment	5-10 years
Motor vehicles	3-5 years
Computers	3-5 years

Assets under construction are included in tangible fixed assets on the basis of expenditure incurred at the balance sheet date. In the case of assets constructed by the Company, the value includes the cost of own work completed, including directly attributed overheads but excluding interest.

Impairment of fixed assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If the carrying amount exceeds the recoverable amount, the respective asset is written down to its recoverable amount. The recoverable amount of an asset 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 calculated using an appropriate pre-tax discount rate. Impairment losses are expensed to the profit and loss account.

Leases

Assets held under finance leases are capitalised and included in tangible fixed assets at 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 creditors.

Rentals payable under operating leases are charged to the profit and loss account evenly over the term of the lease.

1 Basis of preparation and accounting policies (continued)

Fixed asset investments

Fixed asset investments are stated at cost less any impairment in value.

Stock

Stock is valued at the lower of cost and net realisable value.

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 achieving preferred bidder status are deferred to the balance sheet within work-in-progress from the point financial close is reached and amortised over the life of the contract. If an opportunity where preferred bidder status was awarded fails to reach financial close the costs deferred to that point will be expensed in the profit and loss account immediately.

Amounts recoverable on contracts

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of amounts invoiced.

Bank borrowings

Interest bearing bank loans are recorded at proceeds received, net of direct issue costs in accordance with FRS 4. Capitalised issue costs are released over the estimated life of the instrument to which they relate. Finance charges are accounted for on an accruals basis in the profit and loss account using the effective interest method.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. The taxation charge is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is provided, without discounting, in respect of all timing differences that have arisen but not reversed by the balance sheet date. Deferred tax assets are only provided to the extent that they are regarded as recoverable.

Dividends

Dividends received are shown on the face of the profit and loss account as Income from shares in Group undertakings. Dividends paid are shown as a movement in reserves.

Provisions

A provision is recognised when there is a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

1 **Basis of preparation and accounting policies (continued)**

Pension costs
For defined benefit plans the actuarial cost charged to the profit and loss consists of current service cost, interest cost, expected return on plan assets and past service cost. Actuarial gains and losses are recognised in full immediately through the statement of total recognised gains and losses. The defined benefit plan was closed to future accrual on 31 October 2013. Current service costs ceased at that point.

The liabilities of the Company arising from defined benefit obligations, and the related current service cost, are determined using the projected unit credit method. Actuarial advice is provided by external consultants. For the funded defined benefit plan, the deficit or excess 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, taking into account any unrecognised actuarial gains or losses and past service cost. The balance sheet valuation of the defined benefit scheme is calculated by independent, qualified actuaries in accordance with FRS 17, and represents the market valuation of scheme assets at the balance sheet date, less the present value of long term liabilities discounted at a rate determined by the market return on corporate bonds. Contributions to defined contribution plans are charged to the profit and loss as incurred.

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction and gains and losses on translation are included in the profit and loss account. If designated forward foreign exchange hedging contracts have been entered into, gains and losses are matched against the foreign exchange movements on the underlying transaction.

Shared-based payments
QinetiQ 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 conditional 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 conditional exercise. The charges for both equity and cash-settled share based payments are updated annually for non-market based vesting conditions. During the year QinetiQ Limited was charged by the ultimate parent Company, QinetiQ Group plc, in respect of share based payments over its shares.

1 **Basis of preparation and accounting policies (continued)**

Developments expected in future accounting periods

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 is for accounting periods beginning on or after 1 January 2015. Companies have the choice between applying either full IFRS, or a choice of either FRS 101 or FRS 102. Where a parent company applies full IFRS this must be applied to all Group subsidiaries consistently. Where the parent company applies UK GAAP, either FRS 101 or FRS 102 can be applied on an entity by entity basis. QinetiQ has chosen to apply the UK GAAP option to its parent and subsidiary accounts from 1 April 2015.

2 **Turnover by customer geographical location**

2015	**UK £ m**	**North America £ m**	**Rest of World £ m**	**Total £ m**
External turnover	600.0	7.3	21.2	628.5

2014	**UK £ m**	**North America £ m**	**Rest of World £ m**	**Total £ m**
External turnover	569.5	8.7	36.4	614.6

3 Operating profit

Operating profit is stated after charging/(crediting):

	2015 £ m	2014 £ m
Cost of sales	287.0	288.9
Administrative expenses	232.8	185.7
Auditor`s remuneration		
Audit of the financial statements	0.3	0.3
Audit of the accounts of subsidiaries of the Company*	0.1	0.1
Audit-related assurance services	0.2	0.1
All other non-audit services	0.1	-
Total auditor`s remuneration	**0.7**	**0.5**

*re-charged to subsidiary companies via a management fee.

