Registration number: 03796233

QinetiQ Limited

Annual report and financial statements

for the year ended 31 March 2018

QinetiQ Limited
Contents

Year references (FY18, FY17, 2018, 2017) refer to the Company's fiscal year ending 31 March

QinetiQ Limited
Company information

Directors	Jon Messent Malcolm Coffin Stephen Webster
Company secretary	Jon Messent
Registered office	Cody Technology Park Ively Road Farnborough Hampshire GU14 0LX
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountant and Statutory Auditors Savannah House 3 Ocean Way Southampton SO14 3TJ

The Directors present their strategic report for the year ended 31 March 2018.

Principal activities

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 (including businesses managed directly by other Group companies) can be found on pages 28 to 30 of the QinetiQ Group plc Annual Report and Accounts 2018. Details of the Global Products division (including businesses managed directly by other Group companies) can be found on pages 30 to 31 of the QinetiQ Group plc Annual Report and Accounts 2018.

The profit before taxation was £105.9m (2017: profit of £59.4m). During the year the Company paid a dividend of £121.4m (2017: £nil) to its parent company, QinetiQ Holdings Limited, and received dividend income of £0.4m (2017: £nil) from subsidiary undertakings.

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

	Unit	2018	2017
Orders	£m	314.2	502.3
Revenue growth	%	2.3	(0.5)
Operating profit	£m	124.4	103.9
Profit after taxation	£m	96.8	49.6

	Notes	2018	2017
Net promoter score	1	63	45
Employee engagement	2	592	596
Health and safety	3	3.2	5.8

Notes:

1) The net promoter score (NPS) is an internationally recognised metric for customer satisfaction. The NPS score is calculated by deducting the percentage of customers who are detractors from the percentage who are promoters, and can therefore range from -100 to +100. In previous years we have reported a score out of ten. The equivalent result is 8.6/10 for FY18 compared to 8.2/10 in the previous year.

2) A measure of employee engagement on a scale of 0-900, based on the Best Companies Employee Survey. Through this survey, employees share their views of working at QinetiQ under the headings of management, leadership, company, personal growth, my team, giving something back to the community, fair deal and wellbeing.

3) The Lost Time Incident (LTI) 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 the Company in that year.

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

- Reduced spending in the core markets in which the Company operates. To monitor this risk, the Company proactively engages with our major customers to allow us to support their objectives and our investment into core contracts. This helps to ensure that we are able to provide the right services as the threat environment continues to evolve.
- Failure to create a culture of innovation or to invest adequately in, or create value from, our innovation investment. To manage this risk we are focused on effective collaboration to find the best routes to market for our technology, such as our partnership with Rockwell Collins. Our operating model, based on matrix working, helps to ensure that any internal barriers to collaboration and knowledge sharing are removed.
- The Company operates in many specialised engineering, technical and scientific domains where key capabilities and competencies may be lost through failure to recruit and retain employees or a lack of domain-specific graduates leads to a future skills shortage. To manage this risk the Company ensures regular communication and greater connectivity to our people via the Employee Engagement Group, face-to-face communications, and the launch of the Global Portal, our new intranet. This risk is also mitigated through helping our people to develop and fulfill their potential via the QinetiQ Academy and clear succession planning.
- Company performance is adversely affected by the application of the Single Source Contract Regulations. To manage this risk our strategy includes leading and modernising UK Test and Evaluation and investing in our core contracts which allows us to put a greater volume of our UK single-sourced work onto longer-term firm-price contracts, reducing the proportion of our revenues exposed to changes in the SSRO ('Single Source Regulations Office') rate. QinetiQ continues to support a joint industry position in refining the SSRO framework and its practical application.
- A breach of data security, cyber attacks or IT systems failure could have an adverse impact on our customers' operations. Data security is assured through a multi-layered approach that provides a hardened environment, including robust physical security arrangements and data resilience strategies. Information systems are designed with consideration to single points of failure and comply with relevant accreditation standards. Mandatory security awareness training for all staff also mitigates this risk.
- The Company operates in highly regulated environments and recognises that its operations have the potential to have an impact on a variety of stakeholders. The Company's robust policies, procedures and mandatory training defines clear expectations for the Company and its employees. Key areas of focus include safety of products and services, health, safety and environment, international trade controls, bribery and ethics, where the Company adopts a zero tolerance approach to bribery and corruption.
- A material element of the Company's revenue is derived from one contract (the Long Term Partnering Agreement 'LTPA'). To manage this risk, as a business, the Company has become more customer focused and we are applying this to understanding the requirements for the remainder of the LTPA which we are in the process of negotiating. Our recent investment into a core part of this contract continues to ensure it meets our customer's expectations and remains relevant in an evolving threat environment.

Approved by the Board on 26 July 2018 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
Directors' report for the year ended 31 March 2018

The Directors present their report and the financial statements for the year ended 31 March 2018.

QinetiQ Limited ('the Company') is a private company limited by shares and is incorporated, registered and domiciled in England, and the registered number is 03796233. The address of the registered office is Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

Directors of the company

The Directors who held office during the year and up to the date of signing the financial statements were:

Jon Messent - Company Secretary and Director

Malcolm Coffin

Stephen Webster

Future developments

The Company expects to continue operating with its principal activity as outlined in the Strategic Report for the foreseeable future.

General MOD compliance system

The Company operates a generic compliance system. This is integral to the work of QinetiQ Group plc and its subsidiaries ('QinetiQ') in its relationship with the UK Government. The generic compliance system is designed to give the MOD customer confidence that QinetiQ is able to provide impartial advice during any competitive evaluation of a procurement opportunity 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 commercialise research into the supply chain and pursue its planned commercial activities, without compromising the defence or security interests of the UK.

The Group's Board nominates two senior executives to act as Compliance Implementation Director and Compliance Audit Director. During FY18 those roles were held by the Group Director, Safety and Governance and the Company Secretary and Group General Counsel respectively. In FY19 the Group Commercial Director will take over the role of Compliance Implementation Director.

Oversight of the operation of the compliance system is provided by the Risk & CSR Committee (the 'Committee') of QinetiQ Group plc (the 'Group'). During the year under review, the Committee received an annual report from the Group Director, Safety and Governance and the internal audit function on the compliance areas that it monitored. A typical report includes a summary of the scope and an executive summary of the findings with an audit opinion, with agreed associated time-bound action plans. 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 risk management systems;
- To monitor non-financial risk exposures, including security, trade controls, ethics, corporate responsibility and health, safety and environment.