	2015 £ m	2014 £ m
Depreciation and amortisation:		
Depreciation of tangible fixed assets - owned	18.4	19.2
Amortisation of intangible fixed assets	0.8	0.3
Impairment of plant and equipment	1.0	-
Operating lease income	(7.7)	(6.9)
Operating lease expense - plant and machinery	0.6	1.1
Operating lease expense - other assets	4.9	5.4
Research and development expenditure including costs under customer funded contracts	274.3	279.5
Non-recurring operating (income)/expense		
Reversal of prior year impairment charge	-	(1.4)
Profit on disposal of property	-	(0.2)
Pension scheme closure mitigation costs	-	4.0
Reduction in pension liabilities on closure to future accrual	-	(31.1)
Total non-recurring operating income	**-**	**(28.7)**

4 Exceptional items reported after operating profit

The following exceptional items have been charged after operating profit:

Profit on disposal of business

	2015	2014
	£ m	£ m
Profit on disposal of business	-	1.1

The prior year profit on disposal of business relates to deferred consideration received in respect of the disposal of the Calibration business in 2009.

Impairment of loan to fellow subsidiary company

	2015	2014
	£ m	£ m
Loss on impairment of loan to fellow subsidiary company	(140.0)	-

During the year the Company impaired its loan to QinetiQ Overseas Holdings Limited, a fellow subsidiary company, by £140.0m to its estimated recoverable amount of £32.6m. The loan balance at 31 March 2015 was £172.6m (prior to impairment).

5 Net finance income

	2015 £m	2014 £m
Receivable on bank deposits	0.9	1.0
Net interest receivable from Group undertakings	8.4	6.9
Interest receivable and similar income	**9.3**	**7.9**
Amortisation of re-capitalisation fee	(0.7)	(0.6)
Amounts payable on bank loans	(0.8)	(1.3)
Unwinding of discount on financial liabilities	(0.4)	(0.4)
Net interest payable to Group undertakings	(1.1)	(3.6)
Interest payable and similar charges	**(3.0)**	**(5.9)**
Expected return on defined benefit pension scheme assets	69.7	68.3
Interest on defined benefit pension scheme liabilities	(54.5)	(56.6)
Net interest on defined benefit pension scheme	**15.2**	**11.7**
Net finance income	**21.5**	**13.7**

6 Taxation

(a) Analysis of (credit)/charge in the year

	2015 £ m	2014 £ m
Current tax		
Current tax credit	(1.0)	(2.3)
UK Corporation tax	(1.0)	(2.3)
Deferred tax		
Deferred tax for the period (excluding pension)	(28.3)	8.3
Pension scheme related deferred tax	8.5	15.8
Deferred tax adjustment relating to previous years	1.4	6.9
Effect of changes in tax rates	(0.2)	0.3
Total deferred tax (credit)/charge	(18.6)	31.3
Total tax on loss/profit on ordinary activities	**(19.6)**	**29.0**

QinetiQ Limited
Notes to the financial statements (continued)

6 Taxation (continued)

(b) Factors affecting current tax credit for the year

The tax on (loss)/profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK (2014 - lower than the standard rate of corporation tax in the UK) of 21% (2014 - 23%).

The differences are reconciled below:

	2015 £ m	2014 £ m
(Loss)/profit on ordinary activities before tax	**(6.7)**	**178.9**
Corporation tax at standard rate	(1.4)	41.2
Dividends from UK companies	(0.6)	(5.5)
Expenses not deductible for tax purposes, research and development relief and other non-taxable items	16.2	(10.2)
Capital allowances in excess of depreciation	(3.4)	(6.0)
Movement in unrecognised deferred tax asset in respect of tax losses	(3.9)	(5.9)
Movement in deferred tax in respect of pension scheme	(8.5)	(15.9)
Short term timing differences	0.6	-
Total current tax credit	**(1.0)**	**(2.3)**

(c) Factors that may affect future tax charges

The effective tax rate continues to be below the statutory rate in the UK, primarily as a result of the benefit of research and development relief. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any future tax legislation changes. The Finance Act 2013 allows the continued recognition of R&D credits as a super deduction in the tax line until April 2016, when R&D Expenditure Credit treatment becomes mandatory.

The reduction in the UK corporation tax rate to 20%, effective from 1 April 2015, has reduced the company's tax charge and deferred tax asset accordingly.

At 31 March 2015 the Company had unused tax losses of £133.4m (2014: £145.2m) available for offset against future profits. A deferred tax asset has been recognised in respect of an element of these losses relating to trading losses which are expected to be utilised in the foreseeable future. No deferred tax asset is recognised in respect of the other losses due to uncertainty over the timing and extent of their utilisation. These losses can be carried forward indefinitely.

7 Particulars of employees

The average number of persons employed by the Company (including directors) during the year, was:

	2015	2014
	No.	No.
Total employees	5,194	5,058

The aggregate payroll costs of these persons were as follows:

	2015	2014
	£ m	£ m
Wages and salaries	192.2	185.4
Social security costs	20.9	18.8
Pension costs	28.4	30.4
Total employee costs	**241.5**	**234.6**

Directors' remuneration

The Directors' remuneration for the year was as follows:

	2015	2014
	£ m	£ m
Emoluments	2.8	3.1
Employers' money purchase pension scheme contributions	-	0.1
Salary in lieu of pension	0.3	0.2
	3.1	**3.4**

A total of two directors (2014: three) are members of a money purchase pension scheme. The share-based award charge with respect to directors was £0.6m (2014: £1.3m). The highest paid director received £1,624,799 for services in the period (salary: £501,227, pension: £97,522, other: £1,026,050) (2014: £1,533,466, salary: £610,844, pension: £152,711, other: £769,911).

8 Intangible assets

	Development costs £ m	Other £ m	Total £ m
Cost			
At 1 April 2014	13.3	34.4	47.7
Additions	-	2.2	2.2
At 31 March 2015	13.3	36.6	49.9
Amortisation			
At 1 April 2014	13.2	33.7	46.9
Charge for the year	-	0.8	0.8
At 31 March 2015	13.2	34.5	47.7
Net book value			
At 31 March 2015	**0.1**	**2.1**	**2.2**
At 31 March 2014	0.1	0.7	0.8

9 Tangible fixed assets

	Land and buildings £ m	Plant, machinery and vehicles £ m	Computers and office equipment £ m	Assets under construction £ m	Total £ m
Cost					
At 1 April 2014	332.6	176.3	38.7	24.2	571.8
Additions	0.1	1.0	0.6	21.7	23.4
Disposals	-	-	-	(1.1)	(1.1)
Transfers	(1.9)	8.8	0.7	(7.6)	-
At 31 March 2015	330.8	186.1	40.0	37.2	594.1
Depreciation					
At 1 April 2014	162.8	152.7	34.0	-	349.5
Charge for the year	9.4	7.0	2.0	-	18.4
Impairment charge	-	0.5	0.1	0.4	1.0
Transfers	(1.1)	1.1	-	-	-
At 31 March 2015	171.1	161.3	36.1	0.4	368.9
Net book value					
At 31 March 2015	**159.7**	**24.8**	**3.9**	**36.8**	**225.2**
At 31 March 2014	169.8	23.6	4.7	24.2	222.3

Transfers of fixed assets shown above relates to assets constructed by the Company and reclassification of asset categories. These are initially recorded within assets under construction and, on commencement of use, transferred to the relevant asset category.

Net book value analysis of land and buildings

	2015 £m	2014 £m
Freehold land and buildings	133.2	141.3
Leasehold land and buildings	26.5	28.5
Net book value as at 31 March	**159.7**	**169.8**

9 Tangible fixed assets (continued)

Under the terms of the Business Transfer Agreement with the MOD, certain restrictions have been placed on freehold land and buildings, surplus properties and certain plant and machinery related to them. These restrictions are detailed in note 22.

Buildings to the value of £26.4m (2014: £28.3m) were held under finance leases as part of the QinetiQ's Pension Funding Partnership Structure, details of which are shown in note 24.

10 Investments held as fixed assets

Subsidiary undertakings

	Subsidiary undertakings £ m
At 1 April 2014	9.5
Return of capital	(4.4)
At 31 March 2015	**5.1**

During the year, QinetiQ Corporate Finance Limited, QinetiQ Partnership Finance Limited and Graphics Research Corporation Limited, all subsidiary companies, returned capital to the Company by way of dividends. This return of investment reduced the carrying value of the Company's investments in each of these companies.

Details of undertakings

QinetiQ Limited has investments in the following subsidiary undertakings and other investments.

Undertaking	Country of incorporation	Proportion of voting rights and shares held	Principal activity
Subsidiary undertakings			
Graphics Research Corporation Limited	England & Wales	100%	Research and development
QinetiQ Corporate Finance Limited	England & Wales	100%	Holding company
QinetiQ Estates Limited	England & Wales	100%	Holding company
QinetiQ Partnership Finance Limited	England & Wales	100%	Holding company

10 Investments held as fixed assets (continued)

QinetiQ Target Services Limited	England & Wales	100%	Managed Services
Tarsier Limited	England & Wales	100%	Research and development
QinetiQ Space NV (a)	Belgium	90.1%	Research and development
QinetiQ PFP Limited Partnership (b)	Scotland	0%	Holding and investment
QinetiQ Insurance PCC Limited	Guernsey	100%	Insurance

Other investments

pSivida Limited (c)	Australia	3.5%	Research and development
Sciemus Limited	England & Wales	12.95%	Research and development

(a) The remaining 9.9% is held by QinetiQ Overseas Holdings Limited.

(b) Despite having no voting rights the Company controls QinetiQ PFP Limited Partnership. This is demonstrated by the fact that QinetiQ PFP Limited Partnership was set up by the Company as a special purpose entity to facilitate an Asset Backed Funding structure. The Company retains decision-making powers in respect of the QinetiQ PFP Limited Partnership, including the ability to substitute assets into the ABF structure as it chooses and also to terminate the activities of QinetiQ PFP Limited Partnership, subject to settling the outstanding finance lease creditor. As a result, QinetiQ PFP Limited Partnership is listed as a subsidiary undertaking.