Financial risk management

The Company is exposed to a variety of financial risks as a result of its operations 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 Group's 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. Group Treasury monitors financial risks and compliance with risk management policies during the year. There have been no changes in any risk management policies during the year or since the year end.

Foreign exchange risk

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.

Interest rate risk

The Company has interest bearing inter-company balances which earn or accrue interest at fixed rates plus LIBOR. In order to ensure stability of cash outflows and hence manage interest rate risk, the Company has access to fixed interest rate loans from fellow subsidiary undertakings. The Company does not use derivative financial instruments to manage interest rate costs.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations. To mitigate this risk the Company performs credit checks as appropriate and only contracts with customers who meet certain creditworthiness requirements.

Liquidity risk

The Company retains sufficient cash to ensure it has available funds for its operations.

The Directors will revisit the appropriateness of this approach to risk management should the Company's operations change in size or nature.

Dividends

The Company paid a dividend of £121.4m (2017: £nil) during the year to its parent company, QinetiQ Holdings Limited, and received £0.4m (2017: £nil) from subsidiary undertakings.

The Directors have not recommended payment of a final dividend.

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.

Employees

The Company is committed to the fair treatment of people with disabilities in relation to job applications, training, promotion and career development. If an existing employee becomes disabled, we make every effort to enable them to continue their employment and career development, and to arrange appropriate training, wherever practicable.

Employee involvement

We communicate and listen to our people through many channels such as roadshows and monthly business reviews. We introduced the 'Global Portal' intranet platform in FY18, enabling greater digital connectivity across the Group. We value this continuous dialogue and feedback to shape our business focus which enables our people to understand QinetiQ's strategy, performance and priorities and how their contribution forms part of our overall success. We obtain regular feedback through a range of channels, including engagement surveys. At the end of FY18 we had a 72% response rate to the engagement survey and a score of 592 which is slightly lower than last year (596). At both local and organisational levels we are developing action plans with our people to improve engagement. We will introduce a new digital engagement tool in FY19 which will capture real time feedback more regularly throughout the year so that we can understand the impact of decisions made and actions taken in the moment. The UK Employee Engagement Group (EEG) is an independent consultative forum which acts as an employee voice. This year the EEG have been instrumental in developing our Rewarding for Performance framework and ensuring effective and fair implementation of organisational change.

Additional information in respect of employee safety and wellbeing, employee development and employee engagement is provided on pages 32 to 33 of the QinetiQ Group plc Annual Report and Accounts 2018.

Environment

As part of the overall Health, Safety and Environment Strategy we are working together to deliver for our customers while protecting and sustaining our environment. By engaging with others, including our customers, we will continue to embed our commitment to stewardship across our Company. Underpinning our approach is our ISO14001 certification and we completed our transition to the new standard in June 2017. Our Environmental Working Group meets quarterly to discuss progress on waste management, energy use, conservation and any environmental incidents. Building upon last year's success of achieving certification against ISO 50001 for our Energy Management System, the Energy Matters programme continues to deliver value across the Company. We have transitioned to a flexible procurement strategy to ensure the business obtains the greatest value from its electricity and gas procurement. Additional information on environmental stewardship is provided on page 34 to 35 of the QinetiQ Group plc Annual Report and Accounts 2018.

Disclosure of information to the auditors

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

Independent Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law). 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;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The Directors 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.

Approved by the Board on 26 July 2018 and signed on its behalf by:

J. Messent

Jon Messent
Company Secretary and Director
Cody Technology Park
Ively Road
Farnborough
Hampshire
GU14 0LX

Independent auditors' report to the members of QinetiQ Limited

Report on the audit of the financial statements

Opinion

In our opinion, QinetiQ Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the 'Annual Report'), which comprise: the Balance sheet as at 31 March 2018; the Profit and loss account, the Statement of comprehensive income, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information.

Independent auditors' report to the members of QinetiQ Limited (continued)

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent auditors' report to the members of QinetiQ Limited (continued)

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Julian Gray (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP,
Chartered Accountant and Statutory Auditors
Southampton

26 July 2018

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

	Note	2018 £ m	2017 £ m
Revenue	2	623.3	609.3
Operating costs		(528.8)	(516.5)
Other operating income	3	29.9	11.1
Operating profit	**4**	**124.4**	**103.9**
Loss on impairment of loan to fellow subsidiary undertakings	6	(29.1)	(50.5)
Profit before net finance income and income from shares in Group undertakings		**95.3**	**53.4**
Finance income	7	13.3	10.0
Finance expense	7	(3.1)	(4.0)
Finance income - net	**7**	10.2	6.0
Income from shares in Group undertakings		0.4	-
Profit before taxation		**105.9**	**59.4**
Tax on profit	9	(9.1)	(9.8)
Profit for the financial year		**96.8**	**49.6**

All amounts derive from continuing operations.

The notes on pages 15 to 42 form an integral part of these financial statements.

QinetiQ Limited
Statement of comprehensive income for the year ended 31 March

	Note	2018 £ m	2017 £ m
Profit for the financial year		96.8	49.6
Items that will not be reclassified subsequently to profit or loss			
Actuarial gain on pension scheme	23	143.6	183.3
Deferred tax relating to actuarial gain on pension scheme	19	(24.4)	(31.2)
		119.2	152.1
Items that may be reclassified subsequently to profit or loss			
Fair value losses on available-for-sale investments	15	(0.4)	(0.3)
Decrease in fair value of hedging derivatives		(2.1)	-
Deferred tax relating to hedging derivatives		0.4	-
		(2.1)	(0.3)
Other comprehensive income for the year, net of tax		**117.1**	**151.8**
Total comprehensive income for the financial year		**213.9**	**201.4**

The notes on pages 15 to 42 form an integral part of these financial statements.