(c) An additional 1.4% is held by QinetiQ Holdings Limited.

11 Stocks

	2015	2014
	£ m	£ m
Finished goods	5.5	6.7

12 Debtors

	2015 £ m	2014 £ m
Trade debtors	58.3	77.7
Amounts recoverable on long term contracts	44.4	43.1
Amounts owed by ultimate parent undertaking	149.7	10.7
Amounts owed by fellow subsidiary undertakings	158.9	219.3
Other debtors	1.9	2.9
Deferred tax asset (see note 18)	9.7	-
Prepayments and accrued income	8.1	7.7
	431.0	**361.4**

Amounts owed by fellow subsidiaries and parent undertaking include an amount of £nil (2014: £nil) that will mature after more than one year. Included in Other debtors are capitalised bank fees of £0.8m due after more than one year (2014: £nil).

13 Current asset investments

	2015 £ m	2014 £ m
At 1 April	1.5	1.0
Additions	10.0	-
Fair value gain on current investment	0.2	0.5
At 31 March	**11.7**	**1.5**

At 31 March 2015 the Company held a 3.5% (2014: 3.5%) holding in pSivida Limited, a company incorporated in Australia and engaged in research and development activity. An additional 1.4% of this company is held by QinetiQ Holdings Limited. At 31 March 2015 the carrying value of the investments was £1.7m (2014: £1.5m). During the year the Company invested £10.0m into Insight's Libor Plus Fund which holds high quality asset backed securities rated AA or better. The fair value of the investment at 31 March 2015 was £10.0m.

14 Creditors: Amounts falling due within one year

	2015 £ m	2014 £ m
Trade creditors	25.8	26.1
Amounts owed to ultimate parent undertaking	4.6	2.9
Amounts owed to fellow subsidiary undertakings	13.2	7.8
Finance lease (see note 16)	0.9	0.4
Other taxes and social security	32.6	31.3
Other creditors	2.1	2.0
Accruals and deferred income	251.8	270.1
Deferred tax liability (see note 18)	-	17.5
	331.0	**358.1**

15 Creditors: Amounts falling due after more than one year

	2015 £ m	2014 £ m
Finance lease (see note 16)	30.4	31.3
Amount owed to immediate parent undertaking	27.1	20.2
Amounts owed to fellow subsidiary undertakings	29.8	41.8
Other creditors	0.6	-
	87.9	**93.3**

16 **Obligations under leases**

Future minimum payments under finance leases are as follows:

	2015 £ m	2014 £ m
Within one year	2.7	2.7
In two to five years	11.0	11.3
In over five years	37.2	45.6
Total gross payments	50.9	59.6
Less finance charges allocated to future periods	(19.6)	(27.9)
	31.3	**31.7**

Operating lease commitments

As at 31 March 2015 the Company had annual commitments under non-cancellable operating leases as follows:

	2015 £ m	2014 £ m
Land and buildings leases which expire:		
Within one year	4.6	1.0
Within two to five years	0.7	4.2
Over five years	0.2	0.3
	5.5	**5.5**
Other leases which expire:		
Within two to five years	0.4	0.4
Over five years	0.1	-
	0.5	**0.4**

17 Provisions

	Property £ m	Other provision £ m	Total £ m
At 1 April 2014	12.6	5.0	17.6
Created in year	2.9	0.5	3.4
Unwind of discount	0.4	-	0.4
Utilised in year	(2.2)	(0.4)	(2.6)
Released in year	(0.3)	(1.1)	(1.4)
At 31 March 2015	**13.4**	**4.0**	**17.4**

Property provisions relate to under-utilised properties. The extent of the provision is affected by 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 12 years. Other provisions relate to environmental and other liabilities, the magnitude and timing of which are determined by a variety of factors.

18 Deferred tax

	2015 £ m	2014 £ m
Deferred tax asset/(liability)	**9.7**	**(17.5)**

A deferred tax asset of £1.6m (2014: £2.0m) is offset directly against the pension fund deficit (note 24).

At 31 March 2015 the Company has tax unused tax losses of £132.6m (2014: £144.4m) available for offset against future trading profits. A deferred tax asset has been recognised in respect of these losses which are expected to be utilised in the foreseeable future. These losses can be carried forward indefinately.

QinetiQ Limited
Notes to the financial statements (continued)

19 Share capital

Allotted, called up and fully paid shares

		2015		2014
	No.	**£ m**	**No.**	**£ m**
Ordinary shares of £1 each	199,999,999	200.0	199,999,999	200.0
Special share of £1 each	1	0.0	1	0.0
	200,000,000	**200.0**	**200,000,000**	**200.0**

Special share - QinetiQ Group plc and its subsidiaries ('QinetiQ') carries out activities which are important to UK defence and security interests. To protect these interests in the context of the on-going commercial relationship between the MOD and QinetiQ, and to promote and reinforce the Compliance Principles, the MOD holds a Special Share in the Company. 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 of QinetiQ Group plc. 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.

19 Share capital (continued)

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.

20 Profit and loss account

	2015 £ m	2014 £ m
At 1 April	216.0	261.7
Profit for the year	12.9	149.9
Dividends paid	-	(184.0)
Foreign exchange gain	0.7	2.1
Actuarial loss recognised in the defined benefit pension scheme	(39.4)	(17.9)
Increase in deferred tax asset due to actuarial movement on the pension deficit	8.5	4.2
At 31 March	**198.7**	**216.0**

21 Commitments

Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £30.8m (2014 - £38.3m).

Capital commitments include £30.5m (2014: £37.8m) in relation to fixed assets that will be wholly funded by a third party customer under long-term contract arrangements.

Annual commitments under non-cancellable operating leases are disclosed in note 16.

22 Transactions with the MOD

The MOD continues to own a special share in the Company which conveys certain rights as set out in note 19. Transactions between the Group and the MOD are disclosed as follows:

Freehold land and buildings and surplus properties
Under the terms of the QinetiQ 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 designated as 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 Group's Risk & CSR Committee.

Strategic assets
Under the Principal Agreement with the MOD, QinetiQ is not permitted without the written consent of the MOD to:
a) dispose of or destroy all or any part of a strategic asset; or
b) 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 2015 was £7.5m (2014: £1.3m).

Long-Term Partnering Agreement
On 27 February 2003 the Company entered into a Long Term Partnering Agreement to provide Test and Evaluation (T&E) facilities and training support services to the MOD. This is a 25-year contract requiring rebid and renewal every 5 years with a total value of up to £5.6bn, dependent on the level of usage by the MOD, under which the Company is committed to providing the T&E services with increasing efficiencies through cost saving and innovative service delivery.

23 Contingent liabilities and assets

The Company has on occasion been required to take legal action to protect its intellectual property rights, to enforce commercial contracts or otherwise and similarly to defend itself against proceedings brought by other parties. Provisions are made for the expected costs associated with such matters, based on past experience of similar items and other known factors, taking into account professional advice received, and represent management's best estimate of the likely outcome. The timing of utilisation of these provisions is uncertain pending the outcome of various court proceedings and negotiations. However, no provision is made for proceedings which have been or might be brought by other parties unless management, taking into account professional advice received, assesses that it is more likely than not that such proceedings may be successful. Contingent liabilities associated with such proceedings have been identified but the Directors are of the opinion that any associated claims that might be brought can be resisted successfully and therefore the possibility of any outflow in settlement is assessed as not probable.

The Company 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 Company 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.

The Company is a guarantor with respect to the borrowings in other Group companies under a £233.3m Revolving Credit Facility maturing in 2018. At 31 March 2015 other Group companies borrowings under this facility amounted to £nil (2014: £nil), with £nil (2014: £nil) borrowed in the Company.

The Company has provided bank guarantees issued in the course of ordinary trade to the value of £3.5m (2014: £3.4m). The Company is a guarantor for the performance of Vencore Services and Solutions, Inc. (previously named QinetiQ North America Operations, LLC), at 31 March 2015 in fulfilling its lease obligation to a value of £10.6m ($15.8m) (2014: £11.9m ($19.8m)) and provides guarantees to certain customers of fellow subsidiaries, cueSim Limited, to the value of £7.7m (2014: £8.4m) and QinetiQ Sweden AB, to the value of £3.9m (SEK 50m) (2014: £4.6m (SEK 50m)).

24 Post-retirement benefits

Defined contribution plans

In the UK the Company operates one Group Personal Pension Plan (GPP) and one trust-based defined contribution arrangement for its UK employees. These are defined contribution schemes managed by Zurich. A defined contribution plan is a pension plan under which the Company and employees pay fixed contributions to a third party financial provider. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit pension plans

In the UK the Company 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. On closure, the Company realised a reduction in scheme liabilities of £31.1m and a one-off cost of £4.0m arising from associated contributions to affected members' defined contribution plans following the closure of 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 salary in the final years leading up to retirement. In the Scheme, pensions in payment are generally updated in line with the consumer price index. The benefit payments are made from trustee-administered funds. Plan assets held in trusts are governed by UK regulations as is the nature of the relationship between the Group and the Trustees and their composition. Responsibility for the governance of the Scheme - including investment decisions and contribution schedules - lies jointly with the Company and the Board of Trustees. The Board of Trustees must be composed of representatives of the Company and plan participants in accordance with the Scheme's regulations.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and final pensionable earnings.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated bi-annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

24 **Post-retirement benefits (continued)**

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in income.

The expected employer cash contribution to the Scheme for the year ending 31 March 2016 is £13.0m. The Company has no further payment obligations once the contributions have been paid. Following the closure to future accrual, future reporting periods will no longer include an expense in respect of defined benefit pension service costs.

Triennial funding valuation
The most recent full actuarial valuation of the Scheme was undertaken as at 30 June 2011 and resulted in an actuarially assessed deficit of £74.7m.