QinetiQ Limited
Balance sheet as at 31 March

	Note	2018 £ m	2017 £ m
Fixed assets			
Intangible assets	10	10.6	1.2
Property, plant and equipment	11	262.9	232.6
Investments	12	5.1	5.1
Other financial assets	18	0.3	0.5
		278.9	**239.4**
Current assets			
Inventories	13	4.6	3.9
Trade and other receivables (including £28.2m (2017: £29.1m) due after more than one year)	14	427.5	540.3
Investments	15	0.5	0.9
Other financial assets	18	16.9	10.7
Assets held for sale	11	1.2	-
Cash and cash equivalents		213.0	175.8
		663.7	**731.6**
Current liabilities			
Creditors: amounts falling due within one year	16	(317.4)	(314.5)
Provisions for liabilities	20	(6.0)	(5.1)
Other financial liabilities	18	(2.6)	(0.8)
		(326.0)	**(320.4)**
Net current assets		**337.7**	**411.2**
Total assets less current liabilities		**616.6**	**650.6**
Non-current liabilities			
Creditors: amounts falling due after more than one year	17	(44.6)	(40.0)
Provisions for liabilities	20	(12.6)	(16.9)
Other financial liabilities	18	(1.9)	(0.3)
Deferred tax liabilities	19	(66.0)	(34.2)
Net assets excluding net pension asset		**491.5**	**559.2**
Net pension asset	23	316.2	156.0
Net assets		**807.7**	**715.2**
Capital and reserves			
Called up share capital	21	100.0	200.0
Hedging reserve		(1.7)	-
Retained earnings		709.4	515.2
Total shareholders' funds		**807.7**	**715.2**

The financial statements of QinetiQ Limited (company number 03796233) on pages 11 to 42 were approved by the Board on 26 July 2018 and signed on its behalf by:

....

Malcolm Coffin
Director

The notes on pages 15 to 42 form an integral part of these financial statements.

QinetiQ Limited
Statement of changes in equity for the year ended 31 March

	Share capital £ m	Hedging reserve £ m	Retained earnings £ m	Total shareholders' funds £ m
At 1 April 2016	200.0	-	313.8	513.8
Profit for the financial year	-	-	49.6	49.6
Other comprehensive income	-	-	151.8	151.8
At 31 March 2017	**200.0**	**-**	**515.2**	**715.2**

	Share capital £ m	Hedging reserve £ m	Retained earnings £ m	Total shareholders' funds £ m
At 1 April 2017	200.0	-	515.2	715.2
Profit for the financial year	-	-	96.8	96.8
Other comprehensive income/(expense)	-	(1.7)	118.8	117.1
Dividends	-	-	(121.4)	(121.4)
Capital reduction	(100.0)	-	100.0	-
At 31 March 2018	**100.0**	**(1.7)**	**709.4**	**807.7**

The notes on pages 15 to 42 form an integral part of these financial statements.

QinetiQ Limited
Notes to the financial statements

1 Basis of preparation and accounting policies

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

Basis of preparation
The financial statements have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). The financial statements have been prepared under the historical cost convention, as modified by the financial assets and liabilities held at fair value through profit and loss and have been prepared in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

In these financial statements, the Company has applied the exemptions available under FRS101 in respect of the following disclosures:

- 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; and
- disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of QinetiQ Group plc include the equivalent disclosures, the Company has also taken the exemptions under FRS101 available in respect of the following:

- certain disclosures required by IFRS 3 Business Combinations in respect of business combinations undertaken by the Company in the current and prior periods; and
- the disclosures required by IFRS 7 and IFRS 13 regarding financial instrument disclosures have not been provided apart from those which are relevant for the financial instruments which are held at fair value and are not either held as part of trading portfolio or derivatives.

The Company has taken the exemption under s400 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.

Going concern
The Company meets its day-to-day working capital requirements through its available cash funds and its bank facilities. The market conditions in which the Company operates have been, and are expected to continue to be, challenging as spending from the Company's key customers in its primary markets in the UK remains under pressure. Despite these challenges, the Directors believe that the Company is well positioned to manage its overall business risk successfully.

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

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

Service contracts: The Company's service contract arrangements are accounted for under IAS18 'Revenue' taking into account each party's enforceable rights regarding the services provided and expected manner of settlement. 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 and reflecting the probable economic benefits that will flow to the entity.

1 Basis of preparation and accounting policies (continued)

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 Company generally does not undertake construction contracts.

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

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

Research and development expenditure

Research and development ('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 profit and loss account 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

QinetiQ Limited holds no external borrowings but does have access to a revolving credit facility (undrawn during 2017 and 2018), fees for which are reported within finance costs. Costs of letters of credit are also charged to finance expense. Income earned on funds invested is reported within finance income. Exchange differences on financial assets and liabilities and the income or expense from interest hedging instruments that are recognised in the profit and loss account are included within finance income and finance expense. Financing also includes the net finance income or 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 profit and loss account, 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 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.

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 profit and loss account, except where they relate to items charged or credited to equity, in which case the relevant tax is charged or credited to equity.

1 Basis of preparation and accounting policies (continued)

Dividend income
Dividends received are shown on the face of the profit and loss account as income from shares in Group undertakings. Dividend income is recognised when the right to receive payment is establish.

Dividend distribution
Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which the dividends are approved by the Directors. Dividends paid are shown as a movement in reserves.

Intangible assets
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 - 10 years
Development costs	1 - 4 years
Other	1 - 10 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
Office equipment	5 -10 years
Motor vehicles	3 - 5 years
Computers	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 Company, 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.

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

Impairment of fixed assets
At each reporting date the Company 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 profit and loss account. If the carrying amount exceeds the recoverable amount, the respective asset is written down to its recoverable amounts. 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.

1 Basis of preparation and accounting policies (continued)

Non-current assets held for sale
Non-current assets are classified as held for sale if their carrying amount will be recovered primarily through a sales transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within a year of the balance sheet date. The assets should be available for immediate sale in their present condition and actively marketed at a price that is reasonable in relation to their current fair value.

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Any write-down to fair value less costs to sell shall be recognised directly through profit and loss as an impairment loss. No further depreciation is charged in respect of assets classified as held for sale.

Inventories
Inventories are valued at the lower of cost and net realisable value.

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.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and short-term deposits that are readily convertible into cash.

Deferred income
Deferred income is included in trade and other payable and represents amounts invoiced in excess of revenue recognised.

Provisions
A provision is recognised in the balance sheet when the Company 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.

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

Derivatives 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 fair value of derivatives designated as fair value hedges of currency risk or interest risk are recognised in the profit and loss account. The hedged item is held at fair value with respect to the hedged risk with any gain or loss recognised in the profit and loss account.

Cash flow hedging
Changes in 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 profit and loss account. 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 profit and loss account at the same time as the hedged transasction.

1 Basis of preparation and accounting policies (continued)

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 profit and loss account.

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

Finance leases
Assets held under finance leases are capitalised and included in property, plant and equipment 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.

Post-retirement benefits
The Company provides both defined contribution and defined benefit pension arrangements. The liabilities of the Company arising from defined benefit obligations 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. Per the Scheme rules, the Company has an unconditional right to a refund of any surplus that may arise on cessation of the Scheme in the context of IFRIC 14 paragraphs 11(b) and 12 and therefore the full net pension asset can be recognised on the Company's balance sheet and the Company's minimum funding commitments to the Scheme do not give rise to an additional balance sheet liability.

For defined benefit plans, the cost charged to the profit and loss account consists of administrative expenses and the net interest income or expense. 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 income or expense and the administrative cost element is charged as a component of operating costs in the profit and loss account. Actuarial gains and losses and re-measurement gains and losses are recognised immediately in full through the statement of other comprehensive income. Contributions to defined contributions plans are charged to the profit and loss account as incurred.

Share 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 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. 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)

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 Company. 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. Judgement is required when considering the likelihood of meeting the contractual requirements, particularly around technologically challenging contracts, and the resulting costs. Estimated contract losses are recognised as soon as anticipated and no profit is recognised on a contract until the outcome can be reliably estimated.

Investment in subsidiaries

The Company reviews annually whether an investment has suffered any impairment. This process relies on the use of estimates of the future profitability and cash flows of its cash generating units which may differ from the actual results delivered.

Other payables, provisions and contingent liabilities

The Company holds liabilities in respect of environmental and regulatory issues (see note 20). The Company 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 Company'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 Company. Small changes in these assumptions at the balance sheet date, individually or collectively, may result in significant changes in the size of the net surplus/deficit. Further details of these assumptions are set out in note 23.

2 Revenue

Revenue by category

	2018 £ m	2017 £ m
Sales of goods	8.8	16.7
Services	610.1	590.4
Royalties and licences	4.4	2.2
	623.3	609.3

2 Revenue (continued)

Revenue by customer geographic location

	UK £ m	North America £ m	Rest of World £ m	Total £ m
2018				
Revenue	588.7	5.4	29.2	623.3

	UK £ m	North America £ m	Rest of World £ m	Total £ m
2017				
Revenue	582.6	5.6	21.1	609.3

3 Other operating income

	2018 £ m	2017 £ m
Property rental	9.4	8.7
Gain on sale of property	14.6	2.4
Gain on sale of intellectual property	5.9	-
	29.9	11.1

4 Operating profit

Arrived at after charging/(crediting)

	2018 £ m	2017 £ m
Depreciation expense	22.8	24.4
Amortisation expense	1.9	1.1
Operating lease income	(9.4)	(8.7)
Operating lease expense - plant and machinery	1.5	1.4
Operating lease expense - other	1.9	4.1
Loss on disposal of plant and equipment	2.9	1.2
Gain on sale of property	(14.6)	(2.4)
Gain on sale of intellectual property	(5.9)	-
Research and development expenditure including costs under customer funded contracts	267.0	274.3
Cost of inventories expensed	1.1	0.6

5 Auditors' remuneration

	2018 £ m	2017 £ m
Audit of these financial statements	0.2	0.2
Audit of the accounts of subsidiaries of the Company*	0.1	0.1
Audit-related assurance services	-	0.1
Total auditors' remuneration	0.3	0.4

*re-charged to subsidiary companies via management fees

The amount paid to the Company's auditors for non-audit fees during the year was £nil (2017: £nil).

6 Impairment of loan to fellow subsidiary undertakings

	2018 £ m	2017 £ m
Loss on impairment of loan to fellow subsidiary undertakings	29.1	50.5

In the current year the Company impaired its loan to fellow subsidiary companies, OptaSense Limited and OptaSense Holdings Limited, by a total of £29.1m.

In the prior year the Company impaired its loans to fellow subsidiary companies, QinetiQ Overseas Holdings Limited by £0.5m, OptaSense Limited and OptaSense Holdings Limited, by a total of £50.0m. In the current year, the £50.0m in aggregate loans to OptaSense Limited and OptaSense Holdings Limited were formally waived.

7 Finance income and expense

	2018 £ m	2017 £ m
Interest income on bank deposits	0.7	0.9
Interest receivable from Group undertakings	8.4	9.1
Interest receivable and similar income	9.1	10.0
Amortisation of deferred financing costs	(0.3)	(0.3)
Payable on bank loans and overdrafts	(0.6)	(0.6)
Unwinding of discount on financial liabilities	(0.1)	(0.3)
Interest payable to Group undertakings	(2.1)	(1.8)
Interest payable and similar expenses	(3.1)	(3.0)
Defined benefit pension scheme net finance income/(expense)	4.2	(1.0)
Net finance income	**10.2**	**6.0**

8 Particulars of employees

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

	2018 No.	2017 No.
Total employees	4,961	5,142

The aggregate payroll costs of these persons were as follows:

	2018 £ m	2017 £ m
Wages and salaries	211.9	204.4
Social security costs	22.5	22.2
Other pension costs	35.0	34.0
Share-based payments costs	2.7	3.3
Total employee costs	272.1	263.9

Directors' remuneration

The Directors' remuneration for the year was as follows:

	2018 £ m	2017 £ m
Emoluments	0.8	0.9
Salary in lieu of pension	-	0.1
	0.8	1.0

A total of two directors (2017: two) are members of a money purchase pension scheme. The share-based award charge with respect to directors was £0.1m (2017: £0.1m). The highest paid director received £383,581 for services in the year (salary: £200,742, pension: £16,191, other: £166,648) (2017: £415,463, salary: £331,507, pension: £66,000, other: £17,956).

9 Tax on profit

(a) Analysis of tax charge in the year

	2018 £ m	2017 £ m
Current tax		
UK corporation tax	(1.1)	7.0
UK corporation tax adjustment to prior periods	2.8	-
	1.7	7.0
Total current tax	**1.7**	**7.0**
Deferred tax		
Deferred tax expense	4.7	2.1
Pension scheme related deferred tax	2.7	1.8
Deferred tax in respect of prior years	-	(0.8)
Deferred tax impact of change in rates	-	(0.3)
Total deferred tax	7.4	2.8
Total tax expense for the year	**9.1**	**9.8**

(b) Tax charge reconciliation

	2018 £ m	2017 £ m
Profit before taxation	105.9	59.4
Tax calculated at UK standard rate of corporation tax of 19% (2017: 20%)	20.1	11.9
Effects of:		
Expenses not deductible for tax purposes and other non-taxable items	1.7	10.0
Research and development expenditure credits/relief	(11.7)	(9.4)
Group relief claimed for nil consideration	(2.8)	(1.6)
Tax under/(over) provided in previous years	2.8	(0.8)
Deferred tax impact of change in rates	(1.0)	(0.3)
Total tax charge for the year	**9.1**	**9.8**

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 and the assumption that the benefits of net R&D tax relief retained by the Company remain in the tax line.