The latest triennial valuation of the Scheme is being completed as at 30 June 2014. It is expected that the agreed recovery plan will require £13m contributions per annum until 31 March 2018, the same annual funding level as previously. This includes £2.5m p.a. distributions to the Scheme, indexed by reference to CPI, from the Group's Pension Funding Partnership (see below).

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.

QinetiQ Pension Scheme net pension liability
There were no outstanding contributions at the balance sheet date for the defined benefit section of the Scheme. The fair value of the Scheme's assets, which are not intended to be realised in the short-term and may be subject to significant change before they are realised, and the present value of the Scheme's liabilities, which are derived from cash flow projections over long periods, and thus inherently uncertain, were:

24 Post-retirement benefits (continued)

Defined benefit pension schemes

	2015 £ m	2014 £ m
Equities	517.2	434.4
Debt instruments (corporate bonds, LDI investment*, alternative bonds**)	811.1	736.5
Property	113.4	94.0
Cash	12.9	39.7
Pension funding partnership asset	31.2	31.6
	1,485.8	1,336.2

	2015 £ m	2014 £ m
Fair value of scheme assets	1,485.8	1,336.2
Present value of scheme liabilities	(1,494.0)	(1,326.8)
Net pension (liability)/asset before deferred tax	**(8.2)**	**9.4**
Deferred taxation attributable to pension scheme liability	1.6	2.0
Net (deficit)/surplus in the scheme - pension liability	**(6.6)**	**11.4**

*The Scheme has assets invested in Liability Driven Investment portfolio. As at 31 March 2015 this hedges against approximately 20% of the interest rate and 45% 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.

24 **Post-retirement benefits (continued)**

Assumptions

The major assumptions used in the year end FRS17 valuation were:

	2015	2014
	£m	£m
Discount rate applied to scheme liabilities	3.2%	4.2%
CPI inflation assumption	2.1%	2.6%
Assumed life expectancy in years:		
Future male pensioners (currently aged 60)	88	88
Future female pensioners (currently aged 60)	91	90
Future male pensioners (currently aged 40)	91	90
Future female pensioners (currently aged 40)	93	92

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, because of the timescale covered, may not necessarily be borne out in practice. It is important to note that these assumptions are long term, and in the case of the discount rate and the inflation rate are measured by external market indicators. The mortality assumptions as at 31 March 2015 were 90% of S2PMA for males and 100% 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 1.25% per annum. The assumptions adopted at the previous year end were 90% of S1PMA for males and 90% of S1PFA for females, based on year of birth making allowance for improvements in mortality in line with CMI_2011 Core Projections and a long-term rate of improvement of 1.25% per annum.

24 Post-retirement benefits (continued)

Return on scheme assets

The overall expected rate of return on plan assets is based upon the expected return rates for each asset class. Equity return rates are the long-term expected return rates based upon the market rates of return for risk free investments, typically government bonds, together with the historical level of risk premium associated with equities; with the resulting rate then being reviewed and benchmarked against a peer group of listed companies. Expected long-term rates of return on scheme assets (weighted to reflect the individual scheme actual asset allocations) were:

	2015	2014
	£m	£m
Equities	6.8%	7.3%
Corporate bonds	3.0%	4.1%
LDI investment	2.0%	3.5%
Alternative bonds	3.5%	4.6%
Property	6.3%	6.8%
Cash	2.0%	3.5%
Pension funding partnership contribution	5.7%	7.1%
Weighted average	**4.4%**	**5.3%**

Changes to the fair value of scheme assets

	2015	2014
	£ m	£ m
Opening fair value of scheme assets	1,336.2	1,288.4
Expected return on assets	69.7	68.3
Actuarial gain/(loss)	101.4	(9.7)
Contributions by the employer	6.6	18.0
Net benefits paid out and transfers	(28.1)	(28.8)
Closing fair value of scheme assets	**1,485.8**	**1,336.2**

Changes to the present value of the defined benefit obligation

	2015	2014
	£ m	£ m
Opening defined benefit obligation	1,326.8	1,310.6
Current service cost	-	11.3
Interest cost	54.5	56.6
Actuarial loss on scheme liabilities	140.8	8.2
Curtailment gain	-	(31.1)
Net benefits paid out and transfers	(28.1)	(28.8)
Closing defined benefit obligation	**1,494.0**	**1,326.8**

24 Post-retirement benefits (continued)

Total expense recognised in the profit and loss account

	2015 £ m	2014 £ m
Amounts recognised in operating profit		
Current service cost	-	11.3
Curtailment gain	-	(31.1)
Recognised in arriving at operating profit	-	(19.8)
Amounts recognised in other finance costs		
Interest expense on pension scheme liabilities	54.5	56.6
Expected return on pension scheme assets	(69.7)	(68.3)
Recognised in net finance income	(15.2)	(11.7)
Total income recognised in the profit and loss (gross of deferred tax)	**(15.2)**	**(31.5)**