(c) Factors affecting future tax charges

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2016 (on 6 September 2016). These include reductions to the main rate, to reduce the rate to 17% from 1 April 2020.

10 Intangible assets

	Development costs £ m	Other £ m	Total £ m
Cost			
At 1 April 2017	13.4	37.4	50.8
Additions	-	10.9	10.9
Reclassification from property, plant and equipment	-	0.4	0.4
Disposals	-	(7.0)	(7.0)
At 31 March 2018	13.4	41.7	55.1
Accumulated amortisation			
At 1 April 2017	13.3	36.3	49.6
Amortisation charge	0.1	1.8	1.9
Disposals	-	(7.0)	(7.0)
At 31 March 2018	13.4	31.1	44.5
Net book value			
At 31 March 2018	**-**	**10.6**	**10.6**
At 31 March 2017	0.1	1.1	1.2

Amortisation is charged to operating costs in the Profit and loss account.

11 Property, plant and equipment

	Land and buildings £ m	Plant, machinery and vehicles £ m	Computers and office equipment £ m	Assets under construction £ m	Total £ m
Cost					
At 1 April 2017	347.7	205.8	50.7	33.6	637.8
Additions	0.7	13.1	2.9	47.4	64.1
Reclassification to intangibles	-	-	-	(0.4)	(0.4)
Land and buildings assets classified as held for sale	(1.2)	-	-	-	(1.2)
Disposals	(27.5)	(28.8)	(16.0)	(2.4)	(74.7)
Transfers	0.3	15.5	11.7	(27.5)	-
At 31 March 2018	320.0	205.6	49.3	50.7	625.6
Accumulated depreciation					
At 1 April 2017	192.6	173.5	39.1	-	405.2
Charge for the year	9.0	9.2	4.7	-	22.9
Disposals	(21.0)	(28.4)	(16.0)	-	(65.4)
At 31 March 2018	180.6	154.3	27.8	-	362.7
Net book value					
At 31 March 2018	**139.4**	**51.3**	**21.5**	**50.7**	**262.9**
At 31 March 2017	155.1	32.3	11.6	33.6	232.6

Depreciation is charged to operating costs in the Profit and loss account.

Disposals of land and buildings related to surplus properties and yielded a profit of £14.6m (note 4).

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

	2018 £ m	2017 £ m
Freehold land and buildings	136.5	132.6
Leasehold land and buildings	2.9	22.5
Net book value as at 31 March	139.4	155.1

Buildings to the value of £2.9m (2017: £22.5m) were held under finance leases as part of the QinetiQ's Pension Funding Partnership structure details of which are shown in note 23.

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 24.

11 Property, plant and equipment (continued)

Non-current assets classified as held for sale

In 2017 management made a decision to sell surplus land and buildings on the Malvern site. A large part of the assets were sold on 29 March 2018 to a property developer for £11.4m which yielded a £7.7m profit. At year-end land with carrying amount of £1.2m is still classified as held for sale on the balance sheet. Management estimates that the land will be sold during the first quarter of FY19 for £2.0m which is the current fair values less costs to sell. The land was valued by BNP Real Estate on 31 March 2018. There were no non-current assets classified as held for sale at 31 March 2017.

12 Investments held as fixed assets

	2018 £ m	2017 £ m
At beginning of the financial year (1 April)	5.1	5.1
At end of the financial year (31 March)	5.1	5.1

QinetiQ Limited has investments in the following subsidiary undertakings.

Undertaking[1,2]	Country of incorporation	Registered office[3]
Subsidiaries		
Graphics Research Corporation Limited*	England & Wales	Farnborough
QinetiQ Corporate Finance Limited*	England & Wales	Farnborough
QinetiQ Estates Limited*	England & Wales	Farnborough
QinetiQ Partnership Finance Limited*	England & Wales	Farnborough
QinetiQ Target Services Limited*	England & Wales	Farnborough
Tarsier Limited*	England & Wales	Farnborough
QinetiQ Space NV *	Belgium	Hogenakkerhoekstraat, 9, 9150 Kruibeke, Belgium
Redu Operational Services S.A.	Belgium	Rue Devant les Hetres, 2B, 6890 Transinne, Belgium
QinetiQ PFP Limited Partnership *	Scotland	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
QinetiQ Insurance PCC Limited*	Guernsey	Mill Court, La Charroterie, St Peter Port, GY1 4ET Guernsey

* indicates direct investment of the company

1 As at 31 March 2018 the Company owned 100% of the ordinary shares of the subsidiary undertakings except for QinetiQ Space NV (97.7%), Redu Operations Services S.A. (51%) and QinetiQ PFP Limited Partnership. The remaining 2.3% of QinetiQ Space NV is held by QinetiQ Overseas Holdings Limited.

2 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 ('ABF') 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.

3 The Farnborough registered office address is Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.

13 Inventories

	2018 £ m	2017 £ m
Raw materials	0.1	-
Work in progress	1.2	1.3
Finished goods	3.3	2.6
	4.6	3.9

14 Trade and other receivables

	2018 £ m	2017 £ m
Trade receivables	33.4	48.0
Amount recoverable on long term contracts	48.6	42.0
Amounts owed by ultimate parent undertaking	-	318.9
Amounts owed by immediate parent undertaking	249.4	12.7
Amounts owed by fellow subsidiary undertakings	81.8	104.6
Other receivables	3.4	3.3
Prepayments	10.9	10.8
	427.5	**540.3**

Amounts owed by fellow subsidiaries and parent undertaking include an amount of £28.2m (2017: £29.1m) that will mature after more than one year.

15 Current asset investments

	2018 £ m	2017 £ m
At beginning of the financial year (1 April)	0.9	1.2
Fair value loss on current asset investment	(0.4)	(0.3)
At end of the financial year (31 March)	0.5	0.9

At 31 March 2018 the Company held a 1.9% (2017: 1.9%) holding in pSivida Limited, a company listed on NASDAQ and the Australian and Frankfurt Stock Exchanges. An additional 0.7% of this company was held by QinetiQ Holdings Limited. The Company's carrying value of this investment decreased by £0.4m during the year (2017: decreased by £0.3m) to reflect its current market value at 31 March 2018. The fair value loss was recognised in the statement of comprehensive income.

After the balance sheet date, the Company sold its investment in pSivida. The gain on sale of the investment has not been recognised as at 31 March 2018.

16 Creditors: amounts falling due within one year

	2018 £ m	2017 £ m
Trade creditors	65.9	27.1
Amounts owed to ultimate parent undertaking	9.2	8.2
Amounts owed to intermediate holding company	0.2	-
Amounts owed to fellow subsidary undertakings	30.4	28.9
Finance lease	0.9	0.8
Other taxes and social security	22.5	28.4
Corporation tax	7.4	16.7
Deferred income	66.3	80.6
Accrued expenses and other creditors	114.6	123.8
	317.4	314.5

Amounts owed to group undertakings are unsecured, repayable on 31 March 2019 and bear interest of 1.25% to 4.5% plus three-month LIBOR (London Interbank Offered Rate) rate.

17 Creditors: amounts falling due after more than one year

	2018 £ m	2017 £ m
Finance lease liabilities	27.4	28.4
Other creditors	17.2	11.6
	44.6	40.0

Prior year other creditors includes £7.7m reclassified from deferred income (creditors due within one year).

18 Other financial assets and liabilities

	2018			2017		
	Assets £ m	Liabilities £ m	Net £ m	Assets £ m	Liabilities £ m	Net £ m
Current financial assets/(liabilities)						
Deferred financing costs	0.1	-	0.1	0.3	-	0.3
Available-for-sale investment	15.7	-	15.7	10.4	-	10.4
Derivative financial instruments	1.1	(2.6)	(1.5)	-	(0.8)	(0.8)
Total current financial assets/(liabilities)	**16.9**	**(2.6)**	**14.3**	**10.7**	**(0.8)**	**9.9**
Non-current assets/(liabilities)						
Deferred financing costs	-	-	-	0.2	-	0.2
Derivatives financial instruments	0.3	(1.9)	(1.6)	0.3	(0.3)	-
Total non-current financial assets/(liabilities)	**0.3**	**(1.9)**	**(1.6)**	**0.5**	**(0.3)**	**0.2**

At 31 March 2018 the Company held £1.7m (2017: £nil) of cash which is restricted in its use. The available-for-sale investment is a 'Libor-plus' investment fund investing in a portfolio of AAA and AA-rated asset backed funding securities and corporate floating rate notes.

19 Deferred tax

Year ended 31 March 2018

Deferred tax asset

	Short-term timing differences £ m	Total £ m
At 1 April 2017	2.6	2.6
Credited to profit and loss account	0.5	0.5
Gross deferred tax asset at 31 March 2018	**3.1**	**3.1**
Less: liability available for offset		(3.1)
Net deferred tax asset at 31 March 2018		**-**

Deferred tax liability

	Pension surplus £ m	Fixed assets £ m	Total £ m
At 1 April 2017	(31.5)	(5.3)	(36.8)
Charged to profit and loss account	(2.7)	(5.2)	(7.9)
Charged to other comprehensive income	(24.4)	-	(24.4)
Gross deferred tax liability at 31 March 2018	**(58.6)**	**(10.5)**	**(69.1)**
Less: asset available for offset			3.1
Net deferred tax liability at 31 March 2018			**(66.0)**

Year ended 31 March 2017

Deferred tax asset

	Pension liability £ m	Short-term timing differences £ m	Total £ m
At 1 April 2016	1.5	1.9	3.4
(Charged)/credited to profit and loss account	(1.8)	0.7	(1.1)
Charged to other comprehensive income	(31.2)	-	(31.2)
Transferred to liability	31.5	-	31.5
Gross deferred tax asset at 31 March 2017	**-**	**2.6**	**2.6**
Less: liability available for offset			(2.6)
Net deferred tax asset at 31 March 2017			**-**

19 Deferred tax (continued)

Deferred tax liability

	Pension surplus £ m	Fixed assets £ m	Total £ m
At 1 April 2016	-	(3.6)	(3.6)
Charged to profit and loss account	-	(1.7)	(1.7)
Transferred from asset	(31.5)	-	(31.5)
Gross deferred tax liability at 31 March 2017	**(31.5)**	**(5.3)**	**(36.8)**
Less: asset available for offset			2.6
Net deferred tax liability at 31 March 2017			**(34.2)**

20 Provisions

	Property £ m	Other provisions £ m	Total £ m
At 1 April 2017	12.9	9.1	22.0
Created in year	1.0	3.4	4.4
Unwind of discount	0.1	-	0.1
Utilised in year	(1.9)	(0.2)	(2.1)
Released in year	(1.5)	(4.3)	(5.8)
Reclassification	0.5	(0.5)	-
At 31 March 2018	**11.1**	**7.5**	**18.6**
Current liabilities	1.9	4.1	6.0
Non-current liabilities	9.2	3.4	12.6
At 31 March 2018	**11.1**	**7.5**	**18.6**

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 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 which are determined by a variety of factors.

The prior year current provision for liabilities of £5.1m has been presented separately in the Balance Sheet as current liabilities.

21 Called up share capital

Allotted, called up and fully paid shares

	2018 No.	2018 £ m	2017 No.	2017 £ m
Ordinary shares of £1 each	99,999,999	100.0	199,999,999	200.0
Special share of £1 each	1	0.0	1	0.0
	100,000,000	100.0	200,000,000	200.0

During the year ended 31 March 2018, as part of the restructuring of the Company's intercompany loan arrangements and share capital, the Company cancelled 100,000,000 shares of £1 each to create further positive retained earnings. As a result, the share capital was reduced to £100m.

21 Called up share capital (continued)

Special share - QinetiQ Group plc and its subsidiaries carry 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.

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.

22 Share-based payments

The Company operates a number of share-based payment plans for employees. The total share-based payments expense in the year was £2.7m, which all related to equity-settled schemes and nil related to cash-settled schemes (year to 31 March 2017: £3.3m which all related to equity-settled schemes and nil 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 payments arrangements that were utilised during the year. In all cases they relate to the shares of QinetiQ Group plc, the ultimate parent company.

22 Share-based payments (continued)

Performance Share Plan (PSP)

In the year, the Company 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 total shareholder return ('TSR') conditions and 50% subject to EPS conditions. EPS awards begin to vest at 25% once the underlying EPS CAGR (Compound Annual Growth Rate) hits 3% rising on a linear scale vesting 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 scale vesting at 100% when TSR performance reaches the upper quartile.