Amounts recognised in the statement of total recognised gains and losses

	2015 £m	**2014 £m**	**2013 £m**	**2012 £m**	**2011 £m**
Actuarial loss recognised in statement of total recognised gains and losses	**(39.4)**	**(17.9)**	**(54.9)**	**(118.2)**	**(4.7)**

24 Post-retirement benefits (continued)

History of experience gains and losses*:

		2015	2014	2013	2012	2011
		£m	**£m**	**£m**	**£m**	**£m**
Difference between the expected and actual return on scheme assets:						
	Amount	101.4	(9.7)	65.6	2.9	(14.0)
	Percentage of period end scheme assets	6.8%	0.7%	5.1%	0.3%	1.4%
Actuarial gains and (losses) on scheme liabilities:						
	Amount	140.8	(8.2)	120.5	121.1	(9.3)
	Percentage of period end present value of scheme liabilities	9.4%	0.6%	9.2%	10.6%	0.8%
Total amount recognised in statement of total recognised gains and losses:						
	Amount	(39.4)	(17.9)	(54.9)	(118.2)	(4.7)
	Percentage of period end present value of scheme liabilities	2.6%	0.1%	4.2%	10.4%	0.4%

*Experience gains and losses exclude the impact of changes in assumptions.

Defined contribution
Payments to the defined contribution pension scheme totalled £29.0m in the year ended 31 March 2015 (2014: £23.3m).

25 Share-based payments

The Company operates share-based payment arrangements for employees. The total share-based payments expense during the year was £3.5m, £3.3m of which related to equity-settled scheme and £0.2m related to cash-settled schemes (2014: £4.0m, £3.7m of which related to equity-settled schemes and £0.3m related to cash-settled schemes). The expense for share-settled schemes was charged to the Company by the ultimate parent company QinetiQ Group plc, in respect of share options over its shares. Set out below are details of the share-based payment arrangements that were utilised during the year. In all cases they relate to the shares of QinetiQ Group plc, the ultimate parent company.

2003 Employee Share Option Scheme (2003 ESOS)
Under the employee share option scheme all employees as at 25 July 2003 received share options which vested when QinetiQ Group plc completed its IPO and had to be exercised within ten years of grant. The options are settled by shares.

25 Share-based payments (continued)

	2015		2014	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at the start of the year	-	-	352,314	2.3p
Exercised during the year	-	-	(335,294)	2.3p
Forfeited during the year	-	-	(17,020)	2.3p
Outstanding at end of year	-	-	-	-

The 2003 ESOS were equity-settled awards, none were outstanding at 31 March 2015 (2014: nil). In respect of the share options exercised during 2014, the average share price on the date of exercise was 189.7p.

Performance Share Plan (PSP)
In the year the Company made awards of conditional shares to certain UK senior employees under the Performance Share Plan. The awards vest after three years with 50% of the awards subject to total shareholder return conditions and 50% subject to EPS conditions. For EPS awards made prior to the year ended 31 March 2013, awards begin to vest at 25% once the underlying EPS CAGR exceeds 7%, rising on a linear scale until maximising at 100% for 15% CAGR. For EPS awards made post the year ended 31 March 2013 EPS awards begin to vest at 25% once the underlying EPS CAGR hits 3% rising on a linear scale until maximising at 100% for 10% CAGR.

TSR performance is measured against the constituents of the FTSE 250 excluding Investment Trusts. 30% of the TSR awards begin to vest once performance reaches the median of the comparator group rising on a linear basis until performance reaches the upper quartile.

	2015	2014
	Number of shares	Number of shares
Outstanding at the start of the year	8,090,260	7,351,207
Granted during the year	4,310,206	3,489,504
Exercised during the year	(461,196)	(907,312)
Forfeited during the year	(2,481,862)	(1,843,139)
Outstanding at the end of the year	**9,457,408**	**8,090,260**

PSP awards are equity-settled awards and those outstanding at 31 March 2015 had an average remaining life of 1.3 years (2014: 1.5 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 24% (2014: 26%) for the average share price volatility to the FTSE comparator group and 51% (2014: 52%) for the average correlation to the comparator group. The weighted average fair value of grants made during the year was £1.57 (2014: £1.61)..Of the options outstanding at the end of the year nil were exercisable (2014: nil).

25 **Share-based payments (continued)**

Value Sharing Plan (VSP)
In 2012 and 2011 the Company granted VSP awards to certain senior employees under the VSP plan. The awards vest over a three-year performance period: 50% of the 2012 awards and 70% of the 2011 awards (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 total shareholder return (TSR) against a comparator group of FTSE 250 listed companies (less investment trusts) over a three-year performance period. Half of the awards vest three years from the date of grant, the remaining half of the awards vest four years from the date of grant.

	2015	2014
	Number of shares	Number of shares
Outstanding at the start of the year	5,018,288	10,850,040
Exercised during the year	(1,210,650)	(979,853)
Forfeited during the year	(3,653,790)	(4,851,899)
Outstanding at the end of the year	**153,848**	**5,018,288**

VSP awards are equity-settled awards and those outstanding at 31 March 2015 had an average remaining life of 0.2 years (2014: 0.6 years). There is no exercise price for these VSP awards. Of the awards outstanding at the end of the year nil (2014: nil) were exercisable.