	2018 Number of shares	2017 Number of shares
Outstanding at start of year	8,583,157	8,914,560
Granted during the year	102,136	3,225,611
Exercised during the year	(1,136,685)	(50,000)
Forfeited / lapsed during the year	(1,560,387)	(3,507,014)
Outstanding at end of year	**5,988,221**	**8,583,157**

PSP awards are equity-settled awards and those outstanding at 31 March 2018 had an average remaining life of 0.8 years (2017: 1.4 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 21% (2017: 23%) for the average share price volatility of the FTSE comparator group and 58% (2017: 57%) for the average correlation to the comparator group. The weighed average fair value of grants made during the year was £2.02 (2017: £1.72). The weighted average share price at date of exercise was £2.78 (2017: £2.68). Of the options outstanding at the end of the year nil were exercisable (2017: nil).

Deferred Share Plan (DSP)

During the year the Company granted DSP awards to certain senior executives.

	2018 Number of shares	2017 Number of shares
Outstanding at start of year	-	-
Granted during the year	2,518,384	-
Outstanding at end of year	**2,518,384**	-

Awards are based on the satisfaction of pre-grant annual performance assessment and remains subject to a strategic growth underpin which for 2018 is Operating Profit. The award is subject to a three-year vesting period and a further two-year holding period.

At 31 March 2018 the awards had an average remaining life of 2.1 years. There is no exercise price for these awards. The fair value of the awards at 31 March 2018 was £2.06 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.

22 Share-based payments (continued)

Group Share Incentive Plan (SIP)

Under the QinetiQ SIP the Company offers UK employees the opportunity of purchasing up to £150 worth of shares a month at the prevailing market rate. The Company 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.

	2018 Number of shares	2017 Number of shares
Outstanding at start of year	828,448	805,785
Awarded during the year	342,413	323,193
Exercised during the year	(277,839)	(248,355)
Forfeited during the year	(39,510)	(52,175)
Outstanding at end of year	**853,512**	**828,448**

SIP matching shares are equity-settled awards; those outstanding at 31 March 2018 had an average remaining life of 1.5 years (2017: 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 (2017: nil).

Group Deferred Annual Bonus Plan (DAB)

Under the QinetiQ DAB 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 on EPS performance. The number that will vest is dependent on the growth of EPS over the measurement period of three years. The matching element begins to vest at 25% once the underlying EPS CAGR hits 3% rising on a linear scale vesting at 100% for 10% CAGR.

	2018 Number of shares	2017 Number of shares
Outstanding at start of year	17,253	311,500
Exercised during the year	(7,148)	-
Forfeited during the year	(10,105)	(294,247)
Outstanding at end of year	**-**	**17,253**

DAB matching shares are equity-settled awards; those outstanding at 31 March 2018 had an average remaining life of nil years (2017: 0.3 years). There are no shares granted in the prior year or current year. The weighted average share price at date of exercise was £2.63 (2017: £nil). Of the shares outstanding at the end of the year nil were exercisable (2017: nil).

Cash Alternative Units (CAUs)

	2018 Number of shares	2017 Number of shares
Outstanding at start of year	-	20,000
Exercised during the year	-	(20,000)
Outstanding at end of year	**-**	**-**

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 Company. There were no awards outstanding at 31 March 2018 (2017: nil). There is no exercise price for these awards. The weighted average share price on the date of exercise was £nil (2017: £2.08). The carrying amount of the liability of the grants at the balance sheet date was nil (2017: nil).

22 Share-based payments (continued)

Bonus Banking Plan (BBP)

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

	2018 Number of shares	2017 Number of shares
Outstanding at start of year	786,195	814,778
Granted during the year	709,755	512,003
Exercised during the year	(143,923)	(534,818)
Forfeited during the year	(27,486)	(5,768)
Outstanding at end of year	**1,324,541**	**786,195**

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 value of a participant's bonus account will be paid out annually for three years with 100% of the residual value paid out at the end of year four. 50% of the unpaid balance of a participant's bonus account will be at risk of forfeiture.

At 31 March 2018, the awards had an average remaining life of 1.5 years (2017: 1.8 years). There is no exercise price for these awards. The fair value of the awards at 31 March 2018 was £2.06 (2017: £2.80) 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.

23 Post-retirement benefits

Defined contribution plans

In the UK the Company operates two defined contribution plans: a Group Personal Pension Plan (GPP) and a defined contribution arrangement for its UK employees. These are both defined contribution schemes managed by Scottish Widows. 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.

23 Post-retirement benefits (continued)

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. 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 asset/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 year 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 year in which they arise. The expected employer cash contribution to the Scheme for the year ending 31 March 2019 is £2.5m. The Company has no further payment obligations once the agreed contributions have been paid.

Triennial funding valuation

The most recent completed full actuarial valuation of the Scheme was undertaken as at 30 June 2017 and resulted in an actuarially assessed surplus of £139.7m (relative to the technical provisions i.e. the level of assets agreed by the Trustee and the Company as being appropriate to meet member benefits, assuming the Scheme continues as a going concern). The next triennial valuation is being performed as at 30 June 2020.

The agreed recovery plan requires £2.5m contributions per annum until 31 March 2032, indexed by reference to CPI. Such distributions are from the Group's Pension Funding Partnership. The previous recovery plan required £13.0m contributions per annum until 31 March 2018, including £2.5m p.a. distributions to the Scheme, indexed by reference to CPI, from the Group's Pension Funding Partnership.

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.

Other UK schemes

The Company 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 2018 amounted to £nil (2017: £nil). The Company also offers employees access to a Group Self Invested Personal Pension Plan, but no Company contributions are paid to this arrangement.

23 Post-retirement benefits (continued)

QinetiQ Pension Scheme net pension asset

There were no outstanding contributions at the balance sheet date for the defined benefit section of the Scheme. 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:

	2018 £ m	2017 £ m
Equities - quoted	115.8	284.0
Equities - unquoted	58.9	71.4
Corporate bonds	311.3	340.6
LDI investment*	1,050.9	968.2
Alternative bonds**	197.9	132.3
Alternative bonds - quoted	35.0	-
Property	138.7	126.7
Cash and other	80.2	3.1
Derivatives	1.8	-
Total market value of assets	1,990.5	1,926.3
Present value of Scheme liabilities	(1,674.3)	(1,770.3)
Net pension asset before deferred tax	**316.2**	**156.0**
Deferred tax liability	(58.6)	(31.4)
Net pension asset after deferred tax	257.6	124.6

* The Scheme has assets invested in a Liability Driven Investment portfolio. As at 31 March 2018 this hedges against 85% of the interest rate and 100% of the inflation rate risk, as measured on the Trustees' gilt-funding basis.

** Includes allocation of high-yields bonds, secured loans and emerging market debt.

Per the Scheme rules, the Company has an unconditional right to refund of any surplus that arise on cessation of the Scheme in the context of IFRIC14 paragraphs 11(b) and 12 and therefore the full net pension asset can be recognised on the Group's balance sheet and the Group's minimum funding commitments to the Scheme do not give rise to an additional balance sheet liability.