Group Share Incentive Plan (SIP)
Under the QinetiQ Share Incentive Plan the Company offers UK employees the opportunity of purchasing up to £150 worth of shares a month at the prevailing market rate. QinetiQ Group plc will make a matching share award of a third of the employee's payment. QinetiQ Group plc'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.

	2015	2014
	Number of shares	Number of shares
Outstanding at the start of the year	725,904	1,009,663
Awarded during the year	280,267	228,066
Exercised during the year	(309,350)	(467,228)
Forfeited during the year	(49,000)	(44,597)
Outstanding at the end of the year	**647,821**	**725,904**

SIP matching shares are equity-settled awards and those outstanding at 31 March 2015 had an average remaining life of 1.5 years (2014: 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 (2014: nil).

25 **Share-based payments (continued)**

Group Deferred Annual Bonus Plan (DAB)

Under the QinetiQ Deferred Annual Bonus Plan the Company requires certain senior executives to defer part of their annual bonus as shares and be entitled to matching awards to a maximum of 1:1 based upon EPS performance. The number that will vest is dependent on the growth of EPS over the measurement period of three years. For awards made prior to the year ended 31 March 2013, the matching element of the DAB begins to vest at 25% once the underlying EPS CAGR exceeds 7%, rising on a linear scale until maximising at 100% for 15% CAGR. For awards made post the year ended 31 March 2013 the matching element begins to vest at 25% once the underlying EPS CAGR hits 3% rising on a linear scale until maximising at 100% for 10% CAGR.

	2015	**2014**
	Number of shares	**Number of shares**
Outstanding at the start of the year	1,162,896	914,621
Granted during the year	303,639	502,060
Exercised during the year	(85,126)	-
Forfeited during the year	(917,294)	(253,785)
Outstanding at the end of the year	**464,115**	**1,162,896**

DAB matching shares are equity-settled awards; those outstanding at 31 March 2015 had an average remaining life of 1.2 years (2014: 1.4 years). The weighted average fair value of grants made during the year was £2.08 (2014: £1.80). The weighted average share price at date of exercise was £2.08 (2014: n/a). There is no exercise price for these DAB awards. Of the shares outstanding at the end of the year nil were exercisable (2014: nil).

25 Share-based payments (continued)

Cash Alternative Units (CAU)
In the prior year CAU awards were granted to certain employees.

	2015	2014
	Number of shares	**Number of shares**
Outstanding at the start of the year	497,852	497,852
Exercised during the year	(320,000)	-
Forefeited during the year	(50,000)	-
Outstanding at the end of the year	**127,852**	**497,852**

CAUs are cash-settled awards which vest over three 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 Company. Those awards outstanding at 31 March 2015 had an average remaining life of 0.2 years (2014: 1.0 years). There is no exercise price for these awards. The fair value of the grants at 31 March 2015 was £1.91 (2014: £2.26) being the Group's closing share price on that day. The carrying amount of the liability of the grants at the balance sheet date was £0.2m (2014: £0.6m). 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.

	2015
	Number of awards
Outstanding at the start of the year	-
Awarded during the year	330,725
Outstanding at the end of the year	**330,725**

The BBP is a remuneration scheme that runs for four years with effect from 1 April 2014. 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 4 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 2015, the awards had an average remaining life of 1.7 years. There is no exercise price for these awards. The fair value of the awards at 31 March 2015 was £1.91 being the Group's closing share price on that day. Of the awards outstanding at the end of the year nil were exercisable.

Share-based awards valuation
Share-based awards that vest based upon non-market performance conditions, including certain PSP and Deferred Annual Bonus awards, have been valued at the share price at grant less attrition.

26 Fair value of assets and liabilities

The Company has derivatives, which are not included at fair value, with external companies, as follows:

	Notional amount 2015 £ m	Notional amount 2014 £ m	Fair value 2015 £ m	Fair value 2014 £ m
Forward foreign exchange contracts	23.7	24.8	0.0	0.4

The Company uses the derivatives to hedge its exposures to changes in foreign currency exchange rates. The fair values are based on market values of equivalent instruments at the balance sheet date. These positions are held externally and there are some equivalent internal derivatives to a fellow subsidiary company, QinetiQ Overseas Holdings Limited, to fully cover the Company's exposure where the ultimate risk resides in this company.

27 Parent undertaking and control

The ultimate parent undertaking and controlling party is QinetiQ Group plc, a company registered in England and Wales. The immediate parent undertaking is QinetiQ Holdings Limited, a company registered in England and Wales. The financial statements of QinetiQ Limited are consolidated in the financial statements of QinetiQ Group plc. Copies of the consolidated financial statements of QinetiQ Group plc are available from the Secretary, QinetiQ Group plc, Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.