Changes to the fair value of Scheme assets

	2018 £ m	2017 £ m
Opening fair value of Scheme assets	1,926.3	1,410.4
Interest income on Scheme assets	49.8	47.6
Re-measurement gain on Scheme assets	34.8	492.0
Contributions by the employer	13.4	12.9
Net benefits paid out and transfers	(32.8)	(35.1)
Administrative expenses	(1.0)	(1.5)
Closing fair value of Scheme assets	1,990.5	1,926.3

23 Post-retirement benefits (continued)

Changes to the present value of the defined benefit obligation

	2018 £ m	2017 £ m
Present value of scheme liabilities	(1,770.3)	(1,448.1)
Interest cost	(45.6)	(48.6)
Actuarial gain/(loss) on Scheme liabilities based on:		
Change in financial assumptions	31.8	(329.4)
Experience gains	6.6	20.7
Changes in demographic assumptions	70.4	-
Net benefits paid out and transfers	32.8	35.1
Closing defined benefit obligation	**(1,674.3)**	**(1,770.3)**

Changes to the net pension asset/(liability)

	2018 £ m	2017 £ m
Opening net pension asset/(liability)	156.0	(37.7)
Net finance income/(expense)	4.2	(1.0)
Administrative expenses	(1.0)	(1.5)
Net actuarial gain	143.6	183.3
Contributions by the employer	13.4	12.9
Closing net pension asset	316.2	156.0

Total expense recognised in the profit and loss account

	2018 £ m	2017 £ m
Amounts recognised in operating profit		
Administrative expenses	1.0	1.5
Amounts recognised in finance income or costs		
Net finance (income)/expense on the net pension asset	(4.2)	1.0
Total (income)/expense recognised in the profit and loss account (gross of deferred tax)	**(3.2)**	**2.5**

23 Post-retirement benefits (continued)

Assumptions

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

	2018 %	2017 %
Discount rate applied to scheme liabilities	2.60	2.60
CPI inflation assumption	2.25	2.35

Assumed life expectancies in years:

	2018 Years	2017 Years
Future male pensioners (currently aged 60)	88	89
Future female pensioners (currently age 60)	90	91
Future male pensioners (currently age 40)	90	91
Future female pensioners (currently age 40)	92	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 2018 and 31 March 2017 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_2016 Core Projections (2017: CMI_2013 Core Projections) and a long-term rate of improvement of 1.5% per annum.

The balance sheet net pension asset/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.

Sensitivity analysis of the principal assumptions

Assumption	Change in assumption	Indicative impact on Scheme liabilities (before deferred tax)	Indicative impact on net pension asset
Discount rate	Increase by 0.1%	Decrease by £31m	Decrease by £11m
Rate of inflation	Increase by 0.1%	Increase by £34m	Increase by £17m
Life expectancy	Increase by one year	Increase by £46m	Decrease by £46m

The impact of movements in Scheme liabilities will, to an extent, be offset by movements in the value of Scheme assets as the Scheme has assets invested in a Liability Driven Investment portfolio. As at 31 March 2018 this hedges against approximately 85% of the interest rate and 100% of the inflation rate risk, as measured on the Trustees' gilt-funded basis.

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.

23 Post-retirement benefits (continued)

Risks

Through its defined benefit pension plan, the Company is exposed to a number of risks, the most significant of which are detailed below.

Volatility in market conditions
Results under IAS 19 can change dramatically depending on market conditions. The defined benefit obligation is linked to yields on AA-rated corporate bonds, while many of the assets of the Scheme are invested in other assets. Changing markets in conjunction with discount rate volatility will lead to volatility in net pension asset on the balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the IAS19 pension finance income in the profit and loss account.

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 asset/liability in accordance with the relevant accounting standard, IAS 19 (revised) 'Employee benefits'. Changes in these assumptions have no impact on the Company'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.

24 Transactions with the MOD

The MOD continues to own its Special Share in the Company which conveys certain rights as set out in note 21. 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 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.

Strategic assets
Under the Principal Agreement with the MOD, QinetiQ is not permitted without the written consent of the MOD, to:

- dispose of or destroy all or part of a strategic asset; or
- 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 2018 was £5.5m (2017: £6.3m).

24 Transactions with the MOD (continued)

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. Elements of the contract are subject to re-pricing every five years and elements of the contract (Test Aircrew Training and Air Ranges Modernisation) have been contracted at a fixed price to 31 March 2028.

Other contracts with MOD

The LTPA is the most significant contract QinetiQ has with the MOD. In total approximately 79% of the Company's revenue comes directly from contracts with the MOD.

25 Obligations under leases

Finance leases

Company as a lessee

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

	2018 £ m	2017 £ m
Amounts payable under finance leases		
Within one year	2.8	2.7
In two to five years	11.9	11.6
In over five years	31.5	34.0
Total gross payments	46.2	48.3
Less finance charge allocated to future periods	(17.9)	(19.2)
	28.3	**29.1**

Operating leases

Company as a lessor

The Company 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 Company had contracted with tenants for the following future minimum lease payments

	2018 £ m	2017 £ m
Within one year	4.6	5.3
In the second to fifth years inclusive	10.1	8.8
Greater than five years	5.3	6.1
	20.0	**20.2**

Company as a lessee

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

	2018 £ m	2017 £ m
Within one year	2.6	3.4
In the second to fifth years inclusive	2.8	4.0
Greater than five years	0.1	0.3
	5.5	**7.7**

25 Obligations under leases (continued)

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

26 Commitments

Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £75.8m (2017: £155.3m).

This includes £74.3m (2017: £155.1m) in relation to property, plant and equipment that will be wholly funded by a third-party customer under long-term contract arrangements. These primarily relate to investments under the LTPA contract.

27 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 remote.

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 £237.3m (2017: £245.7m) Revolving Credit Facility maturing in 2019. At 31 March 2018 other Group companies borrrowings under this facility amounted to £nil (2017: £nil), with £nil (2017: £nil) borrowed by the Company.

The Company has provided bank guarantees issued in the course of ordinary trade to the value of £6.8m (2017: £8.8m). The Company provides guarantees to certain customers of fellow subsidiaries to the value of £13.1m (2017: £19.8m).

28 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, the only Company in the group which prepares consolidated financial statements. Copies of the consolidated financial statements of QinetiQ Group plc are available from the Company Secretary, QinetiQ Group plc, Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX.