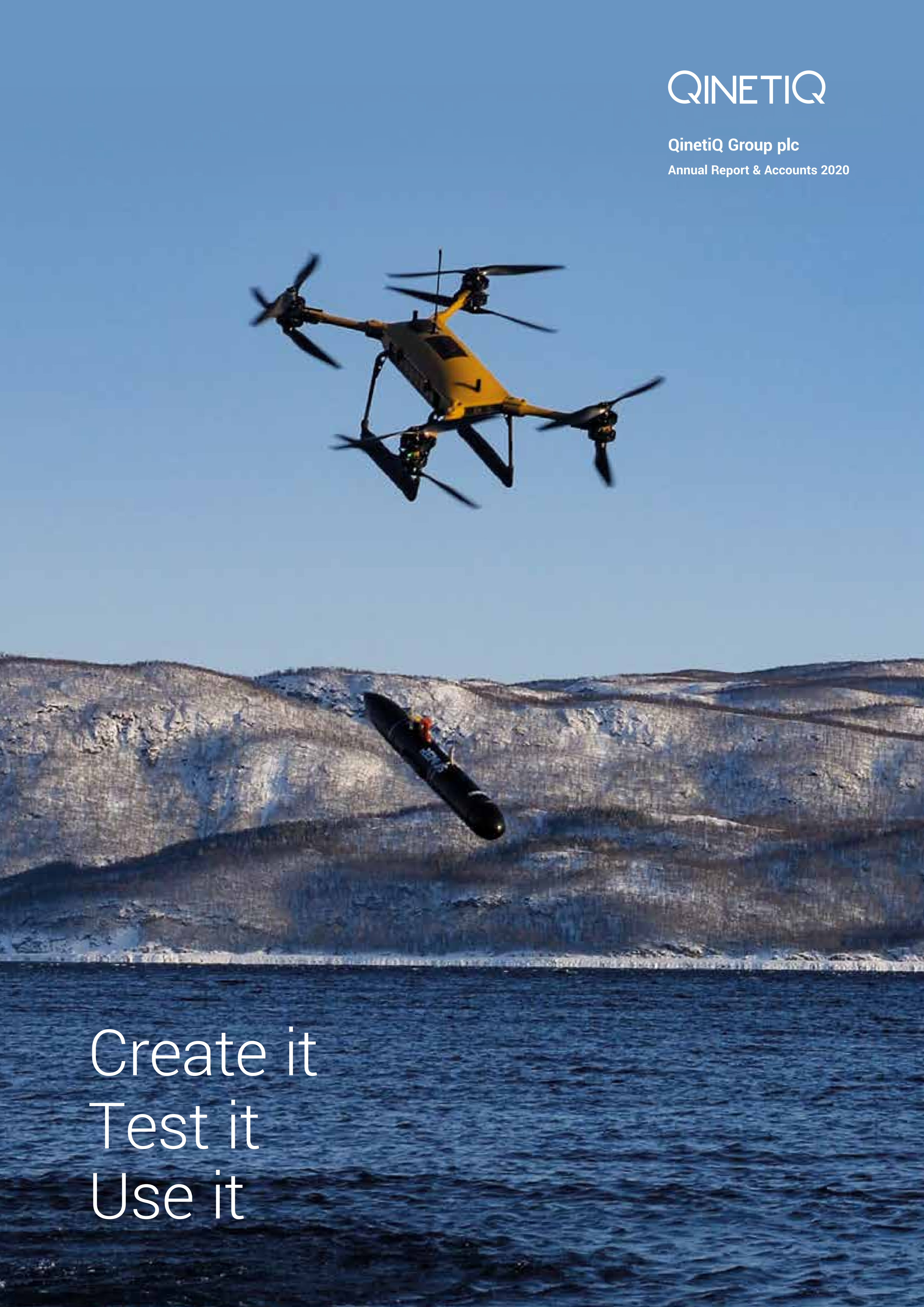
QinetiQ Group plc

Annual Report & Accounts 2020



Create it
Test it
Use it

Our purpose

QinetiQ is dedicated to protecting lives, defending sovereign capability and securing the vital interests of our customers.

Who we are

QinetiQ is a leading science and engineering company operating primarily in the defence, security and critical infrastructure markets.

We are an information, knowledge and technology based company with the breadth and depth of more than 6,000 highly dedicated employees.

What we do

We apply our unique technical expertise across the product lifecycle, helping our customers to create, test and use defence and security capabilities. Not only can we develop cutting-edge technology and turn it into a capability, we can also tell customers if that capability will work when it is critically needed and ensure they are trained and operationally ready to use it when it matters.

Anticipating the current, emerging and future threat environment and proactively understanding our customers' needs to provide mission-led innovation is critical to our success.

* Throughout this report FY20/2020 refers to QinetiQ's financial year ended 31 March 2020.

** The report also refers to 'Underlying' measures of performance. Definitions of the Group's alternative performance measures can be found in the glossary on page 183.

Front cover image:

An unmanned aircraft system deploying an underwater vehicle as part of a recent Royal Navy trial.

Inside front cover:

A trial taking place in our anechoic test facility at MOD Boscombe Down.

See more online at www.QinetiQ.com

How we have performed

Financial highlights

We delivered our fourth consecutive year of growth

2020	£972.1m
2019	£776.4m
2018	£587.2m

Orders

£972.1m

(FY19: £776.4m)

2020	£1,072.9m
2019	£911.1m
2018	£833.0m

Revenue

£1,072.9m

(FY19: £911.1m)

2020	£133.2m
2019	£124.9m
2018	£122.5m

Underlying Operating Profit

£133.2m

(FY19: £124.9m[1])

2020	£117.6m
2019	£114.8m
2018	£141.0m

Statutory Operating Profit

£117.6m

(FY19: £114.8m[1])

2020	20.0p
2019	19.7p
2018	19.3p

Underlying Earnings per Share

20.0p

(FY19: 19.7p)

2020	18.7p
2019	20.1p
2018	24.4p

Statutory Earnings per Share

18.7p

(FY19: 20.1p)

[1] Prior year comparatives for 2019 have been restated due to a change in accounting policy in respect of leases. See note 37 on page 172 for details.

Strategic highlights

We continued to make good strategic progress

Completed two strategic acquisitions

Acquired Manufacturing Techniques Inc. (MTEQ) in the US for $105m and NSC in the UK for £14m.

Won four long-term contracts

Secured four long-term contracts driving improved revenue visibility.

Improved employee engagement

Supported by engagement initiatives our employee engagement score increased by 10%.

Grew international revenue to 31%

We have grown our international revenue from 21% to 31% of Group over the past four years.

Secured £168m of orders through EDP

Our innovative delivery model for engineering services continued to drive performance.

Continued to transform the LTPA

Successfully delivered first year of the transition to new ways of working.

Strategic report

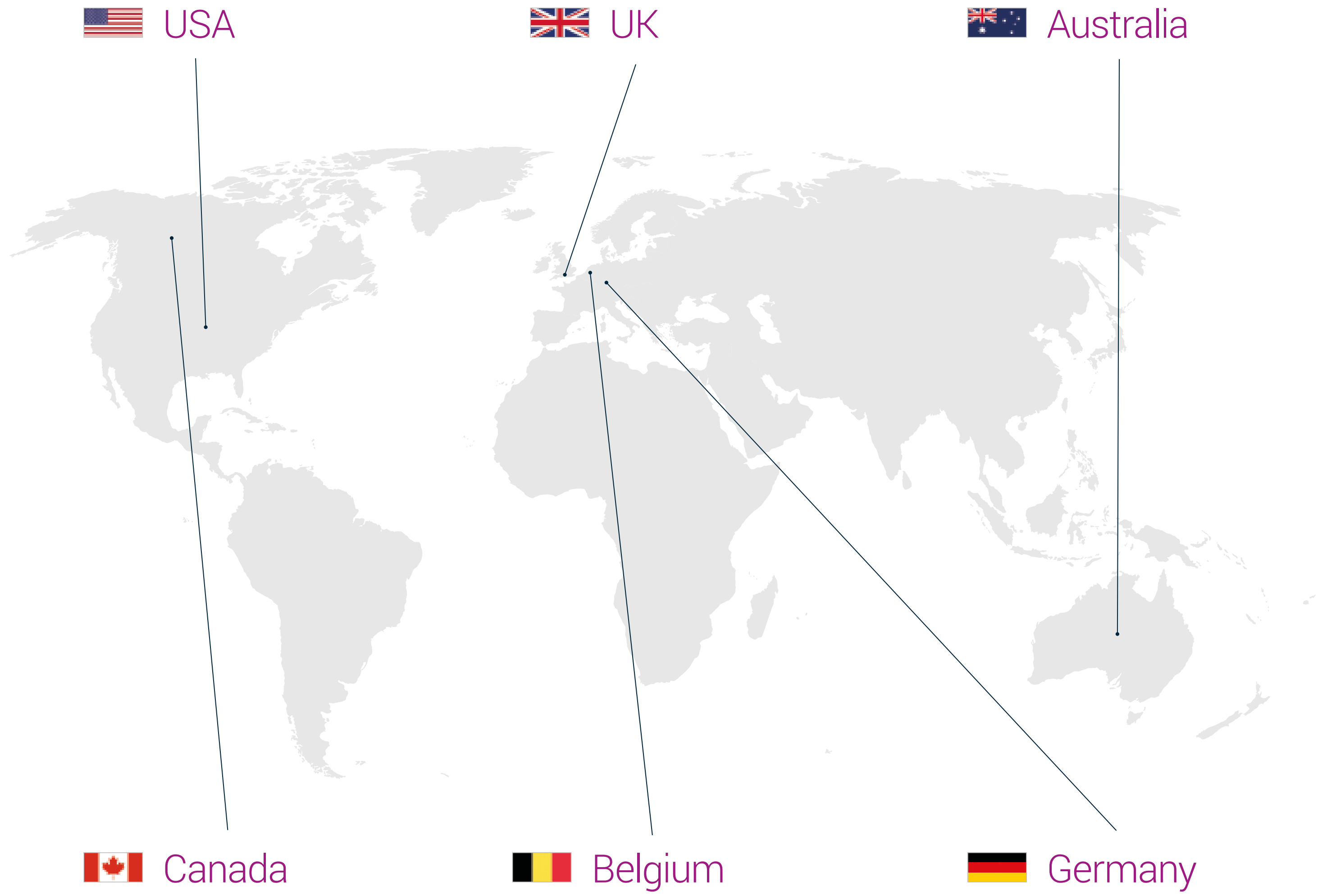
Governance

Financial statements

Other information

Where we operate

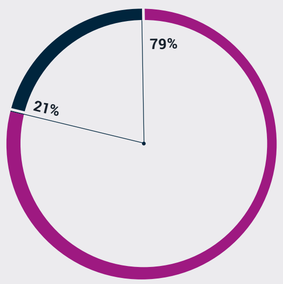
We are a global company with operations around the world. Our home countries, where we have more than 250 people in-country are the UK, the US and Australia. Our priority countries for future growth are Canada, Germany and Belgium.



Revenue by geography

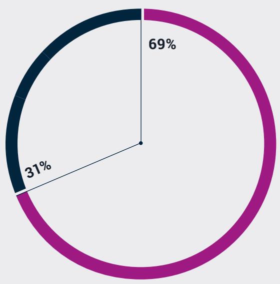
A core pillar of our strategy is to grow our international revenue to 50% of Group. Since we launched our strategy in 2016 we have grown our international revenue from 21% to 31% of Group revenue, supported by both organic and inorganic growth.

2016



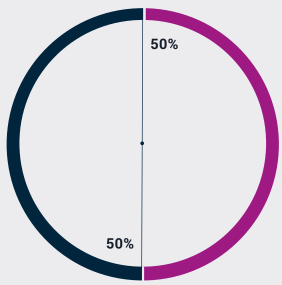
UK **£597m**
International **£158m**

2020



UK **£740m**
International **£333m**

2024+



UK
International

For more information see our strategy on page 18.

How we are structured

We report through two divisions; EMEA Services and Global Products.

EMEA Services

Combines world-leading expertise with unique facilities to generate and assure capability. It does this through capability integration, threat representation and operational readiness, underpinned by long-term contracts that provide good revenue visibility and cash generation.

Air & Space

De-risks complex aerospace programmes by testing systems and equipment, evaluating the risks and assuring safety.

Approximate revenue

£200m

Maritime & Land

Delivers operational advantage to customers by providing independent research, evaluation and training services.

Approximate revenue

£315m

Cyber & Information

Helps customers respond to evolving threats based on our expertise in cyber security, secure communication networks and devices, intelligence gathering and training.

Approximate revenue

£185m

International

Our International business leverages our expertise and skills developed in the UK and applies them to opportunities in attractive markets globally.

Approximate revenue

£100m

Global Products

Delivers innovative solutions and products to meet customer requirements. It undertakes contract-funded research and development, developing intellectual property in partnership with key customers and through internal funding with potential for new revenue streams.

United States

Develops and manufactures innovative defence products specialising in robotics, autonomy and sensing solutions. This business unit compromises our existing US operations as well as MTEQ.

Approximate revenue

£120m

OptaSense

Provides innovative fibre sensing solutions that deliver decision-ready data to key energy and infrastructure markets.

Approximate revenue

£25m

Space Products

Develops small satellites, payload instruments, sub-systems and ground station services.

Approximate revenue

£25m

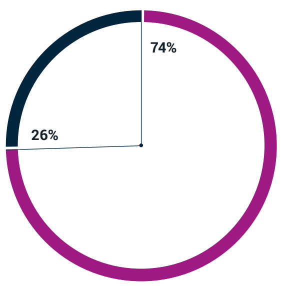
EMEA Products

Provides research services and bespoke technological solutions developed from intellectual property spun out from EMEA Services. QinetiQ Target Systems is reported in EMEA Products.

Approximate revenue

£105m

Revenue by division



EMEA Services	**£797m**
Group Products	**£276m**

Customer proposition

We deliver mission-led innovation by applying our core science and engineering expertise to enable agile development of solutions to meet our customers' needs; creating, testing and using critical defence and security capabilities.

Create it

Rapidly creating new capabilities

Utilising our research and experimentation capabilities, our test and evaluation expertise and extensive domain knowledge, we develop and apply cutting-edge technology to help our customers create a true capability. We evaluate, integrate and secure the platforms, systems, information and assets on which missions depend.

Test it

Assuring capabilities work when critically needed

We offer customers agile and realistic testing experiences so they can be sure that their capability works when it is critically needed. We operate some of the most advanced land, sea and air ranges in the world and combine the ability to manage live-fire exercises with our digitally enabled infrastructure to provide customers with realistic and cost effective testing solutions.

Use it

Ensuring our customers are trained and operationally ready

Combining real and simulated training experiences we can ensure our customers are operationally ready to use their capabilities when it matters. By blending testing, mission rehearsal and training, and analysis we give customers tangible evidence about how their capabilities perform within highly authentic environments and provide advice on how to prepare them for operational use.

Create it

"Our innovative approach will meet the Government's objectives and produce an integrated prototype system that delivers game-changing situational awareness."

Mary Williams – President, QinetiQ US.

Next generation bomb suit

Dramatically increasing survivability, mobility and situational awareness

MTEQ, which we acquired in December 2019, was awarded a contract to create the next generation of bomb suits for the US Army. This modernises legacy bomb suit systems integrating a modular sensor suite and heads up display capabilities to provide technicians with revolutionary protection, mobility and situational awareness.

Test it

"We are making a massive investment to create a modernised LTPA and the OASIS contract will be able to turn this investment into real value for our customers."

Steve Fitz-Gerald – Group MD, Maritime & Land.

Helping to protect UK ships and submarines

Measuring and understanding the unique acoustic and electromagnetic signature of all Royal Navy vessels

The ability to maintain an in-depth knowledge of a ship or submarines acoustic and electromagnetic signature is a critical part of maintaining a battle winning edge, helping to ensure you can see your adversaries before they can see you. Through the £19m Operational Assessment of Signatures Informing Susceptibility (OASIS) contract awarded in August 2019, we will support the Royal Navy in understanding this signature over the lifetime of a vessel. The service provided through the Long Term Partnering Agreement (LTPA) builds on our investment to lead and modernise UK Test & Evaluation and not only helps to protect the fleet of today, but also helps inform the fleet of tomorrow.

Use it

"The course is completely new, it's modular, it's much more flexible and that allows us to provide a bespoke training package to our many customers."

Isabelle de Montet-Guerin, Fixed Wing Test Pilot Tutor.

Empire Test Pilots' School

Shaping talented pilots, engineers and aircrew into flight test professionals

Modern flight test programmes are complex and expensive endeavours, requiring a high level of knowledge, skill and hard work in order to get the maximum capability for defence from their air systems. Realising this potential while ensuring our aircraft remain safe to operate requires trained specialists with expertise in a broad range of theoretical, practical and analytical disciplines. Building upon our LTPA investment, we have successfully delivered the first year of our new modernised course, which imparts these skills to our trainees.

For more information on how we engage with our customers see page 48.

Employee proposition

As a business built on the skills and experience of our people, recruiting, engaging and developing high-quality employees is critical to our long-term success. We recognise that motivated and talented people are critical to the success of our company. Our goal is to offer employees:

Meaningful work

People around the world depend on us for their safety and security, and to enable the safety and security of others. We understand the nature of this responsibility and take pride in its delivery.

- We create, test and enable the effective use of new ways to save lives
- Reducing risks to society
- And helping to maintain the global infrastructure on which we all depend

Intellectual stimulation

Working at the cutting-edge of technology and innovation, our people have the chance to explore what is possible today and to shape tomorrow, collaborating with diverse teams to solve complex problems.

- We are creating a unique high-performance culture
- Where teams from different backgrounds, disciplines and experiences collaborate widely and openly
- Constantly discovering new ways of solving complex problems

The right environment

A unique environment, where we provide the leadership and infrastructure that supports our teams to deliver mission-led innovation for our customers' advantage.

- A clearly stated strategy aligns our direction of travel
- From flexible working, and tangible rewards for collective success, we create opportunities for meaningful work
- Providing professional development and supporting personal wellbeing

For more information on how we engage with our employees see page 41.

Partner proposition

We partner with complementary organisations including academia, SMEs and other defence companies, ensuring we deliver the best solutions for our customers. We offer these organisations:

A common purpose

Working with partners whose values and culture align with our own, we are committed to delivering mission-led innovation for our customers' advantage.

Genuine collaboration

Collaboration is one of our core values and we recognise we can achieve more by working together, adopting an open and honest approach.

Fair and sustainable approach

We aim to treat our partners fairly, ensuring we act with integrity and have equitable contractual terms. This extends to ensuring we are financially responsible.

For more information on how we engage with our partners see page 48.

Investor proposition

By focusing on our customers' needs and evaluating all investment opportunities with the same rigour, we aim to deliver sustainable and attractive returns to our shareholders. Our investment case is underpinned by five key attributes:

Unique capabilities

We operate unique capabilities around the world critical to maintaining national defence and security

- A key partner to UK defence
- Leading technical expertise and state of the art facilities
- High barriers to entry

6,000+
highly dedicated employees

>50
specialised sites around the world

Attractive markets

Growing exposure to attractive international markets

- Significant presence in high-growth home countries; the US and Australia
- Ambition to increase international revenue to 50% of Group
- Supported by our customer focused approach to delivering mission-led innovation

£8bn+
addressable market

31%
of FY20 revenue generated in international markets

A clear strategy

We have a clear strategy to deliver long-term sustainable growth in our business focused on:

- Leading and modernising UK Test & Evaluation
- Building an international company
- Innovating for our customers' advantage

£370m
investment to modernise UK Test & Evaluation

111%
growth in international revenue over four years

Attractive financials

Attractive financial characteristics supported by a strong balance sheet

- Long-term contracts provide good visibility
- A cash generative business model and a clear capital allocation policy
- Investing for growth with the ability to self-fund organic and inorganic investment

£850m
of FY21 revenue under contract

£85m
of net cash

Sustainable growth

Delivering sustainable growth and returns to our shareholders

- Fourth year of organic revenue growth and second year of organic profit growth
- Complemented with well performing acquisitions
- Progressive dividend policy

18%
revenue growth (FY19: 9%)

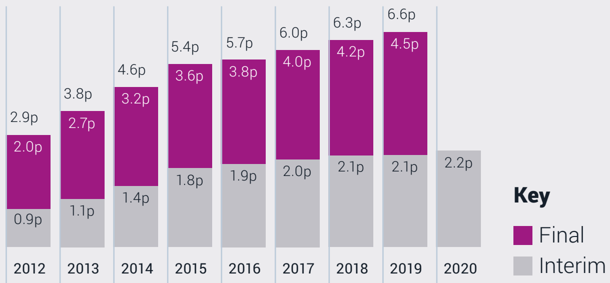
2%
underlying EPS growth (FY19: 2%)

For more information on how we engage with our investors see page 66.

Chairman's statement

Taking steps to secure our long-term success

"With talented people, attractive and growing end markets and a strong management team, QinetiQ is well positioned to deliver long-term sustainable growth."



In light of the uncertainty created by COVID-19 a decision on the dividend has been deferred until a later date.

See our Board of Directors on page 60.

See our Governance framework on page 62.

It has been just over a year since I was appointed to the Board of QinetiQ. I was fortunate to have joined a company in a very strong position, with a clear strategy that is being well executed. A fourth year of growth is further evidence of this with many key strategic milestones delivered, including the acquisition of MTEQ.

My predecessor Mark Elliott envisaged the renaissance of QinetiQ and appointed a strong and effective executive team. I should like to thank Mark for his successful stewardship during a critical period of change for the company.

Since joining, I have spent time getting to know QinetiQ, visiting our sites and meeting both UK and international teams. I have enjoyed spending time with our apprentices and graduates, and with our senior managers, engineers, scientists and range staff and have been consistently impressed with the breadth and depth of their knowledge, experience and enthusiasm – our people are incredibly talented scientists, engineers and technicians. They have a strong sense of purpose and customer focus. They understand how important their work is to protecting and saving lives, defending sovereign interests and delivering unique capability. At all levels I meet teams embracing culture change and recognising that it is their responsibility to not only satisfy but exceed customer expectations.

I have also had positive discussions with our Employee Engagement Group (EEG). Formed of elected representatives from across our company their role is to act as the formal employee voice within QinetiQ. The EEG provides the Board and our executive team with valuable insights into how our employees are feeling and we actively engage with them during key decision making processes to help inform our thinking. I would like to thank them for their valuable contribution during the course of the year.

Like all businesses, we have felt the effects of the COVID-19 pandemic which has fundamentally changed the way we operate. Our top priority remains the health, safety and wellbeing of our people and we have had to overcome the challenge of continuing to deliver for our customers while ensuring it is safe to do so. We have adapted quickly to the new-norm and harnessed technology to assist with smarter-working. We are, in this process, learning important lessons which will become embedded in our future structures and processes.

We are fortunate to have entered this crisis from a position of great strength, however with national safeguarding measures in all of our key markets, we do anticipate seeing less-critical customer work being deferred or delayed in the short-term. Given the uncertainty COVID-19 creates, as a Board we believe it is prudent to maintain a cautious approach until there is greater

clarity around the medium-term commercial impact of the global pandemic and any longer-term systemic changes. Consequently, we are deferring our decision on the final FY20 dividend until there is greater clarity on the situation.

Taking a longer-term view, with talented people, attractive and growing end markets and a strong management team, QinetiQ is well positioned to deliver sustainable growth. We are putting in place the structures to ensure this growth continues to be effectively managed and governed, and using the current environment to accelerate some of these changes. We are implementing a new global operating model, appropriate for an integrated defence and security business with international operations. We have strengthened our management team welcoming Mary Williams from MTEQ as our new president of QinetiQ in the US.

Delivery of long-term growth is also dependent upon our ability to operate safely, sustainably and responsibly. Since joining, I have been impressed with the Board's rigorous focus on ensuring the risks within our business are well understood and appropriately managed. While we did not anticipate the COVID-19 situation itself, our response has been built upon preparations made as part of our ongoing approach to risk management. I have emphasised the importance of our people and we continue to implement changes to make QinetiQ a better place to work. While there is still more to do, our employee engagement scores have increased by 10% with three quarters of our people taking part. Environmental concerns have rightly become much more prevalent, there is no doubt that our climate is changing at unprecedented rates. We are actively looking at ways to reduce our environmental impact and to ensure our business is resilient to the effects of climate change.

There will be some changes to the membership of the Board this year. Paul Murray, who has chaired the Audit Committee with great skill and diligence retires after nine years and will hand over to Shonaid Jemmett-Page. Admiral Sir James Burnell-Nugent will retire at the end of 2020, again having served for more than nine years as the highly effective chair of the Risk Committee, and will hand over to his successor. I should like formally to thank Paul and James for their outstanding contributions to QinetiQ over many years and look forward to welcoming Shonaid to the Board.

I, and the entire QinetiQ Board, want to thank all our teams globally for their continued support and energy in sustaining our company and delivering outstanding service to our customers and nations. In time I believe we will look back on this period as the crucible in which a stronger and more vibrant QinetiQ was forged.

Neil Johnson
Non-executive Chairman

21 May 2020

Our values

Integrity

We take pride in our decisions, and work to create a sustainable and responsible business. We take personal responsibility to do the right thing, both as an organisation and as individuals.

Collaboration

Delivering value through partnership and teamwork, we actively collaborate with our colleagues, customers and industry partners. We know that working together is the best way to meet our customers' needs.

Performance

Our performance is measured by how we deliver for our customers; meeting their needs through flawless execution and delivery of the mission-critical solutions on which they depend.

Chief Executive Officer's review

Entering FY21 from a position of strength

"The steps we are taking will preserve our balance sheet strength and retain the critical talent we need within our company."

Through the consistent and successful implementation of our strategy we have delivered our fourth year of growth. Our FY20 performance was strong, with the largest order intake in nearly a decade, revenue growth of 18% and operating profit growth of 7%. We also completed our largest acquisition to date under our strategy with the purchase of MTEQ. This significantly enhances our capabilities in sensing technology, complements our existing US business and expands our presence in the world's largest defence market. With our strategy firmly embedded and delivering consistent results, we are taking steps to mature our organisation ensuring we have the right teams, systems and processes in place to continue building a truly integrated global defence and security company.

Having launched our vision-based strategy in 2016, we are delivering significant progress and continue to drive its implementation. Our strategy has three mutually reinforcing pillars: 1) leading and modernising UK Defence Test & Evaluation (T&E), 2) building an international company, and 3) innovating to deliver advantage to our customers.

During the course of FY20 we secured many strategic achievements, winning significant orders, delivering for our customers, investing in our capabilities and successfully acquiring two businesses. What has been particularly notable is the consistency of performance across our business. The growth we are delivering is across all areas of QinetiQ, both within EMEA Services and Global Products in the UK and internationally.

Current impact from COVID-19

Our EMEA Services division benefits from long-term contracts, performing work that is critical to sovereign defence capabilities. To date, the effects of COVID-19 have been limited within this division. We have experienced some limited delays in trial activity, and in Germany a reduction in flying hours, while other work more directly associated with the response to COVID-19 has been accelerated. While many of our employees are able to work effectively and productively from home, similar requirements for our customers and partners to do the same are likely to have a knock-on effect to our business, although it is difficult to quantify the effects at this stage.

The scale and impact of COVID-19 became increasingly apparent as we approached our year end. As we enter FY21, we are seeing isolated effects to our business associated with the restrictions on travel and requirements to implement social distancing. These effects are more likely in our shorter-cycle products business outside of our home and priority countries, particularly within QinetiQ Target Systems where some customers have delayed trial activity and reduced orders for targets.

Strategic response to COVID-19

We entered FY21 in a very strong position, with a large order book and net cash on our balance sheet. Despite our resilient business model and strong financial position, we think it is appropriate to be prudent and have taken decisive action now to maintain the strength of our business in the long-term interests of our employees, customers and investors.

The COVID-19 crisis creates uncertainty and as yet, with no clear guidance on the scale back of national safeguarding measures as well as the potential knock-on impact to customer priorities and budgets, we are taking an appropriately cautious approach. We hope the impact is less pronounced than we are planning for, in which case we will be able to remove the actions quickly.

We are ensuring that our strategic response to the COVID-19 crisis is fair, balanced and proportionate across all our stakeholders, enabling us to be agile and proactive so that we can emerge from the crisis as a stronger more agile company and pursue medium to long-term growth.

1) Our employees

Short-term

Our primary concern is for our people, whose knowledge and expertise are key to our success. Globally, we are taking steps to ensure that employees can work effectively and safely from home while continuing to feel supported. For those employees who need to work on our sites to enable delivery of critical defence and national security programmes, we have implemented a range of safeguarding measures including social distancing, additional cleaning services and provision of personal protection equipment as necessary to ensure our working environments are safe and clean.

Longer-term

With nearly 80% of our employees working from home, our people have successfully risen to the challenge of extensive remote working delivering high levels of productivity and effectiveness. To support longer-term remote working we are accelerating aspects of our digital transformation and evolving our functional delivery model. We are continuing our employee engagement activity using virtual rather than physical meetings building on the positive 10% increase in engagement scores we delivered during FY20. We have continued our All Employee Incentive Scheme, which we introduced last year, which will pay each employee £740 in QinetiQ shares and is a key enabler for growth by aligning our employee and shareholder interests.

2) Our customers

Short-term

The work QinetiQ does is vital to maintaining the capabilities of defence, security and critical national infrastructure, including the emergency services. Our customers are facing significant challenges due to the threat of COVID-19, and we are working closely with them to provide support delivering their priorities at this critical time. We are proud of the role we play in this regard, and we are aware of the responsibilities that we are fulfilling.

Longer-term

We are partnering with customers to understand how their longer-term needs will evolve. We anticipate that future defence and security budgets are likely to come under pressure as the full financial impact to governments of COVID-19 is understood. While overall budgets may come under pressure, we anticipate there being areas within overall defence spending, aligned with our strategy, that will continue to grow. We occupy a privileged position in defence with very close customer relationships and as such are able to advise on defence and security priorities as well as upgrading existing capabilities to respond to the latest threats.

We believe the challenges COVID-19 creates will accelerate the shift to a new defence paradigm that puts rapid, mission-led innovation at the centre of procurement, a trend that is well aligned with our own innovation strategy, expertise and recently acquired businesses. Our strategy, which we have been successfully implementing over the last four years, was developed in a constrained budgetary environment, and as such we are confident we can continue to deliver medium to long-term and profitable growth despite potential macro headwinds.

3) Our company

Short-term

To protect our business we are implementing a series of short-term actions to sustain our skills and critical capabilities for the long-term. These temporary actions include the CEO and CFO volunteering a salary reduction of c.33% and the wider Board volunteering a 25% reduction in fees. We are also taking a prudent approach to controlling cash outflows, including reducing operating expenditure and deferring discretionary capital expenditure. All bonuses will be paid in shares.

Given the unprecedented nature of COVID-19 and the Board's wish to adopt a prudent course of action to protect the long-term, it will postpone the decision on the proposal of a dividend until a later date. This decision was not taken lightly and will be reviewed as soon as sensible to do so.

We have a strong balance sheet with £85m of net cash available and an undrawn committed revolving credit facility of £275m. The initial five-year facility has been extended by one year to September 2024 and has a further option to extend by one more year to September 2025.

Longer-term

With 92% of our revenue delivered within our six home or priority countries, we have a resilient business model and growth strategy. We believe that the steps we are taking will preserve our balance sheet strength and retain the critical talent we need within our company. Our aim is to emerge from the current crisis able to continue accelerating our strategy to meet the needs of a new world, delivering both organic and inorganic growth.

We are continuing to make good progress on the integration of our acquisitions of MTEQ and NSC. In the US, we are successfully moving our governance structure to a Special Security Agreement (SSA), which will allow greater coordination and collaboration with QinetiQ globally supporting our longer term growth.

In April, we implemented our new global operating model, simplifying our management structure, digitalising our business, leveraging our capabilities globally and driving a performance culture across the organisation.

By taking prudent actions to preserve our balance sheet, we will be well placed to take advantage of the opportunities created by the current crisis, particularly in M&A. Our strategy has enabled us to successfully grow in an uncertain world over the last four years by adding value to our customers. Whilst the world has changed around us, our strategy is unchanged and is more relevant than ever to meet the needs of our customers in this new world.

Outlook – FY21

While we enter FY21 in a position of strength, it is too early to draw conclusions on the overall impact of COVID-19 to our business. At this stage we are planning for a range of outcomes depending upon the duration and extent of national safeguarding measures and any potential budget pressures. We have implemented short-term temporary actions to mitigate the immediate challenges and will provide further updates to the market as we gain more clarity both in terms of near-term trading and longer-term trends.

Outlook – Longer term

With the continued implementation of our strategy and investment, we are well placed to respond to changing customer requirements delivering medium to long-term, profitable growth.

Steve Wadey
Chief Executive Officer

21 May 2020

Our sustainable business model

Our fundamental strengths

Our people
The majority of our 6,000+ employees are highly skilled scientists, engineers and technicians with deep domain knowledge and experience. Our success is dependent on our people and we are investing to support their career development, wellbeing and engagement.

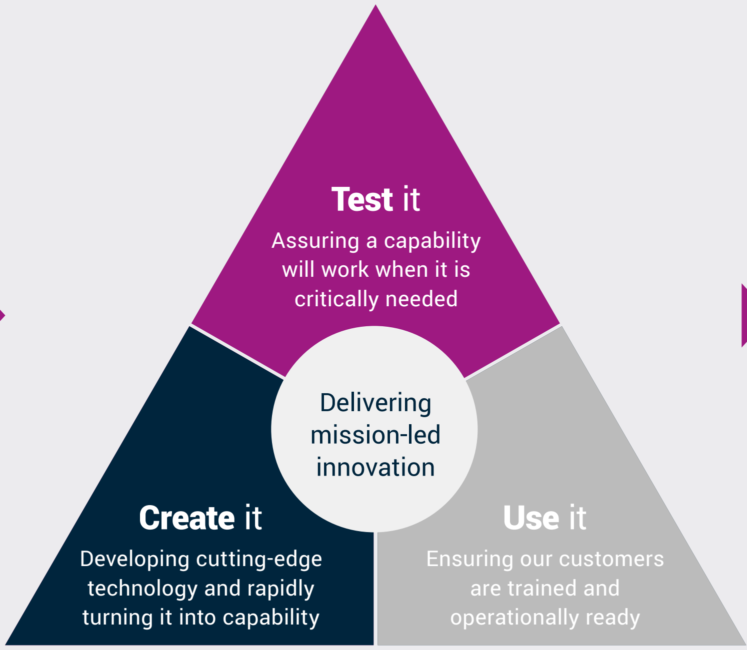
Customer focus
Adopting innovative and responsive approaches to meet our customers' needs, our people are inherently customer focused. We strive to provide outstanding customer experience in the delivery of mission critical solutions our customers depend on.

Complementary partnerships
Forming complementary partnerships with both industry and academia, with the ability to manage large provider networks of small and medium size enterprises, our open and honest approach ensures our customers receive the best offering in the market.

Specialist facilities
We own or operate truly specialist Research, Development, Test & Evaluation facilities around the world. Combining these unique facilities with the expertise of our people supports our customers in countering current, future and emerging threats. We are committed to ensuring these facilities remain world-class and are investing in them accordingly.

Our customer value proposition

We accelerate our customers' ability to transition from concept to capability. We provide ongoing testing and assurance throughout the lifecycle of complex platforms, weapons and capabilities and ensure our customers are effectively trained to use them. In short, we apply our fundamental strengths to help our customers to create, test and use critical capabilities.



See our customer proposition on page 4.

Purpose, culture and values

Our business model and how we create value is underpinned by our purpose, culture and values.

Purpose
QinetiQ is dedicated to protecting lives, defending sovereign capability and securing the vital interests of our customers.

How the money works

Revenue visibility and cash generation

Much of our work is delivered under long-term contracts providing a high level of revenue visibility. In addition our business is cash generative by nature. These attributes inherent in our business enable us to organically invest in our capabilities and sustain our business model.

£850m
of FY21 revenue under contract

133%
underlying cash conversion (pre-capex) in FY20

Capital allocation

We have a clear and disciplined approach to capital allocation with a policy that provides the financial flexibility required to successfully execute our long-term growth strategy, while ensuring that capital is deployed in the most effective manner. Our capital allocation priorities are:

1. Invest in our organic capabilities, complemented by bolt-on acquisitions where there is a strong strategic fit.
2. Maintain the necessary balance sheet strength.
3. Provide a progressive dividend to shareholders.
4. Return excess cash to shareholders.

Stakeholder value creation

Customers

We deliver mission critical solutions to our customers helping them to address their most pressing challenges. They benefit from a responsive and agile approach, the ability to innovate at pace and value for money.

18%
improvement in Net Promoter Score

Employees

Our employees work in an exciting high paced environment where the work they do makes a genuine difference to our customers and their safety. They have rewarding careers in highly skilled areas and are able to satisfy their intellectual curiosities.

10%
increase in employee engagement

Partners

Working with our partners we bring together complementary industry leading thinking in a truly collaborative environment to the benefit of the customer, QinetiQ and our partners.

>100
SMEs support delivery through Engineering Delivery Partner

Investors

Our business model, supported by our strategy, aims to deliver sustainable long-term growth and returns to our shareholders.

2%
growth in underlying EPS

Culture

We are creating a high-performing culture where employees are engaged and everyone contributes to our overall success.

Values

Our values are integrity, collaboration and performance. These values underpin who we are and what we do.

Market context

Three long-term themes drive growth in our markets

Key themes

Increasing complexity

- Threats are increasingly complex
- Systems used to counter these threats are correspondingly complex
- Digital risk threatening public and private sectors

Partnering for innovation

- Accelerating pace of innovation through partnerships
- Appetite to exploit ideas coming from outside defence
- Rapidly integrate new technologies into existing capabilities

Value for money

- Customers have finite resources, but increasing requirements
- Defence budgets, while growing, must be seen to deliver value
- Customers are looking to the private sector to drive efficiencies

Increasing complexity

The threats our customers must be confident in defeating are constantly evolving and the pace at which they do so continues to accelerate. From low-cost consumer drones adapted to cause harm, to hypersonic missiles, the threat environment is growing increasingly complex. In parallel to traditional physical threats, digital-based threats continue to grow in sophistication, and are often deployed in conjunction with more conventional threat forms. In order to defeat these threats, the capabilities our customers use are growing in complexity, often combining a multitude of systems and platforms that need to be integrated.

Against this backdrop, the geopolitical environment is also becoming more uncertain. The proliferation of technology has given both state and non-state actors access to capabilities that undermine the technological superiority of western nations. In addition, increasing activity in the 'grey-zone' where the distinction between acts of war and peace are blurred calls for closer integration of defence and security capabilities.

How we are responding

Our ability to emulate advanced threats and test and evaluate the resilience and interoperability of systems and platforms against these threats provides our customers with assurances that they can effectively respond.

Our strategy and commitment to lead and modernise UK Defence Test & Evaluation (T&E), and our investment in to the Long Term Partnering Agreement (LTPA), ensures we have the right capabilities to generate and assure the future platforms and systems needed to respond to this complexity. QinetiQ can combine this with in-depth understanding of the digital threat to evaluate and deploy innovative technologies helping our customers to contend with imminent threats and prepare for the future.

Partnering for innovation

The platforms and systems needed to respond to this complex threat environment are themselves so complex that no one company can deliver them. In addition, our customers are focused on harnessing future technologies to maintain superior technological advantages. Robotics, autonomy, sensing solutions and advances in data processing and machine learning are of particular interest to our customers. The cutting edge of technology is often found in academia and commercial industries, and a key market theme is the need for effective partnership to rapidly convert emerging technologies into assured deployable capability. Partnerships with universities, small and medium size enterprises, and other defence companies are critical in providing our customers with the agility they need to respond.

How we are responding

QinetiQ was founded on innovation with Research, Development, Test & Evaluation at the core of what we do. The breadth and depth of our peoples technical expertise and our investment in their continued development enables QinetiQ to deliver mission-led innovation for our customers' advantage. As a predominantly service-based business, QinetiQ is ideally placed to act as an innovation integrator, acting as a convening facilitator between government, academia and wider industry to rapidly develop and deploy innovative solutions. We are uniquely placed to operate across the breadth of platforms, systems and lifecycles unlike a more traditional vertical platform manufacturer. Our strategy is to further develop our own Research and Development (R&D) capabilities as well as creating valuable partnerships to deliver mission-led innovation to our customers.

Value for money

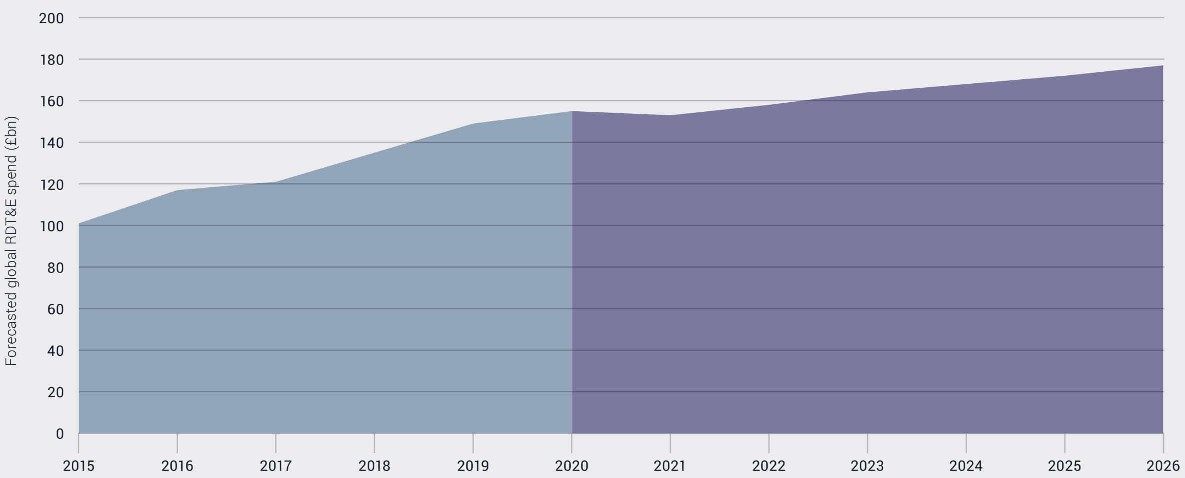
Governments around the world are faced with multiple calls on their resources, with ageing populations and rising social care costs, combined with moderate economic growth often putting significant pressure on fiscal budgets. With limited resources and a growing number of threats to defend against, many nations are wrestling with maintaining traditional platform based defence capabilities while also developing future digitally enabled technologies. As a result, achieving value for money and the need to do more for less is a key theme across our markets.

How we are responding

We are positioning ourselves as a strategic partner to our customers, understanding their challenges and applying our technical expertise to provide innovative solutions. We believe that by focusing on our customers' needs and helping them realise cost efficiencies, we can create further opportunities to deliver long-term sustainable growth in our business as we win work in new areas. Our ability to work across platforms and technologies and form powerful partnerships helps deliver the right capabilities to customers in the most cost effective manner.

Global RDT&E spend

Over the last five years global Research, Development, Test & Evaluation (RDT&E) spend has grown by 54%. The need to develop and integrate next generation technologies and the need to ensure greater interoperability between platforms and systems to counter increasingly complex threats are both key drivers of this.



Source: Jane's Defence Budget Market Forecast (March 2020)

Trading environment

The UK, US and Australia are our home countries, where we have more than 250 people in-country. They collectively represent 87% of our revenues.

Our addressable market

By focusing on our core offerings and target markets, we have an addressable market of over £8bn per annum. Growth in QinetiQ comes from increasing our share in existing markets and leveraging our strengths into attractive adjacent ones.

£8bn+
per annum
addressable market

Services and products
(defence, security and critical infrastructure)

Size £££bn pa
Growth +2–5% CAGR[1]
Share <1% (£408m)

UK training

Size £1bn pa
Growth +1% CAGR
Share ~7% (£71m)

International training

Size ££bn pa
Growth +1–3% CAGR
Share <1% (£51m)

UK RDT&E[2]

Size £1.5bn pa
Growth +1% CAGR
Share ~30% (£459m[3])

International RDT&E

Size £6bn pa[4]
Growth +4% CAGR
Share <1% (£84m)

Key
current market share
future market potential

1 CAGR = Compound Annual Growth Rate.
2 RDT&E = Research, Development, Test & Evaluation.
3 ~£320m pa via Long Term Partnering Agreement (LTPA) with UK MOD.
4 Australia, Canada, New Zealand, France, Germany, Sweden, Saudi Arabia, UAE, Qatar, Turkey included. USA ($106.5bn pa) excluded.

Sources: Jane's Market Forecast FY20 market size & CAGR (USD/GBP exchange rate of 0.81), UK MOD. QinetiQ market share based on FY20 revenue.

UK

With defence spending of £41.3bn in 2020, the UK has the largest defence budget in Europe. As the threat environment continues to evolve the UK Ministry of Defence (MOD) is committed to driving innovation and developing next generation capabilities. This was recognised in the 2018 Modernising Defence Programme, which placed a particular emphasis on technologies in areas such as artificial intelligence, cyberspace and space; all areas in which we have considerable expertise.

The UK spends approximately £1.5bn on Research, Development, Test & Evaluation (RDT&E) and remains a key market for QinetiQ where we continue to drive mission-led innovation. While the outcome and timing of the forthcoming Integrated Security, Defence & Foreign Policy Review is not yet known, QinetiQ is partnered closely with the MOD to support it in achieving its objectives and realising efficiencies, an approach we believe will create new opportunities for growth. Whilst the COVID-19 pandemic will result in significant fiscal pressure for the UK Government, with the possibility this could be exacerbated by an unfavourable conclusion to trade negotiations with the European Union, the UK's spending commitments to NATO and the evolving threat environment and need to ensure the resilience and security of critical national infrastructure is likely to offer support to UK defence budgets.

US

The US is by far the largest defence market globally with total spending of $738bn in 2020, more than the next ten largest military budgets combined. With continuing tensions between the US and China, a more assertive Russia and widespread unrest in the Middle East with a resurgent Iran, the 2018 National Defense Strategy cited the need to modernise key capabilities across all domains to maintain superiority and recognised the value of collaboration with the private sector.

If passed, the FY21 Presidential budget request of $740bn maintains support for key modernisation programmes and features the largest RDT&E budget in 70 years, as the US looks to harness emerging technologies. QinetiQ remains committed to supporting the DOD and our existing expertise in robotics and autonomy are well aligned with their ambitions to make greater use of this technology, evidenced by our recent robotics contract wins. The acquisition of MTEQ, specialising in next generation sensing solutions, a complementary area of focus for the US, also creates further opportunities for us to accelerate and sustain our growth in the world's largest defence market.

Australia

In Australia, current defence spending of $33bn is forecast to grow at 3% per annum over the next decade, underpinned by cross party support for defence. The modernisation of defence platforms remains a key priority as Australia seeks to reform its force structure to counter rapid developments in 'peer-to-peer' threats and China's increasing assertiveness in the South China Sea. In light of this environment Australia is increasingly working in partnership with allied nations, particularly in the Pacific, driving the need for greater interoperability between allied forces. With the need for innovation to counter rapid developments in the threat environment, Australia is placing an increased focus on the RDT&E of cyber capability, hypersonic weapons and autonomous vehicles. With a $1.2bn RDT&E budget, Australia remains a key market for QinetiQ where we can provide the Australian forces with assurance of existing military capability, facilitate rapid experimentation of new capability and support operational readiness.

Broader international markets

In order to achieve our ambition of growing international revenue to 50% of Group revenue, we aim to drive growth in our three home countries, three priority countries of Canada, Germany and Belgium as well as wider international markets. Our international strategy is underpinned by harnessing the skills and expertise developed in our home countries across the Group to support allies in other high growth markets.

Canada is an attractive market for QinetiQ where we see opportunities to support the Canadian Armed Forces in modernising their own capabilities. The outlook for Canadian defence spending is positive with spending of $16.9bn in 2020 expected to grow by 5% per annum over the next five years, underpinned by Canada's drive to hit NATO spending targets.

Europe is also an attractive market for QinetiQ, representing nearly 20% of global defence spending. Within this, Germany is a key market with our in-country operation built on the acquisition of E.I.S. Aircraft Operations. Current defence spending in Germany is $48bn and in a similar fashion to other NATO nations the trajectory is positive supported by the drive to hit NATO spending commitments. Belgium is another key market within Europe, where we are seeing increasing demand for our space products driven by the European Space Agency.

With growing unrest in the Gulf region, defence spending has trended upwards. However, nations driving this spend have predominantly focused on the procurement of new equipment and are increasingly aware of the benefits of integration, assurance and training to create true capabilities. We therefore see opportunities in the Gulf region to support allied nations in creating assured military capabilities.

Impact of COVID-19

The impacts of COVID-19 on our key markets have been both severe and widespread, with most affected in some way. In recent months, national safeguarding measures, including travel restrictions, put in place to halt the spread of the virus have impacted our ability to deliver for customers, with challenges relating to on-site delivery and the shipment of products. Whilst this is short-term in nature and we have been able to adapt to new ways of working to minimise its impact, it would pose more of a challenge were these measures a consistent feature over a longer period. The unprecedented stimulus that many governments have deployed in response to reduce the economic impact of the pandemic will significantly reduce their fiscal flexibility and place pressure on their spending. However, with the geopolitical environment growing increasingly complex and the need to retain superior technological advantage more pressing than ever, we believe demand in our key markets will remain robust over the long-term.

Our strategy

A strategy that is relevant to a dynamic environment

Our vision

To be the chosen partner around the world for mission-critical solutions, innovating for our customers' advantage.

Our strategy

Our strategy is interlinked and mutually reinforcing and aims to deliver sustainable, long-term growth:

UK

Lead and modernise the UK Defence Test & Evaluation enterprise, by working in partnership with Government and prime contractors.

International

Build an international company that delivers additional value to our customers by developing our home countries, creating new home countries and exporting.

Innovation

Invest in and apply our inherent strengths to drive innovation for customers' advantage in defence, security and critical infrastructure markets.

Underpinned by

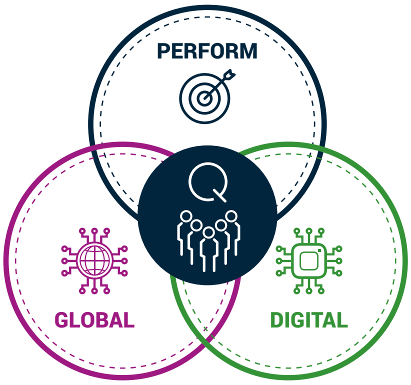
Transformation programme

Our strategy is supported by our ongoing transformation programme. The programme will create an efficient and effective organisation capable of supporting sustainable and profitable growth and is focused on driving performance, globalising and digitising our business.

Performing
- Everyone feels included and engaged
- Empowerment and personal accountability
- Delivering operational excellence

Globalising
- Operating as one company
- Leveraging our capabilities
- Optimised, scalable and resilient

Digitising
- Enhancing customer solutions
- Enabling collaboration
- Modern, integrated tools and systems



Our strategic progress

In FY20 we delivered significant strategic milestones

Strategic achievements

UK

- We continued to successfully invest and deliver against the amended LTPA contract, reflecting our drive to lead and modernise UK Defence Test & Evaluation.
- Completed the acquisition of Newman & Spurr Consultancy (NSC) enhancing our training and simulation capabilities.

Read more in our operating review on page 21.

International

- Delivered a record year of growth in Australia.
- Grew international revenues to 31% of our business.
- Completed the acquisition of MTEQ creating a powerful customer proposition and delivering significant opportunities for growth in the US.
- Secured orders for key US robotic Program of Record.

Read more in our operating review on pages 21 to 22.

Innovation

- £168m of orders under the Engineering Delivery Partner contract.
- €75m contract from the European Space Agency for ALTIUS satellite.
- £67m contract to develop secure satellite navigation receivers.

Read more in our operating review on pages 21 to 23.

Operating review

EMEA Services

Overview

EMEA (Europe, Middle East and Australasia) Services combines world-leading expertise with unique facilities to provide integrated capability generation and assurance. Our core value proposition is built upon our expertise in capability integration, threat representation and operational readiness underpinned by long-term contracts that provide good visibility of revenues and cash flows. The division is also a market leader in research and advice in specialist areas such as Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR), weapons and energetics, cyber security and procurement advisory services.

Financial performance

	2020 £m	2019 £m
Orders[1]	670.0	534.6
Revenue	797.4	687.7
Underlying operating profit[2]	100.6	96.8
Underlying operating margin[2]	12.6%	14.1%
Book to bill ratio[3]	1.1x	1.2x
Total funded order backlog	2,797.7	2,916.8

1 Includes share of orders from Joint Ventures and excludes the LTPA contract amendment signed post year end in 2019.

2 Prior year comparatives restated due to a change in accounting policy in respect of leases.

3 B2B ratio is orders won divided by revenue recognised, excluding the LTPA contract and share of JV orders.

Orders for the year were £670m (2019: £534.6m), growing £115.4m (22%) on an organic basis excluding acquisitions and foreign exchange. The increase was driven by £168m of orders under the Engineering Delivery Partner (EDP) framework contract and a £67m order for the UK Robust Global Navigation System (R-GNS) programme.

Revenue increased by 16% to £797.4m (2019: £687.7m), including £29.2m from acquisitions, and increased by 12% on an organic basis, principally driven by new work under the EDP and Battlefield Tactical Communication and Information Systems (BATCIS) contracts.

At the beginning of the new financial year £656m of the division's FY21 revenue was under contract, compared to £565m (of the FY20 revenue) at the same point last year. This reflects the contribution from the acquired business in the year together with the 22% organic increase in orders won in the year.

Underlying operating profit grew by 4% to £100.6m (2019 restated: £96.8m) assisted by a full-year of trading from our 2019 acquisitions. Organic growth was 1% due to ~£2m lower non-recurring trading items at ~£7m (2019: ~£9m) comprising a £4m benefit in respect of finalising business rates agreements and a £3m benefit related to cost recovery on a major contract. The increasing proportion of EDP work drives profit growth at a lower rate than revenue growth, diluting the operating profit margin, but has limited capital requirements supporting overall returns.

Including the Long Term Partnering Agreement (LTPA), the proportion of EMEA Services revenue derived from single source contracts has remained stable at approximately 70% (2019: approximately 70%). While we have increased revenue derived from competitive contracts this has also been complemented by growth in single source EDP work.

Leading the next phase of unmanned systems exploitation in the maritime domain

In FY20 we were awarded a new contract to lead phase five of the Maritime Autonomous Platform Exploitation (MAPLE) project for the UK Defence Science and Technology Laboratory. The MAPLE project is the overarching programme that seeks to demonstrate and de-risk the integration of multiple Unmanned Systems into the combat system of a Royal Navy warship and the wider integration of unmanned systems into the fleet.

See more online at **www.qinetiq.com**

FY20 review

Air & Space (25% of EMEA Services revenue)

The Air & Space business de-risks complex aerospace programmes by testing systems and equipment, evaluating the risks and assuring safety.

- Engineering Delivery Partner (EDP), our innovative delivery model for the provision of engineering services continued to be a key driver of performance. In FY20 £168m of orders were contracted through EDP taking the total since inception to £238m. While EDP remains the default route for the procurement of engineering services to DE&S, it is available to other MOD departments and agencies creating further opportunities for growth.
- Key contract awards through EDP include an £11m contract to provide independent technical evaluation services on the F35 Lightning II aircraft and shortly after year end, a £30m contract that will unify the technical services provided to the Typhoon Delivery Team.
- Building on our investment in Test Aircrew Training, the transformed Empire Test Pilots' School successfully delivered its first year of the new syllabus, with all students passing. The new modernised ETPS is equipped to continue delivering world-class test aircrew training and we continue to experience strong demand for all courses from both domestic and international customers.

Maritime, Land & Weapons (39% of EMEA Services revenue)

The Maritime, Land & Weapons business delivers operational advantage to customers by providing independent research, test, evaluation and training services.

- Following the £1.3bn amendment to the LTPA in April 2019, we are progressing through a two-year transition period to new ways of working. We successfully reached the third operating milestone in this transition on schedule with positive customer feedback. We are continuing to drive modernisation to support our customer in an increasingly complex threat environment.
- As part of this transition many of our sites are undergoing investment and enhancement of facilities and capabilities, enabling us to support larger and more complex trials adding greater value for our customers.
- In April 2020 we were awarded a £13m contract as the industry lead on the Weapons Sector Research Framework providing research and technology into current and future weapons capabilities including laser and directed energy weapons systems.
- Our long-term contracts support solving complex customer problems and have opened new opportunities for us including being awarded a £5m contract to support the Royal Navy in developing their approach to the new Carrier Strike group operations.

Cyber, Information & Training (23% of EMEA Services revenue)

The Cyber, Information & Training business helps government and commercial customers respond to fast-evolving threats based on its expertise in training, secure communication networks and devices, intelligence gathering and surveillance sensors, and cyber security.

- The business delivered an excellent performance across all key metrics as we continue to reposition the business to become a critical mission assurance partner, driving improved visibility and growth.
- Key contract wins include the £67m Robust Global Navigation System (R-GNS) contract to develop secure satellite navigation receivers on behalf of the MOD. The programme will deliver critical capability to provide UK Defence with accurate and resilient positioning, navigation and timing which will underpin the UK's ability to undertake 24/7 military operations around the world in the most demanding and increasingly contested operational environments.
- In February 2020 we completed the acquisition of Newman & Spurr Consultancy (NSC) for £14m (net of cash acquired). NSC provides a range of training and simulation solutions and the strategy-led acquisition enhances our capability in areas such as modelling, simulation and synthetic environments.
- Following our strategic investment in November 2018, Inzpire, the highly regarded provider of operational training services, continues to perform in line with the Board's expectations, delivering good growth in revenue and profit.

International (13% of EMEA Services revenue)

Our International business leverages our expertise and skills developed in the UK, and applies them to opportunities in attractive markets globally. Revenue derived from outside of the UK is reported in many of our businesses and is not exclusive to our International business unit.

- The International business unit delivered a strong performance with good growth in orders, revenue and profit.
- This was underpinned by our performance in Australia where we delivered record orders, as our status as a Major Service Provider in partnership with Nova Systems continues to gather momentum and drive performance. We are working with the Australian Government on a proposal to design and build an Unmanned Air System (UAS) Test Range.
- Our German operations, built on the acquisition of EIS Aircraft Operations in October 2018 performed in line with expectations for orders with some significant contract wins during the period. Delivery performance and profitability was, however, impacted by other operational and cost issues and towards the end of the financial year by the effects of COVID-19. We have written down £4.3m of goodwill associated with the acquisition in anticipation of the financial impact of lower revenue and margins. We continue to seek ways to leverage our capabilities within QinetiQ Germany and see good opportunities to drive long-term growth in a significant European defence market.
- We operate three joint ventures in the Middle East. Our progress in the region has been slower than anticipated, however we have made good progress with a number of strategic contract wins including two significant framework contracts to provide customer side consultancy services. Looking forward we see encouraging opportunities as our joint ventures continue to grow in maturity, capability and local reputation.

Operating review continued

Global Products

Overview

Global Products delivers innovative solutions to meet customer requirements and undertakes contract-funded research and development, developing intellectual property in partnership with key customers and through internal funding with potential for new revenue streams. The division is technology-based and has shorter order cycles than EMEA Services so can have a more lumpy revenue profile. Our strategy is to expand the product portfolio and win larger, longer-term programmes to improve the consistency of the financial performance of this division. In FY20 the company expanded its products portfolio with the successful acquisition of MTEQ.

Financial performance

	2020 £m	2019 £m
Orders	302.1	241.8
Revenue	275.5	223.4
Underlying operating profit[1]	32.6	28.1
Underlying operating margin[1]	11.8%	12.6%
Book to bill ratio[2]	1.1x	1.1x
Funded backlog	307.2	216.8

1 Prior year comparatives restated due to a change in accounting policy in respect of leases.

2 B2B ratio is orders won divided by revenue recognised.

Orders increased to £302.1m (2019: £241.8m) with growth assisted by a €75m order for the European Space Agency Altius contract and £25m of orders from the acquired MTEQ business, partially offset by a C$51m order in the prior year figure in respect of delivering unmanned air system services to the Canadian Armed Forces. Organic orders growth was 14%.

At the beginning of the new financial year £193m of the division's FY21 revenue was under contract, compared to £141m (of the FY20 revenue) at the same point last year. This reflects the contribution from the acquired business in the year together with the organic increase in orders won in the year.

Revenue was up 23% on a reported basis at £275.5m (2019: £223.4m), primarily due to contribution from the MTEQ business acquired during the year. On an organic basis, revenue increased by 5% driven by small robotics and Talon upgrade kits in QNA, ongoing growth in QTS and delivery of the Canadian armed forces contract won in FY19.

Global Products underlying operating profit grew by 16% to £32.6m (2019: £28.1m) reflecting the acquisition of MTEQ in December 2019. On an organic basis operating profit increased by 4%, but excluding non-recurring trading items declined by 1%. This was driven by a loss in Optasense, due to a challenging trading environment, partially offset by growth in QTS and a more profitable product mix in QNA.

FY20 review

United States (44% of Global Products revenue)

Our US business develops and manufactures innovative defence products specialising in robotics, autonomy and sensing solutions. This business unit comprises our existing US operations (QNA) as well as MTEQ, which we acquired in December 2019.

- Our US business delivered a strong performance in FY20, primarily driven by robotics orders, with the first deliveries under the Common Robotic System-Individual (CRS-I) contract accepted by the customer.
- We were also awarded the Robotic Combat Vehicle-Light (RCV-L) contract to provide the US military with combat vehicles to support the customer in determining the feasibility of integrating unmanned vehicles into ground combat operations.
- In December 2019, we completed the acquisition of Manufacturing Techniques Inc. (MTEQ) for $105m with a potential further earn-out of up to $20m. MTEQ is a leading provider of advanced sensing solutions in the US, and the combination of MTEQ with our existing expertise in robotics and autonomy capabilities creates a powerful customer proposition.
- The integration of our US businesses into a single entity operating under a Special Security Agreement (SSA) is progressing well and we are seeing an increasing number of opportunities for the combined entities to work collaboratively, including on the RCV-L programme. The change in the governance of our US business through the SSA is a significant enabling factor. It will enhance our ability to operate coherently and collaboratively across QinetiQ's global operations meaning we are better able to innovate and deliver for our customers.

OptaSense (9% of Global Products revenue)

OptaSense provides innovative fibre sensing solutions to deliver decision-ready data in multiple vertical markets.

- Despite a positive first half, performance at OptaSense deteriorated in the second half, impacted by severe weakness in oil and gas markets, which was further exacerbated by the impacts of COVID-19. In light of this trading environment OptaSense reported a net loss for the period of £1.9m.

Space Products (9% of Global Products revenue)

QinetiQ's Space Products business provides satellites, payload instruments, sub-systems and ground station services.

- Our Belgium based space business was awarded a €75m contract with the European Space Agency (ESA) to develop and assemble the new Altius satellite. The satellite extends Europe's capabilities in operational Earth Observation and will study the distribution of ozone in the earth's stratosphere helping to chart climate change.
- The satellite will be built utilising our new, higher grade cleanroom facility in Kruibeke, Belgium that was officially opened during the year. The upgraded facility gives us the capacity to produce up to four major products at any one time supporting growth in satellite and docking systems production capacity.
- We were also awarded a €9m three-year contract to build equipment that will support experiments in the International Space Station.

EMEA Products (38% of Global Products revenue)

EMEA Products provides research services and bespoke technological solutions developed from intellectual property spun out from EMEA Services. It also includes our QinetiQ Target Systems (QTS) business.

- Building on an excellent first half, QinetiQ Target Systems delivered a strong performance with mid-teens growth in revenues and profit. This was despite the impacts of COVID-19 towards the end of the year which resulted in delayed trial activity and reduced targets orders. Whilst we are currently experiencing COVID-19 related disruption within QTS, we believe longer-term the business remains well positioned, offering advanced target systems at an attractive price point.
- To support our medium-term growth and ensure our customers can continue to emulate the most advanced aerial threats we launched two new products in the period.
- The first, our Next Generation Banshee target replicates fast flying jets, and enables customers to conduct Test & Evaluation and live-fire training exercises against faster, higher flying, more manoeuvrable and less detectable targets. We also released the Air-Launched 'Rattler' target, a low-cost supersonic target used to accurately replicate anti-radiation missiles and supersonic/high-diving threats.

Significant Banshee orders to support the Indonesian Forces

QinetiQ Target Systems (QTS) sold 59 unmanned Banshee Whirlwind targets to Indonesia. The order is the first from the country since the acquisition of QinetiQ Target Systems in 2016.

The Banshee Whirlwind is powered by QintetiQ's rear-mounted rotary engine and provides accurate and reliable flight profiles of over 100km, reaching flight altitudes of over 7,000 metres, while a radar altimeter allows the target to achieve reliable sea skimming flight as low as five metres. QinetiQ's portfolio of unmanned targets for sea, air and land, enable countries to be more prepared for threats.

See more online at **www.qinetiq.com**

Chief Financial Officer's review

A strong financial performance across all key metrics

"We enter FY21 in a strong position to face the challenges arising from COVID-19, with a large order backlog and a robust balance sheet."

See our financial KPIs on page 30.

Financial performance

	Statutory results		Underlying* results	
(£m)	2020	2019	2020	2019
Revenue	1,072.9	911.1	1,072.9	911.1
Operating profit[1]	117.6	114.8	133.2	124.9
Profit after tax[1]	106.5	113.9	113.7	111.5
(p)				
Earnings per share	18.7	20.1	20.0	19.7
Dividend per share	2.2	6.6	2.2	6.6

1 Prior year comparatives restated due to a change in accounting policy in respect of leases.

	Underlying* results	
(£m)	2020	2019
Total funded order backlog[1]	3,104.9	3,133.6
Total orders[2]	972.1	776.4
Net cash inflow from operations[3]	177.8	135.3
Cash conversion ratio[3]	133%	108%
Free cash flow[3]	59.5	43.5
Net cash[3]	84.7	160.5

1 Includes the impact of the LTPA amendment signed post year end in 2019.

2 Includes share of orders from Joint Ventures and excludes LTPA contract amendment signed post year end in 2019.

3 Prior year comparatives restated due to a change in accounting policy in respect of leases.

Overview of full year results

We reported a strong performance in FY20, delivering growth across orders, revenue and profitability as we continue to successfully implement our strategy. We enter FY21 in a strong position to face the challenges arising from COVID-19, with a large order backlog and a robust balance sheet. Strong cash generation from the company has continued in FY20 with 133% cash conversion and a net cash position of £84.7m continues to provide support for investment opportunities.

Orders in the year totalled £972.1m (2019: £776.4m), a 19% increase on an organic basis. This was driven by £168m of orders under the EDP framework contract in EMEA services, a £67m UK Robust Global Navigation System (R-GNS) order and €75m contract with the European Space Agency for the Altius satellite in Global Products.

At the beginning of the new financial year, approximately £850m of the Group's FY21 revenue was under contract, compared to £706m (of the FY20 revenue) at the same point last year. This reflects the contribution from the two acquired businesses in the year together with the 19% organic increase in orders won in the year.

Revenue increased 18% at £1,072.9m (2019: £911.1m), assisted by a full-year of trading from our 2019 acquisitions and a £39.7m contribution from MTEQ and NSC which both completed during the second half of FY20. Revenue grew by 10% on an organic basis, with a 12% increase in EMEA Services primarily due to Engineering Delivery Partner (EDP) and a 5% increase in Global Products driven by small robotics and upgrade kits in QNA as well as ongoing growth in QTS.

Underlying operating profit was up 7% at £133.2m (2019 restated: £124.9m), assisted by ~£6m (2019: ~£7m) non-recurring trading items. Current year non-recurring trading items include a £4m benefit in respect of finalising business rates agreements and a £3m benefit related to cost recovery on a major contract in the EMEA Services division, partially offset by a number of other project and commercial risk reassessments. During the year we completed the acquisitions of MTEQ and Newman & Spurr Consultancy which together contributed £3.4m of operating profit in the period of our ownership. Excluding the FY20 acquisitions, the impact of a full year of trading versus a part year of trading for the 2019 acquisitions and the effect of foreign exchange, underlying operating profit for the Group increased organically by ~£2m (2%).

EMEA Services operating profit grew 4% assisted by a full-year of trading from our 2019 acquisitions. On an organic basis EMEA Services profit grew by 1%. The level of profit from non-recurring trading items in FY20 was ~£2m lower compared to the prior year. Excluding such non-recurring trading items, organic growth was 4%. Global Products underlying operating profit grew by 16% reflecting the acquisition of MTEQ in December 2019. On an organic basis Global Products profit grew by 4%. The level of non-recurring charges was ~£1m lower in FY20 and excluding these items organic profit declined by 1% driven by a loss in Optasense due to a challenging trading environment.

Total operating profit was £117.6m (2019 restated: £114.8m), net of £15.6m expense in respect of specific adjusting items (2019: £10.1m), as set out below.

Underlying profit before tax increased 7% to £132.2m (2019 restated: £124.0m) in line with the increase in underlying operating profit, with underlying net finance expense at £1.0m (2019 restated: £0.9m).

Total profit before tax was £123.1m (2019: £123.2m).

Specific adjusting items

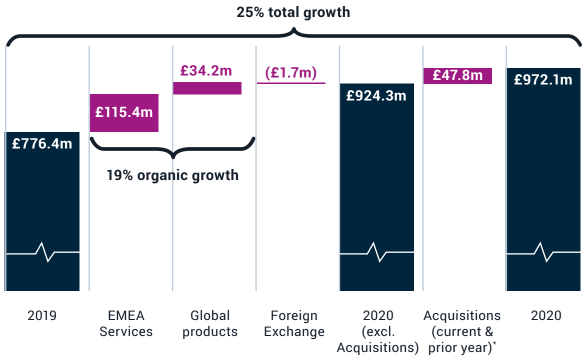
Specific adjusting items, shown in the 'middle column', at the profit after tax level amounted to a total net loss of £7.2m (2019: net profit of £2.4m). This included a gain on sale of surplus property of £14.0m (2019: £0.2m) and net finance income related to the defined benefit pension scheme of £6.5m (2019: £8.2m) offset by a £14.1m goodwill impairment (2019: nil), in relation to E.I.S. Aircraft Operations in Germany (£4.3m) and our Group's Advisory Services business unit (£9.8m), and costs of £7.5m in respect of the acquisitions completed in the year (2019: £2.0m). The tax effect of items impacting profit before tax was an expense of £1.4m (2019: income of £0.4m). The tax line also includes a £3.3m gain from recognising tax losses and surplus interest costs on the balance sheet. See below.

Further analysis is set out in note 4 with goodwill (and impairments of) discussed in note 12.

Net finance costs

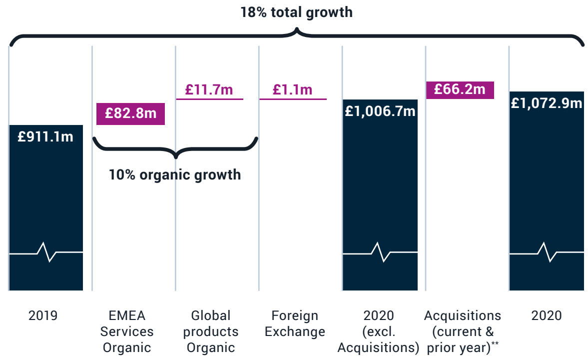
Net finance income was £5.5m (2019 restated: £7.3m). The underlying net finance expense was £1.0m (2019 restated: £0.9m) with additional income of £6.5m (2019: £8.2m) in respect of the defined benefit pension net surplus reported within specific adjusting items.

Order bridge



* Comprises £22.5m for Germany & Inzpire for period with no prior year comparator and £25.3m for MTEQ and NSC.

Revenue bridge



* Excludes contribution from JVs of £3.3m

** Comprises £26.5m for Germany & Inzpire for period with no prior year comparator and £39.7m for MTEQ and NSC.

Chief Financial Officer's statement continued

Tax

The total tax charge was £16.6m (2019: £9.3m). The underlying tax charge was £18.5m (2019: £12.5m) with an underlying effective tax rate of 14.0% for the year ended 31 March 2020 (2019: 10.1%). 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 ('RDEC') in the UK which are accounted under IAS12 within the tax line. An adjusted effective tax rate before the impact of RDEC would be 20.0%. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any tax legislation changes, the geographic mix of profits, the recognition of deferred tax assets and while the benefit of net RDEC retained by the Group remains in the tax line.

A £3.3m credit in respect of recognition of tax losses in the US has been classified as a specific adjusting item. This follows from the acquisition of MTEQ in the year that contributes future taxable profits against which historic unrecognised tax losses can be utilised. The prior year included a £2.8m credit from initial recognition of corporate tax deductions for certain equity-settled share based payment schemes. Together with a £1.4m net expense (2019: income of £0.4m) in respect of the pre-tax specific adjusting items, the total specific adjusting items tax credit was £1.9m (2019: £3.2m).

At 31 March 2020 the Group had unused tax losses and surplus interest costs of £90.3m which are available for offset against future taxable profits.

Cash flow, working capital, capex and net cash

Underlying net cash flow from operations was £177.8m (2019 restated: £135.3m) with an underlying operating cash conversion of 133% (2019 restated: 108%).

Capital expenditure increased to £107.8m (2019: £80.7m) as we continue to invest in core contracts including the LTPA following the contract amendment announced in April 2019. After paying tax and net interest of £10.5m the Group generated free cash flow of £59.5m (2019 restated: £43.5m), before property disposal proceeds of £12.5m (2019: £5.3m).

Overall capex between FY21–FY23 is expected to be in the range of £70–100m per annum, of which the majority reflects our investment into the LTPA. Given the nature of our business model, we expect to be able to fund our capex requirements from operational cash flow.

As at 31 March 2020 the Group had £84.7m net cash (2019 restated: £160.5m). The reduction in net cash was primarily due to the £90.2m of consideration for the acquisition of MTEQ and NSC, and payment of £38m of dividends; these were partially offset by £59.5m free cash flow and £12.5m of property disposals.

The Company's £275m multi-currency revolving credit facility (with an 'accordion' feature to expand up to a maximum of £400m) was extended during the year to 27 September 2024, with an option to extend to a final maturity of 27 September 2025. The facility, undrawn as at 31 March 2020, provides a modest margin adjustment of +/- 0.02% based on QinetiQ's greenhouse gas emissions, compared to targets, over the life of the facility.

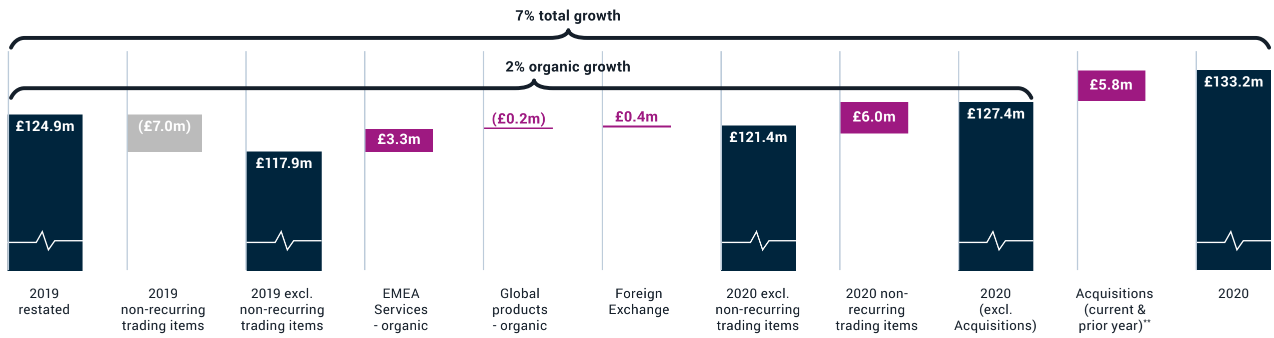
Capital allocation

Priorities for capital allocation remain in the long-term:

1. Organic investment complemented by bolt-on acquisitions where there is a strong strategic fit;
2. The maintenance of balance sheet strength;
3. A progressive dividend; and
4. The return of excess cash to shareholders.

The Group is not subject to any externally imposed capital requirements.

Underlying operating profit bridge



* Underlying performance, before specific adjusting items, as defined in appendix

** Comprises £2.4m for Germany & Inzpire for period with no prior year comparator and £3.4m for MTEQ and NSC

Return on Capital Employed (ROCE)

In order to help understand the overall return profile of the Group, QinetiQ have formulated a Return on Capital employed metric. This is calculated as Underlying EBITA/(Average Capital Employed less net pension asset), where average capital employed is defined as shareholders' equity plus net debt (or minus net cash).

For FY20 Group ROCE is 28% compared to 39% in the previous year reflecting investment into our business to support sustainable long term growth.

Earnings per share

Underlying basic earnings per share increased by 2% to 20.0p (2019 restated: 19.7p) benefiting from the higher underlying profit after tax. Basic earnings per share for the total Group (including specific adjusting items) decreased 7% to 18.7p (2019 restated: 20.1p).

The average number of shares in issue during the year, as used in the basic earnings per share calculations, was 567.0m (2019: 566.0m) and there were 567.2m shares in issue at 31 March 2020 (all net of Treasury shares).

Dividend

Given the unprecedented nature of COVID-19 and the Board's wish to adopt a prudent course of action to protect the long-term, as announced on 1 April 2020, it will postpone the decision on the proposal of a dividend until a later date.

Pensions

The net pension asset under IAS 19, before adjusting for deferred tax, was £309.7m (31 March 2019: £259.1m). The key driver for the increase in the net pension asset since the March 2019 year end was gains due to changes in financial assumptions (primarily in respect of inflation), which decrease the present value of scheme liabilities, partially offset by reduction in value of scheme assets.

The key assumptions used in the IAS 19 valuation of the scheme are set out in note 28.

Implementation of IFRS 16 'Leases'

The new leases standard became effective for periods beginning on or after 1 January 2019, i.e. FY20 for QinetiQ, using either the full retrospective approach or the modified retrospective approach. QinetiQ has adopted the new standard for FY20 using the full retrospective approach.

Under the new standard, companies will recognise new assets and liabilities, bringing added transparency to the balance sheet. IFRS 16 eliminates the previous dual accounting model for lessees, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to previous finance lease accounting. Lessor accounting remains similar to existing practice i.e. lessors continue to classify leases as finance leases and operating leases.

The impact on the income statement for QinetiQ is negligible at a 'profit before tax' level with no impact on EPS, but EBITDA is increased, offset by an increase in depreciation and an increase in finance expense. See note 37 for details.

The impact on the balance sheet is the recognition of a new 'right of use' asset within Property Plant & Equipment and the recognition of a new lease liability. The latter is incorporated within the Group's definition (see glossary) of net cash, hence the most significant impact on the Group's financial KPIs is this change to net cash (reducing previously reported net cash at 31 March 2019 by £28.0m).

Prior year comparatives have been restated (to the extent impacted by IFRS 16) and more details are set out in Note 37 to the financial statements.

For the avoidance of doubt, the strategic report covering pages 2 to 55 has been approved by the Board and signed on their behalf by:

David Smith
Chief Financial Officer

21 May 2020

Key performance indicators

Non-financial KPIs

The overall objective of our strategy is to deliver sustainable growth, creating long-term value for our stakeholders. Our progress is measured through a range of financial and non-financial performance indicators.

Understanding measurements that give us insight in to things such as customer satisfaction, health and safety and employee engagement are vital in ensuring our business model is sustainable. Meanwhile measures such as orders, organic revenue growth, profitability and cash flow track our financial performance.

Similar indicators are used to review performance in each of the Group's businesses and where relevant, are accompanied by indicators specific to those businesses.

See our people on page 38.

See responsible & sustainable business on page 44.

Customer satisfaction (Net Promoter Score)

59

(FY19: 50)

Description

The Net Promoter Score 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.

Rationale

Measuring customer satisfaction provides us with insight into our customers' views. Complemented with qualitative surveys, this provides us with actionable insights that enable us to improve our customer experience.

Performance this year

Our customer feedback continues to be positive and our NPS score remains in the category of 'excellent'. This is supported by our continual improvement approach to actioning customer feedback.

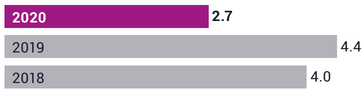
Link to strategy

Achieving our ambition of becoming our customers' chosen partner requires relentless focus on meeting their needs in both our home countries and overseas. Customer satisfaction is a metric used for the Bonus Banking Plan.

Health and safety (LTI)

2.7

(FY19: 4.4)



Description

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 that year.

Rationale

As a company it is imperative we operate with the highest level of safety. Not only is this the right thing to do for our people, but for our customers who entrust us with safety critical work.

Performance this year

Our LTI rate decreased to 2.7 in FY20, supported by our ongoing commitment to safety through our Safe for Life programme and emphasising safety leadership in FY20. (For more information see page 39).

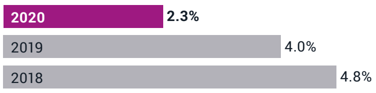
Link to strategy

The safety, health and wellbeing of our people is intrinsically linked to our strategic success.

Apprentices and graduates (%)

2.3

(FY19: 4.0%)



Description

The total number of UK apprentices, graduates and sponsored students (our early careers community) as a percentage of our UK workforce.

Rationale

As a knowledge-based business it is critical to our long-term viability that we develop the next generation of employees.

Performance this year

We experienced an anticipated reduction in our early careers population as we undertook a review of our early careers programmes to assess our future skills requirements in line with our long-term strategy. (For more information see page 42).

Employee engagement (Score out of 10)

6.9

(FY19: 6.3)

Description

In FY19 we implemented Peakon, an employee engagement measurement tool, which provides regular insights into what our employees are feeling, enabling us to identify what we are doing well but also where we can improve and take action.

Rationale

Employee engagement is a key part of sustaining our strategy. Having an engaged workforce delivers increased productivity and retention. Improving employee engagement is essential to creating a positive culture within QinetiQ and aligns with our behaviour of 'listen'.

Performance this year

Our engagement scores increased by 10% in FY20, supported by employee engagement initiatives. There is still more to do and we will continue to build on our progress implementing initiatives aimed at improving the employee experience. (For more information see page 41).

Voluntary employee turnover (%)

9.7

(FY19: 11.5%)

Description

This is a measure of the number of employees leaving the company not at QinetiQ's instigation.

Rationale

Voluntary employee turnover provides a measure of the Group's ability to retain employees. As a knowledge based business employee retention is critical to sustaining our business model.

Performance this year

Employee turnover marginally decreased during the year, following a small increase in FY19, driven by higher turnover in the US. Our employee turnover continues to be below industry average.

Link to strategy

As a business whose reputation and achievements are centred on our people, our future success is primarily dependent on our ability to recruit, develop, engage and retain exceptional employees.

Employee engagement is a metric used for the Bonus Banking Plan.

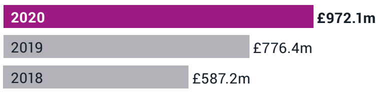
Key performance indicators continued

Financial KPIs

Orders
(£m)

£972.1m

(FY19: £776.4m)



Description

The level of new orders and amendments to existing orders booked in the year.

Rationale

This provides a measure of the Group's ability to sustain and grow QinetiQ. While some orders are booked and delivered in-year, the level of orders booked in the year is one indicator of future financial performance.

Performance this year

Orders in the year (excluding LTPA amendments) were £972.1m, up 19% on an organic basis. This increase was driven by a strong performance in both divisions, with strong order growth through the EDP framework and large multi-year contracts including R-GNS and Altius.

Link to strategy

Order intake enables us to assess the effectiveness and execution of our strategy which is designed to grow the Group. Order intake is used as a metric for the Bonus Banking Plan, but for executive remuneration purposes is adjusted to exclude businesses acquired during the year.

International revenue
(£m)

£333.4m

(FY19: £273.7m)

Description

This represents revenue derived from non-UK customers, recognised in the period.

Rationale

International revenue demonstrates the Group's ability to win and deliver work outside of the UK. Building a global defence and security business is a core pillar of our strategy.

Performance this year

Non-UK revenue grew by 22% (£59.7m). Excluding the £37.0m contribution from businesses acquired during the year, £15.2m inorganic contribution from businesses acquired in the prior year and including a £3.3m contribution from joint ventures organic growth was 4% (£10.8m).

Link to strategy

Growing international revenues and accessing higher growth, international markets is a key part of our strategy. International revenue was used as a performance measure for the FY20 Deferred Share Plan, but for executive remuneration was adjusted to exclude businesses acquired during the year.

Organic revenue growth
(%)

10%

(FY19: 8%)

Description

The Group's organic revenue growth is calculated by taking the increase in revenue over prior year pro-forma revenue, at constant exchange rates. It excludes the impact of acquisitions and disposals. See glossary for definition.

Rationale

Organic revenue growth demonstrates the Group's ability to grow market share and sources of revenue within its chosen markets before the effect of acquisitions, disposals and currency translation.

Performance this year

Revenue grew by 10% on an organic basis, with 5% organic growth in Global Products and 12% organic growth in EMEA Services, driven by a strong performance in all our business units, in particular our Cyber, Information and Training division.

Link to strategy

Delivering long-term sustainable growth is critical to our success. Our organic growth rate reflects the successful execution of a relevant and consistent strategy.

Underlying operating profit* (£m)

£133.2m

(FY19: £124.9m[1])

Description

The earnings before interest and tax, excluding all specific adjusting items. See note 35 for definition.

Rationale

Underlying operating profit is used by the Group for performance analysis as a measure of operating profitability. Specific adjusting items are excluded because their size and nature mask the true underlying performance year-on-year.

Performance this year

Underlying operating profit increased by 7% (£8.3m). This includes a £3.4m contribution from the acquisitions of MTEQ and NSC, as well as the inorganic contribution from acquisitions made in the prior year. On an organic basis underlying operating profit increased by 2% (£2.0m).

Underlying earnings per share (EPS)* (p)

20.0p

(FY19: 19.7p)

Description

The underlying earnings, net of interest and tax, expressed in pence per share excluding all specific adjusting items. See note 35 for definition.

Rationale

Underlying EPS provides a measure of the earnings generated by the Group after deducting tax and interest. Specific adjusting items are excluded because their size and nature mask the true underlying performance year-on-year.

Performance this year

Underlying earnings per share grew by 2% (0.3p) with the higher growth in underlying operating profit partially offset by a higher effective tax rate (see note 8).

Underlying net cash flow from operations* (£m)

£177.8m

(FY19: £135.3m[1])

Description

This represents net cash flow from operations before cash flows of specific adjusting items and capital expenditure.

Rationale

This provides a measure of the Group's ability to generate cash from its operations and gives an indication of its ability to make discretionary investments in facilities and capabilities and pay dividends to shareholders.

Performance this year

Underlying net cash flow from operations was particularly strong, growing by 31%. This reflects strong receivables collections in the run up to year-end.

Link to strategy

Collectively these measures indicate the efficiency of the Group's activities. Underlying operating profit and underlying earnings per share provide an indication of the profitability of the Group's operations while underlying net cash flow from operations provides an indication as to the Group's cash generative performance. Underlying operating profit and underlying net cash flow from operations are used in the Bonus Banking Plan, but for executive remuneration purposes are adjusted to exclude businesses acquired during the year.

* Definitions of the Group's alternative performance measures can be found in the glossary on page 183.

1 Prior year comparatives for 2019 have been restated due to a change in accounting policy in respect of leases. See note 37 page 172 for more details.

Principal risks

How we protect our business

Successful management of current and emerging risks is critical to achieving our company goals. Our Group Head of Enterprise Risk Management is responsible for designing and facilitating the risk management processes across the organisation, provides risk expertise and support to the businesses and reports risk information across the Group including to the Global Leadership Team, Audit and Risk & CSR Committees and the Board.

We utilise the Group-wide risk management framework to inform our decision-making at both the strategic and operational levels, adopting a top-down/bottom-up process. This enables us to fully leverage its benefits and subsequently support the long-term success of our business. Our application of risk management continues to evolve with our customers' approach to risk, the rapidly changing external environment in which we operate and internal changes, thus ensuring we are best placed to pursue opportunities and deliver results, whilst simultaneously innovating for our customers' advantage. Over the past 12 months, risk and opportunity management has been extensively supported by the roll-out of a new risk management tool.

Risk management and assurance activity

Three lines of defence model

Our risk management and assurance activity is formed of three lines of defence, each reporting to the Global Leadership Team, and to the relevant Board Committees. The first line of defence is performed by our businesses and functions, through managing activities in accordance with established operating principles; the second line is performed by the assurance functions, including the enterprise risk management and safety and governance teams; and the third line is performed by the internal audit team and external providers.

Board

Responsible for effective risk management and internal control across the QinetiQ Group.
Set risk appetite and assess principal and emerging risks

Audit Committee and Risk & CSR Committee

Receive reports from the assurance functions

Monitor and review the principal and emerging risks

Risk deep dives

Monitor the effectiveness of internal controls

Global Leadership Team

Identify and monitor Group principal and emerging risks, as well as material risks (including operational) reported from the businesses and Group functions

Risk owners

Managers identify and evaluate risks

Design and operate internal controls and other mitigation measures

Application of delegated authorities, policies, procedures and codes of practice

Report risks through relevant reporting and escalation processes

1st Line of Defence

Enterprise risk management

Risk Management and other assurance functions with limited independence

Design and facilitate the risk management processes across the Group, provide risk expertise and support to the businesses and functions

Responsible for continually improving the risk management process across the Group as a whole

Report to the Board and the Global Leadership Team

2nd Line of Defence

Independent risk assurance

Internal Audit and independent/external assurance providers

Review and evaluate risk management activity and provide assurance of the effectiveness of the control environment to manage risks

Manage the external confidential reporting process

Report to the Board and the Global Leadership Team

3rd Line of Defence

Emerging risk

The Group Risk Register consists of material risks relating to effective delivery of our strategy. The Board and Global Leadership Team look to assess these principal risks from a number of different perspectives, including both individually and collectively. We also actively consider emerging risks as part of the risk assessment process. The Board recognises that some risks may be affected by factors outside the control of the company and also recognises that despite the robustness of the risk management processes they cannot provide absolute assurance and unknown risks may manifest without warning. We have proven processes in place to rapidly deploy appropriate management to such risks and utilise lessons learned across the organisation as part of our ongoing drive for continuous improvement.

Over the past 12 months our Group risk profile has changed owing to changes in our external environment, the ongoing development of our strategy and robust, focused mitigation. In light of this both the Single Source Regulations impacts on our revenue and the risk around recruitment and retention have been mitigated to a level such that they are no longer considered to pose principal risks to the organisation. However owing to the increased volume of M&A activity across our portfolio a new risk has been included. In addition, as the impact of COVID-19 has escalated we have included a risk that our operations are further disrupted by the pandemic.

QinetiQ risk appetite

The Board identifies and reviews its tolerance to risk by establishing a clear risk appetite and setting appropriate delegations of authority to the executive and senior leaders. We focus on those critical risk areas necessary to achieve our strategic goals. Risk appetite is articulated by defining three categories which balance scrutiny and mitigation activity against likely benefit:

Cautious

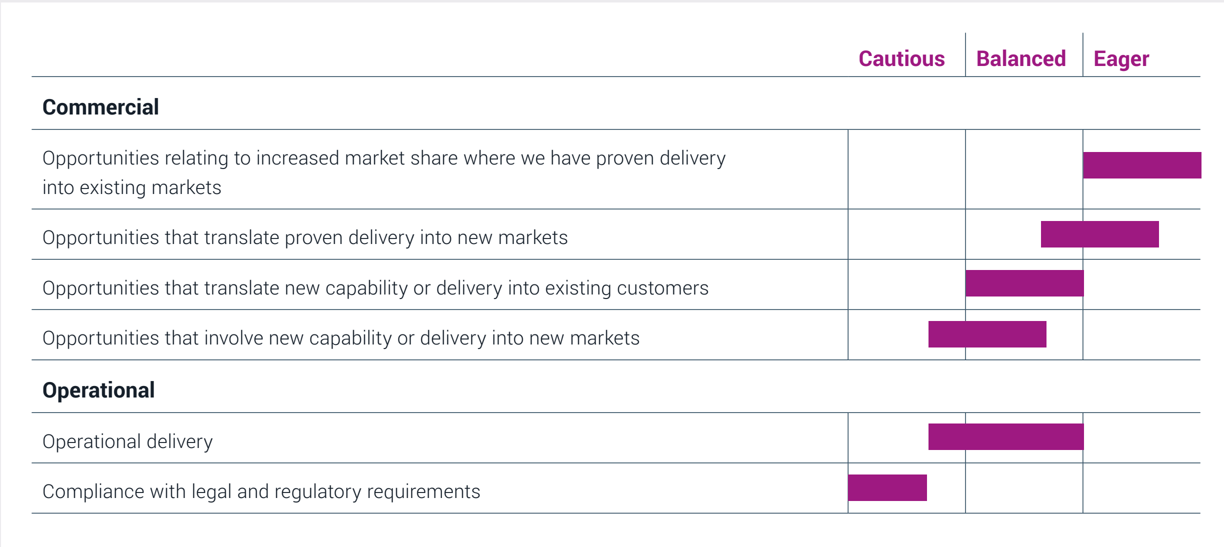
Avoidance of uncertainty – with negligible or low residual risk. Applying innovation prudently where the risks are fully understood.

Balanced

Preference for delivery options that have a low or moderate degree of residual risk. Applying innovation only where successful delivery is likely.

Eager

Willing to consider delivery options with greater inherent risk and eager to be innovative.



Principal risks continued

Strategic risks

UK Defence Test & Evaluation strategy

UK Government budget constraints lead to reduced spending in core markets in which we operate. This and the ever increasing pace of modernising ways of evaluating capability results in a risk that our approaches/offerings may not remain relevant. There remains the potential for this risk to be exacerbated by the impact of COVID-19 on Government spending and the EU exit should the UK experience a loss of market confidence and further reduction in collaborative EU funding.

Impact

A reduction in revenue and associated profitability from the Group's Government and Defence contracts.

Mitigation

Our strategy is focused on leading and modernising UK Test & Evaluation in support of our customers' objectives. This includes ongoing proactive engagement with our major customers to enable us to support their objectives.

Our focused investment into contracts enhances our offerings that support our customers with their efficiency challenges as well as ensuring that we provide the right services as the threat environment continues to evolve. We continue to deliver new types of evaluation and are increasingly moving towards modelling and synthetics, as well as embracing the next generation digital transformation.

We are expanding our global Test & Evaluation business and post Brexit will maintain relationships with the UK Government to support bilateral relationships within Europe; there is increased recognition that T&E is an enabler to military capability and prosperity.

Metrics
Customer satisfaction
All financial KPIs

Responsibility
Group Function Director Business Development

Risk appetite Eager

Likelihood/Impact Medium/Medium

Proximity/Velocity 1–2 yrs/Medium

International strategy

Plans to grow our international business may be impacted by external influences outside of our control, such as geo-political risks, or specific risks arising from working in new markets and globalised operations.

Impact

Unable to realise expected growth in the planned timeframes.

Mitigation

Our international strategy is focused on the markets we feel we have the best routes to access with the most appropriate products or services.

Adopting a focused approach ensures we can closely monitor our progress, adapting and responding as necessary.

We undertake extensive due diligence, taking the appropriate professional advice to ensure structural, regulatory, legal and political risks are understood and minimised.

We partner with or acquire, where appropriate, quality local businesses to leverage their infrastructure and de-risk local market access.

Metrics
All financial KPIs
International revenue as % of total revenue

Responsibility
Group MD International

Risk appetite Balanced to Eager

Likelihood/Impact High/High

Proximity/Velocity 0–1 yrs/Medium

Innovation strategy

Failure to create a culture of innovation, develop relevant technology and business models or to attract and retain the right talent, to enable the realisation of new ideas for our customers and our organisation.

Impact

Negative impact on the Group's market position, competitiveness and future growth.

Mitigation

Our overall strategy helps us to ensure that we focus our innovation on areas with clear commercial opportunities.

We continue to mature our innovation approach, including clear articulation across the organisation, to ensure the importance of innovation to both our organisation and our customers is clearly understood and initiatives are supported.

Specific innovation activities in FY21 will strengthen and improve our innovation approach across the organisation.

Metrics
Customer satisfaction
Employee engagement

Responsibility
Group Function Director Strategy & Planning
Group Function Director Business Development
Group Function Director Technical

Risk appetite Balanced

Likelihood/Impact High/High

Proximity/Velocity 1–2yrs/Low

See our strategy on page 18.

A material element of the Group's revenue is derived from large contracts

The Long Term Partnering Agreement (LTPA) is a 25-year partnering contract with the MOD to provide test, evaluation, and training services. UK Government budget constraints could lead to a material change to the contract.

Impact

The LTPA directly contributes a material proportion of the Group's revenue and earnings.

Mitigation

Our aim is to provide our customer with the capabilities they need to test and train against current and future threats in a cost effective manner – leading and modernising UK Test & Evaluation. Our increased customer focus is evidenced in both the LTPA and EDP programmes.

Ensuring frameworks such as the LTPA enable agility and pace to the Front Line in a rapidly changing threat environment strengthens the rationale for their use.

Our investment into contracts continues to ensure they meet our customers' expectations and remain relevant in an evolving threat environment.

Metrics
All financial KPIs except orders
Customer satisfaction

Responsibility
Group MD Maritime & Land
Group MD Air & Space

Risk appetite Balanced

Likelihood/Impact Medium/High

Proximity/Velocity 0–1 yrs/Low

See our operating review on page 20.

Mergers and Acquisitions (M&A)

M&A activity forms a key element of our strategic growth plans in order to expand our customer offerings. New acquisition selection and integration is key to realising the maximum potential benefits.

Impact

Adverse impact on the Group's financial performance.

Mitigation

We have robust governance in place regarding this risk including the M&A Committee and relevant Integration Steering Committees.

All planned acquisitions are carefully considered to ensure good strategic alignment, extensive due diligence is undertaken and integrations are run as individual projects, ensuring they receive the focus and support necessary to facilitate a smooth transition.

Metrics
Inorganic growth
Revenue & profit

Responsibility
Group Function Director Strategy & Planning
Group Managing Directors

Risk appetite Balanced

Likelihood/Impact High/High

Proximity/Velocity 1–2yrs/Low

See our operating review on page 20.

Transformation

The transformation programme does not realise the expected benefits.

Impact

The introduction of new ways of working disrupts business delivery.

Mitigation

The programme is designed around three transformational themes (Performance culture, Global & Digital) to support the delivery of our global strategy, improve customer focus, competitiveness, and global collaboration across the company.

Significant engagement with leaders across the organisation to catalyse the change in behaviours necessary to allow the transformation work to deliver benefit.

Assessment of "capacity to change" and phased approach to transformation in each part of the business to maximise effectiveness.

Metrics
Customer satisfaction
Employee engagement
All financial KPIs

Responsibility
Group Function Director Business Transformation & Services

Risk appetite Eager

Likelihood/Impact Medium/Medium

Proximity/Velocity 0–1 yrs/Medium

See our strategy on page 18.

Principal risks continued

Operational risks

Significant breach of relevant laws and regulations

We operate in highly regulated environments and non-compliance has the potential to compromise our ability to conduct business in certain jurisdictions, potentially having an impact on a variety of stakeholders.

Impact

Failure to comply with particular regulations could result in a combination of fines, penalties, civil or criminal action, suspension or debarment from government contracts, as well as reputational damage to our brand.

Mitigation

Instilling the right behaviours and culture across the Group is a key part in minimising the risks.

In addition to our robust policy, procedures and mandatory training in place, The QinetiQ Code of Conduct defines clear expectations for the Group and its employees.

Key areas of focus include the following:

- Safety of product and services
- Health, Safety & Environment, international trade controls, bribery and ethics; where the company adopts a zero tolerance approach to bribery and corruption

Metrics
Health, Safety & Environment
Mandatory training compliance
Commercial intermediary monitoring

Responsibility
Company Secretary/Group General Counsel

Risk appetite Cautious

Likelihood/Impact Medium/High

Proximity/Velocity 0–1 yrs/High

Security and IT systems

A breach of physical or data security, cyber-attacks or IT systems failure could have an adverse impact on our customers' operations.

Impact

Significant reputational damage, as well as the possibility of exclusion from some types of government contracts resulting in reduced orders, revenue and profit.

Mitigation

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 employees.

Continuously reviewing the threats and adapting our Security Strategy and mitigations accordingly.

Metrics
Cyber dashboard
Security dashboard

Responsibility
Group Function Director Business Transformation & Services

Risk appetite Cautious

Likelihood/Impact Medium/High

Proximity/Velocity 0–1 yrs/High

COVID-19 pandemic

The COVID-19 pandemic disrupts QinetiQ operations.

Impact

The disease and public health management strategies require QinetiQ, our customers and suppliers to stop or delay some activities.

Mitigation

QinetiQ's crisis management process is well embedded, flexible and exercised. It operates at strategic, tactical and operational levels across the Group allowing the company to respond rapidly to the pandemic and governmental requirements in all the countries in which it operates. The process has been held under regular review and modification enacted where required to ensure an effective response to the pandemic. The company has engaged with all relevant stakeholders including government, customers, suppliers and employees as the pandemic has progressed. Ways of working have been adapted to facilitate remote working from home where possible and to meet public health requirements where not.

Metrics
Customer satisfaction
Employee Engagement
All financial KPIs

Responsibility
CEO

Risk appetite Cautious

Likelihood/Impact High/Medium

Proximity/Velocity 0–1 yrs/High

See Chief Executive's Statement on page 10.

Longer-term viability assessment

Assessing the prospects of the Group

The Group's corporate planning processes involve the following individual processes covering differing time frames:

1. An annual Integrated Strategic Business Plan (ISBP) process that looks at the financial outlook for the following five years. This process commences with an assessment of the orders pipeline producing an order intake scenario. A review of the phased delivery profile and the cost base required to support this enables generation of base-case, high-case and low-case profit forecasts. Capex and working capital requirements are also collected, reviewed, approved and a cash flow produced for the plan period;
2. An annual budget process that covers the first year of the five-year planning horizon in detail;
3. A bi-annual forecast process to update the view of the first budget year (the year which would be in progress);
4. A rolling monthly 'latest best estimate' process to assess significant changes to the budget/forecast for the year in progress; and
5. The financial impact of principal risks (individually and cumulative), together with mitigating actions.

The corporate planning process is underpinned by assessing scenarios and risks that encompass a wide spectrum of potential outcomes, both favourable and adverse. The downside risk scenarios are designed to explore the resilience of the Group to the potential impact of all the significant risks set out on pages 34 to 36, or a combination of those risks.

The scenarios are designed to be severe but plausible, and take full account of the availability and likely effectiveness of the mitigating actions that could be taken to avoid or reduce the impact or occurrence of the underlying risks, and that realistically would be open to them in the circumstances. In considering the likely effectiveness of such actions, the conclusions of the Board's regular monitoring and review of risk and internal control systems, as discussed on page 73, is taken into account.

Alongside the annual review of risk scenarios applied to the strategic plan, performance is rigorously monitored to alert the Board and Global Leadership Team to the potential crystallisation of a key risk.

Subsequent to the standard planning activities noted above and in response to the COVID-19 crisis that started to escalate just prior to the Group's current year end, specific scenarios have been run to model a variety of potential impacts of COVID-19 on the Group. This has been informed by a further month of trading post year end whilst employees are working during social distancing restrictions and by revised financial forecasts for the 2021 fiscal year prepared by each business unit within the Group.

We consider that this stress-testing based assessment of the Group's prospects is reasonable in the circumstances of the inherent uncertainty involved.

The period over which we confirm longer-term viability

The period over which the Directors consider it possible to form a reasonable expectation as to the Group's longer-term viability is the five-year period to 31 March 2025. This is the period covered by our strategic planning process and is subject to stress-testing and scenario planning around potential risks. It has been selected because it presents the Board and readers of the Annual Report with a reasonable degree of confidence whilst still providing an appropriate longer-term outlook.

Confirmation of longer-term viability

As noted on page 113, the Directors confirm that their assessment of the principal and emerging risks facing the Group was robust. Based upon the robust assessment of the principal risks facing the Group and their stress testing based assessment of the Group's prospects, all of which are described in this statement, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 March 2025.

Going concern statement

The Group's activities, combined with the factors that are likely to affect its future development and performance, are set out on pages 20 to 37. The Chief Financial Officer's review on pages 24 to 27 sets out details of the financial position of the Group, the cash flows, committed borrowing facilities, liquidity, and the Group's policies and processes for managing its capital and financial risks. Note 24 on page 146 to the financial statements also provides details of the Group's hedging activities, financial instruments, and its exposure to liquidity and credit risk.

The Group meets its day-to-day working capital requirements through its available cash funds and its bank facilities. The COVID-19 crisis has introduced considerably more uncertainty across markets globally. As such the market conditions in which the Group operates are expected to be challenging as spending from the Group's key customers comes under pressure. Despite these challenges, and considering the decisive action already taken by management to maintain the strength of our business, the Directors believe that the Group is well positioned to manage its overall business risks successfully.

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

The Group is exposed to various risks and uncertainties, the principal ones being summarised in the 'Principal risks' section on pages 32 to 36. Crystallisation of such risks, to the extent not fully mitigated, would lead to a negative impact on the Group's financial results but none are deemed to be sufficiently material to prevent the Group from continuing as a going concern for at least the next 12 months.

Jessica Ciccozzi, General Manager People and Capability, with one of our graduates in Australia.

Our people

Creating a high performing and inclusive culture

We recognise that to support our strategy we must embed the right culture, where employees are engaged, empowered and clear about how they contribute to our success. It is an integral part of our ongoing global transformation programme.

Our approach to developing a high performing and inclusive culture is focused on five key areas:

1. Improving the safety, health and wellbeing of our people

2. Creating a diverse and inclusive environment

3. Engaging with our people

4. Developing our people

5. Rewarding and recognising our people

For more information please see:
- Non-financial key performance indicators: pages 28 and 29.
- Risk: pages 32 to 36.
- Related policy in the non-financial information statement: pages 54 and 55.

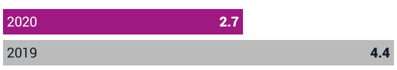
1.

Improving the safety, health and wellbeing of our people

Performance in FY20:

- Our leaders have a collective objective for safety as part of their incentivisation; to improve our safety culture through increased engagement.
- Driven by greater engagement, safety performance has improved with an overall reduction in both Group wide LTI and UK reportable incidents.

Lost Time Incident (LTI) Rate[1]



1. LTI rate is calculated as the number of lost time incidents where the employee is away from work for one or more days, times 1,000, divided by the total number of employees.

- We were recommended by BSI for transition to the 2018 ISO 45001 (safety) standard for the UK.
- We updated our global Environmental, Health and Safety (EHS) strategy and commitment to driving continuous improvement in EHS performance through the next four years and beyond.
- There were no prosecutions, prohibition notices or improvement notices issued by regulators in the UK during the last financial year.
- Building on an initial cohort of 11 Mental Health First Aiders (MHFA) in Australia, a further 65 MHFA have been trained with a further 150 employees becoming Mental Health Champions across the Group.
- Wellbeing has now been incorporated into core training programmes and leadership events.
- Safety and wellbeing issues are part of a regular governance timetable, monthly through Managing Director meetings, quarterly through Global Leadership Team meetings and Risk & CSR committee meetings, with six monthly summary reports to the Board.

Supporting our people through COVID-19

We have adapted quickly to support our people in response to COVID-19. Our priority is the physical, mental and financial wellbeing of our employees and their families. We have a number of key workers and have developed strategies to support those who must be at work to ensure it is safe for them to do so. For the majority of employees who are now working from home, we have focused on providing guidance on how to do so safely and securely as well as support for their health and wellbeing.

Our People continued

2.

Creating a diverse and inclusive environment

We are creating an inclusive environment where we benefit from a diverse range of thinking from varied backgrounds and people at different stages in their careers; this is essential for our business performance.

Performance during the year includes:

- Training: A range of new training has been implemented, including mandatory unconscious bias training for all employees; Inclusive Leadership training for over 300 managers; a high impact interactive session for senior leaders; development of a 'language and banter' toolkit working as part of an industry group led by the Royal Academy of Engineering.
- Employee networks: Building on the success of our LGBTQ+, 'Just-LikeQ', and Neurodiversity employee led networks we launched a Gender Balance network and a menopause network.
- Awareness campaigns on autism, dyslexia, mental health, women in STEM, gender balance and the menopause and increased focus on disability.
- Focus on gender balance: We were delighted we retained our Employer of Choice for gender equality in Australia. We are sponsors of International Women in Engineering Day (INWED) and of the 'Innovation' category of the Women in Defence Awards.
- Collaboration: Our Just-LikeQ network hosted a celebration event, bringing together LGBTQ+ networks from across the defence industry and MOD during LGBT history month.
- Reverse mentoring: Successful launch of our first reverse mentoring programme.
- Gender diversity: We submitted our gender diversity data to the Hampton Alexander programme, with two women in an executive team of 15 (13%) and 29 women of our 99 direct executive reports (29%). We ranked highest in Aerospace and Defence in 2019.

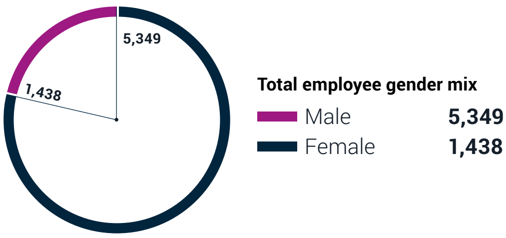
Gender diversity

	Female	Male
Board Directors[1]	2 (22%)	7 (78%)
Senior managers[2]	54 (17%)	267 (83%)
All employees[3]	1,384 (20%)	5,080 (80%)

1 For more information on Board diversity see page 78.

2 Excluding senior managers who are also Board Directors (CEO and CFO).

3 Excluding senior managers.



Reverse mentoring

In FY20 we worked with our early careers community to develop a new programme of reverse mentoring. The aim is to encourage partnerships between junior and senior communities, where the junior person is the mentor. The programme will provide opportunities for both mentee and mentor to learn new skills, listen and share perspectives and value our differences. The first cohort included 10 senior leaders as mentees including two members of our Global Leadership Team.

See more online at **www.qinetiq.com**

"I can honestly say I've started doing things differently since I've been working with my Early Careers mentor"

GRAHAM OLLIS

Director, Business Winning

In FY21 we plan to:

- Include a focus on inclusion within our leadership collective objectives.
- Increase and embed our employee led networks.
- Review our approach to recruitment following an independent review.
- Continue to develop our training, resources and communications for employees.

3.

Engaging with our people

Employee engagement forms an integral part of our strategy and is a key non-financial KPI.

For more on our KPIs see page 29.

- We measure engagement quarterly across the Group and receive regular feedback from our people so that we can identify the top priorities for us to address via our Engagement in Action plan.
- We established our employee engagement baseline in February 2019 (a score of 6.3) and have been pleased to see this increase by 10% to 6.9 in January 2020, with an average participation rate of 75%.

Employee engagement baseline

+10%

- The score improved for all aspects of engagement measured, with a key success being the greatest improvement in areas where our employees indicated that we needed to focus.

  For example, see reward on page 43.
- We share progress with our people and demonstrate through action, that their feedback is listened to. We are also supporting and developing managers, to ensure that they can create a high performing and inclusive culture with engaged employees.
- We regularly communicate with our people through a range of channels (e.g. blogs and roadshows) so we can ensure that across the Group employees understand our strategic priorities, know how they can contribute and are supported to deliver our goals.

Employee voice

- The Employee Engagement Group (EEG) is a well established and diverse group representing the voice of employees within QinetiQ Ltd. The EEG have built trusted relationships across all levels, and have been proactive in providing employee insight on projects associated with the strategic aims of the company. Their focus remains on challenging the business to provide the best employee experience of working at QinetiQ and in supporting a high performing and inclusive culture. For example they have provided employee insight during the development of key projects such as the next phase of the LTPA. They have also been key as we have developed our COVID-19 response. Our German colleagues are supported by a works council.
- The EEG Chair and Deputy Chair actively participate at the monthly Leadership community events. The Chair and Deputy Chair along with other EEG representatives have met with the Chairman and Remuneration Committee Chair twice during the year along with another two other Board members (see page 65).

"Our employee survey provides a dynamic way of understanding how it feels to work at QinetiQ so we can take rapid action when our people tell us what needs to improve"

CLAIRE WATSON
Director, Organisation Development

In FY21 we plan to:

- Share and learn from evidence-based best practice from across our business and all industry sectors.
- Maintain focus on supporting managers to deliver greatest impact on team engagement.
- Continue to evolve a more global approach to listening and responding to our employee voice.

Our People continued

4.

Developing our people

Our learning and talent management programmes drive a high performing environment, unlocking the potential of our workforce. Programmes are underpinned by QinetiQ's values, behaviours and an emphasis on employee wellbeing.

Focus this year has included:

- A new Global Competency Framework and a suite of resources to support professional competencies across all disciplines.
- Our new 'Enabling Managers' programme included an interactive conference, experiential workshops, coaching and a two-day 'Team essentials' leadership programme.
- The launch of a new digital coaching and mentoring platform.
- Collaboration with industry, e.g. the UK Defence Growth Partnership and STEM futures, focusing on future skills.
- Maturing our Talent Management approach in areas of assessment and our long-term capability planning using a Strategic Workforce Planning framework to mature our skills and resourcing strategy for the medium and long-term as we globalise and grow.

Early careers

Our early careers programme supports the development of apprentices, graduates, placement students and interns. We need to strengthen our talent pipeline to mitigate risk in a competitive resourcing market and address the Science, Technology, Engineering and Maths (STEM) skills gap.

- We have undertaken an extensive review of our programme to ensure we have the skills and capabilities needed to successfully deliver customer requirements and enable delivery of our global business strategy.
- In Australia the new 2019 Graduate Development Programme was the first of its kind in the Australian business and launched with seven engineering graduates for the 18 month program. The 2020 programme will build on this, increasing not only the number of graduates, but also the number of disciplines.
- Two of our apprentices won Gold and Silver medals at the World Skills UK finals event this year.
- Our early careers community are positive role models and are highly active in our outreach programmes and reverse mentoring.

For our outreach programmes see page 47.
For reverse mentoring see page 40.

As a member of The 5% Club, we commit to publishing a breakdown of our early careers (graduate and apprentice) numbers.

As well as providing apprenticeships for employees early in their career, we are also actively supporting 23 colleagues at later stages of their careers to undertake apprenticeships.

	2018	2019	2020
Apprentices	129	101	67
Graduates	109	90	50
Sponsored students	11	8	2
% UK Workforce	4.8	4.0	2.3

In FY21 we plan to:

- Focus on local vs. global training to meet cultural and legislative differences.
- Increase focus on coaching to enable leaders and their teams to embed a high performance culture.
- Develop early careers talent across our home territories, by sharing learning materials and facilitating secondment opportunities.
- Update our Early Careers placement approach to ensure skills are developed that support business capabilities and a new development framework, providing personal and business skills development.

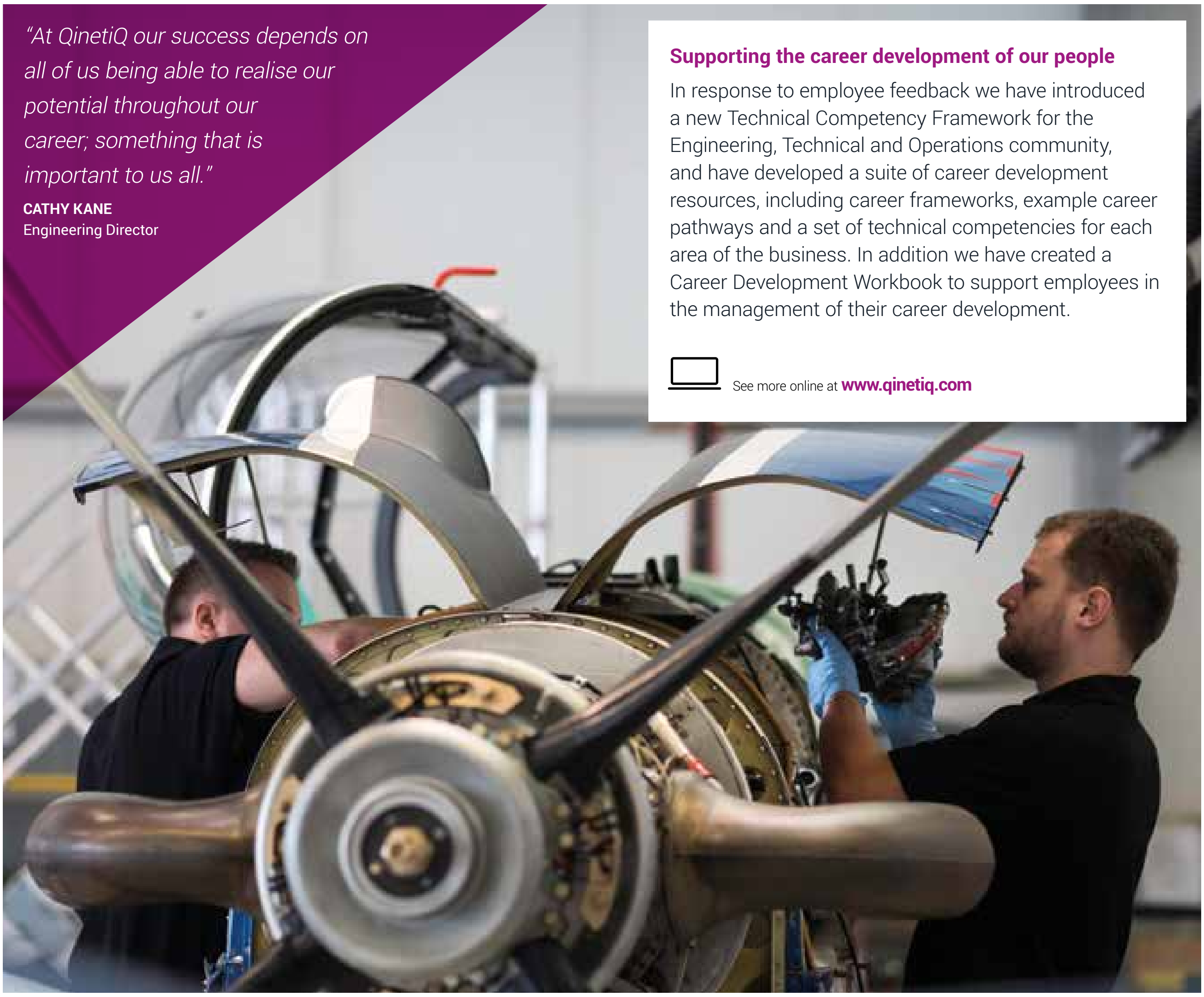
5.

Rewarding and recognising our people

Reward and recognition is key to ensuring that all our people are able to share our success and are recognised for their achievements and behaviours.

- Our new All Employee Incentive Scheme rewards employee contribution and enables everyone to share success based on financial performance. All employees are eligible to receive a bonus of between £500 and £1,000 depending on Group operating profit. In the first year of operation (FY19), the scheme paid £1,000 to every eligible employee in QinetiQ, and for FY20 the payment is £740 reflecting another strong year of profit performance.
- Following feedback via our employee engagement survey, our reward team undertook Reward Roadshows covering reward and financial wellbeing support. This was well received and we have seen a 15% improvement in our employee survey results on reward and recognition (see page 41 on engagement).
- We hosted our third annual global gala dinner to recognise and reward outstanding employee performance in our business. This year's winners showcased the breadth and depth of what we do across the whole of the company. In addition our 'Thank Q' peer to peer recognition programme allows employees to nominate individuals or teams who make a difference, focusing on the capabilities and behaviours that are vital to our future success.
- As part of our employee engagement the Chair of the Remuneration Committee met with the EEG to ensure a link with employees and to bring the employee voice to the table (see page 65).
- Our mean gender pay gap for FY19 (reported in March 2020) was 14.8% (16.6% in the previous year) and is primarily due to the proportion of men who have senior roles. We recognise it will take time to reduce the gap but we are committed to doing so.
- Also responding to employee feedback we introduced Pay and Progression panels in FY20 in order to make our process more agile and transparent.

We reported the CEO pay ratio on page 104.



"At QinetiQ our success depends on all of us being able to realise our potential throughout our career; something that is important to us all."

CATHY KANE
Engineering Director

Supporting the career development of our people

In response to employee feedback we have introduced a new Technical Competency Framework for the Engineering, Technical and Operations community, and have developed a suite of career development resources, including career frameworks, example career pathways and a set of technical competencies for each area of the business. In addition we have created a Career Development Workbook to support employees in the management of their career development.

See more online at **www.qinetiq.com**

Responsible & sustainable business

Our values are at the heart of how we deliver a responsible and sustainable business.

Strategy, materiality and governance

In FY20 we undertook a materiality assessment to ensure that our corporate responsibility and sustainability (CR&S) strategy reflects those issues that are material to our business. There are some elements which will always be business priorities, such as the safety of our people and our approach to governance. Through listening to our stakeholders we can focus on meeting their expectations on issues such as climate change and the Sustainable Development Goals and we can also ensure that we are able to anticipate and understand emerging issues such as social value in UK public procurement.

Our CR&S framework is focused around five themes:

- Stakeholder engagement;
- How we do business;
- Our people (see pages 39 to 43);
- Environmental stewardship; and
- Community investment.

We have Board and executive level commitment to CR&S through the Group Risk & CSR Committee and this ensures delivery of responsible business practice, driven by leadership and governance. The Committee receives reports and briefings on all material CR&S issues including business ethics, anti-bribery and corruption, health and safety, environment, reputational risk and human rights (see page 80). Further Executive chaired committees include the Business Ethics Committee.

For more information please see:

- Non-financial key performance indicators: pages 28 and 29.
- Risk: pages 33 to 36.
- Related policy in the non-financial information statement: pages 54 and 55.

Stakeholder engagement

Understanding the current priorities of our stakeholders (primarily customers, investors and our people) is achieved through regular dialogue such as investor meetings, involvement in the MOD-Industry Sustainable Procurement Working Group and our employee engagement (page 41). We are actively engaged with industry and trade body working groups on topics such as skills, environment and ethics.

How we do business

Business ethics – doing business the right way

Our Code of Conduct lays out our ethical standards, providing clear direction and guidance on how we do business. It also contains information on ethical decision-making and how to seek help. We review it annually to reflect the evolving needs of our business, the regulatory environment and best practice. Annual business ethics training is mandatory and supports our people in understanding and using the Code. The training is undertaken by our Board and is available to our suppliers and customers. We provide a number of challenging scenarios to help our people know what to do if they were to come across issues such as bribery, fraud, harassment, conflict of interest and modern slavery.

We strive to create an environment where our people feel confident to 'speak up' and provide ways for them to seek help or raise concerns. They are encouraged to talk to a manager, use our ethics email advice services, our global network of Ethics Champions and our independently run, 24/7 confidential reporting line. We have provided responses to all queries received via our ethics email advice services and confidential reporting line. We provide guidance for managers in creating an open and inclusive environment where our people feel confident to raise concerns, and how to listen to and support anyone who may come to them with an issue. Our ethics programme is overseen by our Business Ethics Committee, chaired by our Chief Ethics Officer (the Company Secretary). We are participants in the ethics forum hosted by our trade association, ADS, where members can share best practice on ethics, human rights and anti-bribery.

Anti-bribery and corruption

We have a zero-tolerance approach to bribery and corruption, with robust policy and procedures in place, overseen by our Chief Ethics Officer. These are regularly reviewed against changing regulations and industry guidance. Bribery risks are addressed in our international business risk management process and in our business relationships, with specific focus on commercial intermediaries, who are subject to comprehensive risk-based due diligence, using both in-house expertise and recognised specialist third party due diligence providers. Anti-bribery training forms part of our mandatory business ethics training for all of our people, and, additionally, we provide face-to-face training for our people in roles with a higher potential exposure to bribery and corruption risks with bi-annual refresher training. We have undertaken a review both of our higher risk roles and our training material and have commenced a new targeted programme of training delivery.

Human rights

As part of our ongoing programme to address modern slavery, we have provided more in-depth training to people in key roles and developed new supporting resources for all employees. We have updated our policy and continue to review our approach to risk in the supply chain. Our Supplier Code of Conduct helps to ensure our suppliers have clarity of their responsibilities on human rights. Our annual modern slavery and human trafficking statements are published on our website.

See more online at **www.QinetiQ.com**

We seek to anticipate, prevent and mitigate potential negative human rights impacts through our policy and processes, which underpin our commitment to responsible business practices. For example, we address salient human rights issues through our Code of Conduct, trading policy, international business risk management process and export controls process. We monitor the application of these policies and procedures through our business assurance processes and regular self assessment with oversight by our Business Ethics Committee. We believe that this integrated approach is effective in ensuring our business acts responsibly and respects all human rights.

Modern Slavery event

In FY20, working with 'Unseen', the anti-slavery charity we ran a supplier event on Modern Slavery to discuss the issues and explore ways we can collaborate to combat such forms of slavery. Modern Slavery and human trafficking have been growing in public and business awareness. The introduction of the Modern Slavery Act in the UK and similar in US and Australia has created a impetus for business. One of our ongoing commitments is to find effective ways to engage with our supply chain. During the event we discussed not only the impact of slavery on individuals but the likely impact on business when it occurs. The output of the event was the development of shared resources and a new online group to exchange ideas and challenges.

Supply chains

Our supply chain is an extension of our own organisation. We ensure that it is committed to the same standards of safety, security and governance as we are. We have a Supplier Code of Conduct and our on-boarding and vetting process ensures that suppliers understand the issues important to us. We are signatories to the Prompt Payment Code, and report our payment details as required by legislation. In FY20 we ran supplier events to raise awareness of issues such as safety and modern slavery (see case study). Working in collaboration with wider industry we foster and develop ecosystems which draw together communities to answer complex science, engineering and technology challenges, supporting our customer offering. Through this approach we enable access to opportunities of Small to Medium Sized Enterprises and non-traditional defence suppliers, removing barriers of entry and promoting inclusive procurement.

Environmental stewardship

As part of our EHS (Environment, Health and Safety) Strategy we are working to protect and sustain our environment while delivering for our customers. Underpinning our approach is our ISO 14001 certification in the UK and Canada. Environmental issues are reviewed by the EHS Committee and the Risk & CSR Committee. A new EHS strategy is planned for launch in FY21.

Our waste target is to increase the annual proportion (%) of waste re-used and recycled from our underlying waste production. We have implemented Waste Management Action Plans at our significant waste producing sites which account for 95% of waste produced. Performance increased with 84.7% (FY19: 81.6%) of underlying waste reused or recycled.

During the year we have communicated with our people on a range of environmental issues, explaining our approach to environmental stewardship and encouraging participation. We used World Environment Day as an opportunity to launch our new environmental volunteering programme.

Many of the sites we run on behalf of the UK MOD have significant conservation protection and so our Sustainability Appraisal approach ensures we are able to effectively balance complex trials with careful protection of rare flora and fauna.

Responding to Climate Change

The Task Force on Climate-related Financial Disclosures (TCFD) provides a framework for companies to demonstrate their resilience not just to the physical risks associated with climate change but also 'transition risk' as the world decarbonises. We have run workshops bringing together subject matter experts in risk, strategy, governance, energy management, environment and supply chain, and continue to develop our approach against the recommended framework of governance, strategy, risk management and metrics/targets. Since 2011, we have undertaken climate change risk assessments on priority sites which we manage on behalf of the MOD, to understand what the key issues might be. In FY20 we undertook a further series of new assessments based on recent climate projection data, working in partnership with the MOD.

Sustainable solutions

QinetiQ will play a key role in maximising European Capabilities in Operational Earth Operation, through the development and assembly of the 'ALTIUS' (Atmospheric Limb Tracker for Investigation of the Upcoming Stratosphere) satellite. ALTIUS will be launched in 2023 and will monitor and map the distribution and evolution of stratospheric ozone at a very high vertical resolution as well as measuring greenhouse gasses. ALTIUS is comprised under the European Space Agency Earth Watch Programme, with the objective of developing new scientific Earth Observation satellite missions and data exploitation schemes to advance science and knowledge of the planet.

Responsible & sustainable business continued

Greenhouse gas emissions and energy management

This has been our first year operating under our new 2025 Energy Strategy and in FY20 we achieved a 13.4% reduction in our total Group Scope 1 and Scope 2 emissions footprint target against our FY19 figures.

We are delighted with the progress against our target to reduce our Group carbon emissions by 25% by 2025 against the FY19 baseline. Over half of the emissions saving was achieved from a reduction in electricity use across the business, coming from both a substantial reduction in usage of the wind tunnel facility in Farnborough plus efficiencies achieved across the wider business. The reduction in the UK electricity carbon intensity factor accounted for 32% of our total emissions saving.

During FY20 we submitted a commitment letter to the Science Based Targets initiative (SBTi) to start the process of verifying our Group target against the goal of limiting global warming to 1.5°C. We are publicly listed as committed on the SBTi website.

PricewaterhouseCoopers LLP (PwC) carried out a limited assurance engagement on selected GHG emissions data for year ending 31 March 2020 in accordance with International Standard on Assurance Engagements 3000 (revised) and 3410, issued by the International Auditing and Assurance Standards Board. A copy of PwC's report and our methodology is on our website: A summary of our Scope 1 and Scope 2 emissions is shown below.

The figures that have been covered by this assurance process are indicated in the table below by the following symbol: △. We also publish here our energy performance and examples of energy action taken in the year, meeting the new SECR (Streamlined Energy and Carbon Reporting) requirements.

We have delivered a number of energy efficiency programmes during FY20 to drive greater energy efficiency and improved energy management across the business.

- We have recently incorporated our Ashford site into the scope of our ISO 50001 certification and undertaken Energy audits in our sites in Germany identifying significant opportunities to create efficiencies.
- We have delivered significant improvements to the facilities at Rosyth Dockyard, including upgrading insulation, external cladding and new LED lighting. Since completion at the end of 2019 this refurbishment has resulted in a 25% reduction in electricity consumption compared to the same period in FY19.
- We have upgraded the cooling systems in our data centre facilities in Malvern. The upgrade has seen an improvement of free cooling from 25% to 75% and improved the power usage efficiency (PUE) from between 1.8 to 2.2 to between 1.3 to 1.5. We anticipate further improvements as the systems are optimised ahead of the summer.
- We launched a new 'Battle of the Baseload' campaign to target overnight and weekend energy consumption during the winter months in the UK. The campaign is a combination of behavioural and operational interventions to focus on shut down protocols. From September to March, the campaign resulted in electricity reductions of almost 233MWh (2%) compared to the same period in FY19.
- We made major investment at our Farnborough site, in replacing the boilers which provide heating and hot water. The new boilers are far more efficient and when we have completed commissions and protocol integration we anticipate gas efficiencies of about 15%.
- More information on our energy programme can be found on our website.

In FY21 we plan to:

- Continue delivering the strategy, working to drive continuous improvement in energy efficiency through the ISO50001 energy management system.

See more online at **www.QinetiQ.com**

	FY20	FY19
Total Scope 1 Emissions (tCO2e)	19,289△	20,096
Total Scope 2 Emissions (tco2e)	16,298△	20,977
Total Scope 1 & 2 Emissions (tCO2e)	35,587△	41,073
Intensity ratio (tCO2e per £m of revenue)	33△	45
Energy consumption (kWh) resulting in above reported emissions	139,780,656	N/A
Proportion of energy consumption arising from UK operations (%)	98%	N/A
Proportion of emissions arising from UK operations (%)	98%	N/A

△ Figures subject to FY20 assurance process undertaken by PwC.

Investing in our community

Our aim is to make a positive impact and be a good neighbour in the communities where we operate. We focus on sustainable long-term partnerships and understanding where we can help with our professional skills.

Employee volunteering increases engagement through rewarding and meaningful experiences, this supports employee wellbeing, and volunteers can develop their skills. A significant focus is on STEM Outreach as there is clear evidence that giving young people the opportunity to engage with business has a positive impact on their employability. This benefits our future recruitment pipeline and the wider socio-economic wellbeing of our communities. We value our work with partners to deliver outreach, and which help us to reach a specific, longer term or wider audience. Partners include Primary Engineer, Jon Egging Trust and UK Space Agency in the UK; In Australia we are a supporter of the Re-Engineering Australia (REA) Foundation and their Formula 1 in Schools and Subs-in-Schools programmes, providing engineering mentoring and judging competitions.

Highlights this year include:

- Launch of the Jon Egging Trust partnership in Wiltshire.
- Our STEM Ambassadors engaged with over 90 schools and youth groups, and approximately 3,200 young people in the UK, through activities such as inspirational projects with our STEM Ambassadors, visits to our sites, mentoring, support with extra-curricular coding clubs, and careers fairs. We have also engaged with approximately 18,000 people at larger events such as the Royal International Air Tattoo.
- QinetiQ Australia volunteer mentors supported F1-in Schools Team.
- A number of our sites in the UK and locations across the Group also choose a local or regional charity to support each year. Any other sponsorships are aligned with three key themes of Innovation, Skills (including young people) and supporting our Armed Forces.

In FY21 we plan to:

- We will continue to focus and grow outreach and maximise the partnership with the Jon Egging Trust.
- In FY21 we will begin a new charity partnership in the UK with SSAFA, which supports our Armed Forces covenant commitments.

Supporting the armed forces

As a signatory to the Armed Forces Covenant and Gold Award winners in the MOD Defence Employer Recognition Scheme, we are proud to support the armed forces, our own employees who serve as reservists, cadet force adult volunteers, forces spouses and cadets.

ARMED FORCES COVENANT

EMPLOYER RECOGNITION SCHEME

GOLD AWARD

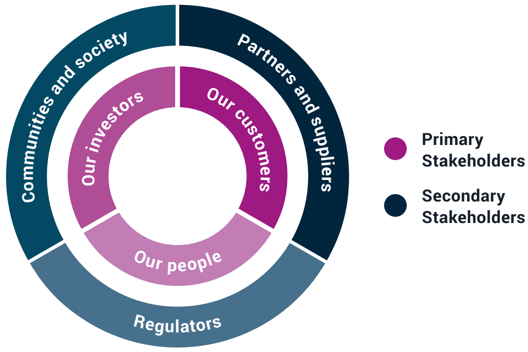
Jon Egging Trust

In 2019 QinetiQ started a new, three-year corporate partnership with the Jon Egging Trust (JET) in Wiltshire. JET delivers accredited learning programmes to develop young people's life and work skills by providing access to inspirational role models and life-changing opportunities linked to aviation, engineering and science. The programme includes five sessions, covering teamwork, communication, resilience and goal setting to help improve confidence and life skills in young people from disadvantaged backgrounds. The programme also includes an inspirational visit to QinetiQ at MOD Boscombe Down. The image shows students from the first cohort.

See more online at **www.qinetiq.com**

Stakeholder engagement

Creating value for our stakeholders is at the heart of our strategy and knowing what matters to them informs our decisions.



Stakeholder	Why they are important to us	What matters to them
Our customers	Our customers are at the centre of our vision and the foundation of our success. We strive to apply our strengths to their advantage and so invest time in understanding and responding to their needs.	QinetiQ customers value the relationships we build with them and the time we invest in understanding their needs. They appreciate the depth and breadth of knowledge we apply to providing them mission critical solutions and the flexibility we show in helping them reach their goals. They expect delivery to be on time, every time and to the highest standards.
Our investors	Our investors' ongoing support is key to enabling us to deliver and sustain our strategy. Their support enables us to invest in our business to support our customers and deliver appropriate returns.	Our investors value sustainable and long-term growth delivered through the successful execution of our strategy. As part of this, they expect us to do business in a sustainable and ethical manner taking in to account other key stakeholders.
Our people	We are a people business and our employees are critical to our success. We want to ensure our people are highly engaged as we know this is beneficial for their personal wellbeing and productivity, which will underpin successful delivery to customers and the growth of our business.	Our people want a safe environment to work in, successful and rewarding careers and to do work that is meaningful. They also want to know that the company will listen to their concerns and feedback.
Partners and suppliers	We occupy a unique position in defence where we are able to build powerful partnerships with a range of small and large companies, academia and customers. Our aim is to be the 'Partner of Choice' as many of our critical programmes are delivered utilising partnership models.	A collaborative environment in which all partners and suppliers can contribute and add value. They also want to be treated fairly regardless of their respective size.
Communities and society	We strive to be a good neighbour in the communities in which we operate. It's where our people live, a source of future talent and local suppliers. We also consider wider society.	Our communities want us to be considerate neighbours but also a source of future employment and opportunities.
Regulators	Some aspects of our business will have oversight by regulators, for example on safety and environmental issues.	Our regulators expect us to meet high standards of safety and environmental stewardship and legal requirements.

- In line with statutory reporting requirements, we are highlighting the engagement activities we undertake, how we use this information in Board decision-making and our reporting on stakeholder engagement.
- With many stakeholders it is important that we understand how to engage and listen effectively and we must balance our approach (direct and indirect) so that we have the best outcome for all and focus on what is most material.
- Our approach to engagement will evolve as we grow, with new acquisitions in new territories requiring us to consider both new stakeholders but also different priorities.

How we engaged/listened to them in FY20	The outcome/impact of that engagement
• Every QinetiQ customer has a delivery team continually engaging with them and adapting our approach to ensure their objectives are achieved. In addition, we regularly take the time to step back and listen and act upon our customers' views on our performance and relationships through our formal customer research systems.	• Our delivery teams continually adapt our approach to ensure customers' needs are met. The formal feedback we receive is reviewed at all levels of our organisation to ensure we continuously improve and evolve our business processes and delivery solutions.
• We engage with our shareholders during the year through roadshows, results presentations and the AGM. In addition, our Chairman proactively engaged with shareholders to seek their views on the business, strategy and management team. Our Chair of the Remuneration Committee also met with several shareholders to seek their views on remuneration policy.	• We greatly value our shareholders' feedback which is shared with the executive team and the Board. The feedback received during the year has influenced our strategic thinking in addition to informing our approach to remuneration. • We have continued to place great emphasis on ESG related matters and are improving our disclosure accordingly.
• Our methods of engagement include: Quarterly Peakon surveys, Q-talks, Global roadshows led by our CEO, our Employee Engagement Group (EEG) and other engagement forums (e.g. works councils) and indirectly through feedback such as Glass Door.	• The identification of priority focus areas including reward and career pathways. • By listening to our people we have been able to make improvements in these areas which have been acknowledged in our Peakon survey.
• In addition to day-to-day engagement through normal business activity, we actively engaged with key partners through a series of 'Board to Board' meetings with the executive team and their counterparts in other key industry partners. • We also engage with our suppliers through industry tools (Defence contracts online), 'meet the buyer' events and regular review meetings.	• This engagement continues to ensure we are partnering effectively to support our customers. It gives us insight into industry developments and ensures effective collaboration between QinetiQ and its partners and suppliers.
• We engage via a variety of community investment activity such as outreach, volunteering, supporting local charities and community liaison.	• Our community investment activity is viewed positively. Through our community liaison, particularly for trials sites, our regular updates have ensured local people are aware of our activity.
• We engage with regulators via meetings, audits and reports.	• Through engagement we are able to ensure we continue to meet the high standards expected by regulators.

Section 172 (1) statement

We welcome our responsibilities to promote the success of the company in accordance with section 172 of the 2006 Companies Act.

Our Board ensures that all decisions are taken for the long term, and collectively and individually aims to always uphold the highest standard of conduct. Similarly, our Board acknowledges that the business can only grow and prosper over the long-term if it understands and respects the views and needs of the company's investors, customers, employees, suppliers and other stakeholders to whom we are accountable, as well as the environment we operate within.

Typically in large and complex companies such as QinetiQ, the Directors fulfil their duties partly through a governance framework that delegates day-to-day decision making to the employees of the company. The Board recognises that such delegation needs to be part of a robust governance structure, which covers our values, how we engage with our stakeholders, and how the Board assures itself that the governance structure and systems of controls continue to be robust.

Our Chairman, with the assistance of the Company Secretary, sets the agenda for each Board meeting to ensure that the requirements of section 172 are always met and considered through a combination of the following:

Board papers ensure that stakeholder factors are addressed where judged relevant.

Standing agenda points and papers presented at each Board meeting: for example, the CEO presents updates on the financial overview, strategic progress, investor relations, businesses development, and operational progress. The Company Secretary also presents at each Board meeting relevant corporate governance and compliance matters.

A rolling agenda of matters to be considered by the Board throughout the year, including a two-day strategy review, which considers the purpose and strategy for the Group, supported by a budget for the following year and a medium-term (five-year) financial plan. Agenda items for the following year are set based on the discussions held and decisions taken by the Board throughout the year.

Consistent approach to minute taking with details as to when section 172 factors are being considered.

Formal consideration of any these factors which are relevant to any major decisions taken by the Board throughout the year.

Review of many of these topics through the risk management process and other standard Audit Committee, Risk & CSR Committee and Remuneration Committee agenda items.

For more information see pages 72 to 81.

Regularly scheduled Board presentations and reports, by way of example: customer engagement, risk register reports, health & safety reports, whistle blowing reports (if relevant), defence process review, dividend policy and people and culture strategy and developments.

The discharge of Directors' duties and oversight of these duties, of which further details are included in the Governance section.

See pages 62 to 71.

Engagement with the company's stakeholders.

See pages 48 and 49.

Corporate responsibility, including business ethics, anti-bribery and corruption, human rights, environmental stewardship and use of resources, sustainable solutions, greenhouse gas emissions and energy management, investing in our local communities and our commitment to the armed forces.

For more information see pages 44 to 47.

Effect and impact – principal Board decisions and how the Board considered stakeholders views:

1. Response to COVID-19

With significant uncertainty created by the COVID-19 pandemic the Board oversaw the Group's response with the aim of ensuring we emerge from the crisis well positioned for long-term success, whilst supporting our employees and their safety and continuing to deliver for our customers. For more details on our priorities in response to the crisis, please see page 10.

Consideration	Outcome/impact
Employees	
Considered the health, safety and wellbeing of all QinetiQ employees. In particular, for those still required to be on-site to support customer delivery, the Board deliberated the safety measures to protect their wellbeing. For those able to work from home the Board considered the infrastructure to support this and their working efficiency. Given the increase in homeworking consideration was also given to the increased risk of cyber-attacks and data breaches and how to mitigate this. A range of scenarios whereby QinetiQ experiences subdued demand or inability to deliver for a period of time were debated, with consideration given to how QinetiQ could manage the workforce to match this, whilst protecting our employees' interests and engagement and retaining their expertise within the business for the long-term.	The Board was satisfied that sufficient measures were in place to protect the health, safety and wellbeing of our people and continue to monitor the situation. Additional security measures were deployed to enhance the security of our networks further, in light of homeworking. Actions were taken to reduce costs and minimise the impact on employees, with discretionary costs being reduced, Non-Executive Directors agreeing to lower their fees and the senior leadership community agreeing to pay cuts.
Customers	
Considered continuity plans and our ability to continue delivering for our customers in the event of a significant proportion of the workforce being unable to work due to sickness. The Board also considered near-term demand and how customers' priorities might change over a longer period of time.	The Board were satisfied with the continuity plans in place to ensure the continued delivery of mission-critical work were a large proportion of the workforce to be absent. Particular attention was given to how we will respond to changing customer priorities over a longer time horizon.
Shareholders	
Considered the current liquidity and financial position of the business and various scenarios whereby cash flow deteriorates.	Concluded that the Group was in a strong financial position, but given the considerable uncertainty it was prudent to reduce discretionary cash outflows where possible, to ensure that the Group emerges well positioned to deliver long-term sustainable growth for shareholders. In addition to a range of actions taken to reduce cash outflows detailed on page 11, the Board took action to delay the decision around the dividend payment until there is more clarity around the true liquidity requirements over the coming months.
Suppliers	
Considered the financial health of suppliers, in particular SMEs and their ability to continue supporting QinetiQ in delivering for our customers over the long-term.	The Board supported the acceleration of supplier payments to SMEs to help minimise the impact of the pandemic on their financial health to ensure they can continue supporting us in delivering for our customers over the long-term.

Section 172 (1) statement continued

2. Acquisition of MTEQ

In December 2019 we completed the acquisition of US-based Manufacturing Techniques Inc. (MTEQ). The Board concluded that this acquisition would promote the success of the Group over the long-term by substantially growing our US business and enhancing our capabilities in sensing technology, positively contributing to overall growth.

Consideration	Outcome/impact
Customers	
The Board considered the impact on customer offering and the quality of delivery for both MTEQ and QinetiQ customers. The Board also considered the impact of operating under a Special Security Agreement (SSA), this being a new and amended US governance structure to the previous Proxy regime.	The Board concluded the combination of existing robotics and autonomy capabilities with the advanced sensing solutions of MTEQ would enhance our customer offering in the US. The Board recognised that the new governance structure would enable us to better leverage Group-wide capabilities and that with the right retention plans in place to retain key individuals, the acquisition will benefit customers over the long-term.
Shareholders	
Considered the strategic fit, financial merits and valuation of MTEQ as well as our ability to successfully integrate MTEQ over a long period of time.	Concluded there was a strong strategic fit and the deal should deliver attractive returns in excess of our cost of capital over the long-term.
Employees	
Considered the retention of key MTEQ & QinetiQ employees and approved an integration plan, detailing the Groups strategy to retain key employees. Also considered the cultural fit of MTEQ and the type of work the combined entities could deliver and whether employees will have the required skills to deliver such projects.	Concluded the two organisations were culturally aligned and that the addition of MTEQ's focus on mission-led innovation will enhance our high performance customer focused culture. The Board was satisfied that the combined entities have the skills to deliver the sort of work the combined entities could win.
Suppliers	
With an ambition to move MTEQ towards larger production volumes, the ability of MTEQ's existing supply chain to support larger orders was considered.	The Board was satisfied that the existing supply chain could deliver larger quantities with adequate planning and within reason.
Governance	
The Board considered the importance of the governance structure under which MTEQ would operate for all stakeholders. This extended to considering the environmental credentials of MTEQ.	The move to a 'Special Security Agreement' was concluded to be a positive to our ability to effectively govern our US operation.

3. QinetiQ pension scheme buy in

The QinetiQ Pension Scheme completed a bulk annuity insurance buy-in with Scottish Widows for £690m, covering approximately 33% of the Scheme's liabilities. The Board concluded that a buy-in would remove risk and better position the Group for future long-term success.

Consideration	Outcome/impact
Shareholders	
The Board considered the potential liabilities arising from the pension scheme.	Concluded that the buy-in would reduce possible future calls on the company and therefore strengthen our financial profile, having a positive long-term effect on the company.
Members of the pension scheme	
The Board considered the impact of a buy-in on the members of the pension scheme and the security of the benefits promised.	Concluded that the buy-in represents a significant step in securing the benefits promised to the scheme's members as Scottish Widows, as a large insurance provider, is better positioned to manage risks associated with the pension scheme.

Note: The QinetiQ Pension Scheme buy-in was announced on 10 April 2019. Therefore whilst the transaction took place in FY20, the Board discussions around its approval actually occurred in FY19. However, given the impact of the transaction on stakeholders in FY20 it has been included in the above statement.

4. Acquisition of Newman & Spurr Consultancy Limited (NSC)

In February 2020 we acquired NSC. The members of the Board were satisfied that the acquisition would result in a long-term positive effect for the company with the combination of live and virtual training environments creating further opportunities for growth.

Consideration	Outcome/impact
Customers	
The Board considered the impact of QinetiQ ownership on NSC relationships and also considered the impact on overall customer value proposition.	Concluded that the combination of live and virtual training environments supports our customers in achieving value for money from their training programmes. Given our existing relationships with many NSC customers the Board concluded there to be limited risk as a consequence of QinetiQ's ownership of NSC.
Shareholders	
The Board considered the strategic fit, financial merits and valuation of NSC and our ability to integrate and leverage NSC's capabilities over a long period of time.	Concluded that the acquisition would enhance our offering in the training domain, a key area of growth for QinetiQ, ultimately resulting in value creation for our shareholders.
Employees	
Considered the retention of key NSC employees as well as the cultural fit of NSC and impact of our ownership on NSC employees.	The Board approved the integration plans and concluded a strong customer focus meant the businesses were culturally aligned, with our existing employee engagement strategies likely to continue to motivating NSC employees.
Environment	
Considered how the use of NSC's expertise in virtual training could potentially reduce the use of live training.	The Board concluded this to be a net benefit to the environment, with lower carbon emissions resulting from virtual training.

Non-financial information statement

The non-financial reporting requirements contained in sections 414CA and 414CB of the Companies Act 2006 are addressed within this section by means of cross reference in order to indicate where they are located within the strategic narrative and to avoid duplication here.

We have a range of policy and guidance, some of which is published on our website – www.QinetiQ.com.

Certain of the non-financial information required pursuant to the Companies Act is provided by reference to the following locations:

Non-financial information	Section	Pages
Business model	Business model	12–13
Policies	Non-financial information statement	54–55
Principal risks	Risk review	33
	Principal risk management	34–36
	Risk performance	32–36
Key performance indicators	Key performance indicators	28–31

Our People

Policy statement	Description
Code of Conduct	Our Code of conduct lays out our ethical standards, providing our people with clear direction and guidance on how we do business across the company. There are details on ethical decision making and also how to seek help. The code is structured to include a range of advice for our people, our customers and partners, our company and shareholders and our communities and the public. We review our Code of Conduct annually to reflect the needs our business, regulations and best practice.
Health and safety	Our Health and Safety policy outlines our commitment to continuously improving standards of safety management and compliance. The effectiveness of the policy is governed through our assurance process and our six-monthly self certification. Safety issues are part of a regular governance timetable, monthly through MD meetings, quarterly through Global Leadership Team meetings and Risk and CSR Committee meetings, with a six-monthly summary overview to the Board.
Diversity and inclusion	Our Equality Diversity and inclusion (ED&I) policy details our approach to promoting ED&I in our workplace. The effectiveness is governed via our assurance processes and KPI with monthly oversight by our executive as well as regular oversight by the Risk and CSR Committee.

The environment

Policy statement	Description
Environmental management	We are committed to embedding an environmentally sustainable approach to business because we know its importance to our business and our stakeholders. The effectiveness of the policy is governed through our assurance process and our six-monthly self certification. Environmental issues are part of a regular governance timetable, monthly through MD meetings, quarterly through GLT meetings and Risk and CSR Committee meetings, with a six-monthly summary overview to the Board. We are certified to ISO 14001 and so are subject to external audit.
Energy and carbon management	Underpinning our ISO 50001 certified energy management system is our energy and carbon management policy, which creates the framework for our Energy Management Action plans. Our policy is part of regular governance review and self certification as well as external audit to ensure we are meeting certification requirements.
Waste management	We recognise that reducing waste meets our sustainability goals, and improves efficiency. The effectiveness is governed via our assurance processes and KPI with monthly oversight by our executive as well as regular oversight by the Risk and CSR Committee.
Sustainability appraisal	Sustainability appraisals are required under the LTPA. They involve an assessment of an activity across 16 sustainability themes. The effectiveness is governed via our assurance processes as well as regular review and oversight by the UK MOD customer.

Community and Society

Policy statement	Description
Volunteering policy	Our policy provides guidance for employees to use company time to use their skills to make a positive difference in the community. The effectiveness is monitored by the CR&S team and via our assurance process.
Safeguarding children and vulnerable adults	Our policy explains the importance of Safeguarding as part of our community investment programme and outlines requirements for risk assessment and the right behaviours. The policy is managed both by the CR&S team and locally by safeguarding experts in our apprentice school and is managed via our assurance process.
Tax	Our Tax strategy (available on our website) outlines our commitment to being compliant with tax legislation, wherever we do business. We recognise our responsibility to pay the right amount of tax, at the right time and in the right jurisdiction. Oversight of this commitment comes through external challenge, such as business risk reviews and audit questions from tax authorities and external auditors and internal reviews such as quarterly tax updates with executive level reviews of process and procedure.
Sponsorship and donations	Our policy is designed to ensure that all donations are made to appropriate organisations. We ensure that there is screening and due diligence and we also undertake selection with oversight of the CR&S team and the Sponsorship and Donation committee. This is managed by our assurance process and was audited this year by our internal audit team who were content and made some minor suggestions for improvements.

Human rights

Policy statement	Description
Human rights	We seek to anticipate and prevent potential negative human rights impacts through our policy and processes and address salient human rights issues through our Code of Conduct, trading policy, international business risk management process and export controls process. We monitor the application of these policies through our business assurance processes and regular self assessment. We believe that this integrated approach is effective in ensuring our business acts responsibly and respects human rights.
Modern slavery	Our Modern Slavery policy was reviewed and updated this year. Our policy focuses on management of the supply chain and the requirements for due diligence. In addition we include modern slavery in our resourcing policy. The effectiveness is monitoring via our assurance programme and leadership oversight (Exec and Board).
Supply chain code of conduct	Our supplier code of conduct helps ensure our suppliers have clarity on our expectations on human rights issues.
International trade compliance	As an international business, it is vital that we operate fully within the requirements of international export requirements and this is address by our policy. The effectiveness is monitoring via our assurance programme and leadership oversight (Exec and board).

Anti-bribery and anti-corruption

Policy statement	Description
Code of Conduct	Our Code of conduct lays out our ethical standards, and contains advice on anti-bribery and corruption.
Anti-bribery and corruption	Our anti-bribery and corruption policy sets out our responsibilities in observing and upholding our zero tolerance approach to all forms of bribery and corruption. This important policy has significant senior oversight at Executive and Board level, is managed via our assurance processes and self certification and there are regular internal audits.
Commercial intermediaries	Managing commercial intermediaries is one of a suite of key polices which supports our zero tolerance approach to ABC. It provides clear guidance on approach. This policy has executive and Board oversight, is subject to our assurance process and self certification.
Sanction screening	It is key that we comply with any sanctions requirements and so undertake various screenings. This is captured in our policy which has executive and Board oversight, is subject to our assurance process and self certification.
Gifts and hospitality	Our gifts and hospitality policy is one of a suite of polices which supports our zero tolerance approach to ABC. It provides clear guidance on what is appropriate and how to record. This policy has executive and Board oversight, is subject to our assurance process and self certification.


CANOPY
JETTISON
Panasonic
ARMAMENT

Governance

Corporate governance statement

An introduction from our Chairman

"I believe that as a Board we have a wide ranging combination of diversity, skills, experience and knowledge, required to steer the Company through the next years."

Dear Shareholder,

I am pleased to present this year's corporate governance statement. As in previous years, this report should be read in conjunction with the section on how we have complied with the UK Corporate Governance Code on pages 62 to 109.

Response to COVID-19

In dealing with the fast developing COVID-19 pandemic emergency, the Board and I ensured we took swift actions to protect the health and wellbeing of our employees and their families, (further information can be found on page 11), to ensure that we continued to deliver critical work for our customers and in doing so maintaining the strength of QinetiQ for the long-term and protecting our stakeholders.

One of our first actions as a Board, was to call an additional Risk & CSR Committee meeting, of which further information can be found on page 79. We used this meeting to test and confirm a strategy of necessary actions to be taken going forward.

We considered several ways of protecting the Company and all our stakeholders, and by way of example decided to postpone the decision to propose a dividend until later in the year. You can read more about this in the CFO's section on page 27.

Our CEO and CFO immediately agreed a temporary salary reduction of around 33%, and in addition, the Global Leadership Team and senior leaders volunteered temporary salary reductions of up to 25%. The Non-Executive Directors and I also volunteered to temporarily reduce our fees by 25%.

In order to limit the spread of COVID-19 through public gatherings, we also took the difficult decision to not allow shareholders to attend this year's AGM in person. However, we want to ensure that shareholders are able to exercise their rights to vote and to ask questions on the business of the meeting. The details of how this will be facilitated are described further on page 67.

Further information of the Code can be found on **www.frc.org.uk**

Purpose, Values and Strategy

The 2018 UK Corporate Governance Code (the Code) became effective for us from 1 April 2019. The Board and its Committees have spent considerable time reviewing the 2018 Code to ensure our compliance. This has proved invaluable during the year in considering our purpose and values and progressing with the delivery of our strategy, and in testing and supporting the Board's and our Executives' decision making, a process which is further described in the Section 172 Statement on pages 50 to 53.

Understanding our Stakeholders

The Board continues to take account of the impact of its decisions on all our stakeholders, as set out in the 172 Statement on pages 50 to 53 and the examples of our Stakeholder engagement on pages 48 to 49 and 66 to 67. The 2018 UK Corporate Governance Code emphasises the need for boards to develop effective relationships with all stakeholders, including understanding their views. In particular, boards are encouraged to ensure they find ways to hear the voice of employees. My fellow Directors and I have worked extensively on our approach to these important matters, to ensure that all voices – those of shareholders, employees, customers and communities – find their way to the Boardroom. More information about how the Board and the Company considers stakeholders, can be found on pages 66 and 67 and a deep-dive into the interaction between the Board and the Group's workforce can be found on pages 64 to 66.

Management Changes

It is now 13 months since I joined QinetiQ, initially as a Non-Executive Director. It has been a pleasure to get to know my new colleagues on the Board and I believe that as a Board we have a wide ranging combination of diversity, skills, experience and knowledge, required to steer the Company through the next years. At the AGM in July we will be saying good bye to Paul Murray. Paul has made valuable contributions during his tenure through his leadership of the Audit Committee. In May 2020 we welcomed Shonaid Jemmet-Page to the Board. Shonaid is an experienced Non-Executive Director in the energy and financial sectors and will be taking on the role as Audit Committee Chair when Paul Murray steps down in July.

In July 2019, Michael Harper stepped down as the Chair of the Remuneration Committee, and I would like to take this opportunity to thank him for his work and dedication to this role. Michael continues to serve as the Deputy Chairman and Senior Independent Director on the Board and its Committees.

Susan Searle, who has been a valuable member of the Board as a Non-executive Director since 2014, took on the responsibility as the Chair of the Remuneration Committee when Michael stepped down. In addition to her experience from the QinetiQ Board, Susan also brings to this challenging role previous and current experience as the Remuneration Committee Chair of other listed companies.

The Nominations Committee continues to review the skills that we need whilst always considering diversity and the need for independent thinking and challenge. The Committee will also continue to review the size of the Board and confirm that it is appropriate with a good mix of skills, experience and knowledge and the ability to maintain appropriate oversight of the Executive, including providing constructive challenge and support.

Culture

During my time at QinetiQ, my initial very positive impressions of its culture and values have been further confirmed. By spending time with the business and its people I have seen that the culture and values of QinetiQ; integrity, collaboration and performance are clearly embedded and genuinely lived. In QinetiQ, I have found a culture that is grounded, responsible and humble, where people have confidence in their capabilities and our strategy, and with a strong desire to learn and develop. A priority for my Chairmanship is to see that the Board continues to help sustain and evolve this positive culture by having the right capability around the table and the right engagement with stakeholders outside the boardroom.

Remuneration

At the 2020 AGM we are bringing a new and continued robust Remuneration Policy to the vote of the shareholders. Susan Searle has been working tirelessly with the Remuneration Committee over the year to develop a fair, flexible, stretching and aligned Remuneration Policy, of which further information can be found on pages 88 to 108.

Conclusion

I would especially like to thank the CEO, his Executive team and my fellow Directors for their work during the year. QinetiQ has an exciting future ahead and I believe that the right team is in place to take the Company forward and transition into a global business.

Neil Johnson

Non-Executive Chairman

Board of Directors

The Chairman considers all of the Directors to contribute valuably, and to continue to be paramount to the Company's long-term sustainable success.

Neil Johnson
Chairman

Skills, competence and experience: Neil's former CEO experience and current roles as a plc Chairman and Non-Executive Director brings to the Board relevant knowledge, challenge and leadership.

Starting his career at Sandhurst and the Army, Neil spent much of his early career in the automotive and engineering industries. He was worldwide Sales and Marketing Director at Jaguar before being seconded to the UK Ministry of Defence to command 4th Battalion The Royal Green Jackets. He returned to the industry with British Aerospace, initially running Land Rover and then all of its European automotive operations. Neil was later CEO of the RAC, and former Director General of the EEF and a Home Office appointed Independent Member of the Metropolitan Police Authority. He was previously Chairman of Motability Operations and Centaur Media plc.

Other appointments: Chairman of Synthomer Plc (and Chair of its Nominations Committee) and Electra Private Equity plc. Senior Independent Non-Executive Director of the Business Growth Fund.

Steve Wadey
Chief Executive Officer

Skills, competence and experience: Steve's proven track record of driving growth, and his in-depth experience of defence and technology industries is of essential importance and benefit to the Board.

Steve is a Fellow of the Institution of Engineering and Technology, the Royal Aeronautical Society, and the Royal Academy of Engineering. He was previously Co-Chair of the UK Defence Growth Partnership, a member of the Prime Minister's Business Advisory Group, Co-Chair of the National Defence Industries Council Research and Development Group, and a Non-Executive Director of the UK MOD Research and Development Board. Steve has held various roles with MBDA, including as Managing Director, MBDA UK. Previously he held various roles with Matra BAe Dynamics and British Aerospace.

Other appointments: Chair of the Defence Industry Liaison Board of the UK Department for International Trade, Defence & Security Organisation.

David Smith
Chief Financial Officer

Skills, competence and experience: David provides significant expertise to the Group from his broad and comprehensive executive experience in blue-chip companies and work in the aerospace and defence, technology, and automotive sectors.

David is an Associate of the Chartered Institute of Management Accountants and a member of its Advisory Panel. He was previously the CFO of Rolls-Royce Holdings plc, having joined as CFO of its Aerospace Division. Prior to that, David was CFO of Edwards Group and CEO of Jaguar Land Rover, having previously been its CFO. He has also held a variety of roles with the Ford Motor Company.

Other appointments: Motability Operations Group plc.

Michael Harper
Deputy Chairman and Senior Independent Non-Executive Director

Skills, competence and experience: Michael brings to the Board a wealth of operational and corporate experience from a lengthy career as a business leader and Board member within, amongst others, the engineering and aviation industries. He continues to provide highly valuable advice to the Board and its discussions, in particular in his capacity as the Senior Independent Director.

Michael has served as Chairman of Ricardo plc, Vitec Group plc, and BBA Aviation plc, having previously been its CEO. He was Senior Independent Director of Catlin Group Limited. In addition, he was a Director of Williams plc and CEO of Kidde plc.

Other appointments: Non-Executive Director of the Aerospace Technology Institute.

Lynn Brubaker
Independent Non-Executive Director

Skills, competence and experience: Lynn's experience from a number of senior Board positions at various US-based companies, in particular in the aerospace sector, makes her a valuable member of the Board and enables her to provide insightful advice on matters such as strategy and customer stakeholder management.

Lynn has held positions as Non-Executive Director of Force Protection, Inc., Seabury Group, Graham Partners, Cordiem, the Nordam Group, the Flight Safety Foundation (as Chair), and as a member of the Management Advisory Council of the Federal Aviation Administration. Lynn was also the Vice President and General Manager of Commercial Aerospace at Honeywell International.

Other appointments: Non-Executive Director of FARO Technologies Inc. and Hexcel Corp.

Admiral Sir James Burnell-Nugent
Independent Non-Executive Director

Skills, competence and experience: Sir James brings to the Board unique senior experience from the armed forces and of contracting with government. During a 37 year career in the Royal Navy, which culminated in his appointment as Commander-in-Chief Fleet, he commanded the aircraft carrier HMS Invincible and three other ships and submarines.

Between operational duties, Sir James held several positions at the MOD and gained cross-Whitehall experience while on secondment to HM Treasury.

Other appointments: N/A

Committee Membership Key

A Audit | N Nominations | R Remuneration
RC Risk and CSR | S Security | Chairman of Committee

Ian Mason
Independent Non-Executive Director

Skills, competence and experience: Ian brings to the Board extensive experience in strategy, business transformation, eCommerce and international business development. His current and previous experience as a CEO and Non-Executive Director, enables him to provide the Board with highly relevant business and board experience. His advice continues to be particularly valuable for the Board and the leadership team in the work of implementing and enhancing the transformation and strategy of the Company.

Previously Ian was Group Chief Executive of Electrocomponents plc. He has also worked for the Boston Consulting Group and served as a Non-Executive Director of Sage Group plc.

Other appointments: Chief Executive Officer of Domestic & General Group Limited and subsidiaries.

Paul Murray
Independent Non-Executive Director

Skills, competence and experience: Paul's broad range of experience in finance and corporate governance has been of significant value to the Board. As a result of his previous roles as Group Finance Director of a number of plc companies and a plc Audit Committee Chair, he has gained a deep understanding of governance, financial reporting, and regulatory issues.

Paul has held positions as Non-Executive Director and Chair of the Audit & Risk Committee at Royal Mail Group plc, Senior Independent Director of Taylor Nelson Sofres plc, Non-Executive Director of Thomson SA, Tangent Communications plc and Independent Oil & Gas plc. He has also been Group Finance Director of Carlton Communications plc and LASMO plc, and Treasurer of Pilotlight.

Other appointments: Director of Ventive Ltd and Naked Energy Ltd.

Shonaid Jemmet-Page
Independent Non-Executive Director

Skills, competence and experience: Shonaid brings to the Board a wealth of experience from previous roles as an Executive and Non-Executive Director from a breadth of sectors, including industrial and technology based businesses with international operations. This, combined with extensive financial experience, makes her the ideal candidate to take over as Chair of the Audit Committee in the summer.

Previously Shonaid was the Chief Operating Officer of CDC Group plc, the UK Government's development finance institution, having joined from Unilever, where she was Senior Vice-President Finance and Information, Home and Personal Care, originally in Asia and later for the Group as a whole. Her early career was spent at KPMG, latterly as a partner. Her Board level experience includes Non-Executive Chair of Origo Partners plc and MSAmlin plc, and Non-Executive Director roles at GKN plc, Close Brothers Group plc and APR Energy plc.

Other appointments: Non-Executive Chairman of Greencoat UK Wind plc, Senior Independent Director of ClearBank Ltd and Non-Executive Director of Caledonia Investments plc.

Susan Searle
Independent Non-Executive Director

Skills, competence and experience: Susan brings to the Board essential experience of investing in growing technology businesses, acquisitions and exploitation of new technologies. Her experience as a plc Remuneration Committee Chair enables her to efficiently and valuably chair the Remuneration Committee.

Susan was a founder of Touchstone Innovations plc, and formerly its CEO. She has served on a variety of private company boards in engineering, healthcare and advanced materials. Previously, she held a variety of commercial and business development roles with Shell Chemicals, the Bank of Nova Scotia, Montech (Australia), and Signet Group plc.

Other appointments: Senior Independent and Non-Executive Director and Chair of the Remuneration Committee of both Benchmark Holdings plc and Horizon Discovery Group plc. Chair of Schroder UK Public Private Trust plc.

Jon Messent
Company Secretary and Group General Counsel

Skills, competence and experience: Jon joined QinetiQ from Chloride Group plc where he held a similar role. He has a background in legal private practice as well as General Counsel and Company Secretarial experience in other FTSE 250 companies.

Corporate governance statement

Governance framework

This is the structure through which the Company is managed. It has evolved over time, and continues to evolve to meet the needs of the business and the Company's stakeholders.

Boards of large companies invariably delegate day-to-day management and decision-making to Executive Management. Directors should maintain oversight of a company's performance and ensure that management is acting in accordance with the strategy and its delegated authorities. At QinetiQ, the culture, values and standards that underpin this delegation help to ensure that when decisions are made, their wider impact has been considered. The Board has reserved certain matters (posted at www.QinetiQ.com) for its own consideration so that it can exercise judgement directly when making major decisions, and in doing so, promoting the success of the Company whilst having regard to all necessary matters. The Company's success depends on the Board's continued commitment to high standards of corporate governance and a strong, positive culture across the business, whilst managing effectively the risks and uncertainties of the markets in which it operates.

Shareholders

Chairman

Responsible for the leadership of the Board and for ensuring that it operates effectively through dynamic discussions and challenge.

Board of Directors

The Board is responsible for leading the Group, by setting strategic priorities and overseeing the delivery of the strategy in a way that promotes sustainable long-term growth, whilst cultivating a balanced approach to risk within a framework of effective controls and taking into account the interests of a diverse range of stakeholders.

Committees

Audit Committee

Monitors the Group's integrity in financial reporting and reviews the effectiveness of financial risk and managements framework.

See pages 72 to 75 for Committee Report

Nominations Committee

Considers the structure, size and composition of the Board and Committees and succession planning. It identifies and proposes individuals to be Directors and also for Executive Management, and establishes the criteria for any new positions.

See pages 76 to 78 for Committee Report

Remuneration Committee

Determines and recommends to the Board the framework for the remuneration of the Company's Chairman, CEO and CFO. Oversees remuneration and workforce policy.

See pages 82 to 109 for Committee Report

Risk & CSR Committee

Oversees the sound operation of the Company's risk management systems. Monitors non-financial risk exposures. Oversees corporate responsibility strategy programmes and procedures. Monitors adherence to the generic MOD compliance systems.

See pages 79 to 81 for Committee Report

Security Committee

Enables UK nationals on the Board to consider matters of a UK national security dimension that have an impact on QinetiQ's UK business.

See page 81 for Committee Report

Disclosure Committee

Established in 2016 following the requirements of the Market Abuse Regulations (MAR). The Committee comprises all Board members except for when called on short notice when it comprises the Chairman, the CEO, the CFO and any one of the Committee Chairs.

The Chief Executive Officer

Responsible for the day-to-day running of the Group's business and performance, and the development and implementation of the Group strategy.

The Global Leadership Team (GLT)

The interaction between the Board and the GLT enables the Board to receive information first-hand about the Company and its operations and to give guidance on strategy and oversight of the business direct to senior management. The full list of the members of the GLT can be found at www.QinetiQ.com.

The GLT meets on a monthly basis. It is responsible for the day-to-day management of the Group's activity. The focus of the GLT includes managing the business, delivering the strategy, managing risk, establishing financial and operational targets and monitoring performance against those targets.

The significance of our purpose, values and culture

Purpose – why we do what we do, and what we do

The Board has established the Group's purpose which is outlined on page 12.

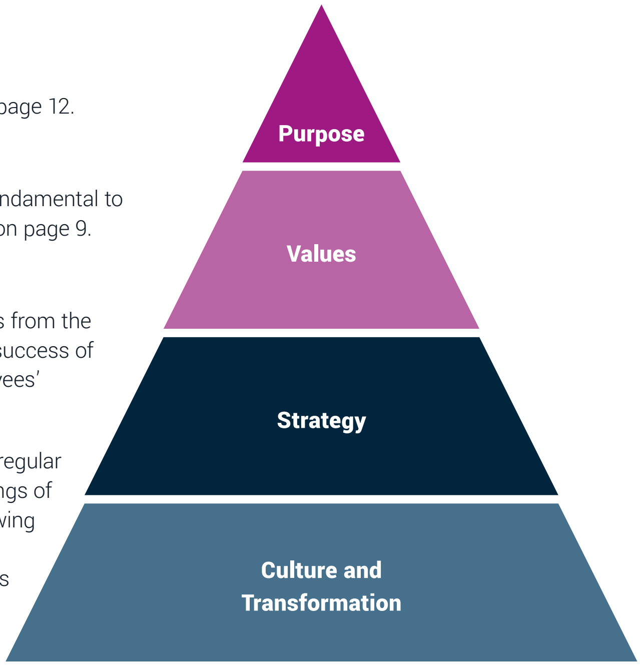
Values – underpin who we are and what we do

We weave our values into everything we do and living our values is fundamental to our success and the delivery of our strategy. Our values are outlined on page 9.

Culture – how we work together

As a Board we recognise that the cultural tone of our business comes from the Boardroom. At QinetiQ we see the benefits of a strong culture in the success of delivering our strategy, in becoming a chosen partner and our employees' engagement, retention and productivity.

The Board monitors and assesses the culture of the Group receiving regular updates on culture strategy and progress, by taking part in the meetings of the Leadership Community (further described on page 65) and reviewing the outcomes of the Peakon Employee Engagement surveys (more details on page 41). The Board also assesses cultural indicators such as management's attitude to risk, behaviours, and compliance witihin the Group's policies and procedures.



Board activity

An insight into the year – practicing good governance

Information about how the members of the Board discharge their duties in relation to Section 172 of the 2006 Companies Act can be found on pages 50 to 53.

Topic	Key activities
Strategy	– Reviewed and considered the Company's purpose, values and strategy. Further information about the purpose can be found on page 12 – Approved the FY21 component of the Group's five-year Integrated Strategic Business Plan – Approved the Group's overall five-year Integrated Strategic Business Plan – Approved the acquisition of Manufacturing Techniques Inc. (MTEQ) – Approved the acquisition of Newman & Spurr Consultancy Limited (NSC) – Received presentation from management in relation to business strategy and performance – In-depth reviews of the M&A pipeline and specific M&A opportunities
Operations and business performance oversight	– Approved the annual budget, business plan and KPIs (further details of the KPIs can be found on pages 28 to 31) – Reviewed and approved the Group's full year and half year results (including dividends), as well as its quarterly trading updates – Approved the Group's Annual Report (including its fair, balanced and understandable status) and Notice of AGM
Internal control and risk management	– Reviewed the Group's risk management framework and principal risks (further details can be found on pages 32 to 36) – Reviewed and confirmed the Group's Viability Statement and going concern status (further details can be found on page 37) – Reviewed and validated the effectiveness of the Group's systems of internal control and risk management (further details can be found on page 71)
Leadership, people and culture	– Continued focus on the composition, balance and effectiveness of the Board. The Effectiveness review can be found on pages 69 and 70 – Received regular updates from the Nominations Committee on the recruitment process of Shonaid Jemmet-Page as a Non-Executive Director – Reviewed the key operational roles and identified gaps in experience needed to deliver the Group's strategy – Considered the outcomes and approved the actions arising from the Board evaluation process (further details of this process can be found on pages 69 and 70 – Reviewed the Group's people strategy, culture, vision and values, including receiving reports on cultural change throughout the business – Approved the Board skills matrix – Reviewed and approved the Non-Executive Directors' fees – Held separate Non-Executive Director sessions with the Chairman after each Board meeting to discuss leadership and other Board matters
Governance and legal	– Annual exercise to review who the Board's stakeholders are and methods of interaction - further information can be found on page 66 – Received and reviewed regular updates on the corporate governance developments and legal and regulatory issues, including the 2018 Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018 – Approved the Group's fourth annual Modern Slavery Statement for publication on the Group's website – Received reports on engagement with institutional shareholders, investor and other stakeholders throughout the year. Further details of the Board's engagement with stakeholders can be found on pages 65 to 67 – Approved the appointment of Numis to replace JP Morgan as the Company's joint corporate brokers
COVID-19	– Received regular reports on the strategic planning of the impact on the business of COVID-19. An additional Risk & CSR Committee meeting was called in March 2020, to ensure swift, prudent and responsible actions. Further information can be found on pages 10 and 11

Corporate governance statement continued

Management of US subsidiaries

During the year the Group acquired the US based company Manufacturing Techniques Inc (MTEQ), now known as QinetiQ Inc, a wholly owned company by the QinetiQ Group. QinetiQ Inc together with its subsidiaries Foster Miller Inc (FMI), formerly referred to as QinetiQ North America (QNA), and QinetiQ Special Projects Inc (QSPI), manage the Group's US Global Product division, which contributed approximately £124m to the Group's revenue in FY20. QinetiQ is operating in accordance with the terms of a Special Security Agreement (SSA), which will shortly be formally entered into with the US Defence Counterintelligence & Security Agency (DCSA), and which governs how the rest of the QinetiQ group interfaces, collaborates and works with QinetiQ Inc and QSPI. FMI operates its business under an existing Proxy agreement with DCSA. To ensure consistent operations and governance across QinetiQ's US defence and security business interests, by agreement with DCSA, it is intended that the Proxy agreement will be terminated once the SSA is formally in place, and that FMI will operate under the SSA arrangement from that point.

US Global Products business and the SSA

QinetiQ Inc. and its subsidiaries have been placed under a SSA as is required by the US National Industry Security Program for main facility security clearances and to be insulated from foreign ownership, control or influence. Under the SSA, QinetiQ Inc. and the US Department of Defense (DoD) are parties to the SSA that regulates the management and operation of these two entities.

QinetiQ Inc and its subsidiaries operate under a SSA, as required by the US National Industry Security Program for main facility security clearances, to appropriately mitigate foreign ownership, control or influence to the extent that it could adversely affect the interests of US national security. QinetiQ Group plc, QinetiQ Inc and the US Department of Defense (DoD), represented by the DCSA, are parties to the SSA, which establishes procedures that regulate the management and operation of the US business to achieve that mitigation. Under the SSA, the Board of Directors of QinetiQ Inc is comprised of three types of Directors, all nominated by QinetiQ Group plc, as the foreign owner of QinetiQ Inc. The DCSA has approved all these appointments. The three types of Directors are Outside Directors, Inside Directors and Officer of the Board of QinetiQ Inc.

The Inside Directors are the means by which QinetiQ maintains appropriate visibility of the management and operations of QinetiQ Inc. These positions are held by Steve Wadey, as the CEO of QinetiQ Group plc, and David Smith, as the CFO of QinetiQ Group plc. The Inside Directors serve as a minority representative of the foreign owner, i.e. QinetiQ Group plc, to ensure there is no undue control or influence on the actions of QinetiQ Inc. Inside Directors need not be US citizens and are excluded from access to US classified and export-controlled information in possession of QinetiQ Inc.

The Officer Director is responsible for the day-to-day operations of QinetiQ Inc and serves as a liaison between the wider QinetiQ group and QinetiQ Inc. This position is held by Mary Williams, President of QinetiQ US. The Officer Director must ensure that the procedures and requirements of the SSA are effectively implemented and has an obligation to maintain the security of classified and export-controlled information entrusted to QinetiQ Inc, as well QinetiQ Inc's ability to perform on classified contracts and participate in classified programmes. This individual must be a resident US citizen who either has or is eligible to possess personal US security clearance.

Outside Directors must be resident US citizens who are objective Individuals, who had no prior relationship with QinetiQ, and possess personal US security clearance. Our appointed Outside Directors are John Hillen, Chair of the QinetiQ Inc Board, Pamela Drew and Tom Mills. The number of Outside Directors must outnumber the number of Inside Directors. The Outside Directors also form the Government Security Committee that is in place to ensure US national security interests are upheld.

Colleague Engagement

The Group has a long-standing commitment to the importance and value of colleague engagement. Our colleagues drive our success. More information about our commitment to colleagues and the importance of our culture can be found on pages 39 to 43.

One of the focuses of the Code is the Board's engagement with the Company's workforce, as outlined in Provision 5 of the Code. The Board recognises that achieving the Company's strategy depends on the people of our business.

During the year the Chairman, as the member of the Board designated for workforce engagement, and the Non-Executive Directors attended on a rotational basis the meetings of the EEG. The EEG is a workforce advisory panel acting as the collective voice of the workforce, including the wider workforce affected by the Board's decision making. The Directors attending the meeting subsequently report back to their fellow Directors at their next Board meeting.

The EEG provides the Board a valuable mechanism for Directors to engage directly with colleagues on topics of strategic interest affecting QinetiQ and the workforce; and offering our colleagues a greater understanding of the Board's role. The outputs reported back to the Board influenced its considerations during the year on these important topics.

The Board find visits to various Companies sites and involvement in the Company's leadership community meetings (further information below), to be excellent opportunities to meet the workforce and to gain an understanding of how the Company's culture and values are embedded within the business. The Board will continue these important visits in FY21.

The Leadership Community meetings are meetings for senior managers across the business, which are held four times a year. The Members of the Board each attend two of these meetings annually. In addition, the members of the Board are invited to attend the annual Employee Recognition Gala. These are further opportunities for the Board to engage with employees.

Statement from William Bowers, EEG Chair:

As part of the Chairman's role as the Non-Executive Director designated for workforce engagement, he met with members of the EEG on numerous occasions during the year. Each time he was accompanied by a different additional Board member, one of which was the Senior Independent Director whom provided engagement on Executive Director remuneration. The Chairman was interested in how the EEG operates, and how the shift in focus to a global Company is affecting UK employees. We explained how transformation and initiatives are experienced differently in various parts of the UK business depending on culture, and what drives the culture. Keen to seek validation on employees' behalves to ensure that the employee voice brought by the EEG is valued by leaders, he committed to challenging the Global Leadership Team on how the Employee Voice has shaped direction and priorities. The EEG welcomes the collaboration with the Chairman and the members of the Board, benefiting both parties, and as such the employees of the Group.

Visiting the business – Meeting our people

During FY20 the Board held two of its seven meetings at operational locations, enabling the Board to see first-hand how our operations are run and, importantly, engage with local teams at all levels. These are invaluable opportunities for the Board to experience the day-to-day work of the business and to gain a real insight into the Company's culture and values in an operational setting, outside of the Boardroom. All other Board meetings were held at the London office.

Farnborough, UK – meeting with the Employment Engagement Group

In November 2019 the Board conducted a two-day meeting at QinetiQ's offices and technical facilities in Farnborough. During its visit, the Board was able to meet members of the Employee Engagement Group (EEG) informally over lunch. Further information about the EEG can be found on page 40.

The visit, which was scheduled over two days, included opportunities for the Board to meet with and liaise with the local employees and teams, and to receive presentations from the management team.

"Our meetings with the EEG are of fundamental importance to the Board's engagement with the Group's employees. The Board greatly benefited from the opportunity to meet informally over lunch gaining an understanding of the issues that matters to our people."

Michael Harper

Non-Executive Director

Portsdown Technology Park (PTP), Portsmouth, UK – site tour of new facilities

For over 45 years PTP has integrated and tested combat and communications equipment and software for all Royal Navy warships prior to their deployment at sea. In 2019, the Board held its September meeting at PTP, taking the opportunity to attend the 'topping out' ceremony of the new site development to create a modern National Maritime Systems Centre. The new development will sustain the current jobs at the site and create up to 100 new jobs. It also enables PTP to continue its work and enable an even greater degree of innovation. For instance, the National Maritime Systems Centre will be able to test new software for a radar tracking system that spots otherwise difficult to detect missiles. This testing will ensure that when installed at sea, the software will work first time, enabling continued protection of onboard personnel and military assets.

In addition the Board spent time with local employees and management, gaining valuable feedback on how QinetiQ's culture and values are operating at a local level.

"The visit at PTP brought alive the significant value of the new site development. How it enables local job sustainability, creating value for our customers, investors and local community."

Neil Johnson

Chairman

Corporate governance statement continued

How we comply

For the year ended 31 March 2020 QinetiQ has applied the principles and been compliant with the provisions as set out in the 2018 UK Corporate Governance Code (the Code). The Remuneration Committee report on pages 82 to 109 outlines the details on how the Company has complied with Section 5 in relation to Remuneration of the Code. A copy of the Code can found on frc.gov.uk.

Board leadership and Company purpose

Role of the Board

Underpinned by good corporate governance, the Board is focused on delivering an effective and entrepreneurial Board which is:

- Effective in providing challenge, advice and support to management
- Provides checks and balances and encourages constructive challenge
- Drives informed, collaborative and accountable decision making
- Creates long-term sustainable success and value for our shareholders, having regard to all our stakeholders.

Culture

Our Integrated Strategic Business Plan sets out the Group's People and Culture strategies by way of a five year plan to deliver a Group-wide approach, supported by a global mindset to deliver business growth and performance, and with three programmes being the main drivers: (1) the HR Global Transformation Programme, (2) the High Performance and Inclusive Culture Programme and (3) deliver and embed a Strategic Workforce Planning approach.

Confidential reporting process

QinetiQ has in place a confidential reporting process which is detailed on our intranet and in our Code of Conduct (see page 44 for further details). If an individual does not feel that they can resolve any concerns with the Company directly through discussions with their functional manager, they can use an externally provided confidential internet and telephone reporting system. All concerns are passed by the external third party to the Group Head of Internal Audit, who ensures that they are held in strict confidence and properly investigated. Reports on confidential reporting activity and outcome of investigations are regularly reported to the Board. The Board reviewed the effectiveness of the Group's confidential reporting processes during the year.

Stakeholder engagement

QinetiQ seeks to deliver value for all our stakeholders and the Board is aware that its actions impact all stakeholders of the Company and the communities we operate within. Effective engagement strengthens the business and helps to deliver a positive result for all stakeholder groups. The Board is committed to engage closely with the Company's diverse range of stakeholders and to take their views into account. During the year the Board undertook a rigorous review of the Company's current stakeholder activities. The review considered:

- Who the Group's key stakeholders are
- The Board's engagement activities with each key stakeholder and the appropriateness of this engagement
- The information the Board receives on the Group's stakeholders, including details on the outcome of the engagement activities
- Whether appropriate stakeholder feedback loops are in place
- Whether there was a need for greater engagement with any stakeholders at Board level
- The outcome and effect of stakeholder engagement.

More information on the Group's stakeholders can be found on pages 48 and 49.

Specific details about the Board's workforce and colleague engagement is outlined on the previous page.

Investor Engagement

The Board places clear importance on communications with shareholders, both institutional investors and individual shareholders. QinetiQ has a comprehensive investor relations programme, managed by a professional and well-respected Investor Relations team, who provide day-to-day contact with our investors. The CEO, and the CFO supplement this programme by way of regular meetings with the Company's institutional investors. The Board is continuously informed about the views of key shareholders, including noting any concerns. In addition, the Chairman proactively offers to attend meetings with key stakeholders, and he met with a number of the Company's major shareholders during the year.

Throughout the year investor roadshows were attended by the CEO, CFO and Investor Relations team, who collectively met with nearly 50% of the Company's share register. Our Board members also make themselves available to engage with shareholders as required. Our Chairman was particularly proactive in trying to understand shareholders views, meeting with approximately 35% of the share register. Live webcasts of results presentations were provided and briefings for analysts and investors took place in conjunction with these. An investor seminar was also held to explain key aspects of QinetiQ's strategy in more depth.

The Chairman and the Chair of the Remuneration Committee, also regularly engaged with major shareholders throughout the year on the Company's executive remuneration matters, including the Remuneration Policy, which will be presented to the shareholders for their vote at the 2020 AGM. Further detail on this can be found in the report of the Remuneration Committee on pages 82 to 109.

The information about major shareholders can be found on page 111 and the analysis of shares held can be found on page 184.

Constructive use of the Annual General Meeting (AGM)

The health and wellbeing of our employees, shareholders and the wider community which we operate within is of paramount importance to us. In light of the outbreak of the Coronavirus (COVID-19) the 2020 AGM is scheduled to be held at our registered office at Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 0LX at 11am on 14 July at QinetiQ's offices.

Regrettably, as a consequence of the COVID-19 pandemic, it will not be possible for shareholders to attend the AGM in person and shareholders will not be permitted entry. We very much regret the need to impose this restriction on attendance as we regard the AGM as an important opportunity to engage with shareholders. However it is paramount that we, our employees and our shareholders comply with the law, latest guidelines and restrictions on non-essential travel, public gatherings and social distancing, and that we prioritise the steps needed to slow down the spread of the virus .

The AGM will be purely functional in format with employee shareholders attending to satisfy the quorum requirement, but, importantly, we will ensure that shareholders are able to vote and raise question on the business of the meeting. Therefore the Board strongly recommends shareholders to appoint the Chairman of the Meeting as their proxy by submitting a proxy appointment in accordance with the Notice of AGM (the Notice). In addition, the Board encourages shareholders to submit their questions relating to the business to be conducted at the AGM in advance, by email to investors@qinetiq.com, no later than 5pm on 10 July 2020. We will consider all questions received and, if appropriate, address them at the AGM. Questions submitted and the answers to them, will be made available on our website. There will also be an opportunity for shareholders to attend the AGM electronically via webcast, of which further details will be included in the Notice.

The Notice of AGM and related papers will, unless otherwise noted, be sent to shareholders at least 20 working days before the meeting. For those shareholders who have elected to receive communications electronically, notice is given of the availability of the documents in the 'Investors' section on the Group's website.

Conflict of interest

In accordance with the Companies Act 2006, and the Articles of Association, the Board has the authority to authorise conflicts of interest. This ensures that the influence of third parties does not compromise the independent judgement of the Board. Directors are required to declare any potential or actual conflicts of interest that could interfere with their ability to act in the best interest of the Group. The Company Secretary maintains a conflicts register, which is a record of actual and potential conflicts, together with any Board authorisation of the conflict. The authorisations are for an indefinite period and are reviewed annually by the Nominations Committee, which also considers the effectiveness of the process for authorising Directors' conflicts of interest. The Board reserves the right to vary or terminate these authorisations at any time.

Division of responsibilities

Roles on the Board

Executive and Non-Executive Directors share the same duties. However, in line with the principles of the Code, a clear division of responsibilities has been established. The Chairman is responsible for:

- Leading the Board and its overall effectiveness
- Demonstrating objective judgement
- Promoting a culture of openness and constructive challenge and debate between all Directors
- Facilitating constructive Board relations and the effective contribution of all Non-Executive Directors
- Ensuring Directors receive accurate, clear and timely information.

Further information about the Board's structure and the day-to-day management of the Group can be found on page 62.

The Chairman and the CEO

The roles of the Chairman and CEO are separate, clearly established, set out in writing, and agreed by the Board. The Chairman is responsible for the operation of the Board and the CEO is responsible for leading and managing the business within the authorities delegated by the Board.

Non-Executive Directors

The Non-Executive Directors provide effective oversight and scrutiny, strategic guidance and constructive challenge, whilst holding the Executive Directors to account against their agreed performance objectives. The Non-Executive Directors, led by the Nominations Committee, have primary responsibility for the appointment and removal of the Executive Directors.

Senior Independent Director

Michael Harper is Senior Independent Director and Deputy Chairman. In this role, Michael provides advice and additional support and experience to the Chairman as required, and is available to act as an intermediary for the other Directors if necessary. He is also available to address shareholders' concern should it occur that these have not been resolved through the normal channels of communication with the Chairman, CEO or CFO.

Information provided to the Board

The Board has a formal schedule of matters specifically reserved for its decision, which can be seen at www.QinetiQ.com.

The Chairman, working with the Company Secretary sets the agenda for the Board meetings and encourages an open and constructive debate.

The Chairman, working in conjunction with the Company Secretary, ensures that the Board receives accurate, timely and clear information, allowing the Board to make sound decision and promote the success of the Company. Working together with the Chairman, the Company Secretary is responsible for ensuring good governance and information flow, ensuring an effective Board.

All Directors have access to the advice of the Company Secretary. Directors may take independent professional advice at the Company's expense where they judge it necessary to do so in order to discharge their duties as Directors.

The appointment and removal of the Company Secretary are matters requiring Board approval.

Attendance

The Board has seven scheduled meetings for Board and Committee business throughout the year, and these are held over two days. Additional Board sub-Committee meetings and conference calls are held between the scheduled meetings as required.

The Chairman meets with the Non-Executive Directors, without the Executive Directors present, after each Board meeting. The Non-Executive Directors, led by the Senior Independent Director, meet with the Directors at least once a year without the Chairman being present, to evaluate the Chairman's performance. Further details can be found on page 70.

Directors are expected to attend every Board meeting. In FY20, attendance was strong, both at scheduled meetings and additional meetings (including those called at short notice), reflected in the table below.

Board and Committee attendance – 1 April 2019 to 31 March 2020

Members	Board	Audit Committee	Nominations Committee	Remuneration Committee	Risk & CSR Committee
Lynn Brubaker	7/7	4/4	6/6	8/8	5/5
Admiral Sir James Burnell-Nugent	7/7	4/4	6/6	8/8	5/5
Michael Harper	7/7	3/4*	6/6	8/8	5/5
Neil Johnson	7/7	–	6/6	8/8	5/5
Ian Mason	7/7	4/4	6/6	8/8	5/5
Paul Murray	7/7	4/4	5/6#	7/8#	4/5#
Susan Searle	7/7	4/4	6/6	8/8	5/5
David Smith	7/7	–	–	–	5/5
Steve Wadey	7/7	–	–	–	5/5

* Michael Harper was unable to attend the Audit Committee meeting on 11 November 2019 due to a prior engagement.

\# Paul Murray was unable to attend the Nominations Committee meeting, the Remuneration Committee meeting and the Risk & CSR Committee meeting on 21 January 2020 due to a prior engagement.

\- Shonaid Jemmett-Page was appointed to the Board of Directors on 19 May 2020.

Composition of the Board

The Board considers that its composition reflects the requisite balance of skills, experience, challenge and judgement appropriate for the requirements of the business and full Board effectiveness. The skills and experience of the Board's individual members, particularly in the areas of UK defence and security, the commercialisation of innovative technologies, corporate finance and governance, international markets and risk management, have brought both support and challenge to the CEO, CFO and executive management team during the year. Full biographical details of all the Directors appear on pages 60 and 61.

Independence

A majority of the Board is comprised of independent Non-Executive Directors, as is required by the Code. The independence of the Non-Executive Directors is considered annually by the Nominations Committee, using the independence criteria set out in the Code. As part of this process, the Board keeps under review the length of the tenure of all Directors, as this is a factor when assessing independence. The Chairman was independent upon his appointment in April 2019.

The independence of Michael Harper, Ian Mason and Susan Searle, all of whom have served on the Board for more than six years, was subject to a rigorous review as recommended by the Code. The Board remains satisfied that the length of their tenures has no impact on their respective levels of independence or their respective contributions.

Admiral Sir James Burnell-Nugent has this year served 10 years as Non-Executive Director and Chairman of the Risk & CSR Committee. The Nominations Committee has during the year worked with Russel Reynolds, an external executive search firm, to find candidates with relevant Senior Crown Servant experience, equivalent to that of Sir James. More information on this process and the challenges to find a suitable candidate to replace Sir James can be found on page 77. At the date of this report Sir James has agreed to continue in his role for the foreseeable future until this occurs. In accordance with Provision 10 of the Code, the Nominations Committee has undertaken a rigorous review, without Sir James in attendance, to determine his continued independence. Following this review, the Nominations Committee was satisfied that he remains independent, and advised the Board as such. The Nominations Committee based its decision on its view that Sir James is able to demonstrate independence and integrity in his advice and challenge, and has been, and continues to contribute strongly to the Board in his role as Non-Executive Director and Chairman of the Risk & CSR Committee, all of which is evidenced by the annual Board and Committee evaluations.

Time Commitment

Each Non-Executive Director must be able to devote sufficient time to their role as a member of the Board in order to discharge his or her responsibilities effectively. Prior to undertaking an additional external role or appointment, the Directors are asked to confirm that they will continue to have sufficient time to fulfil their commitments to the Company. This means not only attending and preparing for formal Board and Committee meetings, but also making time to understand the business of the Company.

The Chairman is conscious that some shareholders have concerns regarding Directors taking on too many Non-Executive roles. Consequently, he has assessed the ability to meet the commitments required by QinetiQ for those members of the Board who hold more than one other Board position, and he is satisfied that all Board members are able to meet the Company's time commitment going forward. In addition to their work on the QinetiQ Board and its Committees, the members of the Board also regularly make themselves available for Board calls, sub-Committee meetings and Executive leadership events.

The Chairman, Neil Johnson, who was appointed to the Board on 2 April 2019, holds two other Chairmanships. One of them is Electra Private Equity, a former private equity firm which has returned over £2bn to shareholders in recent years and is now running off its final few investments prior to closing the fund, at which point he will also resign from this position. Neil will remain the Chairman of Synthomer Plc. In considering his appointment, the Board gave careful consideration to Neil's other appointments, how they would reduce in time, and subsequently concluded he would be able to give the Company the time and commitment necessary.

Composition, succession and evaluation

The Company has a Nominations Committee, the purpose and activities which are described on pages 76 to 78.

Board appointments

The Nominations Committee oversees the appointments to the Board and regularly reviews the composition of the Board, its Committees and senior management team, the GLT. Further details can be found in the report of the Nominations Committee on page 78.

Disclosure on diversity can be found pages 40 and 78.

Evaluation

Every three years an external Board effectiveness review of the Board itself and its Committee is carried out. Following an external evaluation in 2019, the Chairman worked closely with the Company Secretary in 2020, to conduct a thorough in-house evaluation of the Board and the Committees' work during the financial year. The evaluation was administered by way of a questionnaire. The external review undertaken in 2019 was performed by Duncan Reed of Condign Board Consulting, neither of which has any other connection with the Board or the Group.

The outcome of the evaluation of the Committees of the Board can be found in the respective Committee Reports further below in this corporate governance statement. The Report of the Nominations Committee, see pages 76 to 78, also describes in detail its effect on the composition of the Board.

Corporate governance statement continued

Progress against prior year's review	Outcome
Enhanced focus on matters that will be transformative in relation to results and performance and with applicability beyond individual countries, projects, companies or sites	Revisiting and setting the purpose of the Company has allowed the Board to focus its attention on matters which have the potential to drive significant growth, both domestically and globally.
Agree key issues and new priorities for the Board mandate for the upcoming year	The Board has an agreed 'deep dive' calendar for the year. The deep dives held this year included consideration of a wide range of topics, covering selected individual business units as well as Group-wide matters such as transformation, customer engagement, investor relations, costbase, culture and risk profile.
Cultural discussions – ensure a greater emphasis on experiences and examples to support the Board's debate	The Group Human Resources Director reported twice to the Board on QinetiQ's cultural strategy and focus, and outlined QinetiQ's five year people and culture strategy. The focus was on performance from leadership, cultural, structural and engagement perspectives, which will enable a step change in sustainable performance. In addition, a strategic workforce planning approach was agreed. This will embed and sustain talent management, develop more agile end to end resourcing approaches to support growth and develop the right skills and capabilities for today and tomorrow.
Extend the programme of guests at the Board with the aim of gaining further understanding of stakeholders and competitors	At its March and May meetings the Board agreed a schedule of outside speakers on specialist subjects for the Board meetings and/or Board dinners.

Priorities for the coming year:

The Board effectiveness review concluded that it was clear the Board was seen to be effective, engaging and helpful to the organisation.

The effectiveness review took in commentary from a broad population, comprising Board members, senior Executives who have high exposure to the Board and Committees, and some of its professional advisors. This has provided the Board and the Chairman with a comprehensive picture of its strengths and opportunities as it continues to develop, and to help drive forward the Company's strategy.

The Chairman's individual performance

As part of our annual evaluation process, Michael Harper, as Senior Independent Director, led a review of the Chairman's performance. At a private meeting, the Non-Executive Directors, with input from the Executive Directors, assessed his ability to fulfil his role as Chairman. It was concluded that the Chairman showed effective leadership of the Board and his actions continued to influence the Board and the wider organisation positively.

The Directors' individual performances

The Chairman held performance meetings with each Board member to discuss their individual contribution and performance over the year, and their future training and development needs. Following these meetings, the Chairman confirmed to the Nominations Committee that each Director demonstrated commitment to the role, that their performance continued to be effective, and that they have sufficient time available to perform their duties.

Induction

New Directors receive a comprehensive induction on joining the Board, which is tailored to their experience and background, and their role on the Board. The induction schedule is designed to provide the new Directors with an understanding of how the Group works and key issues that it faces. The Company Secretary consults the Chairman when preparing a new induction schedule, giving consideration to the needs of the new Director.

Neil Johnson, who was appointed Chairman in FY19, has during the year completed his induction. As part of this process, he has met with investors, the members of the GLT, certain other senior members of staff, the EEG (further information on page 65) and attended Leadership events (further information on page 65).

Training

The Company Secretary organises site visits and training to suit Directors' individual requirements. This year Director site visits included Portsmouth Technology Park in Portsmouth, and the Group's facilities in Farnborough. External training was conducted by Ashurst LLP on relevant corporate governance matters. The Company Secretary also keeps the Board briefed on relevant regulatory changes.

Audit, Risk and Internal Control

Accountability

The Board has established processes to ensure that all reports and information, which it is required to present in accordance with regulatory requirements, represent a fair, balanced and understandable assessment of the Company's performance, position and prospects. Details of the process for ensuring that this is the case, are set out on page 73. The Board considers that the Annual Report 2020, taken as whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, and performance, business model and strategy.

The going concern statement and viability statement are included on page 37, and a summary of the statements of Directors' responsibilities in respect of the Annual Report and the financial statements is set out on page 113.

Risk Management and Internal Control

The Board oversees the systems of risk management and internal control through the Audit Committee (financial risk) and the Risk & CSR Committee (non-financial risk) in conjunction with the risk management and assurance processes detailed in this report. These processes are underpinned by an appropriate mix of techniques used to obtain the level of assurances required by the Board. All Board members attend these Committee meetings, either as a Committee member or as a guest, so as to receive at first-hand the findings of the Committees. Matters of particular concern are escalated for presentation at Board meetings.

The internal audit function, which is independent of the business and has a direct reporting line to the Audit Committee, provides assurance to the Board and its Committees over the effectiveness of the internal control environment. The internal audit function prioritises its work according to risk, including those risks identified by the Group through its risk management processes. Additionally, regular discussions are held between the internal audit function and the external auditor regarding internal audit reports, internal audit plans and the wider control environment.

The Board routinely challenges management to ensure that the systems of internal control are constantly improving in order to maintain their effectiveness. At its meeting in March 2020, the Board reviewed the effectiveness of the systems of internal control that were in operation during the year. Further to this meeting, the Board confirms that it has carried out a robust risk assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity.

The report of the Audit Committee can be found on pages 72 to 75 and the report of the Risk & CSR Committee can be found on pages 79 to 81.

The Strategic Report contains details of the Company's principal risks and uncertainties (see pages 2 to 55), their impact on the Company and how they are managed, including the Company's Three Lines of Defence Model (see page 32).

Audit Committee and Auditors

The Audit Committee is comprised entirely of independent Non-Executive Directors and is chaired by Paul Murray. In May 2020 Shonaid Jemmett-Page was appointed as a Non-Executive Director to the Board. She will take on the role as Audit Committee Chair at the conclusion of the AGM in July 2020, as Paul Murray will not stand for re-election following nine years in post as the QinetiQ Audit Committee Chair. Further details of Shonaid's background and experience, making her the right candidate to take over after Paul and fulfilling the Code requirement of recent and relevant experience from the financial sector, can be found on www.qinetiq.com. The Board considers the members of the Committee to be independent, and in accordance with the Code, the Board concludes that the Committee as a whole possesses competence relevant to the Company's sector, having a range of financial and commercial experience in the industry and the commercial environment in which QinetiQ operates.

The Group Chairman, CEO, CFO, Group Financial Controller, Group Head of Internal Audit and representatives of PwC attended all Committee meetings by invitation during the year.

The Committee met PwC and the Group Head of Internal Audit on two separate occasions during the year, without Executive Directors present, to discuss the audit process and assure itself regarding resourcing, auditor independence and objectivity.

Remuneration

The Company has a Remuneration Committee, the purpose and activities of which are described on pages 82 to 109.

The Board has delegated responsibility for the consideration and approval of the remuneration arrangements of the Chairman, the Executive Directors, other senior Executives and certain Group employees to the Remuneration Committee. The Remuneration Committee, considers remuneration policies and practices, seeks to ensure that they support the Company's strategy and promote the long-term success of the business, and that they are aligned to the successful delivery of the Group's strategy. All Executive Directors and senior management remuneration policies are developed in accordance with the Group's formal and transparent procedures (ensuring that no Director is involved in deciding his/her own remuneration outcome) and having regard to workforce remuneration and related policies, and the alignment of incentives and rewards with culture.

All Remuneration Committee members demonstrate independent judgement and discretion when determining and approving remuneration outcomes. The Board as a whole, with the Non-Executive Directors abstaining, considers the fees paid to Non-Executive Directors.

Audit Committee report

"The Committee continues to operate on the basis of an open but challenging dialogue with management and with the internal and external auditors, and the application of an appropriate level of scrutiny."

Dear Shareholder,

I am pleased to present the report of the Audit Committee on the work carried out by the Committee during FY20. This report should be read in conjunction with the section on how we have complied with the UK Corporate Governance Code on pages 62 to 71. The Committee continues to operate on the basis of an open but challenging dialogue with management and with the internal and external auditors, and the application of an appropriate level of scrutiny.

The main responsibilities of the Committee are set out in this report. It details the activities, discussions and decisions which enabled the Audit Committee to fulfil its objectives effectively during the year of reporting.

I will be stepping down as Chairman of the Audit Committee and Non-Executive Director of the Board at the 2020 AGM, having served in these roles for just over nine years. Shonaid Jemmett-Page, who joined the Board in May 2020, will be taking on the role as the Chairman of the Audit Committee.

I would like to take this opportunity to thank my current and previous fellow Committee members for their work and support during the year and during my tenure, and to wish Shonaid well in her new role.

Paul Murray

Audit Committee Chair

Activities during the year

The Committee has an annual calendar of activities, and in addition, it identifies particular areas on which the Committee wishes to focus on.

The significant issues that the Committee considered during the year are set out in the table below:

Areas of focus: Longer-term viability assessment

Action taken by the Committee: The Committee scrutinised and challenged the process for assessing the prospects of the Group, including the stress-testing applied to the financial forecasts through various identified risks (as described on pages 32 to 36). Noting that the Group's Integrated Strategic Business Plan was prepared prior to the unfolding of the COVID-19 crisis, the Committee specifically requested to review an updated financial forecast for the full year to 31 March 2021.

Following such review and challenge the Committee concluded that the Group will be able to continue in operation and meet its liabilities as they become due. The Committee also considered it appropriate that the statement covers a five-year period. The statement can be found in full on page 37.

Financial reporting

Action taken by the Committee: As a standing agenda item, the Committee focused on understanding the reasonableness of provisions and liabilities, both in terms of consistency of policy application and as key judgements made by management and professional advisors. Comprehensive discussions were held by the Committee throughout the year where the Committee reviewed whether suitable accounting policies had been adopted, and whether management had made the appropriate estimates and judgements. In addition, support and assessment were sought from the external auditor. To facilitate this process, the Committee received presentations from the CFO and the Group Financial Controller and also received reports from the external auditor covering the key risk areas addressed during the interim review and the year end audit, and the auditors' view of key judgements made by management.

Specific issues addressed by the Committee for the periods ended 30 September 2019 and 31 March 2020 include the following:

- The basis for, and judgements made by management in determining, the liabilities recorded for onerous contracts and risks. Specific items discussed include the financial gains/losses reported as 'specific adjusting items' (see note 4 to the financial statements) and 'non-recurring' trading items included within the reported underlying operating profit (including a £4m benefit in respect of finalising business rates agreements, a £3m benefit related to cost recovery on a major contract in the EMEA Services division and a number of other contract-related releases/charges).
- The carrying values of the Group's cash-generating units (CGUs) and the impairments to goodwill in respect of Germany and Advisory Services that were reflected in the year. The major assumptions impacting on the net present value of future expected cash flows were also discussed (specifically considering the potential impact of COVID-19), noting the standard impairment reviews conducted in January 2020 were revisited and updated post year end in light of the COVID-19 pandemic. Certain discount rate assumptions and market growth forecasts were advised by external consultants.
- Assumptions used to value the net pension asset of £309.7m (as advised by the Company's external actuaries), noting additional disclosures in respect of market volatility exacerbated by the COVID-19 pandemic.
- The disclosures in the interim statement, the preliminary announcement and Annual Report and Accounts, in particular those relating to 'specific adjusting items', 'non-recurring trading items' and risk.
- The disclosures and key accounting judgements in respect of the acquisition of QinetiQ Inc. (formerly Manufacturing Techniques Inc.) and Newman & Spurr Consultancy Limited were reviewed. The valuations of acquired intangible assets were undertaken by an external firm of specialists.
- The financial impact, and associated disclosures, in respect of the implementation of IFRS16 'Leases'.
- The Company's response to a letter from the Financial Reporting Council (FRC) in respect of the FY19 Annual Report & Accounts and the disclosure enhancements subsequently implemented in the FY20 financial statements. The FRC had reviewed the Group's 2019 Annual Report & Accounts in accordance with their operating procedures. Such review was of limited scope and had inherent limitations, providing no assurance that the Report and Accounts are correct in all material aspects. Several queries raised in the FRC's letter, primarily in respect of revenue recognition on various types of contracts, were closed off through detailed explanation in a response letter from the Company, following which the FRC confirmed that their enquiries were now closed. Other queries raised have been addressed by specific disclosure enhancements made to the accounting policies note in the 2020 Annual Report & Accounts; specifically in respect of 'specific adjusting items' and 'non-recurring items', and in respect of significant accounting judgements.

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

Areas of focus: Fair, balanced and understandable:

Action taken by the Committee: The Committee was required to provide advice to the Board on whether the Annual Report and Accounts, taken as a whole, provide a fair, balanced and understandable assessment of the Company's financial position and future prospects and provide all information necessary to a shareholder to assess the Group's performance, business model and strategy. Following the process established and reported on in previous years, and in forming its opinion, the Committee reflected on the information it had received and its discussions throughout the year. The assessment was assisted by an internal verification of the factual content by management, a review at different levels of the Group to ensure consistency and overall balance, and a comprehensive review by the senior management team and the external auditors. Following its review, the Committee was of the opinion that the FY20 Annual Report and Accounts were representative of the year and present a fair, balanced and understandable overview, providing the necessary information for shareholders to assess the Group's position and performance, business model and strategy. The Board's statement in this respect can be found on page 37.

Audit Committee report continued

Financial reporting process

The Committee regularly reviews the effectiveness of the financial risk management framework, including reviewing key financial risks and assessing the effectiveness of management's remedial action plans.

The Company operates a financial management and control framework, comprising a system of targets, reporting (external and internal), and controls, that is embedded throughout the businesses and on which progress is reported to the Audit Committee and to the Board. The finance function consists of various financial reporting teams who report to the CFO. The Group Finance team comprises qualified and experienced accountants, and is responsible for the preparation of the half-year and annual reports and for internal financial reporting to senior management and the Board. To ensure consistency of approach and accuracy in financial reporting, the team provides advice on accounting and financial reporting issues to QinetiQ's businesses and sets the Group's accounting policies, which are contained in the Finance Accounting Manual. The team also liaises with the external auditor.

The internal control and risk management systems described on page 71 apply to the Company's process of financial reporting and the preparation of consolidated accounts. The internal audit and external audit functions, and the reviews by the Audit Committee and the Board, provide a structured approach to the review and challenge of financial information and financial reporting.

Internal controls

During the year under review, the Committee monitored the effectiveness of the systems of internal control to gain assurance that an effective control framework was maintained. Reports on the effective operation of the control framework were received from management and reviewed by the Committee along with key policies and processes.

As in previous years, particular attention was given to the timely and effective implementation of remedial actions, either identified by the business directly, or by the internal audit function, with updates on improvement actions being scheduled for follow up at a later meeting during the year.

During the year of reporting the process of monitoring the effectiveness of internal controls in respect of Foster Miller Inc (FMI), formerly referred to as QinetiQ North America, was adjusted to take into account the Proxy agreement (further explained on page 64) which it operates under. The CEO had regular contact with the Chair of the Proxy Board and US Executive Management, and the Group's internal controls were applied as far as possible within the terms of the Proxy agreement. In addition, the internal audit function worked closely with US management to gain assurance that an effective control environment was in place. FMI is now a subsidiary of QinetiQ Inc, as described on page 64, and going forward, this process in respect of QinetiQ Inc, FMI and QinetiQ Special Projects Inc, will be governed by a Special Security agreement, which is also further explained on page 64.

The Committee confirms its view that it has received sufficient, reliable and timely information from management in the last financial year to enable it to fulfil its responsibilities.

Internal audit

The Group Head of Internal Audit reported on four occasions to the Committee on the operation of internal control and risk management processes. The internal audit function's risk-based annual plan was presented, and formally reviewed twice during the year by the Committee to provide assurance that resources were adequate and directed towards key risk areas. The annual plan is structured to ensure that all significant financial and non-financial risks are reviewed within a rolling three-year period. The audits cover financial systems, programmes and projects, as well as reviews of specific risks identified through the Group's risk management processes. During the year the internal audit function audited the controls in place over a range of key functions across the Group in line with the risk based plan. Particular areas of focus were imports and sanctions, financial controls in subsidiary businesses, and the management of general health and safety risks and hazardous activities across the Group.

The Board Assurance Map ('BAM') continues to provide further assurance to the Committee. The BAM is based on the three lines of defence framework (set out on page 32) and addresses the following:

- It identifies and documents relevant compliance and assurance providers across the Group
- It exposes potential gaps in compliance assurance coverage as well as any duplication of effort and identifies whether improved assurance coverage can be achieved by leveraging more of the second defence activities currently being undertaken
- It enables an objective review through each line of defence to support senior management and the Board to establish an appropriate level of assurance of a system of internal controls in the Group.

Internal audit activity in the year continued to indicate that, overall, an effective control environment was in place, with an open culture of continuous improvement being demonstrated by regular management requests for internal audits to be undertaken.

Audit Committee effectiveness review

The evaluation of the effectiveness of the Committee was conducted alongside the Board effectiveness review and carried out by way of a questionnaire. Further details of this process can be found on page 69.

The following actions had been noted from the 2019 effectiveness review:

- Continued focus on the development of the internal audit function by way of extended support from the Audit Committee and the senior finance team
- Enhanced presentation time from the CFO to enable the Audit Committee to further support the finance function.

These items were covered during the year under review.

The effectiveness of the Committee continued to be rated highly. It was agreed that the Committee should focus on the following areas over the coming year:

- The transition to the new Audit Committee Chair
- Enhanced focus on the Group's international businesses.

External audit

Policy on the regulation of non-audit work and safeguarding auditor independence

The Company views it as essential that the external auditor is both independent of any conflict of interest and perceived to be so. To safeguard auditor independence and objectivity, the following process is operated by the Company.

The Company has a Code of Practice applicable to all employees which sets out the principles for regulating the award of non-audit work to the external auditor. During the year the Code of Practice was updated to reflect PwC's own amended practice in this area. PwC has made a voluntary commitment to stop providing non-audit services to FTSE 350 companies whom they audit, unless these are services closely related to the audit, i.e. services that meet the definition of 'independent audit or assurance with or without an opinion'.

The Code of Practice clearly articulates the non-audit services which are prohibited, the non-audit services which can be purchased and the key approvals that are necessary prior to the provision of non-audit work.

Pursuant to the Code of Practice, any non-audit services conducted by the external auditor require the prior consent of the CFO or the Chair of the Audit Committee, and any services exceeding £50,000 in value require the prior consent of the Audit Committee as a whole. For work that is permissible by type, the Audit Committee will take into consideration the size of the contract in proportion to QinetiQ's revenue and profit, and also the total size when aggregated with other contracts with PwC, noting that some non-auditing services are subject to an annual regulatory 70% spending cap of the average of the audit fees billed over the last three year period.

It is also QinetiQ's policy that no PwC employee may be appointed to a senior position within the QinetiQ Group without the prior approval of the CFO.

Review of non-audit work during the year

The Committee reviews the cost and nature of non-audit work undertaken by the external auditor at three meetings during the financial year as a standing item, with a fourth meeting considering the auditor's fees as part of the year-end review.

The Committee had concluded, prior to engaging PwC for the provision of these services, that there had not been any conflict of interest that might compromise the independence of PwC's audit work. Details of the external auditor's remuneration can be found in note 8 on page 112.

	2020		2019	
	£m	% of audit fee	£m	% of audit fee
Audit fees	0.8		0.7	
Non-audit:				
Audit-related assurance services	0.1	10%	0.1	12%
All other non-audit services	0.0	5%	0.0	6%
Total non-audit fees	0.1	15%	0.1	17%

Fees related to non-audit work services amounted to £123k, including £81k for audit related assurance services (2019: £111k including £74k for audit related assurance services.

Review of the effectiveness and the independence of the external auditor

At its September meeting the Committee reviewed the results of an effectiveness survey of the previous year's audit process, which allowed the learnings to be fed into the current year's planning process. At its May meeting, the Committee again reviewed the effectiveness and the independence of the external auditor during the year. The members of the Committee have declared themselves satisfied with the performance of PwC as the Company's auditor in the last financial year.

Audit appointment

PricewaterhouseCoopers LLP, as the external auditor, is engaged to conduct a statutory audit and express an opinion on the Company's financial statements. Its audit includes the review and testing of the data which is used to produce the information contained in the financial statements. PwC was appointed as auditor of the Group at the 2018 AGM following a tender process.

The current external audit engagement partner is Julian Gray, Senior Statutory Auditor, who has held his role since 2018. The time line for the mandatory appointment of a new external audit lead partner is five years. Under the EU audit reform legislation, companies are required to have a mandatory rotation of auditors after ten years, or 20 years if there is compulsory re-tender at ten years.

The Committee and the Board will be recommending PwC's reappointment at the 2020 AGM.

Statutory audit services compliance

The Company confirms that during the year under review it applied and was in compliance with the Competition and Market's Authority's Order on statutory audit and services, which relates to the frequency and governance of external audit tenders and the setting of a policy on the provision of non-audit services.

Nominations Committee report

QinetiQ's Gender Pay Gap data can be found on our website – www.QinetiQ.com

"The make-up of the Board has evolved, and I expect this to continue in the future as we seek to ensure that we have the right balance of skills, experience and diversity on the Board."

Dear Shareholder,

I am pleased to present the Nominations Committee report covering the Committee's key activities during the year of reporting. This report should be read in conjunction with the separate report on compliance with the UK Corporate Governance Code, which can be found on pages 62 to 71.

The make-up of the Board has evolved, and I expect this to continue in the future as we seek to ensure that we have the right balance of skills, experience and diversity on the Board. Whilst the effectiveness review of the Board and its Committees, further described on page 69, shows that the Board currently has an appropriate mix of skills, knowledge and experience to operate effectively, and whilst we will always need a cadre of members of with global experience from similar industries, the Nominations Committee recognises that different specialist skills may also be valuable in the future.

In order to ensure that the composition of the Board continuous to evolve and to broaden our approach in finding the right talents, the Committee took the opportunity to appraise the market to identify the most suitable executive search firm to find candidates with the right technical capabilities and cultural/style attributes. This process, which is described below in this report, resulted in the decision to use MWM Consulting Ltd (MWM) for this year's Board recruitment.

The Committee also oversaw the implementation of the new Global Leadership Team (the GLT).

In FY21 the Committee will focus on the implementation of the changes to the corporate governance framework, Non-Executive Directors' succession planning, diversity and findings of the Board and Committee evaluation.

Neil Johnson

Nominations Committee Chair

Main responsibilities:

- Keep under review the structure, size and composition of the Board
- Succession planning for Directors and other senior Executives – Keep under review the leadership needs of the organisation, both Executive and Non-Executive, with a view to ensure the continued ability of the organisation to compete effectively in the marketplace
- Be responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies, as and when they arise
- Review annually the time required from Non-Executive Directors – the performance evaluation is used to assess whether the Non-Executive Directors are spending sufficient time to fulfil their duties
- Review the independence of the Non-Executive Directors and any potential conflict of interest for all Directors

Board succession planning

Paul Murray will be stepping down as Chairman of the Audit Committee at the conclusion of the 2020 AGM. In October 2019, a process was launched to identify a Non-Executive Director to replace Paul. The candidate specification for this role was carefully prepared by the Committee as a whole, underpinned by the Board Diversity Policy, and as such ensuring that it was specific to skills and experience, appropriately neutral, and supportive of QinetiQ's diversity and inclusion strategy.

To ensure that we would be able to capture the clear benefits of greater diversity of background and opinion, the Committee recognised that a fresh perspective on Board recruitment would be beneficial. Having used Zygos (now part of Russell Reynolds) as the independent external search firm for some time, the Committee considered three potential external executive search firms, all of international standard and fully conversant with the benefits of what diversity and inclusion brings. MWM was chosen to conduct the search and they produced a diverse list of candidates. MWM does not have any connection to QinetiQ or any of the Directors other than to assist with searches for Non-Executive Directors. The members of the Committee individually met with all candidates and based on merit, the Committee ultimately established Shonaid Jemmett-Page, being the third female Director on the Board, to be the best candidate for the position as Non-Executive Director and Chair of the Audit Committee.

Upcoming changes to the Board

The search for a candidate with relevant Senior Crown Servant experience, equivalent to that of Admiral Sir James Burnell-Nugent, has continued this year. As described in the 2019 Annual Report and Accounts, the guidance from the Advisory Committee on Business Appointments (ACOBA) restricts appointments of former Senior Servants to the Crown from working in the UK defence market for two years from their last day in post. In addition, work as a consultant or advisor in the defence sector, can also not be undertaken under the same time limit. Owing to this restriction, the Committee has thus far not identified a candidate who would provide the requisite experience and be available in the near term. In light of this, Sir James has agreed to continue his role for the foreseeable future. A description of the independence assessment of Sir James can be found on page 69.

The Committee acknowledges the tenure of a number of current Board Directors and will in FY21 continue to focus on Board succession planning. Non-Executive Directors are appointed for an initial three year term, subject to annual re-election at the AGM. Following assessment by the Committee they may be appointed for a further three year term. Non-Executive Directors may then continue to serve beyond six years, subject to a maximum tenure of nine years.

Name	Appointment date	6-year date	9-year date
Admiral Sir James Burnell-Nugent	10 Apr 2010	10 Apr 2016	10 Apr 2019*
Paul Murray #	25 Oct 2010	25 Oct 2016	25 Oct 2019
Michael Harper	22 Nov 2011	22 Nov 2017	22 Nov 2020
Susan Searle	14 Mar 2014	14 Mar 2020	14 Mar 2023
Ian Mason	3 June 2014	3 June 2020	3 June 2023
Lynn Brubaker	27 Jan 2016	27 Jan 2022	27 Jan 2025
Neil Johnson	2 Apr 2019	2 Apr 2025	2 Apr 2028
Shonaid Jemmett-Page	19 May 2020	19 May 2026	19 May 2029

* Details of the succession plan for Admiral Sir James Burnell-Nugent are described above in this report.

Paul Murray will not stand for re-election at the 2020 AGM.

Board experience and balance

The Committee annually reviews the composition of the Board and its Committees, taking the following into account:

- Diversity, including age, gender and ethnicity
- Background, professional skills and experience
- The number and balance of Executive and Non-Executive Directors
- Committee memberships
- Length of tenure
- Independence.

The Committee considered how well the skills, knowledge and experience of the Board continued to ensure that it remains supportive to the business to deliver effectively against our strategy, both now and in the future. The Committee also discussed emerging requirements for skills and experience on the Board.

Following this review the Committee is satisfied that the Board currently has an appropriate mix of skills, knowledge and experience to operate effectively. The Directors, individually, bring a range of skills gained in diverse business environments and have excellent track records obtained from working in a number of sectors. Further details about the particular skills, knowledge and experience each Director brings to the Board can be found in the Directors' biographies on pages 60 to 61.

Nominations Committee report continued

Executive succession planning

Executive succession is a key consideration and during the year the Committee closely monitored the status and progress of QinetiQ's strategies for attracting and retaining the best talent. The Committee played an important role in the management changes at executive level by overseeing the transformation of the Executive Committee into a smaller, more empowered Global Leadership Team (the GLT). The Committee recognises that the GLT has the latent strengths needed to deliver further and to drive the next stage of our growth. The GLT came into effect on 1 April 2020.

As in previous years, the Committee has spent substantial time discussing the important area of senior management succession planning and career development, receiving regular updates from the Group Human Resources Director on this topic, also taking into account the immediate, emerging and longer-term succession plans for these roles. Particular focus included hearing about how the Company is making best use of the many highly talented individuals employed throughout the Group and that the Company is ensuring that we use such individuals to create a culture that supports a diverse and inclusive working environment. The Committee was satisfied that the plans were sufficiently robust to fill vacancies on a short to medium-term interim basis, as well as taking into account individuals of sufficient calibre to fill vacancies on a longer-term basis. The Committee also sought to ensure that the succession plans provide sufficient support in developing a diverse pipeline of candidates for Directors and senior management vacancies.

Diversity and inclusion

Board diversity policy

QinetiQ recognises the value of and welcomes the current discussions around diversity in the boardrooms of UK companies. The Board Diversity Policy can be found on www.QinetiQ.com. The objective of this policy affirms the Board's belief in the benefits of diversity and inclusion in the Boardroom as well as throughout the business. The policy applies to the Board, the GLT and direct reports to the GLT. Additional policy is in place to address diversity and inclusion for the whole workforce.

The Board continues to have regard to the Hampton-Alexander Review recommendations to improve gender diversity among FTSE boards and leadership teams, and the Parker Review on ethnic diversity on UK boards. The Board aspires to meet the voluntary targets set out in those reports.

Objectives and progress

As at the date of this Annual Report the Board comprises 30% women. This number will change to 33% when Paul Murray steps down from the Board at the conclusion of the 2020 AGM. The Board is delighted that the number of female Directors on the Board has increased from 22% from last year, as a consequence of the appointment of Shonaid Jemmett-Page.

All members of the Board are British citizens, with the exception of Lynn Brubraker who is a US citizen. All members of the Board are of white background.

Further details about the gender balance of the Executive Committee, now known as the Global Leadership Team (GLT), and their direct reports can be found in 'Our People' section on pages 41. The Committee is pleased to note that the new GLT comprises 25% women, in comparison to the previous Executive Committee which comprised 14% women.

The Board is committed to progress against the targets as set out in the Board Diversity Policy. The Company's mandatory requirement for a diverse candidate pool ensures that we continue to have the opportunity to recruit candidates from all gender, cultural and ethnical backgrounds, while we remain focused on recruiting the best candidate for any role based on merit. The recruitment process for Shonaid Jemmett-Page is an example how the Board Diversity Policy was applied in practice.

Page 40 describes the progress of our Diversity and Inclusion Programme in relation to employees and other diversity policies and procedures of the Company. Succession plans are continually being reviewed in light of opportunities to develop high calibre employees and improve diversity.

Effectiveness of the Committee

The effectiveness of the Committee is monitored and assessed regularly by Neil Johnson, as the Chairman of the Committee and Chairman of the Board, and as part of the Board performance evaluation. The overall outcome of the FY20 review of the Committee was positive (further details of this process can be found on page 69).

Risk & CSR Committee report

"At QinetiQ we realise that our business has an impact on the communities and environment in which we operate."

Main responsibilities:

The Committee has three 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
- To monitor adherence to the generic MOD compliance system.

Dear Shareholder,

I am pleased to report that, during the year, the Committee continued to effectively oversee the operation of non-financial risk management processes within the Group. Building on our work from last year, the Committee continued to focus on in-depth reviews of 'red' risks, and deep-dives into key risk areas.

The review of the Group Risk Register, which is described further on pages 33 to 36, continues to be fundamental for the Committee to undertake its duties. This year the Committee spent further time on ensuring that the Group Risk Register remains relevant and accurate. 'Red' risks are made the subject of a report to the Committee or become the subject of a deep-dive review as part of the Company's risk management processes.

The Committee meets four times a year, however in March 2020, the Committee scheduled an emergency meeting to discuss the serious situation of COVID-19. The Committee discussed in-depth QinetiQ's risk exposure, strategy going forward, as well as the health and well-being of the Company's employees and stakeholders in relation to COVID-19, which is further described in the Strategic Report on pages 10 & 11 and 51.

At QinetiQ we realise that our business has an impact on the communities and environment in which we operate. We recognise the importance of leading a responsible and sustainable company and were pleased to receive reports from the Group Director Corporate Responsibility and Sustainability during the year, covering areas such as environment, business ethics and code of conduct, emerging reputational risk, diversity and inclusion, stakeholder engagement, trading policy and Modern Slavery Act reporting. You can read more about all of the above in the 'Our people' section on pages 39 to 43 and Responsible and 'Sustainable Business' pages 45 to 47.

Details of risk management and internal control processes and the Company's principal risks and uncertainties can be found on page 71 and 32 to 36, respectively. In addition, further details about internal controls and financial risks, can be found in the Report of the Audit Committee on pages 72 to 75.

This report should be read in conjunction with the section on compliance with the UK Corporate Governance Code, which can be found on pages 62 to 71.

Admiral Sir James Burnell-Nugent

Risk & CSR Committee Chair

Risk & CSR Committee report continued

Good governance supporting the Group's risk management activities

During the year the Committee met on five occasions. All the members of the Board attend the Committee meetings as a Committee member. In addition, the Group Director, Governance and Safety Assurance and the Group Head of Internal Audit are invited to attend and present at each meeting. Other senior leaders, such as the Group Director Corporate Responsibility and Sustainability, the Group Head Enterprise and Risk Management, and the Group Director Health, Safety and Environment are also regular attendees. To enable the Committee to get a comprehensive understanding of how risk management processes have been implemented and to ensure that these are fully embedded within the business' day-to-day work, deep-dives are presented to the Committee by employees who have first-hand knowledge of such matters, i.e. perform the work on a daily basis.

Risk reporting is incorporated into the management of the business through the GLT and monthly performance reviews feed into the Group strategy at the Executive and Board level.

Risk management	• Review risk management structures and reporting lines(i.e. effectiveness of control environment) • Effectiveness of risk reporting processes • Review effectiveness of risk identification processes • Consideration of external auditor recommendations relating to risk management
Risk monitoring	• Review of risk register and key exposures • Health, Safety & Environmental Performance • Internal Audit reports • International business governance • Anti-bribery and corruption • Cyber & Security
Corporate responsibility and sustainability	• Corporate Responsibility and Sustainability Programme and focus including: • CR&S reporting and stakeholder engagement • Ethics, including code of conduct training • Modern Slavery Act • Diversity and inclusion • Community investment
Deep-dives	• Marine operations – BUTEC • Aviation Boscombe Down – Non-ionising radiation • Section 5 Firearms – Pendine • Corporate Responsibility and Sustainability

Self-certification process

An annual process of hierarchical self-certification on the effectiveness of internal controls has been established. This process provides a documented and auditable trail of accountability for the operation of the system of internal control in operation. It is informed by a rigorous and structured self-assessment that addresses compliance with Group policy, and provides for successive assurances to be given at increasingly higher levels of management and, finally, to the Board. The self-certification process, which is carried out at the full year and the half year, is reported to the Committee by the Group Director, Governance and Safety Assurance.

The self-certification process continues to be a valuable tool in assessing the effectiveness of internal controls in all functions and business units across the Group.

Generic MOD compliance system

A key aspect of the Committee's work is the oversight of the UK Ministry of Defence's (MOD) generic compliance system. This is integral to the work of QinetiQ in its relationship with the UK Government.

The 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 Group wishes to operate on both the 'buy' and the 'supply' sides. The aim is to achieve a balance between meeting the needs of the procurement customers in the MOD (principally Defence Equipment & Support) and the need to allow QinetiQ the flexibility to commercialise research into the supply chain and pursue its planned business activities, without compromising the defence or security interests of the UK. The Board nominates two senior executives to act as Compliance Implementation Director (CID) and Compliance Audit Director (CAD).

Oversight of the operation of the compliance system is provided by the Committee. During the year 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.

Effectiveness review

The evaluation of the effectiveness of the Committee during FY20 was conducted internally, by way of a questionnaire (further details of the review process can be found on page 69).

The performance of the Committee was rated highly overall. The following action for the Committee was agreed for the upcoming year:

- Continued focus on COVID-19 situation.
- Continued focus on Cyber Risk and resilience.

REPORT OF THE SECURITY COMMITTEE

There was no requirement for the Committee to meet during the year.

Membership and attendance during the year

The Security Committee is chaired by Admiral Sir James Burnell-Nugent and the other Committee members during the year were Michael Harper, Neil Johnson, Ian Mason, Paul Murray, Susan Searle, David Smith and Steve Wadey.

Main responsibilities

The Committee was established in June 2009 to enable UK nationals on the Board to consider matters of a UK national security dimension that have an impact on QinetiQ's UK business. The Committee's full terms of reference can be found in the Governance section of the QinetiQ website at www.QinetiQ.com.

Directors' remuneration report

Chair's Statement

"These are unprecedented times and the company took swift action to reduce fixed remuneration costs to ensure that the business could weather the challenges ahead."

Dear Shareholder,

I am pleased to have taken over as Remuneration Committee Chair in October 2019 having served on the Committee since March 2014. Michael Harper, former Chair remains on the Committee and I would like to thank him for his continued support. The Board considered it appropriate that the Committee Chair sees a Directors' Remuneration Policy through from consultation and implementation to the next cycle in three years' time. I have the experience, and sufficient tenure ahead of me, to achieve that.

As the Group Chairman has outlined in his statement on page 8, building on a strong first half of the financial year, the Group has continued to perform in line with our expectations during the remainder of FY20, despite the impact of COVID-19. However, as part of our strategy to reduce fixed costs, the CEO and CFO have agreed to a temporary base salary reduction of 34% and 32% respectively, and Non-executive Directors agreed to a 25% reduction in fees. The company has also decided to pay all FY20 annual incentive payments (including the Executive Directors' FY20 Bonus Banking Plan) in shares to be held for one year and agreed that there will be no base salary increases in FY21 to manage costs and cash outflows.

In FY20 strong progress has been made by the CEO and the Global Leadership Team during the fourth year of our ambitious strategy to modernise and grow our business. This progress is evident in four successive years of organic revenue growth and a 2% increase in FY20 organic operating profit.

The annual contribution to the Bonus Banking Plan (BBP) pool for FY20 for the CEO and CFO are 87.5% and 86.9% of the maximum respectively, reflecting another excellent year for the company. As noted above, these payments will be delivered as shares to be held for one year.

The third award under the Deferred Share Plan (DSP) will be not be granted as the FY20 performance underpin was not achieved. Based on the FY20 performance target, the level of non-UK revenue growth was above the threshold of £20m growth on FY19, but the margin delivered on that growth was lower than that achieved in FY19, so the pre-grant margin underpin was not achieved. This is a disappointing result which is misaligned with the strong overall performance of the Group during FY20. As mentioned below, the Committee has revised the FY21 DSP strategic growth performance measure to incentivise the delivery of growth across the whole Group.

The FY20 CEO single figure on page 97 is some 15% lower than that for FY19 (£1,985,298 and £2,339,474 respectively) largely due to a smaller award vesting in FY20 from the legacy Performance Share Plan (PSP). The 2017 PSP award to the CEO was the last one under that plan.

The business context and incentive outturn for FY20

Four years ago we launched a strategy to deliver sustainable, profitable growth. The strategy focused on leading and modernising UK test and evaluation, becoming a more international company and effectively applying commercial and technological innovation. Since implementing this strategy, we have turned around five years of revenue decline and we continued to deliver strong and sustainable organic growth in FY20.

The FY20 BBP out-turn was 87.5% and 86.9% of the maximum for the CEO and the CFO respectively which reflects excellent financial and operational performance by the Company and the Executive Directors.

The Committee considered the FY20 BBP out-turn and agreed that it was appropriate not to exercise discretion to amend the outcome. However, in light of the current situation, it was agreed that the 50% due in June 2020 will be paid in shares which must be held for one year rather than as cash. The other 50% is deferred into the BBP, where it will remain at risk of forfeiture for a further one year and then paid in shares. These deferred amounts are already reported as remuneration in the year they were earned.

As noted above, the FY20 DSP award will not be granted as the performance target was not met reflecting the fact that stretching targets were set by the Committee.

Implementation for FY21

Temporary salary reductions have been implemented and other interventions have been made to reduce costs and conserve cash as part of our immediate response to COVID-19.

The Bonus Banking Plan for FY21 is based on the same financial metrics as in FY20 (orders, profit and cash) with stretch targets set against the delivery of the Integrated Strategic Business Plan (ISBP). Financial metrics have a 75% weighting and non-financial targets have a 25% weighting based on the achievement of collective and personal objectives. Payment for target performance is 50% of the maximum.

In support of the ISBP, the FY21 DSP strategic growth performance measure is organic revenue growth across the Group. This change for FY21 (international revenue growth was used for FY19 and FY20) was made to incentivise our senior leaders to collaborate across the Group to deliver sustainable profitable growth. Underpins ensure that FY21 profit margins are strong and Group operating profitability must be at least equal to FY21 performance in FY24 for full vesting, as detailed on page 108. The targets have been set to be stretching taking into account the anticipated impact of COVID-19 on our business in FY21.

Employee engagement and reward

QinetiQ's employees are key to the delivery of the strategy. The CEO and the Group HR Director have held regular discussions with our Employee Engagement Group on reward matters. The people section on page 39 details our employee engagement activity.

I have met the Chair and the Deputy Chair of the Employee Engagement Group during the year and I have found the discussions very helpful in terms of understanding employee views. I understand that they have also found the meetings helpful to build their awareness of the Remuneration Committee's approach to executive remuneration. It is our intention to continue to meet at appropriate intervals.

In FY19 the Company introduced an All Employee Incentive Scheme (AEIS) whereby every eligible employee can earn a fixed amount if the Company achieves a level of operating profit within a pre-determined range from target to stretch. I am pleased to confirm that the AEIS will pay £740 in shares to each employee for FY20, aligning employees and shareholder interests by incentivising and rewarding profitable growth. The Company will operate the AEIS again for FY21 and thereafter.

The Directors' Remuneration Policy

The Directors' Remuneration Policy is presented for the triennial binding vote at the AGM in July 2020.

Engagement with our largest shareholders in preparation for the vote provided a general view that the current Policy is robust, resulting in pay that is commensurate with the performance of the business. This view is shared by the Remuneration Committee and hence the Committee is proposing limited changes to the current Policy at our 2020 AGM.

In light of the Corporate Governance Code and shareholders' feedback and views, two areas of the Policy which we will change are:

- Pension allowances – all new Executive Directors will receive a 10.5% pension allowance payment which aligns with the wider UK workforce. For current Executive Directors, the pension allowance will be maintained at 20% of salary for the three-year life of the 2020 Policy; it will thereafter be reduced in phases to 10.5% of salary over the three-year life of the 2023 Policy.
- Post-employment shareholdings – Executive Directors will have a post-employment shareholding requirement of 100% of salary for one year after they leave employment, reducing then to 50% of salary for a further one year.

Otherwise, the operation of the Policy is the same as the previous Policy in force. To further explain the Policy, this report contains a Policy Q&A and the Policy itself. We have tried to present our Policy clearly and simply.

Conclusion

Preparing for the triennial binding Policy vote at the 2020 AGM and implementing the Policy in FY20 in the interests of shareholders have been the primary areas of focus of the Remuneration Committee in FY20.

FY20 was a strong year for QinetiQ delivering growth in a difficult environment, particularly towards the end of the year when the COVID-19 pandemic took hold. The Remuneration Committee carefully scrutinises financial performance as it relates to incentive payments and is satisfied that FY20 payments are appropriate and fair, reflecting performance in the year.

As we look to FY21, the world is clearly a very different place given the global impact of the COVID-19 crisis. These are unprecedented times and the company took swift action to reduce fixed remuneration costs to ensure that the business could weather the challenges ahead.

I am very grateful for the time shareholders and their representative bodies have given us throughout the year and I hope that we can rely on your vote in support of the Directors' Remuneration Policy and the Annual Report on Remuneration at the AGM on 14 July 2020.

I would welcome comments and questions from shareholders in relation to this Directors' Remuneration Report and I can be contacted through companysecretariat@qinetiq.com.

Susan Searle

Remuneration Committee Chair

21 May 2020

Directors' remuneration report continued

Remuneration at a Glance

Components, alignment, application and changes

Annual fixed pay

F Fixed pay	Link to strategy	Application in FY21
Salary Executive Directors' base salaries are set on appointment and reviewed annually or when there is a change in position or responsibility. Typically, base salaries will be increased by a similar percentage to the average pay increase for all employees of the Group.	Fixed pay is set at a level that enables us to attract and retain high-quality Executive Directors, who are capable of successfully leading and executing our strategy and delivering long-term sustainable growth. Our Policy aims to ensure that fixed pay remains attractive and competitive.	No change to current Policy.
Benefits Benefits include a car allowance, health insurance, life assurance, income protection and taxable expenses.		No change to current Policy.
Pension Existing Executive Directors currently receive 20% of base salary allowance as cash in lieu of pension.		New Executive Directors will receive 10.5%, in line with the wider workforce.

Medium-term variable pay (One to Four Years)

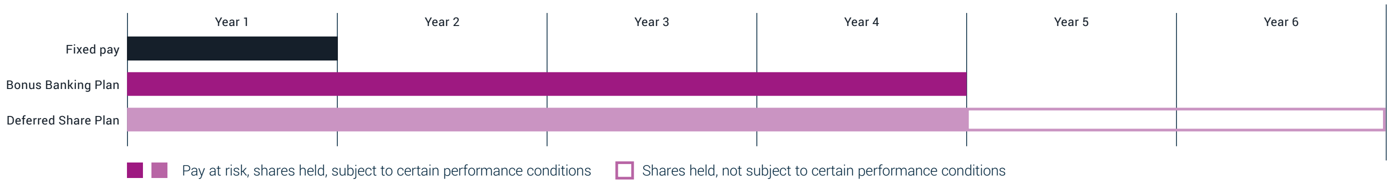
M Medium-term variable pay		
The Bonus Banking Plan (BBP) The BBP is a partially deferred annual bonus scheme where a maximum award of 200% of salary is available. Reward is 75% weighted on financial metrics (for FY21 orders, operating profit and operating cash flow – equally weighted) and 25% weighted on non-financial metrics (key strategic, operational and personal objectives). In the first year of the BBP cycle, 50% of the annual award is paid as cash with the remainder deferred and held as notional shares in a deferred pot. Each year the annual award is added to this notional pot, with 50% of the balance then paid as cash. At the end of the fourth year the entire residual pot is paid as shares and a new three year performance cycle initiated.	The BBP rewards strong financial performance through a 75% weighting to financial metrics. Over the long-term this financial performance is driven by the successful implementation of our strategy. The scheme also rewards non-financial performance in areas such as implementing safety programmes and transforming the culture. The BBP therefore supports our ongoing transformation which is critical to our long-term success. The partial deferral of the bonus and exposure to share price drives a long-term and sustainable focus, aligning interests with shareholders. Furthermore, 50% of the value of the deferred BBP pot is subject to forfeiture should minimum performance requirements not be met.	No change to current Policy.

Long-term variable pay (One to Six Years)

L Long-term variable pay		
The Deferred Share Plan (DSP) The DSP is a long-term incentive scheme that provides a contingent share award up to a maximum of 125% of salary for success against an annual metric aligned with QinetiQ's long-term strategic growth plan. Initial entry in to the DSP is based on an annual growth measure with a pre-grant margin underpin, to ensure that Executive Directors are not incentivised to pursue low-margin growth. The award is then held in contingent shares for a period of three years. If at this point the level of profit in the year that gave rise to the award has been maintained, the contingent award is considered 'vested' and is included in the single figure. Shares are then subject to a further two year holding period.	The DSP enables us to reward Executive Directors for delivering against key strategic priorities. We retain the flexibility to select an appropriate strategic growth metric on an annual basis ensuring that the DSP is agile and drives the long-term strategic success of the Group. With a four year vesting period, and a further two year holding requirement, the DSP is inherently long-term in nature with various underpins ensuring growth is both sustainable and profitable over the long-term.	No change to current operation. A post-employment shareholding requirement for Executive Directors of 100% of salary for one year post-cessation and then 50% of salary for a further one year is proposed.

Timing

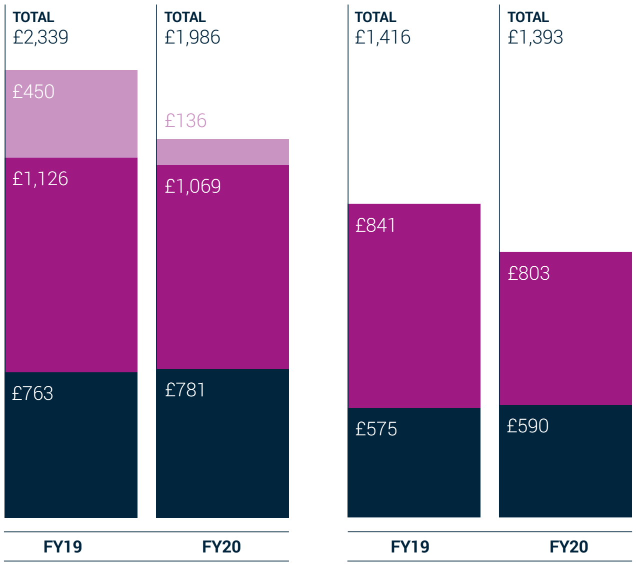
To create strong alignment between executive remuneration and the long-term interests of our shareholders, the annual BBP awards remain, in part, subject to forfeiture based on performance for three years after the award was earned. Annual DSP awards also have a similar forfeiture period, after which any vested shares must be retained by the executive for a further two years.



Single Figure FY20 (£'000)

Chief Executive Officer

Chief Financial Officer



F Fixed pay

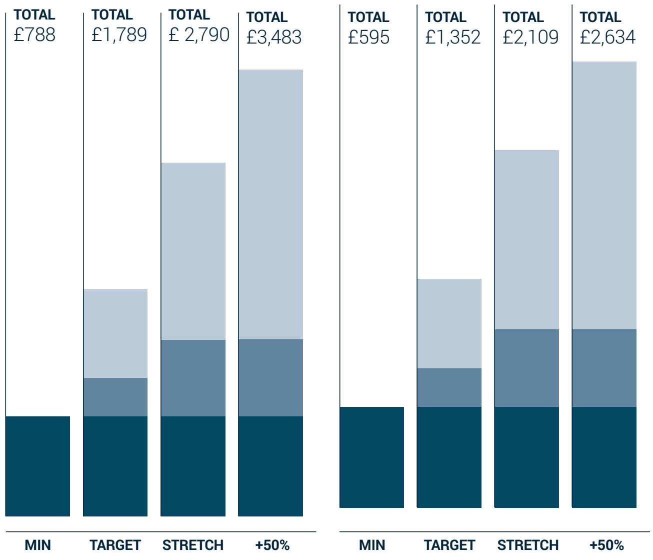
M Medium-term variable pay

L Long-term variable pay

Illustration of FY21 potential (£'000)

Chief Executive Officer

Chief Financial Officer



Minimum – Fixed Pay (FY20 base salary, plus taxable benefits and pension allowance)

Target – Fixed Pay plus BBP at Target (100% of base salary) and DSP at Target (62.5% of base salary)

Stretch – Fixed Pay plus BBP at Maximum (200% of base salary) and DSP at Maximum (125% of base salary)

+ 50% Share price appreciation – Stretch plus 50% share price appreciation (on 50% of BBP and 100% of DSP).

Remuneration in context

Our remuneration principles

Flexible

The Committee can select measures and set tough targets each year to ensure that executives are incentivised aligned to the delivery of each stage of our strategy

Stretching

Targets are set by the Committee to ensure executives are incentivised to outperform, whilst delivering sustainable levels of performance.

Aligned

Whilst our incentive targets are initially assessed on an annual basis, the BBP has a deferred share-based element with the risk of forfeiture, and the DSP has a 'meet or exceed' performance underpin, whereby performance must be met or exceeded pre-grant and in year three, after which any vested shares must be retained for a further two years.

2020 Directors' Remuneration Policy Q&A

What are the principles of QinetiQ's Directors' Remuneration Policy?

QinetiQ's remuneration principles are 'Flexible', 'Stretching' and 'Aligned'. This means we aim to select targets each year that are stretching and ensure our executives are incentivised to drive the successful implementation of our strategy. This also means we can be agile in responding to market conditions as they arise, while also ensuring reward is deferred over the long-term to align with our shareholders' interests and deliver sustainable financial performance.

How does the Policy align executive pay with the interests of shareholders?

Both QinetiQ's annual incentive scheme and share plan are long-term in nature, with approximately 70% of variable pay being deferred as shares or notional shares in any year. In our annual bonus scheme, 50% of the award is deferred and held as notional shares and is therefore subject to share price exposure. In our Deferred Share Plan there is a four year vesting period after which the minimum level of profitability that gave rise to the award must be maintained, incentivising executives to drive sustainable growth. There is then a further two year holding period.

How does your Policy reward the implementation of company strategy?

Our strategy, as detailed in our five year Integrated Strategic Business Plan ('ISBP'), aims to deliver sustainable and long-term growth in our business and to increase value to our shareholders. Our Remuneration Policy aligns with our strategy by providing us with the flexibility to set relevant and stretching annual targets (aligned to year 1 of our ISBP), the rewards for which are deferred over several years. We have the ability to change the Deferred Share Plan metric when we feel there is a more relevant strategic priority, so believe our reward framework is closely linked to its successful implementation.

How does the policy drive improvement in the corporate culture?

Our annual bonus scheme includes a 25% weighting towards non-financial metrics. These focus on things like improving employee engagement and embedding new safety programmes. Given our history in the public sector transforming our corporate culture to develop our business winning capabilities and become more commercial has been critical to delivering improved financial returns for our shareholders. Ultimately, we believe that good governance and a strong corporate culture deliver improved financial returns over the long-term, which is rewarded by our Policy.

How does the Bonus Banking Plan (BBP) work?

- The Bonus Banking Plan is a medium-term (four year) plan with an initial annual measurement period, with deferred awards based on profit and share price performance;
- A maximum award of 200% of salary is available each year;
- At the end of the first year 50% of the award is paid as a cash bonus;
- The remaining 50% is deferred and held in a 'pot' as notional shares, which are subject to share price exposure;
- At the end of the next year, any award is added to the 'pot' and 50% of the 'pot' will be paid as cash-based notional shares, with the remaining proportion again deferred;
- At the end of year four, the entire remaining pot is paid in shares;
- The financial metrics used for the BBP are orders, operating profit and operating cash flow, each with a weighting of 25%;
- The non-financial metrics carry a collective weighting of 25% and include priorities such as implementing new safety programmes and transforming the culture and engagement levels within the business. This supports long-term sustainable growth.

How does the Deferred Share Plan (DSP) work?

- The Deferred Share Plan is a six year long-term incentive scheme that aims to reward success against the long-term strategy;
- The maximum award is 125% of salary;
- There are various underpins throughout the scheme with an initial contingent share award grant based on the achievement of a key strategic growth measure aligned to our strategy;
- If the margin underpin on this growth measure is not achieved, 100% forfeiture will occur and the initial award will not be made regardless of the growth achieved;
- At the end of the four year period, as long as the level of profit that was achieved in the year of award is maintained, the initial award of shares will vest;
- These vested shares are subject to a further two year holding period;
- The DSP shares which vest will only appear in the single figure at year four, as this is when the auditors view the performance obligations of the award as having been satisfied;
- Should the minimum profitability level not be maintained at year four, the initial award is subject to at least 50% forfeiture, at the discretion of the Remuneration Committee.

How has the company improved the approach to remuneration since the 2017 AGM vote?

The Remuneration Committee noted the vote (63.8% 'For') when the Policy was approved at the 2017 AGM. In response, we have –

- Improved the disclosure in the Annual Report on Remuneration since the 2017 vote to be more transparent and enable shareholders to review decisions taken as we implement the Policy;
- Changed the DSP performance measure (in response to initial shareholder concerns over 'double-dipping' on profit in FY18);
- Made every effort to engage with major shareholders to explain the Policy and the positive impact on company performance;
- Enhanced the Remuneration Committee target-setting process (which resulted in the FY20 stretch targets being revised upwards to reflect exceptional FY19 performance).

How have you focused on employee engagement on QinetiQ?

Our employees share in the Company's success following the introduction of an All-Employee Incentive Scheme in FY19 which pays up to £1,000 to all eligible employees on the basis of the Company's annual operating profit performance; this plan is important to us as a driver to embed cultural change and is in place for FY21 and thereafter.

Our Employee Engagement Group (EEG), representing our UK employees, is deeply engaged across the company provide an employee voice at the table (including regular interactions with the Chairman, Remuneration Committee Chair, CEO and the Group HR Director). We listen to the views and level of engagement of our employees and we monitor this through a quarterly survey using a market-leading dynamic tool (Peakon).

What changes will you be making to the Policy at the 2020 AGM?

The Remuneration Committee has conducted a detailed review and our view is that the Directors' Remuneration Policy is working as it is driving results, provides contingent shares to our senior leaders and has strong shareholder alignment. Therefore we believe that the Policy should remain in place for another three-year cycle, with no increase in the quantum of the remuneration package.

However, the Committee is aware that there are two areas where we are not aligned with current regulatory/shareholder requirements:

Pension allowance – the Committee agreed to reduce the allowance for new Executive Directors (currently 15% of base salary as per our 2017 Policy) to be aligned with the pension for employees (a maximum of 10.5% in QinetiQ UK).

It is proposed that the approach for current Executive Directors (20% of base salary) be maintained at this level for the 2020 Policy vote. However, the Committee will commit, as part of this 2020 Policy approval, to reducing the pension allowance to 10.5% (our UK employee contribution) over the life of the 2023 Policy.

Post-employment shareholding – the Committee has agreed a post-employment shareholding requirement of 100% of salary for one year post-cessation, then 50% of salary for a further one year.

Note that the DSP already has a two-year holding period post-vesting. This will dovetail with the new requirement, as the DSP holding period continues in force after cessation of employment for Executive Directors.

Directors' remuneration report continued

Directors' remuneration policy

Introduction

Just over four years ago, QinetiQ launched an ambitious strategy to deliver long-term and sustainable growth for shareholders. In parallel to this, the Remuneration Committee developed an innovative Directors' Remuneration Policy to incentivise our leadership team, align their interests with shareholders, and ensure we created the right cultural changes to sustain our strategy. This Directors' Remuneration Policy was first approved by shareholders at the 2017 AGM.

The development of our Directors' Remuneration Policy remains built on three guiding principles:

- **Flexible:** To ensure that executives are incentivised to deliver against each stage of our strategy in light of the prevailing market environment;
- **Stretching:** Targets are set to ensure executives are incentivised to outperform, whilst delivering sustainable performance;
- **Aligned:** The Directors' Remuneration Policy aligns executives' interests with those of shareholders, this is achieved through the long-term nature of our Policy, a focus on rewarding through deferred shares and various underpins relating to sustained financial performance.

The review process

The Committee led the review process throughout, taking account of market practice, the views of the Committee members, executives and external advisers as appropriate to help shape our thinking. No individual is involved in the decision making on their own remuneration.

We then engaged with many of our largest shareholders and the general view was that the current Directors' Remuneration Policy is robust, resulting in pay that is commensurate with the performance of the business. This view is shared by the Remuneration Committee and hence the Committee is proposing limited changes to the current Directors' Remuneration Policy at our 2020 AGM.

However, in light of the Corporate Governance Code and shareholders' feedback and views, two areas of the Directors' Remuneration Policy which we will change are:

- Pension allowances – all new Executive Directors will receive a 10.5% pension allowance payment which is the maximum available to the wider UK workforce. For current Executive Directors, the pension allowance will be maintained at 20% of salary for the three-year life of the 2020 Policy; it will thereafter be reduced in phases to 10.5% of salary over the three-year life of the 2023 Policy.
- Post-employment shareholdings – Executive Directors will have a post-employment shareholding requirement of 100% of salary for one year after they leave employment, reducing then to 50% of salary for a further one year.

Otherwise, the operation of the Policy is the same as the previous Policy in force.

The Committee undertook further consultation to understand the reasons behind the vote (63.8% 'For') when the Directors' Remuneration Policy was approved at the 2017 AGM. In light of the shareholder feedback we received, we have improved the disclosure in the Annual Report on Remuneration since the 2017 vote to enable shareholders to review decisions taken as we implement the Policy. The Remuneration Committee has also developed a new process for target setting given that a concern expressed by shareholders was that QinetiQ's incentive arrangements are heavily dependent on annual performance measurement. We have also made every effort to engage with major shareholders to explain the Policy and the positive impact on company performance and culture. The Remuneration Committee therefore seeks approval for the Policy at the AGM on 14 July 2020.

Scope of policy

The Policy applies to Executive Directors, the Group Chairman and Non-executive Directors. Reference may also be made to the Global Leadership Team who, while not Directors, fall within the Remuneration Committee's remit, although the policy is not binding for these individuals.

Duration of policy

The Directors' Remuneration Policy will be put forward for a binding vote at the AGM on 14 July 2020 and will be effective from that date. The Policy is expected to remain in effect until the 2023 AGM.

Discretion

The Committee has discretions in several areas of Policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules as set out in those rules. In addition, the Committee has the discretion to amend the Directors' Remuneration Policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, disproportionate to seek or await shareholder approval; the Committee commits to communicating to shareholders when discretion is used.

Approach to incentives

The Committee conducted an extensive review of the Directors' Remuneration Policy which has resulted in the Committee proposing to retain the incentive arrangements, made up of two elements (collectively the Incentive Plan):

- Bonus Banking Plan with no change to the current terms and conditions and a maximum opportunity of 200% of salary.
- Deferred Share Plan to with no change to the current terms and conditions and a maximum opportunity 125% of salary.

Initial awards under the Deferred Share Plan will continue to be based on challenging strategic financial growth objectives set by the Committee each year in line with the Company's Integrated Strategic Business Plan.

Approach to incentives continued

The initial award of contingent shares under the Deferred Share Plan is subject to a three-year vesting period, where the award remains at risk based on a performance underpin and during which the participant must remain employed by the Company; then the vested shares are subject to a further two-year holding period. The Deferred Share Plan is, therefore, a six-year incentive plan with a strong link to the long-term shareholder experience.

The rationale for the Incentive Plan is to:

- provide a simple cohesive design, that incentivises delivery of the Integrated Strategic Business Plan;
- recognise that the Integrated Strategic Business Plan will evolve, therefore providing the Board with the opportunity to manage the incentives annually to ensure the evolution continues to be incentivised;
- reward participants as shareholders by the build-up of a long-term retained shareholding; and
- ensure a focus on long-term sustainable performance through the deferral in equity. Based on the maximum incentive opportunity of 325%, half of the Bonus Banking Plan opportunity (100%) and all of the Deferred Share Plan opportunity (125%) is treated as deferred equity.

When considering the review of the Policy, the Committee was mindful of UK Corporate Governance Code provisions which say that the Committee should address issues of clarity, risk, predictability, proportionality and alignment with culture. The Policy is now well established and broadly a roll-forward of the existing Policy meaning that the operation, and therefore outcomes, will be proportionate and predictable. Risk continues to be managed through the operation of a broad suite of performance measures and targets, the use of deferral, holding periods and malus and clawback provisions and the close interaction with the Audit and Risk & CSR Committees. Our drive for better clarity means we have endeavoured to present our Directors' Remuneration Policy in a simple and succinct manner to be as transparent as possible. The tailored design of our incentives has helped the Chief Executive to change ways of working and QinetiQ's culture.

Executive Directors' Remuneration Policy

The Executive Directors' Remuneration Policy is put forward for approval at the AGM on 14 July 2020. This Policy covers the three year period commencing 1 April 2020 and complies with the Large and Medium-sized Companies and Groups (Accounting and Reports) (Amendment) Regulations 2013.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Base salary	To attract and retain the talent needed to lead our business.	An Executive Director's base salary is set on appointment and reviewed annually or when there is a change in position or responsibility. When determining an appropriate level of salary, the Committee considers: • general salary rises to employees; • remuneration practices within the Group; • any change in scope, role and responsibilities; • the general performance of the Group; • the experience of the relevant Director; • the economic environment; and • when the Committee determines a benchmarking exercise is appropriate, salaries paid by the companies in the comparator groups used. Individuals who are recruited or promoted to the Board may, on occasion, have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the general rises for employees until the target positioning is achieved.	Typically, the base salaries of Executive Directors in post at the start of the policy period and who remain in the same role throughout the policy period will be increased by a similar percentage to the average annual percentage increase in salaries of all other employees in the Group. The exceptions to this rule may be where: • an individual is below market level and a decision is taken to increase base pay to reflect proven competence in the role; or • there is a material increase in scope or responsibility to the Executive Director's role. The Committee ensures that maximum salary levels are positioned in line with companies of a similar size to QinetiQ and validated against other companies in the industry, so that they are competitive against the market. The Committee intends to review the comparators periodically and may add or remove companies from the group as it considers appropriate. Any changes to the comparator groups will be set out in the section headed Implementation of Remuneration Policy, in the following financial year.
Pension	To ensure that Executive Directors' total remuneration remains attractive and competitive.	The Company provides a pension contribution allowance in line with practice relative to its comparators to enable the Company to recruit and retain Executive Directors with the experience and expertise to deliver the Group's strategy. This allowance will be a non-consolidated allowance and will not impact any incentive calculations.	The maximum policy pension contribution allowance is 20% for existing Executive Directors; however, any new Executive Directors will have a maximum contribution which is aligned with the maximum level available to all UK employees (which is currently 10.5% of salary). The Company will set out in the section headed Implementation of Remuneration Policy, in the following financial year the pension contributions for that year for each of the Executive Directors.

Directors' remuneration report continued

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Benefits	To ensure that Executive Directors' total remuneration remains attractive and competitive.	Benefits include car allowance, health insurance, life assurance, income protection and membership of the Group's employee Share Incentive Plan which is open to all UK employees (the Executive Directors will also be eligible to participate in any other all employee plan operated by the Company from time to time). The Committee recognises the need to maintain suitable flexibility in the benefits provided to ensure it is able to support the objective of attracting and retaining personnel in order to deliver the Group strategy. Additional benefits may therefore be offered such as relocation allowances on recruitment.	The maximum is the cost of providing the relevant benefits.

Incentive Plan	The Incentive Plan provides a significant incentive to the Executive Directors linked to the achievement of delivering targets that are closely aligned with the Company's strategy and the creation of value for shareholders.
	
	In particular, the Incentive Plan supports the Company's objectives by:
	
	• Allowing the setting of annual targets based on the business's strategic objectives at that time, meaning that a wider range of performance metrics can be used that are relevant and suitably stretching whilst also providing sufficient incentive linked to potential to be achievable; and
	• Providing substantial long-term deferral in shares and ongoing adjustment by requiring a threshold level of performance to be achieved during the deferral period. Amounts deferred in shares are also forfeitable on a Director's voluntary cessation of employment which provides an effective lock-in.
		An award under the Incentive Plan is subject to satisfying financial and strategic/operational performance/personal performance conditions and targets initially measured over a period of one financial year.
		
		A minimum of 50% of the incentive shall be based on financial performance measures.
		
		The Incentive Plan consists of two parts –
		
		• **Bonus Banking Plan.** Annual Company contributions are earned based on the satisfaction of the performance conditions. Contributions will be made for three years with payments made out of the plan over four years. 50% of the value of a participant's bonus account will be paid out annually in cash after the pool has been marked to the Company's share price and credited with dividend equivalents. 50% of the unpaid balance of a participant's bonus account is at risk of annual forfeiture based on the achievement of a financial performance threshold with 100% of the residual value paid out at the end of year four as shares.
		• **Deferred Share Plan.** Deferred conditional share-based element initially awarded based on the satisfaction of pre-grant annual performance assessment. The conditional award vests after three years, subject to continued service, where the initial award remains at risk based on the achievement of a performance underpin, then a further two-year holding period is applied. A minimum 50% (Remuneration Committee has discretion to increase subject to performance) of the initial award is at risk of forfeiture for three years.
		
		Malus and clawback provisions apply to the Incentive Plan.
		
		The Committee will normally provide dividend equivalents on vested shares under the Incentive Plan.
		
		In exceptional circumstances the Committee retains the discretion to:
		
		• Change the performance measures and targets and the weighting attached to the performance measures and targets part way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate; for example adjustments for:
		  • Acquisitions and disposals;
		  • Restructuring costs;
		  • Business structure changes;
		  • Restated corporate allocations;
		  • Foreign currency exchange rates; and
		  • Board approved budget adjustments.
		• Make downward or upward adjustments to the amount of incentive earned resulting from the application of the performance measures, if the Committee believe that the incentive outcomes are not a fair and accurate reflection of business performance.
		• Adjust the grant share price for incentive awards if there were to be a substantial Company share price fall, if it were to be appropriate to exercise such discretion at a future time.
		
		Any adjustments or discretion applied by the Committee will be fully disclosed in the following year's Directors' Remuneration Report.
			Maximum 325% of salary.
			
			Bonus Banking Plan
			Maximum = 200% of salary.
			Target = 80%–120% of salary.
			Threshold = 0% of salary.
			
			Deferred Share Plan
			Maximum = 125% of salary.
			Target = 30%-75% of salary.
			Threshold = 0% of salary.
			
			–

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Minimum shareholding requirements – during and after employment	To align Executive Directors' interests with those of shareholders through the build-up and retention of a personal holding in QinetiQ shares.	Executives have five years to accumulate the required shareholding. 300% of base salary for the CEO. 200% of base salary for other Executive Directors. Executive Directors will have a post-employment shareholding requirement of 100% of salary for the first year post cessation, then 50% of salary for the second year post cessation of employment.	The Committee has adopted formal shareholding requirements to encourage the Executive Directors to build up over a five-year period and then subsequently hold a shareholding equivalent to a percentage of base salary. Adherence to these guidelines is a condition of continued participation in the equity incentive arrangements. This policy ensures that the interests of Executive Directors and those of shareholders are closely aligned. Executive Directors are required to retain 50% of the post-tax amount of vested shares from the Company incentive plans until the minimum shareholding requirement is met and maintained. Vested awards under the Deferred Share Plan element of the Incentive Plan must be retained by the participant for two-years post-vesting to further support the post-employment shareholding requirement where an Executive Director leaves the Company. The Committee retains the discretion to increase the shareholding requirements.

Notes to the policy table

Performance measures and targets

The performance measures and targets, financial and non-financial, are determined annually based on the Company's strategy. Targets are set taking into account a variety of inputs including but not limited to the strategic plan, the annual plan and brokers' forecasts. The measures and, where possible, the targets will be disclosed after the end of the relevant financial year in that year's remuneration report.

Remuneration policy for all employees

All employees of QinetiQ are eligible to base salary, benefits and pension.

The link between performance and reward cascades down from the Executive incentive plans with the Leadership and Business Development Communities typically invited to participate in the Company's formal annual incentive arrangements. All other employees may receive a discretionary bonus based on Company and individual performance. Participation in long-term incentive plans is available to Executive Directors, Global Leadership Team members, Leadership Community and selected other employees. Share ownership is further encouraged via the QinetiQ Share Incentive Plan.

Recruitment policy

The Company's principle is that the remuneration of any new recruit will be assessed in line with the same principles as for the current Executive Directors (with the exception of pension allowance). The Committee is mindful that it wishes to avoid paying more than it considers necessary to secure a preferred candidate with the appropriate calibre and experience needed for the role. In setting the remuneration for new recruits, the Committee will have regard to guidelines and shareholder sentiment regarding one-off or enhanced short-term or long-term incentive payments as well as giving consideration for the appropriateness of any award. The Company's detailed policy when setting remuneration for the appointment of new Directors is summarised in the table below:

Remuneration element	Recruitment policy
Salary, benefits and pension	These will be set in line with the policy for existing Executive Directors, except for pension allowance which will be capped at 10.5% of salary.
Incentive Plan	Maximum annual participation will be set in line with the Company's policy for existing Executive Directors and will not exceed 325% of salary. Depending on the timing of the appointment, the performance measures and targets used for the first award may differ to that of the existing Executive Directors. If different, they will be explained in detail in the following relevant Directors' Remuneration Report.
Maximum variable remuneration	The maximum variable remuneration which may be granted is 325% of salary (excluding any buy-outs).

Directors' remuneration report continued

Remuneration element	Recruitment policy
'Buy Out' of incentives forfeited on cessation of employment	Where the Committee determines that the individual circumstances of recruitment justifies the provision of a buyout, the equivalent value of any incentives that will be forfeited on cessation of an Executive Director's previous employment will be calculated taking into account the following: • The proportion of the performance period completed on the date of the Executive Director's cessation of employment; • The performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and • Any other terms and condition having a material effect on their value ('Lapsed value'). The Committee may then grant up to the same value as the lapsed value, where possible, under the Company's incentive plan. To the extent that it was not possible or practical to provide the buyout within the terms of the Company's existing incentive plan, a bespoke arrangement would be used. To be clear, the value of any buy-out will be limited to the value being forfeit from the previous employer.
Relocation policies	In instances where the new Executive Director is required to relocate or spend significant time away from their normal residence, the Company may provide one-off compensation to reflect the cost of relocation for the Executive Director. The level of the relocation package will be assessed on a case-by-case basis but will take into consideration any cost of living differences/housing allowance and schooling.

Where an existing employee is promoted to the Board, the policy set out above would apply from the date of promotion but there would be no retrospective application of the policy in relation to subsisting incentive awards or remuneration arrangements.

Service contracts

Current Executive Directors have open-ended service contracts terminable by the Company immediately without notice upon breach by the individual or by the Company giving to the individual 12 months' written notice or, at its discretion, payment in lieu of salary, pension and benefits only during that notice. The payment in lieu of notice may be made in staged payments and may either reduce or cease completely where the departing Executive Director gains new employment. The Executive Director may terminate his contract by giving the Company 12 months' written notice. Contracts for new Executive Directors will be limited to 12 months' notice by both parties (or payment in lieu of notice in respect of the Company).

Copies of the service contracts are available for inspection at the Company's registered address.

The Chairman and the non-Executive Directors have letters of appointment and are appointed for initial fixed terms of three years, subject to re-election at each Annual General Meeting. The Chairman and the Non-Executive Directors are not entitled to any payment in lieu of notice or any compensation for loss of office.

The dates of the service contracts, letters of appointment and unexpired term periods are set out in the Annual Report on Remuneration (page 106).

Loss of office and change of control policy

When determining any loss of office payment for a departing Executive Director the Committee will always seek to minimise the cost to the Company while complying with the contractual terms and seeking to reflect the circumstances in place at the time. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

Remuneration element	Approach	Application of Committee discretion
Salary and benefits	In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation. In other circumstances, Executive Directors may be entitled to receive compensation for loss of office which will be a maximum of 12 months' salary. Such payments will be equivalent to the monthly salary and benefits that the Executive Director would have received if still in employment with the Company. These will be paid over the notice period. Executive Directors will be expected to mitigate their loss within a twelve month period of their departure from the Company.	The Company has discretion to make a lump sum payment in lieu.
Pension	Pension contributions or payments in lieu of pension contribution will be made during the notice period.	The Company has discretion to make a lump sum payment in lieu.
Bonus Banking Plan (on cessation of employment)	For the year of cessation Good leavers: Performance conditions will be measured at the measurement date. The Company incentive contribution will normally be pro-rated for the period worked during the financial year. Other leavers: No Company incentive contribution payable for year of cessation. Deferred balances in participant's Plan Account Good leavers: The balance in the participants' Plan account will be payable on cessation of employment. Other leavers: The balance in the Participants' Plan account will be forfeited on cessation of employment.	For the year of cessation Discretion: the Remuneration Committee has the following elements of discretion: • To determine that an Executive Director is a good leaver. It is the Committee's intention to use this discretion only in circumstances where there is an appropriate business case which will be explained in full to shareholders; and • To determine whether to pro-rate the Company incentive contribution to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to use discretion to not pro-rate only in circumstances where there is an appropriate business case which will be explained in full to shareholders. Deferred balances in participant's Plan Account Discretion: the Remuneration Committee has the following elements of discretion: • To determine that an Executive Director is a good leaver. It is the Remuneration Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; • To determine whether the payment of the balance of the participant's Plan Account should be in cash or shares or a combination of both; • To determine whether to pro-rate the balance of the participant's Plan Account payable on cessation. The Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of the Executive Director's departure.
Bonus Banking Plan (on change of control)	For the year of the change of control Performance conditions will be measured at the date of the change of control. The Company incentive contribution will normally be pro-rated to the date of the change of control. Deferred balances in participant's Plan Account The balance in the participant's Plan Account will be payable on the change of control.	For the year of the change of control Discretion: the Remuneration Committee has the following element of discretion: • To pro-rate the Company bonus contribution to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to only use discretion to not to time pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders. Deferred balances in participant's Plan Account Discretion: the Remuneration Committee has the following elements of discretion: • To determine whether the payment of the balance of the participant's Plan Account should be in cash or shares or a combination of both; • To determine whether to pro-rate the balance of the participant's Plan Account payable on change of control. The Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of change of control.

Remuneration element	Approach	Application of Committee discretion
Deferred Share Plan (on cessation of employment)	For the year of cessation Good leavers: Performance conditions will be measured at the measurement date. The Deferred Share Plan award will normally be pro-rated for the period worked. Other leavers: No Deferred Share Plan award for year of cessation. Subsisting awards Good leavers: Deferred Share Plan awards will vest on their original vesting dates and remain subject to the sale restrictions. Other leavers: Deferred Share Plan awards will be forfeited on cessation of employment.	For the year of cessation Discretion: the Remuneration Committee has the following elements of discretion:– • To determine that an Executive Director is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; • To determine whether to pro-rate the Company award to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to only use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; and • To determine whether the Deferred Share Plan award will vest on the date of cessation or the original vesting date. The Remuneration Committee will make its determination based amongst other factors on the reason for the cessation of employment; and to determine whether to provide the Deferred Share Plan award in the form of cash or shares. Subsisting Deferred Share Plan awards Discretion: the Remuneration Committee has the following elements of discretion: • To determine that an Executive Director is a good leaver. It is the Remuneration Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; • To determine whether to pro-rate the Deferred Share Plan award to the date of cessation. The Committee's normal policy is that it will pro-rate. It is the Remuneration Committee's intention to only use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; To determine whether the Deferred Share Plan award will vest on the date of cessation or the original vesting date. The Remuneration Committee will make its determination based amongst other factors on the reason for the cessation of employment.
Deferred Share Plan (on change of control)	For the year of the change of control Performance conditions will be measured at the date of the change of control and the award will normally be pro-rated to the date of the change of control. Subsisting awards The awards will vest on the date of the change of control and the sale restrictions will fall away.	For the year of the change of control Discretion: the Remuneration Committee has the following element of discretion: • To determine whether to pro-rate the Deferred Share Plan award to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to only use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders. Subsisting Deferred Share Plan awards Discretion: the Remuneration Committee has the following elements of discretion: • To determine whether the satisfaction of Deferred Share Plan awards should be in cash or shares or a combination of both; and • To determine whether to pro-rate Deferred Share Plan awards on change of control. The Committee's normal policy is that it will not pro-rate. The Remuneration Committee will determine whether to pro-rate based on the circumstances of change of control.
Other contractual obligations	There are no other contractual provisions other than those set out above agreed that could impact quantum of the payment.	None.

A 'good leaver' is a person whose cessation of employment is for one of the following reasons:

- Death; Ill-health; Injury or disability; Redundancy; Retirement; Employing company ceasing to be a Group company; Transfer of employment to a company which is not a Group company; and where the person is designated a good leaver at the discretion of the Committee (as described above).

A person who ceases employment in circumstances other than those set out above is designated as an 'other leaver'.

Malus and clawback

Malus provisions apply to both the Bonus Banking Plan and the Deferred Share Plan. Malus is the adjustment of Bonus Banking Plan contributions or the balance in a participant's account or unvested Deferred Share Plan contingent awards because of the occurrence of one or more circumstances. The adjustment may result in the value being reduced to nil.

Clawback is the recovery of payments made under the Bonus Banking Plan or vested Deferred Share Plan awards as a result of the occurrence of one or more circumstances. Clawback may apply to all or part of a participant's payment under the Deferred Share Plan or Deferred Share Plan award and may be effected, among other means, by requiring the transfer of shares, payment of cash or reduction of awards or bonuses.

The circumstances in which malus and clawback could apply are as follows:

- Discovery of a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company;
- The assessment of any performance condition or condition in respect of a payment or award under the Incentive Plan was based on error, or inaccurate or misleading information;
- The discovery that any information used to determine the Bonus Banking Plan or Deferred Share Plan award was based on error, or inaccurate or misleading information;
- Action or conduct of a participant which amounts to fraud or gross misconduct; or
- Events or the behaviour of a participant have led to the censure of a Group company by a regulatory authority or have had a significant detrimental impact on the reputation of any Group company provided that the Board is satisfied that the relevant participant was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to the participant.

The following table sets out the periods during which malus and clawback may be effected.

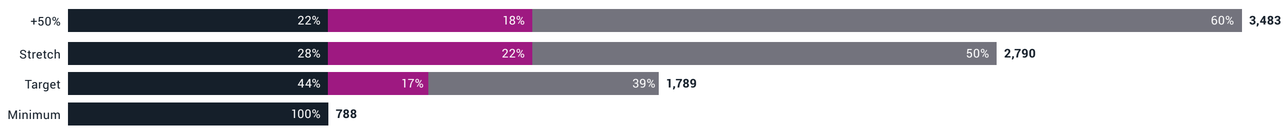
	Bonus Banking Plan	Deferred Share Plan
Malus	Up to the date of a payment.	Any time prior to vesting.
Clawback	Three years post the date of any payment.	Three years from the date of vesting.

Pay and performance scenario analysis

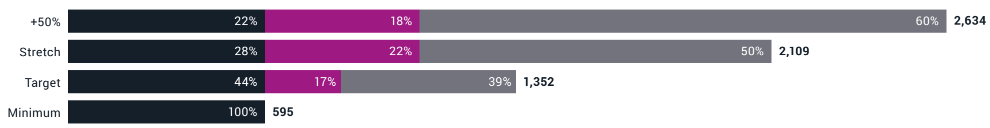
The proposed Directors' Remuneration Policy is illustrated in the following charts showing what each Director could expect to receive in FY21 under different performance scenarios, based on the following definitions:

Scenario	Fixed	Linked to performance
50% share price appreciation		Stretch plus 50% share price growth (on 50% of BBP and 100% of DSP)
Stretch		100% of Bonus Banking Plan opportunity (200% of salary) 100% of Deferred Share Plan (125% of salary)
Target		50% of Bonus Banking Plan opportunity (100% of salary) 50% of Deferred Share Plan (62.5% of salary)
Minimum		No variable pay

CEO (£'000)



CFO (£'000)



● Fixed ● Medium-term Variable Pay ● Long-term Variable Pay

Directors' remuneration report continued

Policy for the Chairman and the Non-executive Directors

The Company's policy when setting fees for the appointment of the Group Chairman and new Non-executive Directors is to apply the policy which applies to current incumbents.

Element	Purpose and link to strategy	Operation and performance measures	Maximum opportunity
Chairman and Non-executive Directors			
Fees	To attract and retain Non-executive Directors of the calibre required to assist the Company in setting and delivering its strategy.	The Executive Directors and the Group Chairman are responsible for setting the remuneration of the Non-executive Directors. The Board, minus the Chairman, is responsible for setting the Chairman's fees. Non-executive Directors are paid an annual fee and additional fees for chairmanship of Committees and any other additional duties, and the Company retains the flexibility to pay fees for the membership of Committees. The Chairman does not receive any additional fees for membership of Committees. Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. An additional fee is payable to those Non-executive Directors attending meetings outside of their country of residence. Non-executive Directors and the Group Chairman do not participate in any variable remuneration or benefits arrangements. Fee levels may be increased on a temporary basis for a significant increase in time commitments (e.g. assuming an executive position for an interim period)	The fees for Non-executive Directors and the Group Chairman are broadly set at a competitive level against the comparator group. In general the level of fee increase for the Non-executive Directors and the Group Chairman will be set taking account of any change in responsibility and the general rise in salaries across employees. The Company will pay reasonable expenses incurred by the Non-executive Directors and Group Chairman and may settle any tax incurred in relation to these.

Consideration of shareholder and employee views

The Chair of the Committee and the Group Chairman consult with key shareholders on remuneration matters from time to time, and particularly in seeking views on the Directors' Remuneration Policy in preparation for the triennial vote at the AGM. Any concerns expressed by shareholders are reported to the Committee and these are taken into account as the Committee develops and implements its Policy. Any comments received from shareholders outside these consultation exercises are also reported to the Committee, and the Committee takes account of general views on remuneration expressed by shareholders and their representative bodies.

The Remuneration Committee is grateful for shareholders' comments and engagement during the Directors' Remuneration Policy consultation process. At the end of this process, the Remuneration Committee was pleased that the majority of the shareholders consulted expressed support for the Policy being operated for a further three years.

The Committee has not formally consulted with employees in forming this Policy. However, Our Employee Engagement Group (EEG), representing all of our UK employees, is deeply engaged across the company to provide an employee voice at the table on all relevant issues, including remuneration (regular interactions are held with the Group Chairman, Remuneration Committee Chair, CEO and the Group HR Director). The company takes the views of employees very seriously and we monitor this through a quarterly survey using a market-leading dynamic tool (Peakon).

The Committee is cognisant of employment conditions when determining Executive Director pay. In particular, the annual salary increase available to the rest of the workforce is an important factor in determining any salary increase for the Executive Directors. The Committee reviews the CEO pay ratio and considers it in the broader context of pay trends within the business.

Annual Report on Remuneration

The following section of this report details how the Directors' Remuneration Policy has been implemented for the year ended 31 March 2020.

AUDITED INFORMATION

Executive Directors' single total figure of remuneration

Executive Director	Year	Salary £'000	Benefits £'000	Pension £'000	Bonus Banking Plan £'000	Deferred Share Plan £'000	Performance Share Plan £'000	Total remuneration £'000
Steve Wadey (CEO)	2020	610	49	122	1,069	–	136	1,986
	2019	596	48	119	1,126	–	450	2,339
David Smith (CFO)	2020	462	36	92	803	–	–	1,393
	2019	451	34	90	841	–	–	1,416

Benefits can include travel and subsistence expenses incurred in relation to the execution of their duties with the Company that are considered by HMRC to be taxable.

Fixed pay

Salary

Salaries are normally reviewed effective 1 September, which is the same timing for the rest of the UK employee population. The company has agreed that there will be no base salary review in FY21 to manage costs as part of the response to COVID-19.

	Salary as at August 2019 £'000	Increase in the year	Salary as at September 2019 £'000	FY20 Pro-rated salary £'000
Steve Wadey	603	2.2%	616	610
David Smith	456	2.2%	466	462

Benefits

Benefits comprise a car allowance, travel allowance, private medical expenses insurance, life assurance, income protection, and taxable expenses

	Taxable expenses £'000	Car allowance £'000	Insurance benefit £'000	Total benefits £'000
Steve Wadey	15	19	15	49
David Smith	6	13	17	36

Pensions

Neither of the Executive Directors participate in the QinetiQ pension scheme for FY20 or have done so in prior years. The pension figure consists of cash in lieu of pension equating to 20% of base salary.

	Cash in lieu of pension £'000	Total in lieu of pension £'000
Steve Wadey	122	122
David Smith	92	92

Bonus Banking Plan

The Bonus Banking Plan operates on three-year performance cycle mirroring the financial year, with a four-year payment cycle, i.e. running from 1 April to 31 March. FY20 represents the third year of the current cycle as detailed on page 100.

Each year any incentive award earned is added to the total plan balance, with 50% of the total plan balance normally being paid in cash in June following the FY, for FY20 this will be paid in shares with a one year holding period. The remaining 50% is held in the plan in notional shares. In year four, the total remaining plan balance is paid in shares.

	BBP balance brought forward £'000	Dividend equivalent payment £'000	BBP award in year £'000	June 2020 payment in shares (50% value) £'000	BBP balance carried forward £'000
CEO	863	19	1,069	975	975
CFO	646	14	803	732	732

Deferred Share Plan

No Deferred Share Plan award to be made in June 2020 as the FY20 pre-grant performance underpin was not achieved.

2017 Performance Share Plan (legacy plan)

The PSP award made to the CEO in 2017 achieved 38.35% vesting in 2020 based on TSR performance as detailed on page 101. The £3.46 share price is based on three months to 31 March 2020, the actual value will be the share price at vesting on 22 June 2020.

For FY19, the PSP figure represents the actual vesting of the 2016 award which has been trued-up replacing the estimate provided last year. The share price at vesting was £2.80 and the FY19 figure includes £27,473 paid as income in respect of a dividend equivalent payment.

	Shares Awarded	Vesting %	Shares Vesting	Value at £3.46 per share £'000
Steve Wadey	102,136	38.35%	39,169	135,525

Bonus Banking Plan

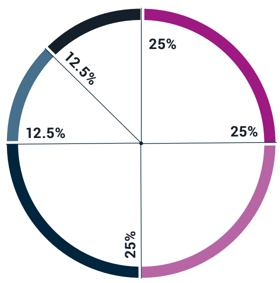
FY20 performance measures and operation

For the year ended 31 March 2020 achievement of on-target performance provides a payment equal to 100% of base salary, rising on a linear scale to 200% of base salary for achievement of stretch performance.

The scheme begins to pay out once threshold performance measures have been achieved. For the year ended 31 March 2020, the CEO and CFO were measured against the targets as shown in the chart to the right. The target payment was 50% of maximum for financial and non-financial objectives.

Setting performance targets – the Remuneration Committee takes into account the budget and the Company's strategy set in relation to the ISBP, shareholder expectations and the external environment. The aim is to set stretching targets which incentivise the Executive Directors to deliver annual results which will exceed the expectations of investors, but which are also sustainable and do not create undue risk. Financial performance measures exclude the contribution from businesses acquired in the year.

% of base salary (%)



AUDITED INFORMATION

FY20 performance outcomes

	Weighting (%)	Threshold	Target	Stretch	Actual	% of maximum reward achieved	CEO contribution	CFO contribution
CEO/CFO financial performance measures:								
Orders[1]	25%	£650m	£725m	£825m	£946.8m	100.0%	£305,178	£230,910
Underlying operating profit[1, 2]	25%	£112m	£124m	£136m	£129.8m	74.2%	£226,341	£171,258
Underlying net cash flow from operations[1, 2]	25%	£122m	£124m	£136m	£177.6m	100.0%	£305,178	£230,910
CEO/CFO shared strategic and operational objectives (as detailed on page 99):								
Strategy: – Performance against key stretching objectives relating to the UK business, international and innovation	12.5%	40%	50%	100%	62%	62%	£94,605	£71,582
Operational: – Performance against stretching objectives relating to transformation and organisational development		40%	50%	100%				
CEO individual personal objectives: – Performance against stretching objectives relating to growth and leadership	12.5%	40%	50%	100%	90%	90%	£137,330	
CFO individual personal objectives: – Performance against stretching objectives relating to business support and operational performance	12.5%	40%	50%	100%	85%	85%		£98,137
CEO overall results						87.5%	£1,068,633	
CFO overall results						86.9%		£802,797

1 Performance measures exclude the contribution from businesses acquired during the year.

2 Definition of underlying measures and performance can be found in the glossary on page 183.

Bonus Banking Plan continued

AUDITED INFORMATION

Financial performance measures (75% award)

The three key measures of orders, underlying operating profit and underlying net cash flow from operations are given an equal 25% weighting.

Reconciliation of measures used in determining remuneration to Group KPIs

The difference below is the contribution from businesses acquired in the year, notably MTEQ.

	Orders	Underlying operating profit	Underlying cash flow
Per KPIs on page 30	£972.1m	£133.2m	£177.8m
Metric used for BBP	£946.8m	£129.8m	£177.6m
Difference	£25.3m	£3.4m	£0.2m

Shared strategic and operational measures (12.5% award)

Measures	FY20 Performance	Outcome (% maximum)
Strategic		
Safety Culture – 40% weighting	Stretch performance levels were surpassed to improve the Safety First culture through safety engagement including high visibility safety tours and leading safety engagements.	
Employee Engagement – 30% weighting	Employee engagement improved by 10% in FY20 as measured by the independent Peakon tool, a leadership diversity and inclusion event was delivered with strong engagement and feedback, Q-talk and Employee Roadshow attendance improved significantly and the Enabling Managers programme was delivered.	
Productivity & Efficiency – 30% weighting	Threshold performance was achieved on recoveries budget and improved utilisation through enhanced collaboration.	
Total		62%

Personal objectives (12.5% award)

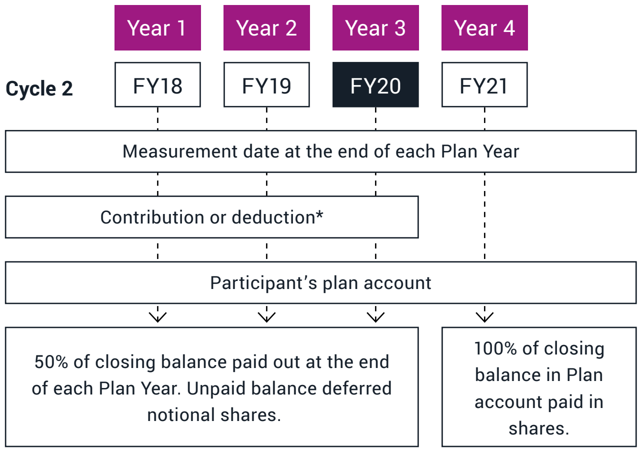
Objectives	FY20 Performance	Outcome (% maximum)
CEO		
Growth	Organic growth delivered through record orders, completion of strategic acquisitions (most notably MTEQ), delivery of Global Campaigns, transition to a high performance culture and delivery of the Global Operating Model Initial Operating Capability.	
Leadership	Developed people and organisation with the new Global Change Network and Global Engagement Network, coached and developed team dynamic and individual Global Leadership Team members, led the transformation of the business.	
Total		90%
CFO		
Strategic	Matured the strategic development of the Group through the Integrated Strategic Business Plan, delivered strategy to enhance Group financial performance metrics.	
Growth	Drove right decisions on investment plans and M&A, worked with JVs to deliver consistent operational performance.	
Operational	Improved rates recovery and resourcing model to drive performance, expanded Business Services to deliver business efficiency and delivered IT and Property construction projects.	
Total		85%

Bonus Banking Plan continued

How the plan operates

- The Plan operates on a fixed three-year performance cycle with a four-year vesting cycle. FY20 represents year three of Cycle 2. Plan years commence on 1 April.
- Performance targets are set at the beginning of each Plan year.
- At the end of each of the first three Plan years the performance against targets is assessed and the level of the incentive earned is determined and paid into the Plan account.
- Each year 50% of the account balance is subject to forfeiture.
- At the end of each of the first three Plan years, 50% of the account balance will be paid and the balance retained and held in the Plan as notional shares.
- At the end of the fourth year, any remaining balance in the Plan account is paid out in shares.

BBP payout mechanism



* Single figure BBP value for a Plan/financial year.

AUDITED INFORMATION

Operation during FY20

Cycle 2

	Notional shares on account at start of Plan year 2 (1 April 2019)	30-day average share price as at measurement date (£)	Share value as at measurement date (£)	Bonus plan contribution for Plan year 3 (£)	Dividend equivalent payment (£)	Bonus pool total value as at measurement date (£)	Gross payment in shares for Plan year 3 (£)	Bonus pool total value following cash payment (£)	Notional shares on account at end of Plan year 3 (31 March 2020)
CEO	281,322	3.07	862,533	1,068,633	18,849	1,950,014	975,007	975,007	318,006
CFO	210,753	3.07	646,169	802,797	14,120	1,463,086	731,543	731,543	238,598

FY20 Payment in Shares

As noted in the Committee Chair's statement, to manage cash outflow in June 2020, all FY20 incentive payments including BBP payments to the CEO and CFO, which would normally be paid in cash, will be paid in 'net settled' shares which are subject to a one year holding period.

Forfeiture

For BBP Cycle 2 the CEO and CFO retained notional shares in their Plan accounts of which 50% were subject to forfeiture. Forfeiture would have been enacted if Group underlying operating profit was less than £100m for FY20. FY20 Group underlying operating profit was £130m (excluding contribution from acquisitions) therefore no notional shares were forfeited.

Discretion

For BBP Cycle 2, for the year ended 31 March 2020, targets were achieved or exceeded providing a contribution of 175.1% and 173.8% of base salary for the CEO and for the CFO respectively. £1,068,633 and £802,797 has been reported in the single figure table which represents the additional contributions to the plan related to FY20 performance. No discretion was applied to these contributions as the Committee considers them appropriate reflecting strong performance.

Deferred Share Plan (DSP)

Scheme interests awarded during the financial year ended 31 March 2020

The Deferred Share Plan was approved by shareholders at the 2017 AGM. A maximum award of 125% of salary may be made to the CEO and CFO with the amount contingent on meeting a stretching annual performance target based on QinetiQ's strategic growth plan. Once the award has been made, it is deferred for three years and remains subject to a performance underpin; any vested shares are then subject to a further two-year holding period.

Setting performance targets FY20

The FY20 DSP performance measure was non-UK revenue growth. Calibration was set with a maximum of 125% of salary available for achieving stretch and 35% of the maximum payable at target performance. The performance targets were set by the Remuneration Committee so as to be stretching.

AUDITED INFORMATION

FY20 performance outcome

The FY20 Deferred Share Plan award was measured against FY20 absolute growth in non-UK revenue with the following calibration.

Measure	Weighting	Threshold	Target	Stretch	Actual	% Max award achieved	% Salary awarded	Total £'000
Non-UK revenue (FY19+)	100%	£20.0m	£40.0m	£70.0m	£24.1m	N/A	0	
CEO								0
CFO								0

The FY20 DSP award was also subject to a pre-grant performance underpin that FY20 profit margins are higher than the profit margin on non-UK revenue in FY19.

Non-UK revenue growth achieved at £24.1m was above threshold performance. However, as noted above, the FY20 DSP Award was also subject to a pre-grant performance underpin. This underpin was not achieved and no DSP award of contingent shares will be made in relation to FY20 performance

Legacy Performance Share Plan (PSP)

2017 PSP

The 2017 PSP award was measured 50% based on EPS growth of 3% to 10% per annum (25% vesting at threshold, 100% at maximum, with linear vesting between these points), and 50% based on TSR performance against the FTSE 250 (30% vesting at median performance, 100% at upper quartile performance, with linear vesting between these points).

The 2017 PSP award measurement period was to 31 March 2020 and the Committee reviewed performance against the EPS and TSR performance measures at the May 2020 meeting.

			Performance			
Measures	Weighting	Performance conditions	Threshold	Stretch	Actual	% Max award achieved
EPS	50%	Between 3% and 10% per annum	19.8p	24.1p	16.9p	0%
TSR	50%	Between FTSE 250 median and upper quartile	11.5%	49.2%	36.6%	76.7%

Based on audited EPS performance and TSR performance analysis provided by the independent advisor to the Committee (FIT Remuneration Consultants), it was determined that the EPS test was not met and that the TSR element (50% weighting) will vest at 76.7% on the third anniversary of grant (22 June 2020), resulting in an aggregate vesting of 38.35% of the initial award to the CEO. The Remuneration Committee was satisfied with the formulaic result and did not exercise discretion.

Performance condition adjustments during 2020

As in prior years, the Committee adjusted the performance conditions for the Performance Share Plan to reflect continuing operations so performance is measured on a like-for-like basis.

Reconciliation of measures used in determining remuneration to Group KPIs

	EPS p
Per KPIs on page 31	20.0p
Metric used for PSP	16.9p
Difference	3.1p
Which relates to:	
– Constant number of shares	
– Excluding profit after tax of acquired businesses	

AUDITED INFORMATION

Statement of Directors' shareholding and share interests

In relation to the shareholding requirement adopted on 1 April 2017 the Company requires Executive Directors to hold shares equivalent to 300% (CEO) and 200% (CFO) of base salary. Executive Directors have five years from the adoption of the guideline to achieve the required level through, at a minimum, retaining 50% of the after-tax shares vesting from Company incentive plans.

The CEO does not currently meet the minimum shareholding requirement; with a current holding equivalent to 197% of base salary using a share price of £3.46 (three-month average to 31 March 2020). This reflects his appointment date as CEO and the limited opportunity for share-based awards to vest.

The CFO does not currently meet the minimum shareholding requirement; with a current holding equivalent to 61% of base salary using a share price of £3.46 (three-month average to 31 March 2020). This reflects his recent appointment as CFO and the lack of any opportunity for share-based awards to vest.

The Remuneration Committee continues to monitor progress towards the shareholding requirement.

	Shares beneficially owned	Shares subject to performance conditions	Shares not subject to performance conditions	Total shares held at 31 Mar 2020
Steve Wadey	350,885	566,571	–	917,456
David Smith	81,808	352,376	–	434,184
Mark Elliott (resigned 24 July 2019)	145,000	–	–	–
Michael Harper	40,000	–	–	40,000
Admiral Sir James Burnell-Nugent	15,567	–	–	15,567
Paul Murray	83,214	–	–	83,214
Susan Searle	25,000	–	–	25,000
Ian Mason	10,000	–	–	10,000
Lynn Brubaker	12,000	–	–	12,000
Neil Johnson	50,000	–	–	50,000

Shares beneficially owned comprise shares held under the Share Incentive Plan (SIP) (including matched shares) and shares owned by the Director and any connected persons.

On 9 April 2020 Steve Wadey and David Smith purchased 60 shares each, then on 11 May 2020 they purchased 64 shares each, through their participation in the SIP.

Shares subject to performance conditions comprise awards made under the Performance Share Plan (CEO only) and Deferred Share Plan as detailed on page 103. Notional shares held by the CEO and CFO in the BBP Cycle 2 do not appear in the table above as they are not actual shares at 21 May 2020.

AUDITED INFORMATION

Total scheme interests summary

Total scheme interests, including those awarded during the financial year ended 31 March 2020, are as follows.

Steve Wadey

Plan name	Date of grant	Number 1 April 2019	Granted in year (maximum potential of awards)	Vested in year	Lapsed in year	Number 31 March 2020	Share price on date of grant	Vest date
PSP 2016	1 Jul 16	476,190	–	150,952	325,238	-	224.4	1 Jul 19
PSP 2017	22 Jun 17	102,136	–	–	–	102,136	281.0	22 Jun 20
DSP 2018	8 Jun 18	220,785	_	–	–	220,785	206.0	8 Jun 21
DSP 2019	28 Jun 19	-	243,650	_	-	243,650	304.0	28 Jun 22
		799,111	243,650	150,952	325,238	566,571		

David Smith

Plan name	Date of grant	Number 1 April 2019	Granted in year (maximum potential of awards)	Vested in year	Lapsed in year	Number 31 March 2018	Share price on date of grant	Vest date
DSP 2018	8 Jun 18	167,975	–	–	–	167,975	206.0	8 Jun 21
DSP 2019	28 Jun 19	–	184,401	_	–	184,401	304.0	28 Jun 22
		167,975	184,401	–	–	352,376		

No contingent shares will be awarded in relation to the 2020 DSP as the pre-grant performance target was not achieved.

The contingent share award in relation to the 2019 DSP was calculated based on awards of 124.2% of base salary and a share price of £3.04 (based on 30 day average to 31 March 2019).

The average three month market share price of the CEO's 2017 PSP was £3.46, leading to an estimated gain of £25,460 based on share price appreciation of the 39,169 shares due to vest on 22 June 2020.

There have been no other changes to the interests shown above between 31 March 2020 and 21 May 2020.

Payments to past Directors and payment for loss of office

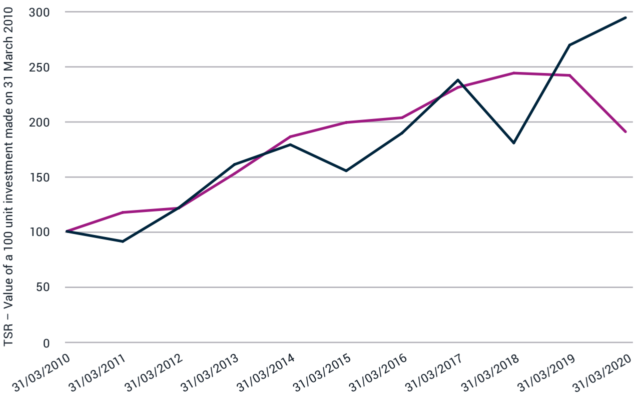
No payments were made to past Directors during the year and no payments were made for loss of office during the year.

Directors' remuneration report continued

Performance review

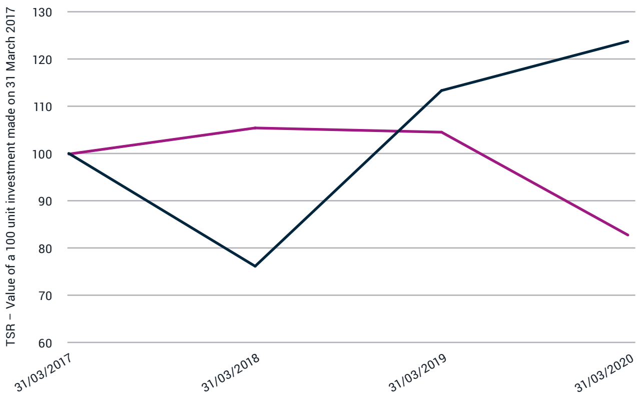
The ten-year and three-year charts show the Company's Total Shareholder Return over the period from 31 March 2010 to 31 March 2020 and 31 March 2017 to 31 March 2020 compared with the FTSE 250 (excluding investment trusts) over the same period based on spot values. The Committee has chosen to demonstrate the Company's performance against this index as it is the index in which the Company is listed. This comparator group is also used to measure TSR performance in the PSP (under which no future awards will be made).

Ten-year comparator chart



Source: Datastream (Thomson Reuters)

Three-year comparator chart



Source: Datastream (Thomson Reuters)

CEO remuneration

The table below shows the CEO's remuneration over the same performance period as the Total Shareholder Return chart (31 March 2010 to 31 March 2020):

Year ended 31 March	CEO	Salary/fees	Single figure	Annual bonus (% of maximum)	Long-term incentives (% of maximum vesting)
2020	Steve Wadey	610,357	1,985,298	87.5%	38.4%
2019	Steve Wadey	596,422	2,339,474	94.4%	31.7%
2018	Steve Wadey	582,167	1,522,460	66.7%	–
2017 (restated)	Steve Wadey	568,166	1,829,470	86.4%	–
2016	Steve Wadey	520,219	1,654,546	85.4%	–
2016	David Mellors	455,885	1,423,382	82.9%	–
2015	David Mellors	501,227	1,725,960	88.6%	13.9%
2015	Leo Quinn	469,776	673,979	–	–
2014	Leo Quinn	610,844	2,177,742	77.0%	15.4%
2013	Leo Quinn	593,050	3,992,001	100.0%	40.3%
2012	Leo Quinn	580,000	1,495,284	100.0%	–
2011	Leo Quinn	580,000	1,327,156	100.0%	–

CEO Pay Ratio

The calculation below is based on the FY20 'single figure' for the CEO of £1,985,298 and similar calculations for the UK workforce (i.e 'Option A' as defined by the Companies (Miscellaneous Reporting) Regulations 2018).

Total remuneration

	Ratio of the CEO's pay to UK employees			Total pay of UK employees		
Year	25th Percentile	Median	75th Percentile	25th Percentile	Median	75th Percentile
FY20	56 : 1	41 : 1	31 : 1	£35,732	£48,965	£64,620

The Remuneration Committee welcomes the opportunity to provide this information to shareholders. The Company aims to reward all employees fairly for the success and growth they create, hence the inception of the All Employee Incentive Scheme in FY19 which paid a minimum of £740 to all eligible employees for FY20.

AUDITED INFORMATION

Single figure total remuneration for the Chairman and each Non-executive Director

Non-executive Directors' remuneration is shown as a single figure to provide an annual comparison between the remuneration awarded during the financial year ended 31 March 2020 and the preceding year.

	Salary/fees £'000		Benefits £'000		Committee Chair fees £'000		US/UK attendance fee £'000		Single figure £'000	
Non-executive Director	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Lynn Brubaker	51	49	9	11	–	–	25	24	85	84
Admiral Sir James Burnell-Nugent	51	49	2	2	10	9	0	3	63	63
Mark Elliott	77	242	27	75	–	–	–	–	104	317
Michael Harper	51	49	0	2	12	19	0	3	63	72
Neil Johnson	187	–	1	–	–	–	–	–	188	–
Ian Mason	51	49	1	1	–	–	0	3	52	53
Paul Murray	51	49	0	1	10	9	0	3	61	62
Susan Searle	51	49	1	1	8	–	0	3	60	53

Benefits include travel and subsistence expenses incurred in relation to the execution of their duties with the Company that are considered by HMRC to be taxable.

Mark Elliott, the former Chairman, and Lynn Brubaker are US residents. Mark was entitled to an accommodation allowance of £75,000 and Lynn is entitled to receive a $4,000 fee for attending UK meetings. UK-based Non-executive Directors are entitled to receive a £2,500 fee for attending US meetings.

The Committee Chair fees figure for Michael Harper includes a payment of £10,000 as Senior Independent Director.

Percentage change in CEO remuneration

The following table compares change in CEO remuneration with an employee comparator group (averaged per capita). The comparison group (4,000 employees) represents the employees in the UK principal businesses in service between 1 April 2019 and 31 March 2020.

	CEO			Comparison group		
	2020	**2019**	**% change**	**2020**	**2019**	**% change**
Base salary	£610,357	£596,422	2.3%	£46,261	£44,010	5.1%
Benefits	£49,813	£47,874	4.0%	£1,313	£1,298	1.1%
Annual bonus	£1,068,633	£1,125,747	-5.1%	£2,797	£3,446	-18.8%

Remuneration policy for all employees

All employees of QinetiQ are entitled to base salary, benefits and pension. UK and Australia-based employees are entitled to participate in the QinetiQ Share Incentive Plan. The maximum incentive opportunity available is based on the seniority and responsibility of the role. Participation in the DSP is available to Executive Directors, senior managers and selected employees throughout the organisation.

In FY19 the Company introduced an All Employee Incentive Scheme (AEIS) whereby every employee has the opportunity to earn a cash bonus based on Company and personal performance. For FY20 the Company element of the AEIS achieved a level between Target and Stretch resulting in a payment of £740 to every eligible employee, plus the opportunity to earn an additional payment based on personal performance. The AEIS will be operated again in FY21 and thereafter.

The Committee reviews (but does not decide) the general reward policy for all employees and of any significant changes proposed.

Directors' remuneration report continued

Gender related pay

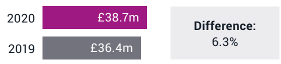
QinetiQ is subject to gender pay reporting for UK employees and a copy of our 2019 report is available on the Company's website.

Relative importance of spend on pay

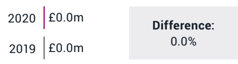
The graph below shows actual spend on all employee remuneration, shareholder dividends and buybacks and any other significant use of profit and cash within the previous two financial years.

Total Employee remuneration

Share-based profit distribution



Other significant profit distribution



Service contracts/letters of appointment

The Company's policy is that Executive Directors have rolling contracts which are terminable by either party giving 12 months' notice. The Group Chairman and the Non-executive Directors do not have service contracts but are appointed under letters of appointment. All service contracts and letters of appointment are available for viewing at the Company's registered office and at the AGM. Non-executive Directors typically serve two three-year terms but may be invited by the Board to serve for an additional period (see table in the Nominations Committee report on page 76).

Director	Date appointed	Arrangement	Notice period
Lynn Brubaker	27 January 2016	Initial term of three years from date of appointment until the conclusion of the Annual General Meeting approximately three years from that date, subject to annual reappointment at the AGM.	1 month
Admiral Sir James Burnell-Nugent	10 April 2010	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Michael Harper	22 November 2011	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Neil Johnson	2 April 2019	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	
Ian Mason	04 June 2014	Initial term of three years from date of appointment until the conclusion of the Annual General Meeting approximately three years from that date, subject to annual reappointment at the AGM.	1 month
Paul Murray	25 October 2010	Initial term of three years from date of appointment, subject to annual reappointment at the AGM.	–
Susan Searle	14 March 2014	Initial term of three years from date of appointment until the conclusion of the Annual General Meeting approximately three years from that date, subject to annual reappointment at the AGM.	–
David Smith	01 March 2017	Service contract	12 months
Steve Wadey	27 April 2015	Service contract	12 months

Implementation of Policy for the year ended 31 March 2020

Fees

Non-executive Directors' fees were reviewed and increased effective 1 July 2019 as follows -

- Basic fee increased from £49,000 to £52,000
- Committee chair fee increased from £9,000 to £10,000
- Senior Independent Director fee remains at £10,000

The Non-executive Group Chairman receives a fee of £250,000 per annum.

Fees are reviewed in line with Policy.

Executive Directors are permitted to accept one external non-executive director position with the Board's approval. Any fees received in respect of these appointments may be retained by the Executive Director.

The CEO does not hold any Non-executive directorships in other companies. David Smith was appointed Non-Executive director of Motability Operations Group plc on 1 July 2010. Non-Executive director fees, as reported in the 2019 Motability Operations Group plc annual report, were £50,000 per annum which are retained.

	Fees effective 1 July 2019 £
Group Chairman	250,000
Basic fee for UK Non-executive Director	52,000
Additional fee for chairing a Committee	10,000
Additional fee to Deputy Chairman/Senior Independent Non-executive Director	10,000
Additional fee for attendance at a Board meeting held in US by UK resident Non-executive Director	2,500
Additional fee for attendance at a Board meeting held in UK by US resident Non-executive Director	$4,000

Implementation of Policy for the year ending 31 March 2021

Incentives for Executives

The table below shows the measures and relative weighting for the Bonus Banking Plan for the CEO and CFO:

	Performance measure (excluding 2020 acquisitions)	**Relative weighting(%)**
Bonus Banking Plan	Underlying operating profit	25.0%
Target performance 100% of base salary	Underlying net cash flow from operations	25.0%
Stretch performance 200% of base salary	Orders	25.0%
	Collective objectives	12.5%
	Personal objectives	12.5%

For FY21, the Remuneration Committee set the target level of performance at 50% of stretch for the financial measures, collective and personal objectives. Details of specific performance targets for the Bonus Banking Plan have not been provided as they are deemed commercially sensitive. The targets will be disclosed retrospectively in next year's Annual Report on Remuneration.

The Deferred Share Plan will award a maximum of 125% of base salary for achieving stretch performance. For FY21 the strategic growth performance measure is organic revenue growth across the Group compared to FY20. This change for FY21 (international revenue growth was used for the FY19 and FY20 awards) was made to incentivise our senior leaders globally to collaborate across the Group to deliver sustainable profitable growth. There will be a pre-grant margin underpin to ensure that profit performance remains strong.

The Remuneration Committee has discussed and will continue to discuss the impact of the COVID-19 crisis on performance and remuneration. Performance metrics have been set for FY21 based on the ISBP FY21. At the end of the year the Committee will look back at the impact on shareholders and the performance of comparators and, if appropriate, will apply discretion. It is important that, particularly in this unusual and challenging year, the rewards overall to executives are balanced and fair in the context of the shareholder journey.

The FY21 DSP award will be subject to a performance underpin before vesting:

- Group underlying profit outturn for FY21 must be maintained at the end of the three-year vesting period. If this is not maintained then, at a minimum, 50% of the award will lapse. For the purposes of the FY21 DSP award, this will be the actual underlying operating profit (£m) for FY21 which must be achieved in FY24

Awards of contingent shares will be made in June 2021 based on FY21 performance. Details of performance targets for the Deferred Share Plan have not been provided as they are deemed commercially sensitive. They will be disclosed retrospectively in next year's Annual Report on Remuneration.

Salary and benefits

Salaries would normally be reviewed effective from 1 September 2020, but there will be no base salary review in FY21 as part of the cost saving measures taken in response to COVID-19. No changes are envisaged to the implementation of benefits policy.

Remuneration Committee meetings, activities and decisions FY20

The following table provides a summary of all the key activities during the year. The attendance at each meeting is detailed on page 68. The membership of the Remuneration Committee in FY20 was Susan Searle (Chair from October 2019), Michael Harper (Chair to September 2019), Neil Johnson, Lynn Brubaker, Admiral Sir James Burnell-Nugent, Ian Mason, Paul Murray and Mark Elliott (resigned July 2019) .

Base salary	Incentives	Share awards	Governance	Resourcing
May 2019	FY19 final results for BBP and DSP	2016 PSP vesting 2019 DSP awards	Executive Director and Executive Committee base salary reviews Approve Directors' Remuneration Report.	
July 2019			AGM Preparation Directors' Remuneration Policy initial discussion for 2020 AGM	
October 2019			Review of latest investor voting guidance Directors' Remuneration Policy discussion for 2020 AGM	
November 2019	Trends in executive remuneration FY20 half year forecast	FY20 half year forecast	Review of Executive Committee shareholdings Review of Company reward practices Directors' Remuneration Policy discussion for 2020 AGM	
January 2020	FY21 incentive measures		Directors' Remuneration Policy discussion for 2020 AGM	Global Operating Model implementation
March 2020	FY20 provisional results FY21 target setting	2017 PSP provisional vesting	Directors' Remuneration Policy discussion for 2020 AGM	

Effectiveness review

In 2020, the effectiveness review was conducted in-house via a questionnaire distributed by the Company Secretary. This process is described further on page 78.

Remuneration consultants

The Committee has appointed FIT Remuneration Consultants LP, an independent firm of remuneration consultants, to provide advice on market practice, corporate governance and investors' views. FIT were appointed by the Committee in 2017 following a competitive tendering exercise. Fees paid during the year for services provided were £52,721.

FIT provided the following additional services during the year:

- Implementation support for the Company on executive share plans; and
- TSR performance monitoring for Performance Share Plan awards.

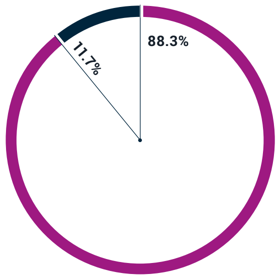
The Committee is satisfied the scale and nature of this work does not impact on the objectivity and independence of the advice it receives from FIT.

Statement of voting

Annual Report on Remuneration – 2019

Votes for	398,773,134 (88.3%)
Votes against	53,016,701 (11.7%)
Total votes cast	451,789,835 (79.6% of share capital)
Abstained	2,594,018

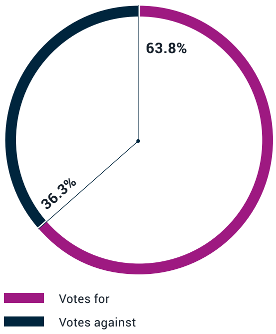
2019 % of votes (%)



Directors' Remuneration Policy – 2017

Votes for	255,350,780 (63.8%)
Votes against	145,182,781 (36.3%)
Total votes cast	400,533,561 (70.6% of share capital)
Abstained	53,828

2017 % of votes (%)



Details on the voting on all resolutions at the 2020 AGM will be announced via the RNS and posted on the QinetiQ website following the AGM.

Susan Searle

Remuneration Committee Chair

21 May 2020

Directors' report

Statutory information contained elsewhere in the Annual Report

Information required to be part of this Directors' report can be found elsewhere in the Annual Report as indicated in the table below, and is incorporated into this report by reference:

Information	Page
Corporate governance statement	58
Directors' details	60
Directors' conflict of interest	67
Directors' interests in shares	102
Employees	39
Financial instruments: Information on the Group's financial risk management objectives and policies, and its exposure to credit risk, liquidity risk, interest rate risk and foreign currency risk	146 note 24
Greenhouse gas emissions	46
Likely future developments in the business of the Company or its subsidiaries	2 to 55
Results	24 to 27

Disclosure specifically required pursuant to the Companies (Miscellaneous Reporting) Regulations 2018 can be found on the following pages:

Statement in the Strategic Report of how Directors have complied with their duty to have regard to the matters in the 2006 Companies Act section 172(1) a – f	Page 52
Statement in the Directors' Report summarising how Directors have engaged with employees and taken account of their interests	Page 64
Statement in the Directors' Report about the corporate governance arrangements applied by the Company	Page 66
Publication of the ratio of the CEO's remuneration to the median, 25th and 75th quartile pay remuneration of their UK employees in the Directors' Remuneration report	Page 104
Illustration of the effect of future share price increases on executive pay outcomes in the Directors' Remuneration report	Page 85

Management report

The Strategic report on pages 2 to 56 and the Directors' report, as detailed on pages 110 to 113, including information which has been incorporated into those sections by reference, comprise the management report specified by rules 4.1.5R (2) and 4.1.8R of the FCA's Disclosure Guidance and Transparency Rules (DTRs).

Research and development

One of the Group's principal business streams is the provision of funded research and development (R&D) for customers. The Group also invests in the commercialisation of promising technologies across all areas of business.

In the financial year, the Group recorded £292.3m (2019: £298.9m) of total R&D-related expenditure, of which £270.8 m (2019: £272.9m) was customer-funded work and £21.5m (2019: £26.0m) was internally funded. Additionally, £2.1m (2019: £3.1m) of late-stage development costs were capitalised and £1.4m (2019: £1.1m) of capitalised development costs were amortised in the year.

Political donations

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

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

Branches

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

Share capital

As at 31 March 2020, the Company had an allotted and fully paid up share capital of 571,757,121 ordinary shares of 1p each with an aggregate nominal value of £5.7m and one Special Share with a nominal value of £1. The ordinary share total includes 3,794,743 shares held exclusive of voting rights in treasury and 595,063 shares held by employee share trusts.

Details of the shares in issue during the financial year are shown in note 26 on page 153.

Rights of ordinary shareholders

The holders of ordinary shares are entitled to receive the Company's Reports and Accounts, to attend and speak at general meetings of the Company, to exercise voting rights in person or by appointing a proxy, and to receive a dividend where declared or paid out of profits available for that purpose. For the arrangements of this years AGM, please see page 67 for further details.

Rights of special shareholder

The Special Share is held by HM Government through the Secretary of State for Defence (the Special Shareholder) and it may only be held by and transferred to HM Government. It confers certain rights to protect UK defence and security interests. These include:

- The promotion and reinforcement of the MOD compliance principles which require QinetiQ to be an impartial, ethical and responsible contractor by avoiding conflicts of interest in its dealings with the MOD
- The protection of defined strategic assets of the Group, such as certain testing facilities, by providing the Special Shareholder with an option to purchase those assets in certain circumstances
- The right to require certain persons with a material interest in QinetiQ to dispose of some or all of their ordinary shares on the grounds of national security or conflict of interest
- A provisions whereby at least the Non-executive Chairman or Chief Executive Officer must be a British citizen.

The Special Share carries no financial and economic value and the Special Shareholder is not entitled to vote at a general meeting of the Company. At any time the Special Shareholder may require QinetiQ to redeem the share at par and, if wound up, the Special Shareholder would be entitled to be repaid at its nominal value before other shareholders. Any variation of the rights attached to the Special Share requires the written approval of the MOD. Further details can be found in note 26 on page 133.

Restrictions on the transfer of shares

As detailed above, the special share requires certain persons with an interest in QinetiQ's shares that exceed certain prescribed thresholds to dispose of some or all of their ordinary shares on the grounds of national security or conflict of interest.

Employee share schemes

The QinetiQ Group plc Employee Benefit Trust (the Trust) holds shares in connection with QinetiQ's employee share schemes, excluding the Share Incentive Plan. As at 31 March 2020, the Trust held 595,063 ordinary shares of 1p each (the Trust Shares). The Trustees of the Trust have agreed to waive their entitlement to dividends payable on the Trust Shares. The Trust holds further ordinary shares in respect of deferred shares held on behalf of participants in the Company's Deferred Annual Bonus Plan. Dividends received by the Trust in respect of the deferred shares are paid direct to the Plan participants on receipt and are not retained in the Trust.

Equiniti Share Plan Trustees Limited acts as Trustee in respect of all ordinary shares held by employees under the QinetiQ Group plc Share Incentive Plan (the Plan). Equiniti Share Plan Trustees Limited will vote on all resolutions proposed at general meetings in accordance with voting instructions received from participants in the Plan.

Corporate sponsored nominee

In circumstances where ordinary shares are held by the corporate sponsored nominee service, Equiniti Corporate Nominees Limited will vote on all resolutions proposed at general meetings in accordance with voting instructions received from shareholders using such corporate nominee service.

Major shareholdings

In accordance with DTR 5, the Company has been notified of the following from holders representing 3% or more of the issued ordinary share capital of the Company:

Name of shareholder	At 31 March 2020 % of issued share capital*	At 14 May 2020* % of issued share capital
Schroders	9.62%	9.62%
Majedie Asset Management Limited	5.03%	5.03%
Silchester International	4.96%	4.96%
Investec	4.95%	4.95%
Standard Life Aberdeen plc	4.81%	4.81%
Norges Bank	4.02%	3.99%

* As notified by the shareholder and based on the issued ordinary share capital at the time of the notification.

Employees

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

Directors' interests in contracts

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

Indemnities

The Company has entered into indemnity deeds with all its current Directors containing qualifying indemnity provisions, as defined in Section 234 of the Companies Act 2006, under which the Company has agreed to indemnify each Director in respect of certain liabilities, which may be attached to them as Directors or as former Directors of the Company or any of its subsidiaries. All such indemnity provisions are in force as at the date of this Directors' report. The Directors of QinetiQ Pension Scheme Trustee Limited, a Group company and the Trustee of the QinetiQ Pension Scheme (the Scheme), benefit from an indemnity contained in the rules of the Scheme. The indemnity would be provided out of the Scheme assets.

Change of control – significant agreements

The following significant agreements contain provisions entitling the counterparties to require prior approval, exercise termination, alteration or other similar rights in the event of a change of control of the Company, or if the Company ceases to be a UK company:

- The Combined Aerial Target Service contract is a 20-year contract awarded to QinetiQ by the MOD on 14 December 2006. The terms of this contract require QinetiQ Limited to remain a UK company which is incorporated under the laws of any part of the UK, or an overseas company registered in the UK, and that at least 50% of the Board of Directors are UK nationals. The terms also contain change of control conditions and restricted share transfer conditions which require prior approval from HM Government if there is a material change in the ownership of QinetiQ Limited's share capital, unless the change relates to shares listed on a regulated market; 'material' is defined as being 10% or more of the share capital. In addition, there are restrictions on transfers of shares to persons from countries appearing on the restricted list as issued by HM Government.
- The Long Term Partnering Agreement (LTPA) is a 25-year contract, which QinetiQ Limited signed on 28 February 2003, to provide test, evaluation and training services to the MOD. This contract contains conditions under which the prior approval of HM Government is required if the contractor, QinetiQ Limited, ceases to be a subsidiary of the QinetiQ Group, except where such change in control is permitted under the Shareholders Agreement to which the MOD is a party.
- The Company is party to a £275m multi-currency revolving credit facility, provided by a consortium of banks, that expires on 27 September 2024, with an option to extend to a final maturity to 27 September 2025. Under the terms of the facility, in the event of a change of control of the Company, any lender may give notice to cancel its commitment under the facility and require all outstanding amounts to be repaid.

The Directors' contracts contain no provisions for compensation for loss of office on a change of control of the Company.

Disclosures in accordance with Listing Rule 9.8.4

There are no matters requiring disclosure under the FCA's Listing Rule 9.8.4, other than details of long-term incentive schemes, which are explained further on page 98.

Articles of Association

Changes to the Articles must be submitted to shareholders for approval. Save in respect of the rights attaching to the Special Share, the Company has not adopted any special rules relating to the appointment and replacement of Directors or the amendment of the Company's Articles of Association, other than as provided under UK corporate law.

Appointment and replacement of Directors

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

Powers of the Directors: allotment/purchase of own shares

At the Company's AGM held in July 2019, the shareholders passed resolutions which authorised the Directors to allot relevant securities up to an aggregate nominal value of £3,786,037 (£1,893,019 pursuant only to a rights issue), to disapply pre-emption rights (up to 5% of the issued ordinary share capital) and to purchase ordinary shares (up to 10% of the issued ordinary share capital). The authorities will remain valid until the 2020 AGM.

Resolutions in respect of the allotment of relevant securities, the disapplication of pre-exemption rights and the purchase of own shares will be laid before the 2020 AGM.

Annual General Meeting

The Company's AGM will be held on Tuesday 14 July 2020 at 11.00am at Cody Technology Park, Ively Road, Farnborough, Hampshire GU14 0LX.

Independent auditor

PwC has expressed its willingness to continue in office as independent auditor and a resolution to re-appoint them will be proposed at the AGM.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company 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 Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently
- State whether applicable IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements
- Make judgments and accounting estimates that are reasonable and prudent
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed on pages 60 and 61 confirm that, to the best of their knowledge:

- The Company's financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company
- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group
- The Directors' report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces
- In the case of each Director in office at the date the Directors' report is approved
- So far as the Director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware
- They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

Scope of the reporting in this Annual Report

The Board has prepared a Strategic report which provides an overview of the development and performance of the Group's business in the year ended 31 March 2020.

For the purposes of DTR 4.1.5R(2) and DTR 4.1.8 the Directors' report, the Directors confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware, and that 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 auditor is aware of that information.

By order of the Board.

Jon Messent

Company Secretary and Group General Counsel

21 May 2020

Independent auditors' report to the members of QinetiQ Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- QinetiQ Group plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2020 and of the Group's profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements 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
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the 'Annual Report'), which comprise: the Consolidated and Company balance sheets at 31 March 2020; the Consolidated income statement and Consolidated comprehensive income statement, the Consolidated cash flow statement, and the Consolidated and Company statements 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.

Our opinion is consistent with our reporting to the Audit Committee.

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

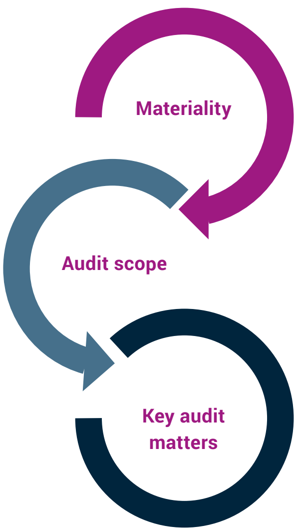
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 8 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 April 2019 to 31 March 2020.

Our audit approach

Overview



- Overall Group materiality: £6.2 million (2019: £6.1 million), based on 5% of underlying profit before tax.
- Overall Company materiality: £4.8 million (2019: £4.8 million), based on 1% of total assets.

- We conducted full scope audit work in the UK over QinetiQ Limited, the main trading entity of the Group which provided significant coverage over all financial statement balances, except inventory. We performed a full scope financial statement line item audit over inventory balances at Foster Miller Inc. (QNA) and QinetiQ Target Systems Limited.
- We performed procedures over accounts receivable and accounts payable in Manufacturing Techniques Inc. (MTEQ).
- We performed procedures over revenue and associated balances in QNA.
- We performed procedures over goodwill, intangible assets, share-based payments, pensions, the implementation of IFRS 16, taxation and testing of the consolidation at a Group level.

- Long-term contract accounting
- Provisions and contingent liabilities
- Impairment of goodwill and acquired intangibles
- Accounting for tax research and development expenditure credits
- Acquisition accounting
- Impact of COVID-19

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to relevant tax legislation, Single Source Contracting Regulations, the Health and Safety Executive and anti-bribery and corruption legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure, and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management at multiple levels across the business, internal audit and the Group's legal counsel throughout the year, as well as at year end. These discussions have included consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities, in particular their anti-bribery controls;
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Reviewing correspondence with and reports to relevant regulatory authorities;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to long-term contract accounting and the impairment of goodwill and intangible fixed assets (see related key audit matter below);
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations or posted by senior management; and
- Incorporating elements of unpredictability into the audit procedures performed.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Independent auditors' report to the members of QinetiQ Group plc continued

Key audit matter	How our audit addressed the key audit matter
Long-term contract accounting	
Refer to page 73 (Report of the Audit Committee) and page 162 (note 35, Significant accounting policies – Revenue from contracts with customers) and page 128 (note 2, Revenue from contracts with customers and other income). QinetiQ Group plc has a large number of contracts which span multiple periods and are accounted for on a percentage of completion (POC) basis in accordance with IFRS 15. Long term contracting accounting requires a number of judgements and management estimates to be made, particularly in calculating the forecast costs to complete the contract. These judgements drive the revenue and profit recognition, and together with cash paid by the customer, impact the balance sheet position at the year end. Onerous contract provisions are recorded where there is an expectation that a contract will be loss-making, and judgement is applied to determine the magnitude of any provision. Particular focus is given to contracts which are technologically challenging.	We evaluated the contract governance policies and controls in place within the business, and tested the design and operating effectiveness of key controls in place over long-term contracts. We performed risk assessment procedures over the portfolio of contracts to identify higher-risk contracts. These higher-risk contracts were selected for detailed contract reviews. These detailed reviews involved meeting with key financial and non-financial personnel to discuss contract performance, as well as obtaining evidence to support contract financials. Specifically, our procedures included the following: • We assessed the basis of revenue recognition to ensure it is in line with applicable accounting standards • We agreed overall anticipated revenue to the underlying contract and validated a sample of customer invoices through to cash receipt • We recalculated revenue recognised and agreed both revenue, costs and associated balance sheet positions to the underlying general ledger • We obtained evidence to corroborate management estimates and judgements, particularly around costs to complete and risk contingencies. Where necessary, we obtained correspondence with the customer to evidence progress made on the contract during the year and remaining obligations • We validated costs incurred and allocated to contracts during the year to supporting documentation on a company-wide basis For remaining untested low-risk contracts, we selected a sample and performed testing over revenue, agreeing to supporting documentation including customer contracts and validating a sample of customer invoices to cash receipts. We agreed contract loss provisions recorded based on the overall outcome anticipated on the contract through a combination of the procedures above. Additional testing was performed, where not sufficiently covered by the above, over amounts recoverable under contract and billed in advance balance sheet positions. These have been sample tested and agreed to supporting documentation. No material exceptions were found.
Provisions and contingent liabilities	
Refer to page 73 (Report of the Audit Committee) and page 162 (note 35, Significant accounting policies – Other payables, provisions and contingent liabilities), page 143 (note 21, Provisions) and page 160 (note 30, Contingent liabilities and assets). QinetiQ Group plc holds provisions in respect of legal, regulatory and environmental issues. (Note: Project and contract related provisions are covered within the 'long-term contract accounting' matter above). The Group operates in regulated environments and a failure to comply with particular regulations could result in fines and/or penalties. There is judgement required in determining the significance of any instances of potential non-compliance and potential liability based on management's assessment of the most likely outcome. The financial statements should disclose any contingent liabilities in respect of contractual, regulatory or legal issues which have not been provided for on the basis that they are not considered to qualify for recognition as provisions	We have assessed management's processes and controls over legal and regulatory claims and issues and made enquiries with in-house legal counsel. We tested the appropriateness of management's assumptions by reference to third party evidence for key provisions recorded at the year end and movements in the year. In doing this, we concluded on whether our understanding of the business gained throughout the audit process corroborated the provisions recorded. We challenged management's estimate of the most likely outcomes by critically evaluating the range of possible outcomes to determine if the amounts provided are appropriate. We assessed the adequacy of the Group's financial statement disclosures and adherence to accounting standards. We found that the judgements formed by management were within an acceptable range and disclosures made in the financial statements are materially correct.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill and acquired intangibles	
Refer to page 73 (Report of the Audit Committee), page 162 (note 35, Significant accounting policies – Business combinations and related goodwill, page 136 (note 12, Goodwill) and page 138 (note 13, Intangible assets). The business has a material amount of acquired intangible assets and goodwill, including for recent acquisitions. There is an increased risk of impairment where the post-acquisition performance of businesses acquired is behind expectations from the time of the original acquisition. Management perform a discounted cash flow analysis based on the Board approved five year budget plans to assess whether the goodwill and intangible assets are supported by future cash projections. Impairment charges have been recognised in the QinetiQ Germany and Advisory Services CGUs during the year.	We have tested the principles and mathematical integrity of the Group's discounted cash flow model used to assess goodwill and indefinite-lived intangible assets for potential impairment. With the assistance of our valuation specialists, we assessed the growth and discount rates used in this impairment calculation, by comparing the Group's assumptions to external data. We concluded that the Group's assumptions were appropriate. We have understood the rationale for the model used, the term of which is consistent with the internal budgeting and forecasting process and the long-term viability assessment, and agreed that this has been appropriately approved by the Board. We challenged the cash flow projections used within the model by reference to current level of sales and analysis of management's historic forecasting accuracy. We have held discussions with financial and non-financial personnel, corroborating explanations to supporting documentation, including third party evidence, where possible. We tested the sensitivity of the impairment calculation to changes in the underlying assumptions and concluded that there is sufficient headroom within the model such that no further impairments are required. Where impairment charges have been recognised, we have challenged the basis and accuracy of the impairment, and have ensured that sufficient and appropriate disclosure is made in the financial statements. We assessed whether the Group's disclosures regarding sensitivity of the outcome of the impairment assessment to changes in key assumptions properly reflected the risks inherent in the valuation of goodwill. Through review of the impairment assessment performed by management and the disclosures made, we did not identify any material misstatements.
Accounting for tax research and development expenditure credits	
Refer to page 162 (note 35, Significant accounting policies – Taxation), page 133 (note 9, Taxation). The Group has determined that it is appropriate to account for the UK's Research and Development Expenditure Credit ('RDEC') under IAS 12, rather than as a government grant within IAS 20. Measurement of current tax includes RDEC and requires judgements as to the probable amount of tax payable after the preparation of tax filings and potential challenge by relevant tax authorities.	We have reviewed management's accounting policy for RDEC and disclosure (note 9, Taxation) of its impact on the Group's underlying effective tax rate. Management has made a judgement as to whether RDEC should be accounted for under IAS 12 or IAS 20 and we consider the disclosures made sufficient to enable a user of the accounts to identify and understand the impact of management's accounting policy. We have used our tax specialists to challenge the appropriateness of management's assumptions and estimates in relation to tax positions, including RDEC, by critically assessing the range of possible outcomes. We obtained the latest correspondence with the relevant tax authorities to corroborate management's conclusions. We found that judgements made by management in regards to RDEC were within an acceptable range. We have reviewed the disclosures made in respect of tax, in particular around estimates and uncertainties and are satisfied that the disclosures made are appropriate.
Acquisition accounting	
Refer to page 73 (Report of the Audit Committee), page 162 (note 35, Significant accounting policies – Business combinations and related goodwill), and page 134 (note 11, Business Combinations). QinetiQ Group plc has completed two acquisitions in the year; Manufacturing Techniques Inc. and Newman & Spurr Consultancy. Business combinations are inherently of greater risk as they are one-off and unique in nature. Management have applied key judgements, including assessing the fair value of assets and liabilities acquired. A material amount of goodwill has resulted from these transactions, creating a risk that this may be impaired if it is unsupported by the forecast performance of the businesses acquired.	We have obtained and reviewed the purchase agreements to ensure that all terms have been considered and accounted for appropriately. We used our internal valuation experts to assess the appropriateness of the fair value of acquired intangibles and other assets and liabilities, as calculated by management's experts. We agreed consideration paid to supporting documents and ensured that the resulting goodwill is calculated accurately and supported by the expected future performance of the acquired businesses. We obtained supporting evidence over Accounts Receivable and Accounts Payable balances at MTEQ at the acquisition date. We reviewed the disclosures made in respect of acquisitions, in particular around estimates and uncertainties, and are satisfied that the disclosures made are appropriate.

Independent auditors' report to the members of QinetiQ Group plc continued

Key audit matter	How our audit addressed the key audit matter
Impact of COVID-19	
Refer to page 73 (Report of the Audit Committee) and page 10 (Chief Executive's statement) and page 36 (Principal risks). QinetiQ Group plc continue to deliver customer contracts and consider the impact of COVID-19 to be limited. Management have taken precautionary action in implementing a series of temporary measures, including a reduction in senior salaries and Board fees, in addition to postponing the decision on the dividend. Measures to temporarily close sites and furlough workers have also been taken to respond to the short-term impact of the pandemic. Forecasts for FY21 and beyond have been revisited to ensure that any necessary revisions to the year end balance sheet are made. The impairment to QinetiQ Germany's Goodwill arose as a result of this reforecasting exercise and is detailed in that Key Audit Matter above. Whilst management consider the Group to remain resilient, attributed to a strong order book and net cash position at the year end, a range of possible outcomes continues to be modelled depending on the duration and extent of measures such as social distancing and restrictions on international travel. The third party engaged by management to value pension assets have included a material valuation uncertainty clause in their report. This clause highlights that there is less certainty attached to the valuation as a result of the COVID-19 pandemic. This represents a significant estimation uncertainty in relation to the valuation of pension assets.	We have discussed the impact of COVID-19 in each meeting held with management at multiple levels across the Group. Our audit work over long term contracts described above included obtaining an understanding of COVID-19 risks on each contract and agreeing that risk assumptions within the contract accounting were supportable to corroboratory evidence. We have evaluated and challenged management's revised forecasts and agreed these to supporting documentation and correspondence with customers where applicable. The revised forecasts, and assumptions that underpin them, are supportable. We have reviewed the disclosures made in respect of COVID-19 and are satisfied that they are sufficient and consistent with procedures performed. In particular, we considered the adequacy of the disclosures made in notes 36 (Critical accounting estimates and judgements) and 28 (Post-retirement benefits) to the financial statements, which explain that there is significant estimation uncertainty in relation to the valuation of the following pension assets included in the balance sheet as at 31 March 2020; the property portfolio of £167.0m and the unquoted equities of £47.3m. We obtained management's assessment and gathered sufficient appropriate audit evidence around the valuation in the statement of financial position and the sufficiency of the disclosures made.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The only financially significant component within the Group is QinetiQ Limited. The audit of this entity's complete financial information was performed by the Group audit team in the UK. This provided sufficient coverage over all financial statement balances, except inventory. We performed additional audit procedures over inventory balances at two further entities to ensure sufficient coverage over that financial statement line item. One entity was located within the UK and work was performed by the Group audit team. The other entity was located in the US and work was performed by our local PwC component audit team.

We performed additional procedures over revenue and associated financial statement balances at Foster Miller Inc., located in the US which was performed by our local PwC component audit team.

Additional procedures were also performed by the Group audit team over accounts receivable and accounts payable balances within Manufacturing Techniques Inc.

In addition to the above, we performed analytical procedures on the remaining entities to understand key balances and transactions in the year and performed additional procedures on any unusual balances identified.

The audit procedures performed over the complete financial information of QinetiQ Limited, accounted for 69% of total Group revenue and 90% of underlying profit before taxation.

To supplement our audit work on QinetiQ Limited, we performed audit procedures over: Inventory in two other locations, Accounts Receivable and Accounts Payable in MTEQ and Revenue and associated balance sheet accounts within QNA. This, along with work performed at Group level, obtained coverage of 77% or total Group Revenue and 86% of total Group assets.

The combination of the work referred to above, together with additional procedures performed at Group level, including testing of significant journals posted within the consolidation and significant adjustments made to the financial statements, gave us the evidence we needed for our opinion on the financial statements as a whole.

How we tailored the audit scope continued

Only one component auditor, located in the US, was involved in the audit as all other audit procedures were performed by the Group audit team. The US business operates under a Proxy Board which is required to carry on business with the US Department of Defence. This Proxy Board places certain restrictions on access to, and communication of, information outside of the US borders. We planned our audit to ensure US personnel completed the audit work within the US and obtained approvals for transfer of information in advance of undertaking the audit work. The Group engagement leader discussed and agreed the audit plan with our US component audit team, in addition to agreeing the format and content of communications. We determined the level of involvement we needed to have in the audit work at this reporting entity to be able to conclude whether sufficient appropriate evidence had been obtained as a basis for our opinion on the financial statements as a whole. As the procedures performed by this component were limited to revenue and associated balances; and inventory only, this included discussions with the component team and attending the audit close meeting by video conference call, at which the outcome of all audit findings was discussed. The Group audit team have reviewed the working papers of the US component team and are comfortable that sufficient and appropriate procedures have been performed.

The Company audit was performed by the Group audit team. Audit procedures were performed over the complete financial information and disclosures for statutory audit purposes only. Audit work over the Company was not required for the Group audit as all significant balances within the Company are eliminated on consolidation.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£6.2 million (2019: £6.1 million).	£4.8 million (2019: £4.8 million).
How we determined it	5% of underlying profit before tax.	1% of total assets.
Rationale for benchmark applied	Based on the benchmarks used in the Annual Report and Accounts, underlying profit before tax is one of the primary measures used by the shareholders in assessing the performance of the Group, and is a generally accepted auditing benchmark. It is considered appropriate to exclude specific adjusting items due to the nature of these balances as disclosed in note 4 to the Financial Statements.	We believe that total assets is the primary measure used by the shareholders in assessing the performance of this entity, and is a generally accepted auditing benchmark for non-trading entities. This materiality relates to the audit for the statutory entity only, as the Company was not in scope for the Group audit.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £3.0 million and £5.9 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £300,000 (Group audit) (2019: £300,000) and £240,000 (Company audit) (2019: £240,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

In addition, we agreed with the Audit Committee that we would report to them misstatements identified during our audit of the Directors’ Remuneration Report above £1,000, as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors’ statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors’ identification of any material uncertainties to the Group’s and the company’s ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group’s and company’s ability to continue as a going concern.
We are required to report if the Directors’ statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Independent auditors’ report to the members of QinetiQ Group plc continued

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. 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, the Companies Act 2006 (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

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 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors’ report. (CA06)

The Directors’ assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors’ confirmation on page 113 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors’ explanation on page 37 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the Directors’ statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors’ process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the ‘Code’); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 113, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group’s and Company’s position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 72 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors’ statement relating to the company’s compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

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 112, 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 Group's and 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 Group or 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.

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 company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 22 June 2017 to audit the financial statements for the year ended 31 March 2018 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ended 31 March 2018 to 31 March 2020.

Julian Gray
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

21 May 2020

Financial statements

Consolidated income statement

For the year ended 31 March

All figures in £ million	Note	2020 Underlying[2]	2020 Specific adjusting items[2]	2020 Total	2019 restated* Underlying[2]	2019 restated* Specific adjusting items[2]	2019 restated* Total
Revenue[1]	2, 3	**1,072.9**	**–**	**1,072.9**	**911.1**	**–**	**911.1**
Operating costs excluding depreciation and amortisation		(903.6)	(8.0)	(911.6)	(753.5)	(2.7)	(756.2)
Other income	2	9.2	14.0	23.2	10.6	0.2	10.8
EBITDA (earnings before interest, tax, depreciation and amortisation)		**178.5**	**6.0**	**184.5**	**168.2**	**(2.5)**	**165.7**
Depreciation and impairment of property, plant and equipment	3, 14	(41.0)	–	(41.0)	(40.1)	(3.7)	(43.8)
Impairment of goodwill	4, 12	–	(14.1)	(14.1)	–	–	–
Amortisation of intangible assets	3, 13	(4.3)	(7.5)	(11.8)	(3.2)	(3.9)	(7.1)
Operating profit/(loss)	3	**133.2**	**(15.6)**	**117.6**	**124.9**	**(10.1)**	**114.8**
Gain on sale of investments		–	–	–	–	1.1	1.1
Finance income	7	1.1	6.5	7.6	1.2	8.2	9.4
Finance expense	7	(2.1)	–	(2.1)	(2.1)	–	(2.1)
Profit/(loss) before tax	8	**132.2**	**(9.1)**	**123.1**	**124.0**	**(0.8)**	**123.2**
Taxation (expense)/income	9	(18.5)	1.9	(16.6)	(12.5)	3.2	(9.3)
Profit for the year		**113.7**	**(7.2)**	**106.5**	**111.5**	**2.4**	**113.9**
Profit is attributable to							
Owners of the Company		113.5	(7.2)	106.3	111.5	2.4	113.9
Non-controlling interests		0.2	–	0.2	–	–	–
Profit for the year		**113.7**	**(7.2)**	**106.5**	**111.5**	**2.4**	**113.9**

Earnings per share for profit attributable to the owners of the Company

All figures in pence	Note	2020 Underlying[2]	2020 Total	2019 restated* Underlying[2]	2019 restated* Total
Basic	10	20.0p	18.7p	19.7p	20.1p
Diluted	10	19.8p	18.6p	19.6p	20.0p

1 Revenue excludes the share of revenue of joint ventures £3.3m (2019: £1.9m).
2 Alternative performance measures are used to supplement the statutory figures. These are additional financial indicators used by management internally to assess the underlying performance of the Group. Definitions can be found in the glossary on page 183. Also refer to notes 4 and 35 for details of 'specific adjusting items'.
* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

Consolidated comprehensive income statement

For the year ended 31 March

All figures in £ million	2020	2019
Profit for the year	**106.5**	**113.9**
Items that will not be reclassified to profit or loss:		
Actuarial gain/(loss) recognised in defined benefit pension schemes	39.8	(66.4)
Tax on items that will not be reclassified to profit and loss	(12.7)	11.3
Total items that will not be reclassified to profit or loss	**27.1**	**(55.1)**
Items that may be reclassified to profit or loss:		
Foreign currency translation gains on foreign operations	5.1	4.6
Movement in deferred tax on foreign currency translation	(0.6)	(0.4)
Increase in fair value of hedging derivatives	0.8	1.8
Movement in deferred tax on hedging derivatives	(0.2)	(0.2)
Recycling of gain on disposal of investment	–	(1.1)
Fair value gain on available-for-sale investments	–	0.7
Total items that may be reclassified to profit or loss	**5.1**	**5.4**
Other comprehensive income/(expense) for the year, net of tax	**32.2**	**(49.7)**
Total comprehensive income for the year	**138.7**	**64.2**

Consolidated statement of changes in equity

For the year ended 31 March

All figures in £ million	Share capital	Capital redemption reserve	Share premium	Hedge reserve	Translation reserve	Retained earnings	Total	Non-controlling interest	Total equity
At 31 March 2019 – previously reported	5.7	40.8	147.6	(0.2)	3.8	581.1	**778.8**	2.2	**781.0**
Restatement in respect of IFRS 16	–	–	–	–	–	(2.0)	**(2.0)**	–	**(2.0)**
At 31 March 2019 - restated	5.7	40.8	147.6	(0.2)	3.8	579.1	**776.8**	2.2	**779.0**
Change in accounting policy – IFRIC 23	–	–	–	–	–	2.1	**2.1**	–	**2.1**
At 1 April 2019	5.7	40.8	147.6	(0.2)	3.8	581.2	**778.9**	2.2	**781.1**
Profit for the year	–	–	–	–	–	106.3	**106.3**	0.2	**106.5**
Other comprehensive income for the year, net of tax	–	–	–	0.6	4.5	27.1	**32.2**	–	**32.2**
Purchase of own shares	–	–	–	–	–	(0.7)	**(0.7)**	–	**(0.7)**
Share-based payments	–	–	–	–	–	6.8	**6.8**	–	**6.8**
Deferred tax on share options	–	–	–	–	–	(0.8)	**(0.8)**	–	**(0.8)**
Dividends	–	–	–	–	–	(38.0)	**(38.0)**	–	**(38.0)**
At 31 March 2020	**5.7**	**40.8**	**147.6**	**0.4**	**8.3**	**681.9**	**884.7**	**2.4**	**887.1**
At 1 April 2018 - previously reported	5.7	40.8	147.6	(1.8)	(0.4)	552.2	**744.1**	0.2	**744.3**
Restatement in respect of IFRS 16	–	–	–	–	–	(2.0)	**(2.0)**	–	**(2.0)**
At 1 April 2018 - restated	5.7	40.8	147.6	(1.8)	(0.4)	550.2	**742.1**	0.2	**742.3**
Profit for the year	–	–	–	–	–	113.9	**113.9**	–	**113.9**
Acquisition of partially owned subsidiary	–	–	–	–	–	–	**–**	2.0	**2.0**
Other comprehensive income/(expense) for the year, net of tax	–	–	–	1.6	4.2	(55.5)	**(49.7)**	–	**(49.7)**
Purchase of own shares	–	–	–	–	–	(0.7)	**(0.7)**	–	**(0.7)**
Share-based payments	–	–	–	–	–	5.9	**5.9**	–	**5.9**
Deferred tax on share options	–	–	–	–	–	1.0	**1.0**	–	**1.0**
Dividends	–	–	–	–	–	(35.7)	**(35.7)**	–	**(35.7)**
At 31 March 2019*	**5.7**	**40.8**	**147.6**	**(0.2)**	**3.8**	**579.1**	**776.8**	**2.2**	**779.0**

* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. The opening position for 2020 has also been adjusted due to the adoption of a new accounting policy in respect of 'uncertainty over income tax treatments'. See note 37 for details.

Consolidated balance sheet

As at 31 March

All figures in £ million	Note	2020	2019*	2018*
Non-current assets				
Goodwill	12	180.8	148.6	101.5
Intangible assets	13	138.9	88.5	41.1
Property, plant and equipment	14	375.6	323.2	295.4
Other financial assets	22	1.0	0.9	0.3
Equity accounted investments	15	3.6	4.5	2.2
Retirement benefit surplus	28	309.7	259.1	316.2
Deferred tax asset	16	13.3	7.8	6.4
		1,022.9	**832.6**	**763.1**
Current assets				
Inventories	17	52.3	40.1	38.1
Other financial assets	22	6.7	0.5	16.9
Trade and other receivables	18	250.0	208.5	150.3
Investments		–	–	0.7
Current tax receivable	19	0.2	1.5	–
Assets held for sale	14	–	1.9	1.2
Cash and cash equivalents	22	105.8	190.8	254.1
		415.0	**443.3**	**461.3**
Total assets		**1,437.9**	**1,275.9**	**1,224.4**
Current liabilities				
Trade and other payables	20	(379.8)	(346.6)	(334.9)
Current tax payable	19	(4.1)	(8.5)	(8.9)
Provisions	21	(1.8)	(6.2)	(6.0)
Other financial liabilities	22	(8.9)	(10.8)	(9.4)
		(394.6)	**(372.1)**	**(359.2)**
Non-current liabilities				
Deferred tax liability	16	(101.3)	(72.7)	(66.0)
Provisions	21	(9.7)	(10.7)	(14.3)
Other financial liabilities	22	(19.9)	(20.9)	(23.9)
Other payables	20	(25.3)	(20.5)	(18.7)
		(156.2)	**(124.8)**	**(122.9)**
Total liabilities		**(550.8)**	**(496.9)**	**(482.1)**
Net assets		**887.1**	**779.0**	**742.3**
Equity				
Share capital	26	5.7	5.7	5.7
Capital redemption reserve		40.8	40.8	40.8
Share premium		147.6	147.6	147.6
Hedging reserve		0.4	(0.2)	(1.8)
Translation reserve		8.3	3.8	(0.4)
Retained earnings		681.9	579.1	550.2
Capital and reserves attributable to shareholders of the parent company		**884.7**	**776.8**	**742.1**
Non-controlling interest		2.4	2.2	0.2
Total equity		**887.1**	**779.0**	**742.3**

* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

The financial statements were approved by the Board of Directors and authorised for issue on 21 May 2020 and were signed on its behalf by:

Steve Wadey
Chief Executive Officer

David Smith
Chief Financial Officer

Consolidated cash flow statement

For the year ended 31 March

All figures in £ million	Note	2020	2019*
Underlying net cash inflow from operations	25	**177.8**	**135.3**
Less: specific adjusting items	25	(11.3)	(0.7)
Net cash inflow from operations	25	**166.5**	**134.6**
Tax paid		(10.0)	(10.7)
Interest received		1.2	1.3
Interest paid		(1.7)	(1.7)
Net cash inflow from operating activities		**156.0**	**123.5**
Purchases of intangible assets		(16.7)	(10.6)
Purchases of property, plant and equipment		(92.7)	(77.0)
Proceeds from disposals of plant and equipment		1.6	6.9
Proceeds from sale of property		12.5	5.3
Proceeds from sale of investments		–	1.5
Acquisition of businesses		(90.2)	(61.2)
Investment in joint venture		–	(1.6)
Proceeds from disposal of available-for-sale-investments		–	15.7
Net cash outflow from investing activities		**(185.5)**	**(121.0)**
Purchase of own shares		(0.7)	(0.7)
Dividends paid to shareholders		(38.0)	(35.7)
Repayment of external bank loan		–	(20.0)
Payment of bank facility arrangement fee		(0.3)	(1.5)
Capital element of finance lease payments		(9.7)	(8.4)
Net cash outflow from financing activities		**(48.7)**	**(66.3)**
Decrease in cash and cash equivalents		**(78.2)**	**(63.8)**
Effect of foreign exchange changes on cash and cash equivalents		(6.8)	0.5
Cash and cash equivalents at beginning of the year		190.8	254.1
Cash and cash equivalents at end of the year	22	**105.8**	**190.8**

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

All figures in £ million	Note	2020	2019*
Decrease in cash and cash equivalents in the year		**(78.2)**	**(63.8)**
Add back net cash flows not impacting net cash		10.0	14.2
Change in net cash resulting from cash flows		(68.2)	(49.6)
Leases and debt recognised on acquisition		(2.7)	(22.7)
Increase in lease obligation		(4.0)	(7.2)
Other movements including foreign exchange		(0.9)	2.0
Decrease in net cash as defined by the Group		(75.8)	(77.5)
Net cash as defined by Group at the beginning of the year		160.5	238.0
Net cash as defined by Group at the end of the year	22	**84.7**	**160.5**
Less: non-cash net financial liabilities	22	21.1	30.3
Total cash and cash equivalents	22	**105.8**	**190.8**

* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

Notes to the Financial Statements

For the year ended 31 March

1. Significant changes in the current reporting period

The financial position and performance of the Group was particularly affected by the following events and transactions during the reporting period:

1) The acquisition of Manufacturing Techniques Inc. (see note 11) which resulted in an increase in goodwill (note 12) and other intangible assets (note 13);
2) The acquisition of Newman & Spurr Consultancy Limited (see note 11) which resulted in an increase in goodwill (note 12) and other intangible assets (note 13);
3) The sale of surplus land (see note 4);
4) An impairment of goodwill in respect of two of the Group's Cash Generating Units (see note 12);
5) The adoption of the new accounting standard in respect of leases (note 37).

For a detailed discussion of the Group's performance and financial position, refer to the Strategic Report on pages 2 to 55.

2. Revenue from contracts with customers and other income

Revenue and other income is analysed as follows:

Revenue by category and other income

For the year ended 31 March

All figures in £ million	2020	2019
Services contracts with customers	945.6	790.9
Sale of goods contracts with customers	116.8	105.6
Royalties and licences	10.5	14.6
Total revenue	**1,072.9**	**911.1**
Less: adjust current year for acquired businesses^	(66.2)	–
Adjust to constant prior year exchange rates	(1.1)	–
Total revenue on an organic, constant currency basis	**1,005.6**	**911.1**
Organic revenue growth at constant currency	***10%***	***8%***

^ For the period of which there was no contribution in the equivalent period in the prior year which was pre-ownership by the Group

Other income

	2020	2019
Share of associates' and joint ventures' (loss)/profit after tax	(0.7)	0.6
Other income	9.9	10.0
Other income – underlying	**9.2**	**10.6**
Specific adjusting item: gain on sale of property (note 4)	14.0	0.2
Total other income	**23.2**	**10.8**

Revenue and loss after tax of associates and joint ventures was £18.1m and £1.5m respectively (2019: revenue of £16.2m and profit after tax of £1.2m). The figures in the table above represent the Group share of this profit after tax.

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

Revenue by customer geographic location

For the year ended 31 March

All figures in £ million	2020	2019
US	136.0	105.3
Australia	60.7	55.2
Europe	75.9	60.8
Middle East	16.3	11.0
Rest of World	44.5	41.4
International	**333.4**	**273.7**
United Kingdom	739.5	637.4
Total revenue	**1,072.9**	**911.1**
International revenue %	***31%***	***30%***

Reconciliation of international revenue to organic international revenue including share of joint ventures
For the year ended 31 March

All figures in £ million	2020	2019
International revenue	333.4	273.7
Less: international revenue from businesses acquired in current (2020) financial year	(37.0)	–
Add: incremental share of revenue from joint ventures	3.3	1.9
Organic international revenue including share of joint ventures	**299.7**	**275.6**

The year on year organic growth in international revenue including share of joint ventures was £24.1m. This metric is used for management remuneration purposes under the Deferred Share Scheme in 2020.

Revenue by major customer type
For the year ended 31 March

All figures in £ million	2020	2019
UK Government	667.2	562.7
US Government	116.2	83.1
Other	289.5	265.3
Total revenue	**1,072.9**	**911.1**

'Other' does not contain any customers with revenue in excess of 10% of total Group revenue.

The following table shows the aggregate amount of revenue allocated to performance obligations that are unsatisfied (or partially satisfied) as at the end of the reporting period:

All figures in £ million	2021	2022	2023	2024+	Total
Forecast revenue from contracts with customers	849.3	484.9	375.5	1,395.2	3,104.9
Total forecast revenue allocated to unsatisfied performance obligations	**849.3**	**484.9**	**375.5**	**1,395.2**	**3,104.9**

Management expects that 27% (£849.3m) of revenue allocated to unsatisfied contracts as of 31 March 2020 will be recognised as revenue during the next reporting period.

The following table shows the aggregate amount of revenue allocated to performance obligations that were unsatisfied (or partially satisfied) as at the end of the prior reporting period:

All figures in £ million	2020	2021	2022	2023+	Total
Forecast revenue from contracts with customers allocated to unsatisfied performance obligations	582.4	323.8	214.4	757.7	1,878.3
Adjustment for LTPA amendment[1]	124.0	131.0	134.4	865.9	1,255.3
Adjusted total forecast revenue allocated to unsatisfied performance obligations[1]	**706.4**	**454.8**	**348.8**	**1,623.6**	**3,133.6**

1. The above table shows an adjustment to include an LTPA contract amendment. This £1.3bn contract amendment was signed post the 2019 year end but is included to show a meaningful comparative to the 2020 position.

3. Segmental analysis

The analysis by business segment is presented in accordance with IFRS 8 Operating Segments, on the basis of those reportable segments whose operating results are regularly reviewed by the Board (the Chief Operating Decision Maker as defined by IFRS 8) and are aligned with the Group's strategic direction, determined with reference to the products and services they provide, as follows:

EMEA Services provides technical assurance, test and evaluation and training services, underpinned by long-term contracts. EMEA Services comprises the following business units which are not considered reportable segments as defined by IFRS 8: Maritime, Land & Weapons; Air & Space, Cyber, Information & Training, and International business.

Global Products combines all other business units not aggregated within EMEA Services, including QinetiQ North America, Space Products, OptaSense and EMEA Products. Generally these business units (which are not considered reportable segments as defined by IFRS 8) deliver innovative solutions and products which includes contract-funded research and development and developing intellectual property in partnership with key customers and through internal funding with potential for new revenue streams.

3. Segmental analysis continued

Operating segments

All figures in £ million	2020 Revenue from external customers	2020 Underlying operating profit[1]	2019 restated* Revenue from external customers	2019 restated* Underlying operating profit[1]
EMEA Services	797.4	100.6	687.7	96.8
Global Products	275.5	32.6	223.4	28.1
Total operating segments	**1,072.9**	**133.2**	**911.1**	**124.9**
Underlying operating margin[2]		**12.4%**		**13.7%**

1 The measure of profit presented to the Chief Operating Decision Maker is operating profit stated before specific adjusting items ('underlying operating profit'). The specific adjusting items are detailed in note 4.
2 Definitions of the Group's 'Alternative performance measures' can be found in the glossary on page 183.
* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

No measure of segmental assets and liabilities is reported as this information is not regularly provided to the Chief Operating Decision Maker.

Reconciliation of segmental results to total profit

All figures in £ million	Note	2020	2019*
Underlying operating profit		133.2	124.9
Specific adjusting items operating loss	4	(15.6)	(10.1)
Operating profit		**117.6**	**114.8**
Gain on sale of investments		–	1.1
Net finance income	7	5.5	7.3
Profit before tax		**123.1**	**123.2**
Taxation expense	9	(16.6)	(9.3)
Profit for the year		**106.5**	**113.9**

* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

Non-current assets* by geographic location

All figures in £ million	UK	USA	Germany	Rest of World	Total
Year Ended 31 March 2020	**442.3**	**144.1**	**67.7**	**41.2**	**695.3**
Year ended 31 March 2019	382.1	51.7	71.7	29.6	535.1

*Excluding deferred tax, financial instruments and retirement benefit surplus.

Depreciation, impairment and amortisation by business segment – excluding specific adjusting items

For the year ended 31 March 2020

All figures in £ million	EMEA Services	Global Products	Total
Depreciation and impairment of property, plant and equipment	35.5	5.5	41.0
Amortisation of purchased or internally developed intangible assets	3.4	0.9	4.3
	38.9	**6.4**	**45.3**

For the year ended 31 March 2019

All figures in £ million	EMEA Services	Global Products	Total
Depreciation of property, plant and equipment*	34.7	5.4	40.1
Amortisation of purchased or internally developed intangible assets	2.3	0.9	3.2
	37.0	**6.3**	**43.3**

* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

4. Specific adjusting items

In the income statement, the Group presents specific adjusting items separately. In the judgement of the Directors, for the reader to obtain a proper understanding of the financial information, specific adjusting items need to be disclosed separately because of their size and nature. Further explanation of this rationale is provided in note 35 (Accounting Policies). Underlying measures of performance exclude specific adjusting items. The following specific adjusting items have been (charged)/credited in the consolidated income statement:

All figures in £ million	Note	2020	2019
Gain on sale of property		14.0	0.2
Pension past service cost in respect of GMP equalisation		–	(0.7)
Acquisition transaction costs		(7.4)	(1.3)
Acquisition integration costs		(0.1)	(0.7)
Acquisition-related remuneration costs		(0.5)	-
Specific adjusting items profit/(loss) before interest, tax, depreciation and amortisation		**6.0**	**(2.5)**
Impairment of property		–	(3.7)
Impairment of goodwill		(14.1)	–
Amortisation of intangible assets arising from acquisitions		(7.5)	(3.9)
Specific adjusting items operating loss		**(15.6)**	**(10.1)**
Gain on sale of investments		–	1.1
Defined benefit pension scheme net finance income		6.5	8.2
Specific adjusting items loss before tax		**(9.1)**	**(0.8)**
Specific adjusting items – tax	9	1.9	3.2
Total specific adjusting items (loss)/profit after tax		**(7.2)**	**2.4**

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

All figures in £ million	Note	2020	2019
Underlying profit after tax – total Group		**113.7**	**111.5**
Total specific adjusting items (loss)/profit after tax		(7.2)	2.4
Total profit for the year		**106.5**	**113.9**

5. Analysis of employee costs and numbers

The largest component of operating expenses is employee costs. The year-end and average monthly number of persons employed by the Group, including Executive Directors, analysed by business segment, were:

	As at 31 March		Monthly average	
	2020 Number	2019 Number	2020 Number	2019 Number
EMEA Services	5,456	5,170	5,335	5,134
Global Products	1,331	891	932	860
Total	**6,787**	**6,061**	**6,267**	**5,994**

The aggregate payroll costs of these persons were as follows:

All figures in £ million	Note	2020	2019
Wages and salaries		335.9	303.1
Social security costs		33.5	27.4
Pension costs		42.9	40.2
Share-based payments costs	27	7.5	6.1
Total employee costs		**419.8**	**376.8**

6. Directors and other senior management personnel

The Directors and other senior management personnel of the Group during the year to 31 March 2020 comprise the Board of Directors and the Executive Committee. The remuneration and benefits provided to Directors and the Executive Committee are summarised below:

All figures in £ million	2020	2019
Short-term employee remuneration including benefits	9.8	10.0
Post-employment benefits	0.1	0.1
Share-based payments costs	1.4	1.2
Termination benefits	0.2	–
Total	**11.5**	**11.3**

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

7. Finance income and expense

For the year ended 31 March

All figures in £ million	2020	2019*
Receivable on bank deposits	1.1	1.2
Finance income before specific adjusting items	**1.1**	**1.2**
Amortisation of deferred financing costs	(0.4)	(0.3)
Payable on commitment fees	(0.6)	(0.6)
Lease expense	(1.0)	(1.1)
Unwinding of discount on financial liabilities	(0.1)	(0.1)
Finance expense before specific adjusting items	**(2.1)**	**(2.1)**
Underlying net finance expense	**(1.0)**	**(0.9)**
Plus: specific adjusting items - defined benefit pension scheme net finance income	6.5	8.2
Net finance income	**5.5**	**7.3**

* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

8. Profit before tax

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

All figures in £ million	2020	2019
Fees payable to the auditor and its associates:		
Audit of the Group's annual accounts	0.6	0.5
Audit of the accounts of subsidiaries of the Company and its associated pension scheme	0.2	0.2
Total audit fees	**0.8**	**0.7**
Audit-related assurance services	0.1	0.1
Total non-audit fees	**0.1**	**0.1**
Total auditors' remuneration	**0.9**	**0.8**

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

All figures in £ million	2020	2019*
Cost of inventories expensed	32.6	28.5
Owned assets: depreciation	31.7	29.0
Leased assets: depreciation	9.7	8.4
Foreign exchange loss	1.4	0.5
Research and development expenditure – customer funded contracts	270.8	272.9
Research and development expenditure – Group funded	21.5	26.0

* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

9. Taxation

All figures in £ million	2020 Underlying	2020 Specific adjusting items	2020 Total	2019 Underlying	2019 Specific adjusting items	2019 Total
Analysis of charge						
Current UK tax expense/(income)	7.9	(0.8)	7.1	8.2	1.0	9.2
Current UK tax in respect of prior years	(0.3)	–	(0.3)	(1.6)	(4.1)	(5.7)
Overseas corporation tax						
Current year	2.9	–	2.9	1.8	–	1.8
Current tax expense/(income)	**10.5**	**(0.8)**	**9.7**	**8.4**	**(3.1)**	**5.3**
Deferred tax expense/(income)	6.5	(1.8)	4.7	3.5	(1.2)	2.3
Deferred tax impact of change in rates	2.0	0.7	2.7	(0.1)	(0.1)	(0.2)
Deferred tax in respect of prior years	(0.5)	–	(0.5)	0.7	1.2	1.9
Deferred tax expense/(income)	**8.0**	**(1.1)**	**6.9**	**4.1**	**(0.1)**	**4.0**
Taxation expense/(income)	**18.5**	**(1.9)**	**16.6**	**12.5**	**(3.2)**	**9.3**
Factors affecting tax charge/(credit) in year						
Principal factors reducing the Group's current year tax charge below the UK statutory rate are explained below:						
Profit before tax	132.2	(9.1)	123.1	124.0	(0.8)	123.2
Tax on profit before tax at 19% (2019: 19%)	**25.1**	**(1.7)**	**23.4**	**23.6**	**(0.2)**	**23.4**
Effect of:						
Expenses not deductible for tax purposes and non-taxable items	(0.4)	3.1	2.7	(0.9)	0.1	(0.8)
Current UK tax in respect of prior years	(0.3)	–	(0.3)	(1.6)	(4.1)	(5.7)
Research and development expenditure credits	(7.8)	–	(7.8)	(7.1)	–	(7.1)
Recognition of deferred tax asset	(1.6)	(3.3)	(4.9)	(1.6)	–	(1.6)
Deferred tax impact of change in rates	2.0	0.7	2.7	(0.7)	(0.1)	(0.8)
Deferred tax in respect of prior years	(0.5)	–	(0.5)	0.7	1.2	1.9
Other deferred tax movements	–	–	–	–	0.2	0.2
Different tax rates in overseas jurisdictions	2.0	(0.7)	1.3	0.1	(0.3)	(0.2)
Taxation expense/(income)	**18.5**	**(1.9)**	**16.6**	**12.5**	**(3.2)**	**9.3**
Effective tax rate	**14.0%**		**13.5%**	**10.1%**		**7.5%**

The total tax charge was £16.6m (2019: £9.3m). Deferred tax (see note 16) has been calculated at the rate at which the timing difference is expected to reverse. The underlying tax charge was £18.5m (2019: £12.5m) with an underlying effective tax rate of 14.0% for the year ending 31 March 2020 (2019: 10.1%). The tax rate for the year has increased as certain deferred tax liabilities have been recalculated following the decision not to reduce the UK rate to 17% as previously enacted. An amount of £5.1m has been taken to OCI in respect of the deferred tax rate change related to the net pension surplus. 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 ('RDEC') in the UK which are accounted under IAS12 within the tax line. An adjusted effective tax rate before the impact of RDEC would be 20.0%. The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to any tax legislation changes, the geographic mix of profits, the recognition of deferred tax assets and while the benefit of net RDEC retained by the Group remains in the tax line.

Tax on specific adjusting items

A £3.3m credit in respect of recognition of tax losses in the US has been classified as a specific adjusting item. This follows from the acquisition of MTEQ in the year that contributes future taxable profits against which historic unrecognised tax losses can be utilised. The prior year included a £2.8m credit from initial recognition of corporate tax deductions for certain equity-settled share based payment schemes. Together with a £1.4m net expense (2019: income of £0.4m) in respect of the pre-tax specific adjusting items (including £0.7m of deferred tax movements following the decision not to reduce the UK tax rate to 17% as previously enacted), the total specific adjusting items tax credit was £1.9m (2019: £3.2m).

Factors affecting future tax charges

The effective tax rate is expected to remain below the UK statutory rate in the medium term, subject to the impact of any tax legislation changes, the geographic mix of profits and the assumption that the benefits of net R&D expenditure credits retained by the Group remain in the tax line. Future recognition of deferred tax assets will also affect future tax charges.

10. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares used excludes those shares bought by the Group and held as own shares (see note 26). For diluted earnings per share the weighted average number of shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares arising from unvested share-based awards including share options.

For the year ended 31 March		2020	2019
Weighted average number of shares	**Million**	**567.0**	**566.0**
Effect of dilutive securities	Million	5.4	4.0
Diluted number of shares	**Million**	**572.4**	**570.0**

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

Underlying EPS

For the year ended 31 March		2020	2019
Profit attributable to equity shareholders	£ million	106.3	113.9
Remove loss/(profit) after tax in respect of specific adjusting items	£ million	7.2	(2.4)
Underlying profit after taxation	**£ million**	**113.5**	**111.5**
Weighted average number of shares	Million	567.0	566.0
Underlying basic EPS	**Pence**	**20.0**	**19.7**
Diluted number of shares	Million	572.4	570.0
Underlying diluted EPS	**Pence**	**19.8**	**19.6**

Basic and diluted EPS

For the year ended 31 March		2020	2019
Profit attributable to equity shareholders	£ million	106.3	113.9
Weighted average number of shares	Million	567.0	566.0
Basic EPS – total Group	**Pence**	**18.7**	**20.1**
Diluted number of shares	Million	572.4	570.0
Diluted EPS – total Group	**Pence**	**18.6**	**20.0**

11. Business combinations

Acquisitions in the year to 31 March 2020

					Contribution post-acquisition	
All figures in £ million	Date acquired	Cash consideration	Goodwill	Fair value of net assets acquired	Revenue	Operating profit
Manufacturing Techniques Inc.	20 December 2019	81.7	(35.1)	46.6	37.0	2.9
Newman & Spurr Consultancy	03 February 2020	17.1	(7.6)	9..5	2.7	0.5
Total current year acquisitions		**98.8**	**(42.7)**	**56.1**	**39.7**	**3.4**
Payment of deferred consideration – prior year acquisitions[1]		0.1				
Less: deferred consideration and contingent consideration[2]		(2.2)				
Less: cash acquired		(6.5)				
Net cash outflow in the year		**90.2**				

[1] Deferred consideration has been paid in respect of the prior year acquisition of QinetiQ Target Systems.
[2] Deferred consideration of £0.8m is expected to be payable in respect of the NSC acquisition and contingent consideration of £1.4m is expected in respect of the MTEQ acquisition.

Manufacturing Techniques Inc. (MTEQ)

On 20 October 2019, the Group acquired a 100% of the issued share capital of MTEQ for $105m on a cash-free, debt-free valuation basis and an earn-out of up to $20m payable in cash and shares dependent on delivering stretching financial targets over three years. MTEQ is a leading US provider of advanced sensing solutions with a strong reputation for mission-led innovation, rapidly developing and fielding operationally relevant solutions to deliver information advantage to the war-fighter. The MTEQ acquisition will accelerate our growth in the USA, the world's largest defence and security market by delivering solutions critical to next generation warfighting capability through the combination of MTEQ's expertise in advanced sensors with our existing capabilities in robotics and autonomy, transitioning MTEQ's sensors solutions into larger production programmes, leveraging our manufacturing capabilities in the USA and deepening our US Army relationship and broadening our US customer base.

MTEQ will form part of QinetiQ's USA business unit and will be reported within QinetiQ's Global Products division. If the acquisition had occurred on the first day of the financial year, Group revenue for the period would have been £1,167.2m and the Group profit before tax would have been £128.2m.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition and the adjustments required to the book values of the assets and liabilities in order to present the net assets of these businesses at fair value and in accordance with Group accounting policies. The fair values remain provisional, but will be finalised within 12 months of acquisition.

All figures in £ million	Note	Book value	Fair value adjustment	Fair value at acquisition
Intangible assets	13	0.7	38.1	38.8
Property, plant and equipment	14	3.4	–	3.4
Inventory		0.1	–	0.1
Trade and other receivables		12.4	–	12.4
Cash and cash equivalents		3.1	–	3.1
Trade and other payables		(9.0)	–	(9.0)
Lease liabilities		(2.2)	–	(2.2)
Net assets acquired		**8.5**	**38.1**	**46.6**
Goodwill	12			35.1
				81.7
Consideration satisfied by:				
Cash				80.3
Contingent consideration				1.4
Total consideration				**81.7**

The fair value adjustments include £38.1m in relation to the recognition of acquired intangible assets of which £20.4m relates to customer relationships and £17.7m relates to existing technology. The goodwill is attributable mainly to the skills and technical talent of the MTEQ's work force and the synergies expected to be achieved from integrating the company into the Group's existing business. The goodwill recognised on acquisition is tax deductible over a 15 year period due to US statutory election whereby the purchase is treated as an asset deal rather than a share purchase for tax purposes. On 9 January 2020, MTEQ changed its name to QinetiQ Inc.

Newman & Spurr Consultancy Limited (NSC)

On 3 February 2020, the Group acquired a 100% of the issued share capital of NSC for £17.1m (£13.7m net of cash acquired). NSC offers a range of attractive training and simulation solutions, primarily in land and joint training areas. The acquisition will support our global training and mission rehearsal campaign driving future sustainable growth. NSC will form part of QinetiQ's Cyber, Information & Training (CIT) business unit and will be reported within QinetiQ's EMEA Services Products division. If the acquisition had occurred on the first day of the financial year, Group revenue for the period would have been £1,079.9m and the Group profit before tax would have been £124.3m.

Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition and the adjustments required to the book values of the assets and liabilities in order to present the net assets of the business at fair value and in accordance with Group accounting policies. The fair values remain provisional, but will be finalised within 12 months of acquisition.

All figures in £ million	Note	Book value	Fair value adjustment	Fair value at acquisition
Intangible assets	13	–	6.7	6.7
Property, plant and equipment	14	0.6	–	0.6
Trade and other receivables		2.4	–	2.4
Cash and cash equivalents		3.4	–	3.4
Trade and other payables		(1.9)	–	(1.9)
Lease liabilities		(0.5)	–	(0.5)
Deferred tax asset/(liability)		0.1	(1.3)	(1.2)
Net assets acquired		**4.1**	**5.4**	**9.5**
Goodwill	12			7.6
				17.1
Considerations satisfied by:				
Cash				16.3
Deferred consideration				0.8
Total consideration				**17.1**

11. Business combinations continued

The fair value adjustments include £6.7m in relation to the recognition of acquired intangible assets of which £4.1m relates to customer relationships and £2.6m relates to existing technology. The goodwill is attributable mainly to the skills and technical talent of NSC's work force and the synergies expected to be achieved from integrating the company into the Group's existing business. The goodwill recognised on acquisition is not tax deductible.

12. Goodwill

All figures in £ million	2020	2019
Cost		
At 1 April	257.4	203.0
Acquisitions	42.7	45.0
Foreign exchange	7.8	9.4
At 31 March	**307.9**	**257.4**
Impairment		
At 1 April	(108.8)	(101.5)
Impairment in year	(14.1)	–
Foreign exchange	(4.2)	(7.3)
At 31 March	**(127.1)**	**(108.8)**
Net book value at 31 March	**180.8**	**148.6**

The goodwill acquired of £42.7m arises from the acquisitions of MTEQ and NSC in the year, generating goodwill of £35.1m and £7.6m respectively. The MTEQ goodwill subsequently increased to £36.6m as at 31 March 2020 (see table below) due to foreign exchange movements. The impairment in the year relates to the Group's Advisory Services business unit (£9.8m) and the Germany business unit (£4.3m); see below.

Goodwill analysed by cash-generating unit (CGU)

Goodwill is allocated across four cash-generating units (CGUs) within the EMEA Services segment and six CGUs within the Global Products segment. The full list of CGUs that have goodwill allocated to them is as follows:

All figures in £ million	Primary reporting segments	2020	2019
QinetiQ North America	Global Products	43.9	41.9
MTEQ (acquired in year, see note 11)	Global Products	36.6	–
Target Systems	Global Products	24.2	24.3
Boldon James	Global Products	10.7	10.7
Commerce Decisions	Global Products	6.4	6.4
Space Products	Global Products	5.8	5.7
QinetiQ Germany	EMEA Services	28.7	32.2
Inzpire	EMEA Services	11.7	11.7
NSC (acquired in year, see note 11)	EMEA Services	7.6	–
Advisory Services	EMEA Services	–	9.8
Australia	EMEA Services	5.2	5.9
Net book value at 31 March		**180.8**	**148.6**

Goodwill is attributable to the excess of consideration over the fair value of net assets acquired and includes expected synergies, future growth prospects and employee knowledge, expertise and security clearances. The Group tests each CGU for impairment annually, or more frequently if there are indications that goodwill might be impaired. Impairment testing is dependent on management's estimates and judgements, particularly as they relate to the forecasting of future cash flows, the discount rates selected and expected long-term growth rates. Significant headroom exists in all CGUs with the exception of QinetiQ Germany (see below) and management considers that there are no likely variations in the key assumptions which would lead to an impairment being recognised in those CGUs.

Key assumptions

Cash flows

The value-in-use calculations generally use discounted future cash flows based on financial plans approved by the Board covering a five-year period (aligned with the Group's Integrated Strategic Business Plan process and the longer-term viability assessment period). These are 'bottom-up' forecasts based on detailed analysis by contract for the revenue under contract and by opportunity for the pipeline. Pipeline opportunities are categorised as 'base case' and 'high case' by management and only 'base case' opportunities are included in the financial plans used for the value in-use calculations.

Cash flows for periods beyond these periods are extrapolated based on the last year of the plans, with a terminal growth-rate assumption applied.

Terminal growth rates and discount rates

The specific plans for each of the CGUs have been extrapolated using the terminal growth rates as detailed below. Growth rates are based on management's estimates which take into consideration the long-term nature of the industry in which the CGUs operate and external forecasts as to the likely growth of the industry in the longer term. The Group's weighted average cost of capital was used as a basis in determining the discount rate to be applied, adjusted for risks specific to the market characteristics of CGUs, as appropriate on a pre-tax basis. This is considered an appropriate estimate of a market participant discount rate.

All figures % 2020: (2019)	QNA	Target Systems	Space NV	Boldon James	Commerce Decisions	MTEQ	Inzpire	Australia	QinetiQ Germany	NSC
Terminal growth rate	2.1 (1.9)	1.8 (1.9)	1.8 (1.0)	1.8 (1.9)	1.8 (1.9)	2.1 (N/A)	1.8 (1.9)	2.3 (2.4)	1.5 (1.0)	1.8 (N/A)
Pre-tax discount rate	11.3 (14.6)	10.2 (11.3)	9.8 (12.0)	9.9 (11.8)	11.1 (11.4)	11.3 (N/A)	11.3 (12.3)	10.0 (11.3)	8.7 (10.0)	10.3 (N/A)

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

Significant CGUs

QinetiQ North America (QNA)

The carrying value of the goodwill for QNA CGU was £43.9m as at 31 March 2020 (2019: £41.9m). The recoverable amount of this CGU as at 31 March 2020, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £71.9m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. These cash flows include certain assumptions about revenue and profit in respect of new product lines still to be launched and the success of winning certain government contracts. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

MTEQ

The carrying value of the goodwill for the MTEQ CGU as at 31 March 2020 was £36.6m (2019: nil). The recoverable amount of this CGU as at 31 March 2020, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £85m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

Target Systems

The carrying value of the goodwill for the Target Systems CGU as at 31 March 2020 was £24.2m (2019: £24.3m). The recoverable amount of this CGU as at 31 March 2020, based on value in use and calculated using the assumptions noted above, is higher than the carrying value of net operating assets (of £93.9m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount. COVID-19 has resulted in temporary closure of this businesses' manufacturing site and employees being furloughed. This short-term impact on trading is not considered to have a significant impact on the long-term cash flows of this CGU.

Boldon James

The carrying value of the goodwill for the Boldon James CGU as at 31 March 2020 was £10.7m (2019: £10.7m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

Germany

The carrying value of the goodwill for the Germany CGU as at 31 March 2020 was £28.7m (2019: £32.2m). The reduction results from an impairment of £4.3m in the year following a reduction in the value in use, calculated using the assumptions noted above. Our German operations performed in line with expectations for orders with some significant contract wins during the period. Delivery performance and profitability was, however, impacted by other operational and cost issues and towards the end of the financial year by the effects of Covid-19. We have written down £4.3m of goodwill associated with the acquisition in anticipation of the financial impact of lower revenue and margins. The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m would have increased the impairment charge by £11.1m, £8.9m and £19.7m respectively.

Inzpire

The carrying value of the goodwill for the Inzpire CGU as at 31 March 2020 was £11.7m (2019: £11.7m). The key sensitivity impacting on the value in use calculations is the terminal year cash flows. An increase in the discount rate by 1%, a decrease in the terminal growth rate by 1% or a decrease in the terminal year cash flows of £2.0m would not cause the net operating assets to exceed their recoverable amount.

12. Goodwill continued

Advisory Services

The goodwill in respect of the Advisory Services CGU (in respect of the acquisition of HVR Consulting Services Ltd in 2004 and part of the International business unit within EMEA Services) was written off in the current year and the carrying value is now nil (2019: £9.8m). Trading in this CGU has recently declined and following an internal reorganisation it no longer remains a viable CGU in its own right. Any residual contract activity and headcount has been transferred to other CGUs.

13. Intangible assets

Year ended 31 March 2020

All figures in £ million	Acquired intangibles: Customer relationships	Acquired intangibles: Other	Development costs	Other intangibles^	Total
Cost					
At 1 April 2019	90.2	76.0	25.8	52.3	244.3
Re-classification from PPE	–	–	0.1	0.2	0.3
Re-classification	–	–	0.4	(0.4)	–
Additions – internally developed*	–	–	0.7	8.0	8.7
Additions – purchased*	–	–	0.2	5.2	5.4
Additions – recognised on acquisition (see note 11)	24.5	20.3	0.7	-	45.5
Foreign exchange	2.8	2.4	(0.5)	2.9	7.6
At 31 March 2020	**117.5**	**98.7**	**27.4**	**68.2**	**311.8**
Accumulated amortisation and impairment					
At 1 April 2019	38.4	59.5	20.6	37.3	155.8
Amortisation charge for year	5.3	2.2	1.4	2.9	11.8
Foreign exchange	0.7	2.1	(0.4)	2.9	5.3
At 31 March 2020	**44.4**	**63.8**	**21.6**	**43.1**	**172.9**
Net book value at 31 March 2020	**73.1**	**34.9**	**5.8**	**25.1**	**138.9**

^ Includes Assets In Course Of Construction of closing net book value of £14.4m (2019: £7.4m)
* Additions per the table above are lower than the capital expenditure included in the cash flow statement due to the relative timing of cash payments compared to the recognition of balance sheet assets

'Other' consists primarily of intellectual property and existing technology arising on acquisition of businesses. Significant individual assets include: customer relationships associated with MTEQ, Germany and NSC (£19.9m; £28.5m; £4m respectively) with remaining amortisation period of approximately 9.8 years, 12.2 years, 10.8 years respectively and acquired technology associated with MTEQ, Germany, and NSC (£17.1m; £4.7m; £2.6m respectively) with remaining amortisation period of approximately 9.8 years, 9.5 years and 9.8 years respectively.

Year ended 31 March 2019

All figures in £ million	Acquired intangibles: Customer relationships	Acquired intangibles: Other	Development costs	Other intangibles^	Total
Cost					
At 1 April 2018	52.7	62.6	22.3	47.0	184.6
Additions – internally developed*	–	–	0.3	3.2	3.5
Additions – purchased	–	–	2.8	1.9	4.7
Additions – recognised on acquisition	36.4	10.5	–	–	46.9
Foreign exchange	1.1	2.9	0.4	0.2	4.6
At 31 March 2019	**90.2**	**76.0**	**25.8**	**52.3**	**244.3**
Accumulated amortisation and impairment					
At 1 April 2018	33.8	55.4	19.3	35.0	143.5
Amortisation charge for year	2.7	1.2	1.1	2.1	7.1
Foreign exchange	1.9	2.9	0.2	0.2	5.2
At 31 March 2019	**38.4**	**59.5**	**20.6**	**37.3**	**155.8**
Net book value at 31 March 2019	**51.8**	**16.5**	**5.2**	**15.0**	**88.5**

^ Includes Assets In Course Of Construction with net book value at 31 March 2019 of £7.4m.

14. Property, plant and equipment

Year ended 31 March 2020

All figures in £ million	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Assets under construction	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Total
	Owned assets				Right of use assets			
Cost								
At 1 April 2019 restated (see note 37)	306.9	237.2	62.9	53.4	56.6	15.7	0.4	733.1
Additions – purchased*	8.1	16.6	2.1	58.6	1.0	3.0	–	89.4
Additions – recognised on acquisition	0.8	0.7	–	–	2.5	–	–	4.0
Re-classification from intangibles	–	–	–	(0.3)	–	–	–	(0.3)
Re-classification	9.6	10.3	7.2	(27.1)	–	–	–	–
Disposals	–	(1.4)	(1.8)	–	(4.2)	(1.2)	–	(8.6)
Foreign exchange	0.2	0.8	0.1	–	0.2	0.1	–	1.4
At 31 March 2020	**325.6**	**264.2**	**70.5**	**84.6**	**56.1**	**17.6**	**0.4**	**819.0**
Accumulated depreciation and impairment								
At 1 April 2019 restated (see note 37)	174.0	155.6	35.3	–	35.7	9.1	0.2	409.9
Charge for year	9.7	13.2	8.8	–	5.1	4.5	0.1	41.4
Impairment reversal	–	(0.4)	–	–	–	–	–	(0.4)
Disposals	–	(1.4)	(1.8)	–	(4.2)	(1.2)	–	(8.6)
Foreign exchange	0.2	0.8	0.1	–	-	–	–	1.1
At 31 March 2020	**183.9**	**167.8**	**42.4**	–	**36.6**	**12.4**	**0.3**	**443.4**
Net book value at 31 March 2020	**141.7**	**96.4**	**28.1**	**84.6**	**19.5**	**5.2**	**0.1**	**375.6**

*Additions per the table above are lower than the capital expenditure included in the cash flow statement due to the relative timing of cash payments compared to the recognition of balance sheet assets

Year ended 31 March 2019

All figures in £ million	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Assets under construction	Land and buildings	Plant, machinery and vehicles	Computers and office equipment	Total
	Owned assets				Right of use assets			
Cost								
At 1 April 2018	303.1	193.8	50.3	50.8	–	–	–	598.0
Adjustment for change in accounting policy (note 37)	–	–	–	–	53.2	9.4	0.4	63.0
Restated opening balance	303.1	193.8	50.3	50.8	53.2	9.4	0.4	661.0
Additions – purchased	2.1	21.9	2.2	35.1	3.3	0.8	–	65.4
Additions – acquisitions	–	2.5	0.2	–	0.2	5.6	–	8.5
Land and buildings assets classified as held for sale	(0.7)	–	–	–	–	–	–	(0.7)
Disposals	–	(1.2)	(0.3)	(1.4)	–	–	–	(2.9)
Transfers	1.9	19.1	10.1	(31.1)	–	–	–	–
Foreign exchange	0.5	1.1	0.4	–	(0.1)	(0.1)	–	1.8
At 31 March 2019	**306.9**	**237.2**	**62.9**	**53.4**	**56.6**	**15.7**	**0.4**	**733.1**
Accumulated depreciation and impairment								
At 1 April 2018	161.2	140.2	27.6	–	–	–	–	329.0
Adjustment for change in accounting policy (note 37)	–	–	–	–	30.7	5.8	0.1	36.6
Restated opening balance	161.2	140.2	27.6	–	30.7	5.8	0.1	365.6
Charge for year	8.7	13.0	7.7	–	5.0	3.3	0.1	37.8
Impairment	3.7	2.7	–	–	–	–	–	6.4
Disposals	–	(1.2)	(0.3)	–	–	–	–	(1.5)
Foreign exchange	0.4	0.9	0.3	–	–	–	–	1.6
At 31 March 2019	**174.0**	**155.6**	**35.3**	**–**	**35.7**	**9.1**	**0.2**	**409.9**
Net book value at 31 March 2019	**132.9**	**81.6**	**27.6**	**53.4**	**20.9**	**6.6**	**0.2**	**323.2**

14. Property, plant and equipment continued

Non-current assets classified as held for sale

Property, plant and equipment excludes property to the value of £nil (2019: £1.9m) which is reported separately as 'Non-current assets classified as held for sale'. The property that had been transferred out in the prior year has been sold in the current year realising a gain on disposal of £14.0m.

15. Equity accounted investments

As at 31 March

		2020		2019
	JV's and associates financial results	Group net share of JV's and associates	JV's and associates financial results	Group net share of JV's and associates
Non-current assets	1.4	0.7	0.2	0.1
Current assets	23.3	11.3	18.6	9.4
	24.7	**12.0**	**18.8**	**9.5**
Current liabilities	(15.9)	(7.4)	(9.0)	(4.4)
Non-current liabilities	(2.0)	(1.0)	(1.9)	(0.6)
	(17.9)	**(8.4)**	**(10.9)**	**(5.0)**
Net assets of joint ventures and associates	**6.8**	**3.6**	**7.9**	**4.5**
Net assets of joint ventures		0.8		2.1
Net assets of associate		2.8		2.4
Net assets of joint ventures and associates		**3.6**		**4.5**

16. Deferred tax

Year ended 31 March 2020

Deferred tax asset

All figures in £ million	Intellectual property	Short-term timing differences	Losses	Total
At 1 April 2019	0.4	14.0	4.9	19.3
Adjustment for change in accounting policy (note 37)	–	0.4	–	0.4
Restated opening balance	0.4	14.4	4.9	19.7
(Charged)/credited to income statement	(0.1)	3.7	2.8	6.4
Charged to equity	–	(0.8)	–	(0.8)
Charged to other comprehensive income	–	(0.8)	–	(0.8)
Transferred to current tax	–	(1.2)	–	(1.2)
Acquired in business combinations	–	0.1	–	0.1
Foreign exchange	–	0.2	0.1	0.3
Gross deferred tax asset at 31 March 2020	**0.3**	**15.6**	**7.8**	**23.7**
Less: liability available for offset				(10.4)
Net deferred tax asset at 31 March 2020				**13.3**

Deferred tax liability

All figures in £ million	Pension surplus	Accelerated capital allowances	Acquisition intangibles	Total
At 1 April 2019	(48.6)	(16.1)	(19.9)	(84.6)
(Charged)/credited to income statement	(2.5)	(11.0)	0.2	(13.3)
Charged to other comprehensive income	(12.7)	–	–	(12.7)
Acquired in business combination	–	–	(1.3)	(1.3)
Foreign exchange	–	0.3	(0.1)	0.2
Gross deferred tax liability at 31 March 2020	**(63.8)**	**(26.8)**	**(21.1)**	**(111.7)**
Less: asset available for offset				10.4
Net deferred tax liability at 31 March 2020				**(101.3)**

Deferred tax has been calculated at the rate at which the timing difference is expected to reverse using the enacted future statutory rate.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to do so and there is an intention to settle the balances net. Deferred tax has been calculated using the enacted future statutory tax rates.

A deferred tax liability of £1.3m was created on the acquisition of Newman & Spurr Consultancy ('NSC') in the year. NSC also had a net £0.1m deferred tax asset on the balance sheet at acquisition. No deferred tax liability was created on the acquisition of Manufacturing Techniques Inc due to a US statutory election that treats the purchase as an acquisition of assets rather than a share purchase for tax purposes and equates book and tax basis of the acquired assets.

At 31 March 2020 the Group had unused tax losses and surplus interest costs of £90.3m which are available for offset against future taxable profits. Deferred tax assets are recognised on the balance sheet of £7.8m in respect of £37.3m of US net operating losses and £1.5m in respect of £5.8m of US net interest expense within short term timing differences. No deferred tax asset is recognised in respect of the remaining £47.2m of losses/interest costs due to uncertainty over the timing and extent of their utilisation. Full recognition of the remaining losses/interest would increase the deferred tax asset by £12.2m. The Group has £33.8m of time-limited US net operating losses of which £22.8m will expire in 2035, £9.5m in 2036 and £1.5m in 2038. US capital losses of £28.2m expired in 2020.

There are no material temporary differences associated with investments in subsidiaries or interests in joint ventures for which deferred tax liabilities have not been recognised.

Year ended 31 March 2019 (restated)

Deferred tax asset

All figures in £ million	Intellectual property	Short-term timing differences	Losses	Total
At 1 April 2018	3.2	7.3	5.5	16.0
Adjustment for change in accounting policy (note 37)	-	0.4	-	0.4
Restated opening balance	3.2	7.7	5.5	16.4
(Charged)/credited to income statement	(2.8)	6.1	(0.8)	2.5
Charged to other comprehensive income	–	(0.6)	–	(0.6)
Credited to equity	–	1.0	–	1.0
Acquired in business combination	–	(0.8)	–	(0.8)
Foreign exchange	–	1.0	0.2	1.2
Gross deferred tax asset at 31 March 2019 (restated)	**0.4**	**14.4**	**4.9**	**19.7**
Less: liability available for offset (restated)				(11.9)
Net deferred tax asset at 31 March 2019 (restated)				**7.8**

Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

Deferred tax liability

All figures in £ million	Pension surplus	Accelerated capital allowances	Acquisition intangibles	Total
At 1 April 2018	(58.5)	(10.3)	(7.2)	(76.0)
(Charged)/credited to income statement	(1.4)	(5.8)	0.7	(6.5)
Charged to other comprehensive income	11.3	–	–	11.3
Acquired in business combination	–	–	(13.6)	(13.6)
Foreign exchange	–	–	0.2	0.2
Gross deferred tax liability at 31 March 2019	**(48.6)**	**(16.1)**	**(19.9)**	**(84.6)**
Less: asset available for offset (restated)				11.9
Net deferred tax liability at 31 March 2019 (restated)				**(72.7)**

17. Inventories
As at 31 March

All figures in £ million	2020	2019
Raw materials	27.7	24.1
Work in progress	9.0	6.4
Finished goods	15.6	9.6
	52.3	**40.1**

18. Trade and other receivables
As at 31 March

All figures in £ million	2020	2019
Trade receivables	105.0	86.7
Contract assets	103.8	90.5
Other receivables	11.3	12.1
Prepayments	29.9	19.2
	250.0	**208.5**

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivable from the date credit was granted to the reporting date. Credit risk is limited as a result of the high percentage of revenue derived from UK and US government agencies. Accordingly, the Directors believe that no credit provision in excess of the allowance for doubtful debts is required. As at 31 March 2020 the Group carried a provision for doubtful debts of £3.1m (2019: £1.2m).

Contract assets represents unbilled amounts recoverable under customer contracts (refer to accounting policies note 35). The two businesses acquired in the year contributed £7.4m of the increase in contract assets compared to prior year, with organic revenue growth contributing to the balance of the increase.

Ageing of past due but not impaired receivables

All figures in £ million	2020	2019
Up to three months	22.7	14.5
Over three months	9.8	2.4
	32.5	**16.9**

Movements in the doubtful debt provision

All figures in £ million	2020	2019
At 1 April	1.2	1.5
Created	2.2	1.9
Released	(0.3)	(0.1)
Utilised	–	(2.2)
Foreign exchange	–	0.1
At 31 March	**3.1**	**1.2**

The maximum exposure to credit risk in relation to trade receivables at the reporting date is the fair value of trade receivables. The Group does not hold any collateral as security.

19. Current tax

As at 31 March

All figures in £ million	2020	2019
Current tax receivable	0.2	1.5
Current tax payable	(4.1)	(8.5)
	(3.9)	**(7.0)**

Following adoption of the new accounting standard, IFRIC 23 'Uncertainty over income tax treatment', the Group's tax provisions have been re-assessed and recalculated. QinetiQ has chosen to apply the transition approach and has not restated comparative information in the financial statements. Rather, IFRIC 23 has been applied as an adjustment (to the value of £2.1m) to retained earnings at the beginning of the current financial year. Refer to note 37 for more details.

20. Trade and other payables

As at 31 March

All figures in £ million	2020	2019
Trade payables	65.0	61.2
Other tax and social security	37.6	31.8
Contract liabilities	143.9	123.6
Accrued expenses and other payables	133.3	130.0
Total current trade and other payables	**379.8**	**346.6**
Contract liabilities	2.7	4.3
Other payables	22.6	16.6
Total non-current trade and other payables	**25.3**	**20.9**
Total trade and other payables	**405.1**	**367.5**

The two businesses acquired in the year contributed £2.2m of the increase in contract liabilities compared to prior year, with organic revenue growth contributing to the balance of the increase. Post year end the Directors have agreed that the 2020 year end bonus liability of ~£20m will be primarily settled in shares rather than in cash.

21. Provisions

Year ended 31 March 2020

All figures in £ million	Property	Other	Total
At 1 April 2019	13.1	3.8	16.9
Created in year	1.3	0.5	1.8
Released in year	(5.1)	(0.6)	(5.7)
Unwind of discount	0.1	–	0.1
Reclassified to other account	(0.1)	–	(0.1)
Utilised in year	(1.2)	(0.2)	(1.4)
Foreign exchange	–	(0.1)	(0.1)
At 31 March 2020	**8.1**	**3.4**	**11.5**
Current liability	1.2	0.6	1.8
Non-current liability	6.9	2.8	9.7
At 31 March 2020	**8.1**	**3.4**	**11.5**

Property provisions relate to under-utilised properties in the UK. The extent of the provision is affected by the timing of when properties can be sub-let and the proportion of space that can be sub-let. Based on current assessment the provision will be utilised within 7 years.

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

22. Net cash
As at 31 March

			2020			2019*
All figures in £ million	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Current financial assets/(liabilities)						
Deferred financing costs	0.4	–	0.4	0.4	–	0.4
Lease liabilities	–	(8.6)	(8.6)	–	(9.7)	(9.7)
Derivative financial instruments	6.3	(0.3)	6.0	0.1	(1.1)	(1.0)
Total current financial assets/(liabilities)	**6.7**	**(8.9)**	**(2.2)**	**0.5**	**(10.8)**	**(10.3)**
Non-current assets/(liabilities)						
Deferred financing costs	0.9	–	0.9	0.9	–	0.9
Lease liabilities	–	(19.3)	(19.3)	–	(20.6)	(20.6)
Derivative financial instruments	0.1	(0.6)	(0.5)	–	(0.3)	(0.3)
Total non-current financial assets/(liabilities)	**1.0**	**(19.9)**	**(18.9)**	**0.9**	**(20.9)**	**(20.0)**
Total financial assets/(liabilities)	**7.7**	**(28.8)**	**(21.1)**	**1.4**	**(31.7)**	**(30.3)**
Cash	48.8	–	48.8	99.6	–	99.6
Cash equivalents	57.0	–	57.0	91.2	–	91.2
Total cash and cash equivalents	**105.8**	–	**105.8**	**190.8**	**–**	**190.8**
Total net cash as defined by the Group			**84.7**			**160.5**

At 31 March 2020 the Group held £3.7m (2019: £2.8m) 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 securities and corporate floating rate notes.

* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

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

All figures in £ million	**2020**	**2019**
Within one year	5.2	5.9
In the second to fifth years inclusive	10.2	13.1
Greater than five years	2.7	3.7
	18.1	**22.7**

Group as a lessee

Implementation of IFRS 16 'Leases'

The new leases standard has been adopted for 2020 using the full retrospective approach. IFRS 16 eliminates the previous dual accounting model for lessees, which distinguished between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to previous finance lease accounting. Lessor accounting remains similar to existing practice i.e. lessors continue to classify leases as finance leases and operating leases.

The impact on the income statement for QinetiQ is negligible at a 'profit before tax' level with no impact on EPS, but EBITDA is increased, offset by an increase in depreciation and an increase in finance expense.

The impact on the balance sheet is the recognition of a new 'right of use' asset within Property Plant & Equipment and the recognition of a new lease liability. The latter is incorporated within the Group's definition (see glossary) of net cash, hence the most significant impact on the Group's financial KPIs is this change to net cash (reducing previously reported net cash at 31 March 2019 by £28.0m).

See note 37 for full details of the impact of implementing IFRS 16.

Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

Right-of-use assets (included within Property, Plant & Equipment – see note 14)

All figures in £ million	2020	2019*
Land and buildings	19.5	20.9
Plant, machinery and vehicles	5.2	6.6
Computers and office equipment	0.1	0.2
	24.8	**27.7**

Lease liabilities (included within Net cash – see note 22)

All figures in £ million	2020	2019
Current	8.6	9.7
Non-current	19.3	20.6
	27.9	**30.3**

* Restated. In the 2019 Annual Report the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 'Leases'.

Additions to the right-of-use assets during the 2020 financial year were £6.5m, including assets recognised on acquisition of £2.5m. The total cash outflow for leases in 2020 was £10.7m.

Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

All figures in £ million	2020	2019*
Depreciation charge		
Land and buildings	5.1	5.0
Plant, machinery and vehicles	4.5	3.3
Computers and office equipment	0.1	0.1
Total depreciation charge	**9.7**	**8.4**
Interest expense (included in finance cost)	1.0	1.1
Expense relating to short-term leases (included in operating costs)	1.6	1.6
Total lease and sub-lease expense charged to profit before tax	**12.3**	**11.1**

* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

Minimum lease payment commitments

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

All figures in £ million	2020	2019*
Within one year	**8.6**	9.7
In the second to fifth years inclusive	**17.8**	18.1
Greater than five years	**1.5**	2.5
	27.9	**30.3**

* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

Lease payments represent capital and interest payable by the Group on certain property, plant and equipment. Principal leases are negotiated for a term of approximately 10 years.

24. Financial risk management

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

Treasury and risk management policies, which are set by the Board, specify guidelines on financial risks and the use of financial instruments to manage risk. The instruments and techniques used to manage exposures include foreign currency derivatives. 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.

A) Fair values of financial instruments

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

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

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

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

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2020:

All figures in £ million	Note	Level 1	Level 2	Level 3	Total
Assets					
Current derivative financial instruments	22	–	6.3	–	6.3
Non-current derivative financial instruments	22	–	0.1	–	0.1
Liabilities					
Current derivative financial instruments	22	–	(0.3)	–	(0.3)
Non-current derivative financial instruments	22	–	(0.6)	–	(0.6)
Total		–	**5.5**	–	**5.5**

The following table presents the Group's assets and liabilities that are measured at fair value as at 31 March 2019:

All figures in £ million	Note	Level 1	Level 2	Level 3	Total
Assets					
Current derivative financial instruments	22	–	0.1	–	0.1
Non-current derivative financial instruments	22	–	–	–	–
Liabilities					
Current derivative financial instruments	22	–	(1.1)	–	(1.1)
Non-current derivative financial instruments	22	–	(0.3)	–	(0.3)
Total		**–**	**(1.3)**	**–**	**(1.3)**

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

All financial assets and liabilities had a fair value that is identical to book value at 31 March 2020 and 31 March 2019. Detailed analysis is provided in the following tables:

As at 31 March 2020

All figures in £ million	Note	Financial assets at fair value profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Derivatives used as hedges	Total carrying value	Total fair value
Financial assets							
Non-current							
Derivative financial instruments	22	–	–	–	0.1	0.1	0.1
Deferred financing costs	22	–	–	0.9	–	0.9	0.9
Current							
Trade and other receivables (excluding prepayments)	18	–	220.1	–	–	220.1	220.1
Derivative financial instruments	22	–	–	–	6.3	6.3	6.3
Deferred financing costs	22	–	–	0.4	–	0.4	0.4
Cash and cash equivalents	22	105.8	–	–	–	105.8	105.8
Total financial assets		**105.8**	**220.1**	**1.3**	**6.4**	**333.6**	**333.6**
Financial liabilities							
Non-current							
Trade and other payables (excluding contract liabilities)	20	–	–	(22.6)	–	(22.6)	(22.6)
Derivative financial instruments	22	–	–	–	(0.6)	(0.6)	(0.6)
Lease liabilities		–	–	(19.3)	–	(19.3)	(19.3)
Current							
Trade and other payables (excluding contract liabilities)	20	–	–	(235.9)	–	(235.9)	(235.9)
Derivative financial instruments	22	–	–	–	(0.3)	(0.3)	(0.3)
Lease liabilities		–	–	(8.6)	–	(8.6)	(8.6)
Total financial liabilities		–	–	**(286.4)**	**(0.9)**	**(287.3)**	**(287.3)**
Total		**105.8**	**220.1**	**(285.1)**	**5.5**	**46.3**	**46.3**

As at 31 March 2019

All figures in £ million	Note	Financial assets at fair value profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Derivatives used as hedges	Total carrying value	Total fair value
Financial assets							
Non-current							
Deferred financing costs	22	–	–	0.9	–	0.9	0.9
Current							
Trade and other receivables (excluding prepayments)	18	–	189.3	–	–	189.3	189.3
Derivative financial instruments	22	–	–	–	0.1	0.1	0.1
Deferred financing costs	22	–	–	0.4	–	0.4	0.4
Cash and cash equivalents	22	190.8	–	–	–	190.8	190.8
Total financial assets		**190.8**	**189.3**	**1.3**	**0.1**	**381.5**	**381.5**
Financial liabilities							
Non-current							
Trade and other payables (excluding contract liabilities)	20	–	–	(16.6)	–	(16.6)	(16.6)
Derivative financial instruments	22	–	–	–	(0.3)	(0.3)	(0.3)
Lease liabilities*		–	–	(20.6)	–	(20.6)	(20.6)
Current							
Trade and other payables (excluding contract liabilities)	20	–	–	(223.0)	–	(223.0)	(223.0)
Derivative financial instruments	22	–	–	–	(1.1)	(1.1)	(1.1)
Lease liabilities*		–	–	(9.7)	–	(9.7)	(9.7)
Total financial liabilities		**–**	**–**	**(269.9)**	**(1.4)**	**(271.3)**	**(271.3)**
Total		**190.8**	**189.3**	**(268.6)**	**(1.3)**	**110.2**	**110.2**

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

24. Financial risk management continued

B) Interest rate risk

The Group operates an interest rate policy designed to optimise interest costs and to reduce volatility in reported earnings. The Group's current policy is to require rates to be fixed for 30%–80% of the level of borrowings, which is achieved primarily through fixed-rate borrowings. Where there are significant changes in the level and/or structure of debt, policy permits borrowings to be 100% fixed, with regular Board reviews of the appropriateness of this fixed percentage. At 31 March 2020 and 31 March 2019 the Group had no borrowings.

Financial assets/(liabilities)
As at 31 March 2020

	Financial assets		Financial liabilities	
All figures in £ million	**Floating**	**Non-interest bearing**	**Fixed or capped**	**Non-interest bearing**
Sterling	70.5	6.4	–	(0.8)
US dollar	21.4	–	–	–
Euro	4.0	–	(27.9)	–
Australian dollar	4.6	–	–	–
Other	5.3	–	–	–
	105.8	**6.4**	**(27.9)**	**(0.8)**

*As at 31 March 2019**

	Financial assets		Financial liabilities	
All figures in £ million	**Floating**	**Non-interest bearing**	**Fixed or capped**	**Non-interest bearing**
Sterling	159.1	0.1	–	(1.4)
US dollar	20.0	–	–	–
Euro*	5.2	–	(30.3)	–
Australian dollar	1.5	–	–	–
Other	5.0	–	–	–
	190.8	**0.1**	**(30.3)**	**(1.4)**

* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

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

Interest rate risk management

The revolving credit facility (note 24E) is floating-rate and undrawn as at 31 March 2020.

C) Currency risk

Transactional currency exposure

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

The table below shows the Group's currency exposures, being exposures on currency transactions that give rise to net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating company involved.

Functional currency of the operating company

	Net foreign currency monetary assets/(liabilities)				
All figures in £ millions	**US$**	**Euro**	**A$**	**Other**	**Total**
31 March 2020 – Sterling	**(52.8)**	**(8.3)**	**0.3**	**(58.5)**	**(119.3)**
31 March 2019 – Sterling	5.2	2.7	0.2	3.4	11.5

The amounts shown in the table take into account the effect of the forward contracts entered into to manage these currency exposures. The Group enters into forward foreign currency contracts to hedge the currency exposures that arise on sales and purchases denominated in foreign currencies, as the transaction occurs. The principal contract amounts of the outstanding forward currency contracts as at 31 March 2020 against Sterling are net US dollars sold of £62.9m (US$73.6m), net Euros sold of £2.0m (€1.9m), net Canadian dollars sold £28.0m (C$47.1m), net United

Arab Emirate dirhams sold £5.6m (AED 24.0m), net Swiss Francs bought of £2.0 (CHF 2.4m), net Swedish Krona bought of £11.1m (SEK 133.0m), net Norwegian Krona bought £0.8m (NOK 10.5m) and net Australian dollars bought £0.1m (A$ 0.2m).

Translational currency exposure

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

D) Financial credit risk

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

The maximum credit-risk exposure in the event of other parties failing to perform their obligations under financial assets, excluding trade and other receivables, totals £112.2m (2019: £190.9m). The Group held cash and cash equivalents of £105.8m at 31 March 2020 (2019: £190.8m), which represents the maximum credit exposure on these assets. The cash and cash equivalents were held with different financial institutions which were rated single A or better. Cash equivalents comprise £57m (2019: £91.2m) invested in AAA-rated money market funds.

E) Liquidity risk

Borrowing facilities

As at 31 March 2020 the Group had a revolving credit facility (RCF) of £275m (2019: £275m). This facility has an initial term of five years which was extended by one year and there remains a further one-year option to extend the final maturity to 27 September 2025 and is un-utilised as shown in the table below:

	Interest rate: LIBOR plus	Total £m	Drawn £m	Undrawn £m
Committed facilities 31 March 2020	0.53%	275.0	–	275.0
Freely available cash and cash equivalents				102.1
Available funds 31 March 2020				**377.1**
Committed facilities 31 March 2019	0.55%	275.0	–	275.0
Freely available cash and cash equivalents				188.0
Available funds 31 March 2019				**463.0**

Gross contractual cash flows for borrowings and other financial liabilities

The following are the contractual maturities of financial liabilities, including interest payments. The cash flows associated with derivatives that are cash flow hedges are expected to have an impact on profit or loss in the periods shown.

As at 31 March 2020

All figures in £ million	Book value	Contractual cash flows	1 year or less	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities						
Trade and other payables (excluding contract liabilities)	(258.5)	(258.5)	(235.9)	(22.6)	–	–
Leases	(27.9)	(29.9)	(9.2)	(7.2)	(11.7)	(1.8)
Derivative financial liabilities						
Forward foreign currency contracts – cash flow hedges	(0.9)	(0.9)	(0.3)	(0.3)	(0.3)	–
	(287.3)	**(289.3)**	**(245.4)**	**(30.1)**	**(12.0)**	**(1.8)**

As at 31 March 2019

All figures in £ million	Book value	Contractual cash flows	1 year or less	1–2 years	2–5 years	More than 5 years
Non-derivative financial liabilities						
Trade and other payables (excluding contract liabilities)	(239.6)	(239.6)	(223.0)	(16.6)	–	–
Leases*	(30.3)	(33.6)	(9.6)	(6.8)	(13.3)	(3.9)
Derivative financial liabilities						
Forward foreign currency contracts – cash flow hedges	(1.4)	(1.4)	(1.1)	(0.1)	(0.2)	–
	(271.3)	**(274.6)**	**(233.7)**	**(23.5)**	**(13.5)**	**(3.9)**

*Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

24. Financial risk management continued

F) Derivative financial instruments

As at 31 March

All figures in £ million	Asset gains 2020	Liability losses 2020	Net 2020	Asset gains 2019	Liability losses 2019	Net 2019
Forward foreign currency contracts – cash flow hedges	6.4	(0.9)	5.5	0.1	(1.4)	(1.3)
Derivative assets/(liabilities) at the end of the year	**6.4**	**(0.9)**	**5.5**	**0.1**	**(1.4)**	**(1.3)**

As at 31 March

All figures in £ million	Asset gains 2020	Liability losses 2020	Net 2020	Asset gains 2019	Liability losses 2019	Net 2019
Expected to be recognised:						
In one year or less	6.3	(0.3)	6.0	0.1	(1.1)	(1.0)
Between one and two years	0.1	(0.3)	(0.2)	–	(0.1)	(0.1)
More than two years	–	(0.3)	(0.3)	–	(0.2)	(0.2)
Derivative assets/(liabilities) at the end of the year	**6.4**	**(0.9)**	**5.5**	**0.1**	**(1.4)**	**(1.3)**

G) Maturity of financial liabilities

As at 31 March 2020

All figures in £ million	Trade and other payables[1]	Bank borrowings and loan notes	Derivative financial instruments and lease liabilities	Total
Due in one year or less	235.9	(1.3)	8.9	243.5
Due in more than one year but not more than two years	22.6	–	18.0	40.6
Due in more than two years but not more than five years	–	–	1.8	1.8
	258.5	**(1.3)**	**28.7**	**285.9**

[1] Excluding contract liabilities

As at 31 March 2019

All figures in £ million	Trade and other payables[1]	Bank borrowings and loan notes	Derivative financial instruments and lease liabilities	Total
Due in one year or less	223.0	(1.3)	10.8	232.5
Due in more than one year but not more than two years	16.6	–	18.2	34.8
Due in more than two years but not more than five years	–	–	2.7	2.7
	239.6	**(1.3)**	**31.7**	**270.0**

[1] Excluding contract liabilities

H) Sensitivity analysis

The Group's sensitivity to changes in foreign exchange rates and interest rates on financial assets and liabilities as at 31 March 2020 is set out in the following table. The impact of a weakening in Sterling on the Group's financial assets and liabilities would be more than offset in equity and income by its impact on the Group's overseas net assets and earnings respectively. Sensitivity on Group's assets other than financial assets and liabilities is not included in this analysis.

As at 31 March 2020

All figures in £ million	1% decrease in interest rates		10% weakening in Sterling	
	Equity[1]	Profit before tax	Equity	Profit before tax
Sterling	–	(0.7)	–	–
US dollar	–	(0.2)	2.9	–
Other	–	(0.1)	11.6	–

All figures in £ million	1% increase in interest rates		10% strengthening in Sterling	
	Equity[1]	Profit before tax	Equity	Profit before tax
Sterling	–	0.7	–	–
US dollar	–	0.2	(2.4)	–
Other	–	0.1	8.6	–

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

As at 31 March 2019

All figures in £ million	1% decrease in interest rates		10% weakening in Sterling	
	Equity[1]	Profit before tax	Equity	Profit before tax
Sterling	–	(1.6)	–	–
US dollar	–	(0.2)	1.8	–
Other	–	(0.1)	1.0	–

All figures in £ million	1% increase in interest rates		10% strengthening in Sterling	
	Equity[1]	Profit before tax	Equity	Profit before tax
Sterling	–	1.6	–	–
US dollar	–	0.2	(1.3)	–
Other	–	0.1	(1.0)	–

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

The amounts generated from the sensitivity analysis are forward-looking estimates of market risk assuming that certain market conditions occur. Actual results in the future may differ materially from those projected as a result of developments in global financial markets that may cause fluctuations in interest and exchange rates to vary from the hypothetical amounts disclosed in the previous tables, which should not, therefore, be considered to be a projection of likely future events and losses.

The estimated changes for interest rate movements are based on an instantaneous decrease or increase of 1% (100 basis points) in the specific rate of interest applicable to each class of financial instruments from the levels effective at 31 March 2020, with all other variables remaining constant. The estimated changes for foreign exchange rates are based on an instantaneous 10% weakening or strengthening in Sterling against all other currencies from the levels applicable at 31 March 2020, with all other variables remaining constant. Such analysis is for illustrative purposes only – in practice market rates rarely change in isolation.

The impact of transactional risk on the Group's monetary assets/liabilities that are not held in the functional currency of the entity holding those assets/liabilities is minimal.

25. Cash flows from operations
For the year ended 31 March

All figures in £ million	2020	2019*
Profit after tax for the year	**106.5**	**113.9**
Adjustments for:		
Taxation expense	16.6	9.3
Net finance income	(5.5)	(7.3)
Gain on sale of investment	–	(1.1)
Gain on sale of property	(14.0)	(0.2)
Impairment (reversal)/charge in respect of property, plant and equipment	(0.4)	6.4
Impairment of goodwill	14.1	–
Acquisition transaction costs not paid as at year end	–	1.3
Acquisition related remuneration costs not paid as at year end	0.5	–
Pension past service cost	–	0.7
Amortisation of purchased or internally developed intangible assets	4.3	3.2
Amortisation of intangible assets arising from acquisitions	7.5	3.9
Depreciation of property, plant and equipment	41.4	37.4
Profit on disposal of plant and equipment	(1.6)	(5.5)
Share of post-tax loss/(profit) of equity accounted entities	0.7	(0.6)
Share-based payments charge	7.4	6.1
Retirement benefit contributions in excess of income statement expense	(4.3)	(1.8)
Net movement in provisions	(5.4)	(3.6)
	167.8	**162.1**
Increase in inventories	(11.3)	(0.5)
Increase in receivables	(25.5)	(48.7)
Increase in payables	35.5	21.7
Changes in working capital	**(1.3)**	**(27.5)**
Net cash flow from operations	**166.5**	**134.6**

Reconciliation of net cash flow from operations to underlying net cash flow from operations to free cash flow

All figures in £ million	2020	2019*
Net cash flow from operations	**166.5**	**134.6**
Add back specific adjusting item: acquisition related remuneration costs	3.8	–
Add back specific adjusting item: acquisition transaction costs	7.5	–
Add back specific adjusting item: acquisition integration costs	–	0.7
Underlying net cash flow from operations	**177.8**	**135.3**
Add: proceeds from disposal of plant and equipment	1.6	6.9
Less: tax and net interest payments	(10.5)	(11.1)
Less: purchases of intangible assets and property, plant and equipment	(109.4)	(87.6)
Free cash flow	**59.5**	**43.5**

Underlying cash conversion ratio

All figures in £ million	2020	2019*
Underlying operating profit – £ million	133.2	124.9
Underlying net cash flow from operations – £ million	177.8	135.3
Underlying cash conversion ratio – %	**133%**	**108%**

* Prior year comparatives have been restated due to a change in accounting policy in respect of leases. See note 37 for details.

26. Share capital and other reserves

Shares allotted, called up and fully paid:

	Ordinary shares of 1p each (equity)		Special Share of £1 (non-equity)		Total	
	£	Number	£	Number	£	Number
At 1 April 2019 and 31 March 2020	5,717,571	571,757,121	1	1	5,717,572	571,757,122

Except as noted below all shares in issue at 31 March 2020 rank pari-passu in all respects.

Rights attaching to the Special Share

QinetiQ carries out activities which are important to UK defence and security interests. To protect these interests in the context of the ongoing commercial relationship between the MOD and QinetiQ, and to promote and reinforce the Compliance Principles, the MOD holds a Special Share in QinetiQ. QinetiQ obtained MOD consent to changes in its Special Shareholder rights, which were approved by shareholders at the 2012 AGM. The changes to the Special Share were disclosed in the 2012 Annual Report. Subsequent to the changes approved at the 2012 AGM the Special Share confers certain rights on the holder:

a) to require the Group to implement and maintain the Compliance System (as defined in the Articles of Association) so as to make at all times effective its and each member of QinetiQ Controlled Group's application of the Compliance Principles, in a manner acceptable to the Special Shareholder
b) to refer matters to the Board for its consideration in relation to the application of the Compliance Principles
c) to require the Board to obtain Special Shareholder's consent:
    i) if at any time when the chairman is not a British citizen, it is proposed to appoint any person to the office of chief executive, who is not a British citizen
    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
e) to demand a poll at any of QinetiQ's meetings (even though it may have no voting rights except those specifically set out in the Articles).

The Special Shareholder has an option to purchase defined Strategic Assets of the Group in certain circumstances. The Special Shareholder has, inter alia, the right to purchase any Strategic Assets which the Group wishes to sell. Strategic Assets are normally testing and research facilities (see note 29 for further details).

The Special Share may only be issued to, held by and transferred to HM Government (or as it directs). At any time the Special Shareholder may require QinetiQ to redeem the Special Share at par. If QinetiQ is wound up the Special Shareholder will be entitled to be repaid the capital paid up on the Special Share before other shareholders receive any payment. The Special Shareholder has no other right to share in the capital or profits of QinetiQ.

The Special Shareholder must give consent to a general meeting held on short notice.

The Special Share entitles the Special Shareholder to require certain persons who hold (together with any person acting in concert with them) a material interest in QinetiQ to dispose of some or all of their ordinary shares in certain prescribed circumstances on the grounds of national security or conflict of interest.

The Directors must register any transfer of the Special Share within seven days.

Other reserves

The translation reserve includes the cumulative foreign exchange difference arising on translation since the Group transitioned to IFRS. Movements on hedge instruments, where the hedge is effective, are recorded in the hedge reserve until the hedge ceases.

The capital redemption reserve, which was created following the redemption of preference share capital and the bonus issue of shares, cannot be distributed.

Own shares

Own shares represent shares in the Company that are held by independent trusts and include treasury shares and shares held by the employee share ownership plan. Included in retained earnings at 31 March 2020 are 6,123,406 shares (2019: 6,946,678 shares).

27. Share-based payments

The Group operates a number of share-based payment plans for employees. The total share-based payment expense in the year was £7.5m, of which £7.5m related to equity-settled schemes and nil related to cash-settled schemes (2019: £6.1m, of which £6.1m related to equity-settled schemes and nil to cash-settled schemes). The share-based payment charged to equity is £6.8m consisting of the £7.5m charge to the income statement offset by a £0.1m charge to equity in respect of dividends accruing on unvested awards and £0.6m in respect of cash payment of the Bonus Banking Plan (BBP).

Performance Share Plan (PSP)

During the year there were no further grants of PSP awards to employees as this scheme has been phased out. The awards vest after three years with 50% of the awards subject to TSR conditions and 50% subject to EPS conditions as detailed in the Report from the Remuneration Committee.

	2020 Number of shares	2019 Number of shares
Outstanding at start of the year	2,915,111	5,988,221
Exercised during the year	(800,356)	(63,801)
Forfeited/lapsed during the year	(2,011,441)	(3,009,309)
Outstanding at end of the year	**103,314**	**2,915,111**

PSP awards are equity-settled awards and those outstanding at 31 March 2020 will vest on 22 June 2020. See page 101. 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. The weighted average share price at date of exercise was £2.80 (2019: £2.14). Of the options outstanding at the end of the year nil were exercisable (2019: nil).

Group Share Incentive Plan (SIP)

Under the QinetiQ SIP the Group offers UK employees the opportunity of purchasing up to £150 worth of shares a month at the prevailing market rate. The Group will make a matching share award of a third of the employee's payment. The Group's matching shares may be forfeited if the employee ceases to be employed by QinetiQ within three years of the award of the shares. There is no exercise price for these SIP awards.

	2020 Number of matching shares	2019 Number of matching shares
Outstanding at start of the year	782,362	853,512
Awarded during the year	259,317	289,748
Exercised during the year	(251,278)	(309,950)
Forfeited during the year	(43,756)	(50,948)
Outstanding at end of the year	**746,645**	**782,362**

SIP matching shares are equity-settled awards; those outstanding at 31 March 2020 had an average remaining life of 1.5 years (2019: 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 (2019: nil).

Bonus Banking Plan (BBP)

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

	2020 Number of matching shares	2019 Number of matching shares
Outstanding at start of the year	1,431,672	1,324,541
Granted during the year	679,920	740,122
Exercised during the year	(299,800)	(632,991)
Outstanding at end of the year	**1,811,792**	**1,431,672**

The BBP is a remuneration scheme that runs in three-year performance cycles, with each cycle vesting over a four-year period. Under the BBP a contribution will be made by the Company into the participant's Plan account following the end of each Plan year. 50% of the value of a participant's Plan 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. Refer to the Directors' Remuneration Report for further details.

At 31 March 2020 the awards had an average remaining life of 1.2 years (2019: 1.2 years). There is no exercise price for these awards. The fair value of the awards at 31 March 2020 was £3.22 (2019: £3.01) being the Group's closing share price as at 31 March. Of the awards outstanding at the end of the year nil were exercisable.

Deferred Share Plan (DSP)

During the year the Group granted DSP awards to certain employees.

	2020 Number of awards	2019 Number of awards
Outstanding at start of the year	4,758,085	2,518,384
Difference between actual awards in year and amount provisionally awarded in prior year	368,558	(219,315)
Lapsed during the year	(245,566)	(95,577)
Provisionally awarded during the year	–	2,554,593
Outstanding at end of the year	**4,881,077**	**4,758,085**
Provisional awards outstanding	–	2,554,593
Awards outstanding	4,881,077	2,203,492
Outstanding at end of the year	**4,881,077**	**4,758,085**

Early in the financial year QinetiQ's top 200 leaders are provisionally awarded contingent shares in the Company. The number of awards is dependent on the Group's performance during the year (specifically with respect to the level of non-UK revenue growth). This is provisionally quantified at year end based on Group performance and also the number of eligible employees in employment as at 31 March. Actual awards are made in the following June and the final number awarded will be slightly different to the number provisionally calculated. Awards are then subject to a three-year vesting period and a further two-year holding period. Vesting of the awards is contingent upon Group operating profit in the year prior to vesting being maintained at the level reported during the year prior to award. Refer to the Directors' Remuneration Report for further details.

At 31 March 2020 the awards had an average remaining life of 1.7 years (2019: 2.6 years). There is no exercise price for these awards. No DSP's were awarded for the year ended 31 March 2020. The fair value of DSP's awarded during the year (in respect of prior year performance) was £2.79 being the Group's closing share price at the date of award (1 June 2019). Of the awards outstanding at the end of the year nil were exercisable.

Restricted share plan (RSP)

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

	2020 Number of awards	2019 Number of awards
Outstanding at start of the year	44,014	–
Granted during the year	47,291	132,155
Exercised during the year	(14,908)	(88,141)
Lapsed during the year	(5,042)	–
Outstanding at end of the year	**71,355**	**44,014**

At 31 March 2020 the awards had an average remaining life of 0.7 year (2019: 1.2 years). There is no exercise price for these awards. The weighted average fair value of grants made during the year was £3.03 (2019: £2.78). The weighted average share price at date of exercise was £2.86 (2019: £2.70). Of the options outstanding at the end of the year nil were exercisable (2019: nil).

Other performance incentives

During the prior year the Group granted 399,708 shares to 136 employees of Inzpire Limited as part of the acquisition deal. The Group issued share-based payment awards to all Inzpire employees on 30 November 2018 which is the grant date. The fair value of QinetiQ shares on grant date was £2.97 and the awards will vest after two years on 30 November 2020 subject to continued employment at the date of vesting.

	2020 Number of awards	2019 Number of awards
Outstanding at start of the year	399,708	–
Granted during the year	–	399,708
Lapsed during the year	(56,443)	–
Outstanding at end of the year	**343,265**	**399,708**

Share-based awards that vest based on non-market performance conditions have been valued at the share price at grant date and equity-settled.

28. Post-retirement benefits

Defined contribution plans

In the UK the Group operates two defined contribution pension plans for the majority of its UK employees: a Group Personal Pension Plan (GPP) and a defined contribution section of the QinetiQ Pension Scheme in accordance with auto-enrolment regulations. These are both defined contribution schemes managed by Scottish Widows. A defined contribution plan is a pension plan under which the Group and employees pay fixed contributions to a third-party financial provider. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as an employee benefit expense when they are due. The expense incurred during the year was £42.9m (2019: £40.2m). Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Defined benefit pension plan

In the UK the Group operates the QinetiQ Pension Scheme (the Scheme) for approximately one quarter of its UK employees. The Scheme closed to future accrual on 31 October 2013 and there is no on-going service cost. After this date, defined benefit members transferred to a defined contribution section of the 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 rules.

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

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

The Group has no further payment obligations once the agreed contributions have been paid. The expected employer cash contribution to the Scheme for the year ending 31 March 2021 is £2.8m.

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 will be performed as at 30 June 2020. The agreed recovery plan requires £2.8m per annum (at 2020 prices) distributions to the Scheme until 31 March 2032, indexed by reference to CPI. Such distributions are from the Group's Pension Funding Limited Partnership.

QinetiQ's Pension Funding Partnership (PFP) structure

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 effected 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 (from 2012) for 20 years, indexed with reference to CPI. The Scheme's interest in the Partnership will revert back to QinetiQ Limited in 2032.

The Partnership is controlled by QinetiQ and its results are consolidated by the Group. Under IAS 19, the interest held by the Scheme in the Partnership does not qualify as a plan asset for the purposes of the Group's consolidated financial statements and is, therefore, not included within the fair value of plan assets. As a result, the Group's consolidated financial statements are unchanged by the Partnership. In addition, the value of the property transferred to the Partnership and leased back to QinetiQ remains on the balance sheet. QinetiQ retains the operational flexibility to substitute properties of equivalent value within the Partnership and has the option to settle outstanding amounts due under the interest before 2032 if it so chooses.

Other UK schemes

In the UK the Group has a small number of employees for whom benefits are secured through the Prudential Platinum Scheme. The net pension deficits of this scheme at 31 March 2020 amounted to £nil (2019: £nil). QinetiQ also offers employees access to a Group Self Invested Personal Pension Plan, but no Company contributions are paid to this arrangement.

Defined benefit pension plan ('Scheme') net pension asset

The Scheme is in a net asset position with the market value of assets in excess of the present value of Scheme liabilities. These have the values set out below as at 31 March of each year end.

All figures in £ million	2020	2019
Total market value of assets – see table below for analysis by category of asset	1,912.3	1,963.6
Present value of Scheme liabilities	(1,602.6)	(1,704.5)
Net pension asset before deferred tax	**309.7**	**259.1**
Deferred tax liability	(63.8)	(48.6)
Net pension asset after deferred tax	**245.9**	**210.5**

The balance sheet net pension asset is a snapshot view which can be significantly influenced by short-term market factors. The calculation of the net asset depends on factors which are beyond the control of the Group – principally the value at the balance sheet date of the various categories of assets in which the Scheme has invested and long-term interest rates and inflation rates used to value the Scheme's liabilities. This is particularly pertinent during the COVID-19 pandemic whilst markets are extremely volatile. Sensitivities and risks are described on the page 159.

Total expense recognised in the income statement

All figures in £ million	2020	2019
Net finance income	6.5	8.2
Past service cost	–	(0.7)
Administrative expenses	(1.2)	(0.9)
Total net income recognised in the income statement (gross of deferred tax)	**5.3**	**6.6**

Movement in the net pension asset

The movement in the net pension asset (before deferred tax) is set out below:

All figures in £ million	2020	2019
Opening net pension asset	259.1	316.2
Net finance income	6.5	8.2
Net actuarial gain/(loss)	39.8	(66.4)
Administrative expenses	(1.2)	(0.9)
Past service cost	–	(0.7)
Contributions by the employer	5.5	2.7
Closing net pension asset	**309.7**	**259.1**

Fair value of Scheme assets by type of asset

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 changes before they are realised, were:

			2020			2019
All figures in £ million	Quoted	Not quoted in an active market	Total	Quoted	Not quoted in an active market	Total
Equities	113.5	47.3	160.8	127.0	51.8	178.8
LDI investment	347.5	–	347.5	690.8	–	690.8
Asset backed security investments	465.0	–	465.0	–	–	–
Corporate bonds	–	–	–	96.0	–	96.0
Alternative bonds*	215.3	–	215.3	304.4	–	304.4
Property funds	–	167.0	167.0	–	145.6	145.6
Cash and cash equivalents	–	15.8	15.8	–	75.1	75.1
Insurance buy-in policy	–	546.0	546.0	–	566.4	566.4
Outstanding payment due in respect of buy-in	–	–	–	–	(96.0)	(96.0)
Derivatives	–	(5.1)	(5.1)	–	2.5	2.5
Total market value of assets	**1,141.3**	**771.0**	**1,912.3**	**1,218.2**	**745.4**	**1,963.6**

* Includes allocations to high-yield bonds, secured loans and emerging market debt.

The Scheme's assets do not include any of the Group's own transferable financial instruments, property occupied by, or other assets used by the Group.

28. Post-retirement benefits continued

The insurance policy obtained by the pension scheme can only be used to pay or fund employee benefits under the Company's defined benefit plan. It is not available to the Company's own creditors and cannot be paid to another entity. These are the requirements of IAS 19 paragraph 7 and hence our determination is that the insurance policy is a qualifying insurance policy and requires classification as a plan asset. The policy was issued by an insurer that is not a related party.

Per the Scheme rules the Company has an unconditional right to a refund of any surplus, assuming gradual settlement of all liabilities over time. Such surplus 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 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

All figures in £ million	2020	2019
Opening fair value of Scheme assets	1,963.6	1,990.5
Interest income on Scheme assets	47.7	51.2
Re-measurement loss on Scheme assets	(61.2)	(35.2)
Contributions by the employer	5.5	2.7
Net benefits paid out and transfers	(42.1)	(44.7)
Administrative expenses	(1.2)	(0.9)
Closing fair value of Scheme assets	**1,912.3**	**1,963.6**

Changes to the present value of Scheme liabilities

The present value of the Scheme's liabilities, which are derived from cash flow projections over long periods, and thus inherently uncertain, were:

All figures in £ million	2020	2019
Opening present value of Scheme liabilties	(1,704.5)	(1,674.3)
Interest cost	(41.2)	(43.0)
Actuarial gain/(loss) on Scheme liabilities based on:		
Change in demographic assumptions	(2.3)	43.9
Change in financial assumptions	97.2	(69.9)
Experience gains/(losses)	6.1	(5.2)
Net benefits paid out and transfers	42.1	44.7
Past service cost	–	(0.7)
Closing present value of Scheme liabilities	**(1,602.6)**	**(1,704.5)**

The actuarial gains are primarily due to a reduction in the value of the financial assumption for inflation (see Assumptions, below).

Assumptions

The major assumptions used in the IAS 19 valuation of the Scheme's liabilities were:

All figures in £ million	2020	2019
Discount rate applied to Scheme liabilities	2.30%	2.45%
CPI inflation assumption	1.90%	2.35%
Assumed life expectancies in years:		
Future male pensioners (currently aged 60)	87	87
Future female pensioners (currently aged 60)	90	89
Future male pensioners (currently aged 40)	89	89
Future female pensioners (currently aged 40)	91	91

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 2020 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_2019 Core Projections and a long-term rate of improvement of 1.25% per annum.

The mortality assumptions as at 31 March 2019 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_2018 Core Projections and a long-term rate of improvement of 1.5% per annum.

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/decrease by 0.1%	Decrease/increase by £30m	Decrease/increase by £18m
Rate of inflation	Increase/decrease by 0.1%	Increase/decrease by £29m	Increase/decrease by £14m
Life expectancy	Increase by 1 year	Increase by £53m	Decrease by £35m

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 2020 this hedges against approximately 90% of the interest rate and also 90% 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.

In addition to the sensitivity of the liability side of the net pension asset (which will impact the value of the net pension asset) the net pension asset is also exposed to significant variation due to changes in the fair value of Scheme assets. A specific sensitivity on assets has not been included in the above table but any change in valuation of assets flows straight through to the value of the net pension asset e.g. if equities fall by £10m then the net pension asset falls by £10m. The values of unquoted assets assume that an available buyer is willing to purchase those assets at that value. For the Group's portfolio of assets, the property portfolio of £167.0m and the unquoted equities of £47.3m are the assets with most uncertainty as to valuation as at 31 March 2020.

Risks

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

Volatility in market conditions	Results under IAS 19 can change dramatically depending on market conditions. The present value of Scheme liabilities is linked to yields on AA-rated corporate bonds, while many of the assets of the Scheme are invested in various forms of assets subject to fluctuating valuations. Changing markets in conjunction with discount rate volatility will lead to volatility in the net pension asset on the Group's balance sheet and in other comprehensive income. To a lesser extent this will also lead to volatility in the IAS 19 pension net finance income in the Group's income statement.
Choice of accounting assumptions	The calculation of the present value of Scheme liabilities 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 calculation of the liabilities.

The accounting assumptions noted above are used to calculate the year end net pension asset in accordance with the relevant accounting standard, IAS 19 (revised) 'Employee Benefits'. Changes in these assumptions have no impact on the Group's cash payments into the Scheme. The payments into the Scheme are reassessed after every triennial valuation. The triennial valuations are calculated on a funding basis and use a different set of assumptions, as agreed with the pension Trustees. The key assumption that varies between the two methods of valuation is the discount rate. The funding basis valuation uses the risk-free rate from UK gilts as the base for calculating the discount rate, whilst the IAS 19 accounting basis valuation uses corporate bond yields as the base.

29. Transactions with the Ministry of Defence (MOD)

The MOD continues to own its Special Share in QinetiQ which conveys certain rights as set out in note 26. Transactions between the Group and the MOD are disclosed as follows:

Freehold land and buildings and surplus properties

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

Restrictions on transfer of title

The title deeds of those properties with strategic assets (see below) include a clause that prevents their transfer without the approval of the MOD. The MOD also has the right to purchase any strategic assets in certain circumstances.

MOD's generic compliance regime

Adherence to the generic compliance system is monitored by the Risk & CSR Committee. Refer to the Committee's report within the Corporate Governance Statement on page 80.

29. Transactions with the Ministry of Defence (MOD) continued

Strategic assets

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

i) dispose of or destroy all or any part of a strategic asset; or
ii) voluntarily undertake any closure of, or cease to provide a strategic capability by means of, all or any part of a strategic asset.

The net book value of assets identified as being strategic assets as at 31 March 2020 was £3.8m (2019: £4.6m).

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. Following an amendment to the LTPA contract on 5 April 2019 this contract is no longer subject to re-pricing every five years and is now 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 57% (2019: 57%) of the Group's revenue comes directly from contracts with the MOD.

30. Contingent liabilities and assets

Subsidiary undertakings within the Group have given unsecured guarantees of £40.4m at 31 March 2020 (2019: £29.9m) in the ordinary course of business, typically in respect of performance bonds and rental guarantees.

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, including in respect of environmental and regulatory issues. 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, ongoing investigations 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.

31. Capital commitments

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

All figures in £ million	2020	2019
Contracted	32.0	40.6

Capital commitments at 31 March 2020 include £19.1m (2019: £20.6m) 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.

32. Dividends

An analysis of the dividends paid and proposed in respect of the years ended 31 March 2020 and 31 March 2019 is provided below:

	Pence per share	£m	Date paid/ payable
Interim 2020	2.2	12.5	Feb 2020
Final 2020 (proposed)	–	–	See below
Total for the year ended 31 March 2020	**2.2**	**12.5**	
Interim 2019	2.1	11.9	Feb 2019
Final 2019	4.5	25.5	Aug 2019
Total for the year ended 31 March 2019	**6.6**	**37.4**	

Given the unprecedented nature of COVID-19 and the Board's wish to adopt a prudent course of action to protect the long term, it will postpone the decision on the proposal of a dividend until a later date.

33. Subsidiaries and other related undertakings

In accordance with section 409 of the Companies Act 2006, a full list of subsidiaries and other related undertakings as at 31 March 2020 is detailed below. Unless stated otherwise, the Group's holding comprises ordinary shares which are held indirectly by QinetiQ Group plc, with the exception of QinetiQ Group Holdings Limited which is held directly by QinetiQ Group plc.

Name of company	Country of incorporation	Registered office
Subsidiaries[1]		
BJ Trustee Limited	England & Wales	Farnborough[4]
Boldon James Holdings Limited	England & Wales	Farnborough[4]
Boldon James Limited	England & Wales	Farnborough[4]
Commerce Decisions Limited	England & Wales	Farnborough[4]
Commerce Decisions Pty Ltd	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
CueSim Limited	England & Wales	Farnborough[4]
Foster-Miller Canada Limited	Canada	318 Roxton Drive, Waterloo, Ontario, N2T 1R6, Canada
Foster-Miller Inc[2]	US	350 2nd Avenue, Waltham, Massachusetts, MA 02451 1104, USA
Graphics Research Corporation Limited	England & Wales	Farnborough[4]
Gyldan 10 Limited	England & Wales	Farnborough[4]
Inzpire Group Limited[1]	England & Wales	Farnborough[4]
Inzpire Holdings Limited[1]	England & Wales	Landmark House West, Unit 1b, Alpha Court, Kingsley Road, Lincoln, Lincolnshire, LN6 3TA
Inzpire Limited[1]	England & Wales	Landmark House West, Unit 1b, Alpha Court, Kingsley Road, Lincoln, Lincolnshire, LN6 3TA
Leading Technology Limited	England & Wales	Farnborough[4]
Metrix UK Limited	England & Wales	Farnborough[4]
Newman & Spurr Consultancy Ltd	England & Wales	2 Meadows Business Park, Station Approach, Blackwater, Camberley, Surrey GU17 9AB
Optasense Canada Limited[2]	Canada	3 Robert Speck Parkway, Suite 900, Mississauga ON L4Z 2GS, Canada
Optasense Holdings Limited	England & Wales	Farnborough[4]
Optasense Inc[2]	US	5885 Trinity Parkway, Suite 130, Centreville, Virginia 20120-1969, USA
Optasense Limited	England & Wales	Farnborough[4]
Precis (2187) Limited	England & Wales	Farnborough[4]
Precis (2188) Limited	England & Wales	Farnborough[4]
Qinetic Limited	England & Wales	Farnborough[4]
QinetiQ Aerostructures Pty Ltd	Australia	Level 3, 210 Kings Way, South Melbourne, VIC 3205, Australia
QinetiQ Australia Pty Ltd	Australia	Level 3, 210 Kings Way, South Melbourne, VIC 3205, Australia
QinetiQ Consulting Pty Ltd	Australia	Level 3, 12 Brindabella Court, Brindabella Business Park, Majura ACT 2609.
QinetiQ Estates Limited	England & Wales	Farnborough[4]
QinetiQ GmbH	Germany	Flughafenstraße 65, 41066, Mönchengladbach, Germany
QinetiQ GP Limited	Scotland	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
QinetiQ Group Canada Inc.[2]	Canada	5300 Commerce Court West, 199 Bay Street, Toronto ON M5L 1A9, Canada
QinetiQ Group Holdings Limited	England & Wales	Farnborough[4]
QinetiQ Holdings Limited	England & Wales	Farnborough[4]
QinetiQ Inc[2, 8]	US	10440 Furnace Road, Suite 204, Lorton, VA 22079,, USA
QinetiQ Insurance PCC Limited	Guernsey	Mill Court, La Charroterie, St Peter Port, GY1 4ET Guernsey
QinetiQ Limited	England & Wales	Farnborough[4]
QinetiQ Novare Pty Ltd	Australia	Petrie House, level 6, 80 Petrie Terrace, Brisbane QLD 400, Australia
QinetiQ Overseas Holdings Limited	England & Wales	Farnborough[4]
QinetiQ Overseas Trading Limited	England & Wales	Farnborough[4]
QinetiQ Pension Scheme Trustee Limited	England & Wales	Farnborough[4]
QinetiQ PFP Limited Partnership[5]	Scotland	50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
QinetiQ Philippines Company, Inc	Philippines	22nd Floor Corporate Centre, 139 Valero Street, Salcedo Village, Makati City, Philippines
QinetiQ Pty Ltd	Australia	Level 33, 101 Collins Street, Melbourne, VIC 3000, Australia
QinetiQ Services Holdings Pty Ltd	Australia	Level 33, 101 Collins Street, Melbourne, Victoria 3000, Australia
QinetiQ Solutions Sdn. Bhd.	Malaysia	Suite 6.01, 6th Floor, Plaza See Hoy Chan, Jalan Raja Chulan 50200, Kuala Lumpur, W.P. Kuala Lumpur, Malaysia
QinetiQ Space N.V.	Belgium	Hogenakkerhoekstraat, 9, 9150 Kruibeke, Belgium
QinetiQ Special Projects Inc	US	5885 Trinity Parkway, Suite 130, Centreville, Virginia 20120-1969, USA
QinetiQ Sweden AB	Sweden	Advokatfirman Delphi, Box 1432, Stockholm, Sweden
QinetiQ Target Services Limited	England & Wales	Farnborough[4]

33. Subsidiaries and other related undertakings continued

Name of company	Country of incorporation	Registered office
QinetiQ Target Systems Limited	England & Wales	Farnborough[4]
QinetiQ US Holdings, Inc.	US	5885 Trinity Parkway, Suite 130, Centreville, Virginia 20120-1969, USA
Redu Operational Services S.A[1]	Belgium	Rue Devant les Hetres, 2B, 6890 Transinne, Belgium
RubiKon Group Pty Limited	Australia	Level 33, 101 Collins Street, Melbourne, Victoria 3000, Australia
Sensoptics Limited	England & Wales	Farnborough[4]
TSG International LLC	US	350 Second Avenue, Waltham, Massachusetts 02451, USA
Associates[3]		
Redu Space Services S.A	Belgium	Rue Devant les Hetres, 2B, 6890 Transinne, Belgium
Joint venture[6]		
BQ Solutions QSTP-LLC[7]	Qatar	Qatar Science & Technology Park, Innovation Centre Building, Office 307, Doha, Qatar
Houbara Defence & Security LLC[7]	United Arab Emirates	503 Al Wahda Commercial Tower, Abu Dhabi, PO box 128220
QinetiQ Dar Massader QDM Limited[7]	Saudi Arabia	Al Nakhla Tower, 3026-Prince Saud Bin Mohamed Bin Muqin Road, PO Box 2985, Riyadh 13321, Kingdom of Saudi Arabia

1 As at 31 March 2020 the Group owned 100% of the ordinary shares of these subsidiary undertakings except for Redu Operational Services S.A. (52%), Inzpire Group Limited (85%), Inzpire Holdings Limited (85%) and Inzpire Limited (85%)
2 The class of shares is 'common share'
3 As at 31 March 2020 the Group owned 48% of Redu Space Services S.A.
4 Cody Technology Park, Ively Road, Farnborough, Hampshire, GU14 OLX
5 Limited partnership. The partners are all wholly-owned Group companies
6 As at 31 March 2020 the Group owned 49% of BQ Solutions QSTP-LLC, 49% of Houbara Defence & Security LLC and 49% of QinetiQ Dar Massader QDM Limited.
7 The financial year end of each undertaking is 31 March other than BQ Solutions QSTP-LLC (31 December), Houbara Defence & Security LLC (31 December) and QinetiQ Dar Massader QDM Limited (31 December)
8 Manufacturing Techniques Inc was acquired in the current financial year and on 9 January 2020 changed its name to QinetiQ Inc.

34. Related parties

During the year ended 31 March 2020 there were sales to associates and joint ventures of £5.7m (2019: £10.1m). At the year-end there were outstanding receivables from associates and joint ventures of £2.1m (2019: £1.4m).

35. Basis of preparation and significant accounting policies

QinetiQ Group plc ('the Company') is a public limited company, which is listed on the London Stock Exchange and is incorporated and domiciled in United Kingdom. The consolidated financial statements of the Group comprise statements for the Company and its subsidiaries, together referred to as 'the Group'.

Accounting policies

The following accounting policies have been applied consistently to all periods presented (with the exception of the policy in respect of accounting for uncertain income tax treatment, see note 37) in dealing with items that are considered material in relation to the Group's financial statements. In the income statement, the Group presents specific adjusting items separately. In the judgement of the Directors, for the reader to obtain a proper understanding of business performance, specific adjusting items need to be disclosed separately. Underlying measures of performance exclude specific adjusting items.

Specific adjusting items include the following:

Item	Distorting due to irregular nature year on year	Distorting due to fluctuating nature (size and sign)	Does not reflect in-year operational performance of continuing business
Amortisation of intangible assets arising from acquisitions			●
Pension net finance income and pension past service cost		●	●
Gains/losses on disposal of property, investments and intellectual property	●	●	●
Transaction & integration costs in respect of business acquisitions	●		●
Impairment of property and goodwill	●		
The tax impact of the above	●	●	●
Other significant non-recurring deferred tax movements	●	●	●

The financial impact of each item is reported in note 4 to these financial statements.

These 'specific adjusting items' are of a 'non-operational' nature and do not include all significant, irregular items that are of an operational nature, for example contract risk provisions, cost of redundancy exercises and gains/losses on disposal of plant and equipment. Such 'non-recurring trading items' are referred to in the business performance narrative to aid readers from a 'quality of earnings perspective'. They are considered by the Directors to be irregular but still part of our businesses' normal 'operating' performance and are included within the KPIs used to measure those business units (and total Group performance for remuneration purposes).

Basis of preparation

The Group's financial statements, approved by the Directors, have been prepared on a going concern basis as discussed in the Directors' report on page 113 and in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) and the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its parent company financial statements in accordance with UK GAAP (FRS 101); these are presented on page 176. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and other relevant financial assets and liabilities. The Group's reporting currency is Sterling and unless otherwise stated the financial statements are rounded to the nearest £100,000.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary undertakings to 31 March 2020. The purchase method of accounting has been adopted. Those subsidiary undertakings acquired or disposed of in the period are included in the consolidated income statement from the date control is obtained to the date that control is lost (usually on acquisition and disposal respectively). An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. This is the IFRS 10 definition of 'control'.

The Group comprises certain entities that are operated under the management of a Proxy Board. Details of the Proxy Board arrangements and the powers of the Proxy holders and QinetiQ management are set out in the Corporate Governance section of this Annual Report. IFRS 10 is the accounting standard now applicable in respect of consolidation of entities. This does not specifically deal with proxy situations. However, having considered the terms of the Proxy agreement, the Directors consider that the Group meets the requirements of IFRS 10 in respect of control over such affected entities and, therefore, consolidates these entities in the consolidated accounts. The impact of this specific judgement is full consolidation as opposed to treatment as a 100% associated undertaking.

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

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

Recent accounting developments

Developments adopted by the Group in 2020 with a material impact on the financial statements

IFRS 16 'Leases'

The Group has changed its accounting policy for leases where the Group is the lessee. The new policy is included for the first time in this note and the impact of the change is presented in note 37.

IFRIC 23 'Uncertainty over income tax treatments'

The Group has changed its accounting policy for certain aspects of taxation. The new policy is included for the first time in this note and the impact of the change is presented in note 37.

Developments adopted by the Group in 2020 with no material impact on the Group's financial statements

The following IFRS and EU-endorsed standards and amendments, improvements and interpretations of published standards are effective for accounting periods beginning on or after 1 January 2018 and have been adopted with no material impact on the Group's financial statements:

- Amendments to IFRS 9 'Financial Instruments', which confirms that when a financial liability measured at amortised cost is modified without this resulting de-recognition, a gain or loss should be recognised immediately in profit and loss.
- Amendments to IAS 28 'Joint ventures and associates' clarifying that long-term interests in an associate or joint venture to which the equity method is not applied is accounted for using IFRS 9.
- Amendments to IAS 19 'Employee benefits', Updated assumptions must be used to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement. Any reduction in a surplus must be recognised in profit or loss as part of past service cost (or a gain or loss on settlement), even if that surplus was not previously recognised because of the impact of the asset ceiling.

Annual improvement 2015-2017 cycle have been adopted with effect from 1 January 2019. No changes to the previously published accounting policies or other adjustments were required on the adoption of these amendments.

35. Basis of preparation and significant accounting policies continued

Developments expected in future periods of which the impact on the Group's financial statements is still being assessed

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

- Amendments to IFRS 3 'Business combinations', on clarifying whether an acquisition is that of a business or a group of assets;
- Amendments to IFRS 9, IAS 39 and IFRS 7, all in respect of interest rate benchmark reform.

Significant accounting policies

Revenue from contracts with customers

The Group recognises revenue primarily from the following major sources:

- Through combining world-leading expertise with unique facilities to provide technical assurance, test and evaluation and training services underpinned by long-term contracts.
- Through delivering innovative solutions and products to meet customer requirements by undertaking contract-funded research and development, developing intellectual property and by internal funding with potential for new revenue streams.

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a product or service to a customer. The Group's revenue contracts are accounted for under IFRS 15 'Revenue from Contracts with Customers' taking into account the requirement to distinguish between the various performance obligations within a contract and treating these separately. The Group's methodology applies IFRS 15 on a contract-by-contract basis which includes considerations for contract modifications, variable consideration, the determination of distinct performance obligations, determination of agency and principal relationships and licences.

Service contracts

The Group's long-term service contracts are generally 'test and evaluation' or advice-based contracts where control of the service is transferred over a period of time as the Group performs. At contract inception the Group undertakes an assessment to determine how many distinct performance obligations exists within a contract. As part of the assessment the Group obtains an understanding of the overall deliverable to the customer through discussions with business units and project leads. Each individual deliverable in the contract is then assessed to determine if it is an input into the overall deliverable, and therefore part of a single performance obligation, or if it is a stand-alone separable deliverable with its own transaction price and therefore a distinct performance obligation in its own right. Each distinct performance obligation identified within a contract is accounted for separately.

Certain service contracts have a similar pattern of transfer of control to the customer where each year is effectively the same from a performance obligation perspective. The Group has applied the series guidance as permitted within the Standard to these contracts and accounts for these as a series of distinct service performance obligations satisfied annually over the contract term. The transaction price for a contract is determined at contract inception based on a fixed-margin applied to the total forecast costs to complete the deliverable. Some long-term contracts include an excess profit clause which is a variable consideration factor that could impact the transaction price. Excess profits are estimated at contract inception and at the end of each reporting period to ensure that the transaction price is not under or over stated. Any required adjustment will be made against the transaction price in the period in which it occurred. The Group does not offer any right of return or refunds which could impact transaction price at inception. Certain contracts attract bonuses and/or penalties which are variable and will have an impact on transaction price at contract inception. The Group assesses variable consideration in relation to bonuses and penalties at contract inception using the most-likely method and this forms part of the transaction price and recognised over time as costs are incurred. The Group only includes bonuses and penalties into the transaction price to the extent that it is highly probable that a significant reversal of revenue will not occur in future periods. Historical evidence and experience shows that even where a reduction has been required, that reduction has been immaterial to the Group.

The transaction price is allocated between each distinct performance obligation identified in a contract based on the stand-alone selling price of each performance obligation. Each performance obligation will be costed and the transaction price will be cost plus margin. This amount would be the stand-alone selling price of each performance obligation if contracted with a customer separately.

Long-term service contracts allow for modifications to the original order. If a contract modification is determined to be distinct and the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices for the additional promised goods or services, the Group accounts for this as a separate contract. If a contract modification is not distinct, the Group accounts for this as if it were part of the existing contract. A cumulative catch-up adjustment to revenue is then recognised to disclose the effect that the contract modification has on the transaction price and the Group's measure of progress towards complete satisfaction of the performance obligation.

Long-term service contracts also sometimes allow for extensions to the original order. A contract extension is determined to include either additional goods or services or no additional goods or service. If a contract extension with additional goods or services is determined to be distinct and the price of the contract increases by an amount of consideration that reflects the entity's stand-alone selling prices for the additional promised goods or services, the Group accounts for this as a separate performance obligation. If a contract extension with additional goods or services is not distinct, the Group accounts for this as if it were part of the existing contract. A cumulative catch-up adjustment to revenue is then recognised to disclose the effect that the contract extension has on the transaction price and the Group's measure of progress towards complete satisfaction of the performance obligation.

When the outcome of a distinct performance obligation in delivering services can be reliably estimated, revenue associated with the performance obligation is recognised over time using the input method. The input method recognises revenue over time on the basis of costs incurred to date to the satisfaction of a performance obligation relative to the total forecast costs to complete the performance obligation. The Group has determined the input method to be appropriate as it best depicts the Group's performance in transferring control of the service to the customer as it incurs costs on a particular contract.

No profit is recognised on contracts until the outcome of the contract can be reliably estimated. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Goods sold
The Group recognises revenue on the sale of products at a point in time once control has been transferred to the customer. Control is generally transferred to customers on delivery of products or when the customer has the significant risks and rewards of ownership of the product. Payment is typically due within 30 days of invoice (within the UK) and customers typically do not have a right of return or refund. The transaction price for sale of products is agreed at contract inception. When the Group develops a bespoke product for a customer with no alternative use to the Group, revenue is recognised over time using the input method.

Licence revenue
Licence revenue is attributed to either 'right to use' or 'right to access' licences. 'Right to use' licence revenue is recognised at a point in time when the Group sells a licence to a customer and does not undertake significant further activities or involvement in developing the licence after the sale. 'Right to access' licence revenue is recognised over time when the Group maintains a significant level of involvement in developing and enhancing the licence after the sale. The level of involvement goes beyond general support, bug-fixing and upgrades which generally only maintain the current operating level. The transaction price for intellectual property is agreed at contract inception.

The Group recognises licence revenue through the supply of a range of security, messaging and connectivity software products. A licence fee is paid for each computer that uses the software and the customer can also purchase a support service contract for a fixed period. The sale of these types of licences is recognised at a point in time as a distinct performance obligation because the Group does not undertake any further activities in developing the licence after the sale. The support service contract is recognised over time as a separate performance obligation as this is an optional extra and is not integral into the functionality of the licence. The support service contract offers general support and maintenance of the licence to the customer over a fixed period.

The Group also offers a cloud-based service where customers pay a host fee, licence fee and support and maintenance fee to access the QinetiQ hosted service for a fixed term. It was assessed that each of the three deliverables could not benefit the customer on a stand-alone basis as the customer requires each to obtain the complete hosting service. One distinct service performance obligation is provided to the customer over the term of the contract. The Group recognises revenue over time as the customer simultaneously receives and consumes the benefits of the hosting service provided by the Group as the Group performs.

Contract assets
Contract assets is a new term used in adopting IFRS 15 and effectively represents amounts recoverable under contracts as previously reported. Contract assets represent revenue recognised in excess of amounts invoiced. Revenue is recognised on service contracts by using a 'percentage complete' method, applying the proportion of contract costs incurred for work performed to date relative to the estimated total contract cost, after making suitable allowances for technical and other risks related to performance milestones yet to be achieved, and applying that proportion to total contract price. Payment for service contracts are not always due from the customer until certain milestones have been reached and, therefore, a contract asset is recognised over the period in which the services are performed representing the Group's right to consideration for services performed to date, to the extent that the customer has not yet been invoiced for those services.

Contract liabilities
Contract liabilities is a new term used in adopting IFRS 15 and effectively represents deferred income as previously reported. The Group, on occasion, bills customers in advance of performing certain types of work which results in the Group recognising contract liabilities. Once the work has been performed these amounts will be reduced and recognised as revenue. For sale of goods, revenue is recognised in the income statement when control of the goods has been transferred to the customer; being at the point when the goods are delivered. Any transaction price received by the Group prior to that point is recognised as a contract liability.

Principal-agent arrangements
The Group enters into certain arrangements which involve a consortium of service providers. The Group acts as a 'Prime' contractor in certain contracts with customers and utilises sub-contractors to undertake the work. Under these contracts the Group is considered to be primarily responsible for fulfilling the service to the customer. The Group performs a technical assessment of the work before it is delivered to the customer and is responsible for quality and performance of the sub-contractor. As such the Group is considered to be the principal to the arrangement with the customer and includes sub-contractor costs within revenue. However, where the Group is merely acting as an agent of a sub-contractor then no revenue is recognised in respect of sub-contractor costs.

35. Basis of preparation and significant accounting policies continued

All consortium arrangements are assessed by the Group to determine if it is the principal or agent.

Contract bidding costs

The Group recognises the 'incremental costs of obtaining a contract' with a customer as an asset if the Group expects to recover those costs. The 'incremental costs of obtaining a contract' are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been won. Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost shall be recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer.

Segmental information

Segmental information is presented according to the Group's internal management reporting structure and the markets in which it operates. Segmental results represent the contribution of the different segments to the profit of the Group. Corporate expenses are allocated to the corresponding segments. Unallocated items mainly comprise specific adjusting items. Specific adjusting items are referred to in note 4. Segmental assets and liabilities information is not regularly provided to the Chief Operating Decision Maker.

Research and development expenditure

R&D costs incurred in respect of specific contracts placed by customers are recognised within operating costs and revenue is recognised in respect of the R&D services performed. Internally funded development expenditure is capitalised in the balance sheet where there is a clearly defined project, the expenditures are separately identifiable, the project is technically and commercially feasible, all costs are recoverable by future revenue and the resources are committed to complete the project. Such capitalised costs are amortised over the forecast period of sales resulting from the development. All other R&D costs are expensed to the income statement in the period in which they are incurred. If the research phase cannot be clearly distinguished from the development phase, the respective project-related costs are treated as if they were incurred in the research phase only and expensed.

Financing

The Group holds no external borrowings but does have access to a revolving credit facility, 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 income statement are included within finance income and finance expense. Financing also includes the net finance income or expense in respect of defined benefit pension schemes. The Group pays in advance finance costs in relation to the multi-currency facility which are recognised as a deferred finance cost asset.

Taxation

The taxation charge is based on the taxable profit for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and accounting purposes. Current tax and deferred tax are charged or credited to the income statement, except where they relate to items charged or credited to equity, in which case the relevant tax is charged or credited to equity. Deferred taxation is the tax attributable to the temporary differences that appear when taxation authorities recognise and measure assets and liabilities with rules that differ from those of the consolidated financial statements. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using rates enacted or substantively enacted at the balance sheet date.

The Group's accounting policy is to include the impact of research and development expenditure credits ('RDEC') within the tax charge. To provide comparability to other companies that account for RDEC as a government grant the effective underlying tax rate is disclosed in the taxation note both with and without the impact.

Any changes in the tax rates are recognised in the income statement unless related to items directly recognised in equity. Deferred tax liabilities are recognised on all taxable temporary differences excluding non-deductible goodwill. Deferred tax assets are recognised on all deductible temporary differences provided that it is probable that future taxable income will be available against which the asset can be utilised. Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset and there is an intention to settle balances on a net basis.

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.

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

Intangible assets
Intangible assets arising from business combinations are recognised at fair value and are amortised over their expected useful lives, typically between 1 and 16 years. Internally generated intangible assets are recorded at cost, including labour, directly attributable costs and any third-party expenses.

The 'multi-period excess earnings' method and the 'relief-from-royalty' method are both used for fair valuing intangible assets arising from acquisitions. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by customer relationships, by excluding any cash flows related to contributory assets. The relief-from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned.

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
Customer relationships	1–16 years
Development costs	1–4 years
Other	1–14 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	3–15 years
Fixtures and fittings / office equipment	5–10 years
Computers	3–5 years
Motor vehicles	3–5 years

Assets under construction are included in property, plant and equipment on the basis of expenditure incurred at the balance sheet date. In the case of assets constructed by the Group, the value includes the cost of own work completed, including directly attributable costs and interest.

The useful lives, depreciation methods and residual values applied to property, plant and equipment are reviewed annually and, if appropriate, adjusted accordingly.

Impairment of goodwill and tangible, intangible and held for sale assets
At each reporting date the Group assesses whether there is an indication that an asset may be impaired. If the carrying amount of any asset exceeds its recoverable amount an impairment loss is recognised immediately in the income statement. In addition, goodwill is tested for impairment annually irrespective of any indication of impairment. If the carrying amount exceeds the recoverable amount, the respective asset or the assets in the cash-generating unit (CGU) are written down to their recoverable amounts. The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell and its value in use. The value in use is the present value of the future cash flows expected to be derived from an asset or CGU calculated using an appropriate pre-tax discount rate. Impairment losses are expensed to the income statement.

Leases
In the prior year Annual Report & Accounts leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight line basis over the period of the lease. The new accounting policy adopted for leases in the 2020 Annual Report & Accounts is set out on the following pages. Prior year financial statements have been restated. See note 37 for details of the restatement.

35. Basis of preparation and significant accounting policies continued

Leases – as a lessor

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term (note 23). Initial direct costs incurred in obtaining an operating leases are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.

Leases – as a lessee

The Group leases various offices, aircrafts, forklifts, equipment and vehicles. Rental contracts are typically made for fixed periods of 6 months to 25 years, but may have extension options as described below.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone process.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leases assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

From 1 April 2019 leases are recognised as a right-of-use asset and corresponding liability at the date at which the leases asset is available for use by the Group. The 2019 data has been restated to be on the same basis; see note 37.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option

Lease payments to be made under reasonably certain options are also included in the measurement of the liability.
The lease payments are discounted using the interest rate implicit in the lease. If the rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by QinetiQ Plc, which does not have recent third party financing, and
- makes adjustments specific to the lease, example, term country, currency and security.

The Group is not exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. The Group does not revalue its land and buildings that are presented within property, plant and equipment and has chosen to do same for right-of-use buildings by the Group.

Payments associated with short-term leases of offices, equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise lease assets under £5,000.

Lease extension and termination options
Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Judgements in determining the lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of offices and equipment, the following factors are normally the most relevant:

- if there are significant penalties to terminate (or extend), the group is typically reasonably certain to end (or not to terminate)
- if any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate)
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruptions required to replace the leased asset.

Most extension options in office and vehicles leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption,

As at 31 March 2020 no (undiscounted) potential future cash outflows have been included in the lease liability for extension or termination.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event of significant change in circumstance occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, the financial effect of revising lease terms to reflect the effect of exercising extension or termination options was an increase in recognised lease liabilities and right-of-use assets of £0.1m.

Investments in debt and equity securities
Investments held by the Group are classified as either a current asset or as a non-current asset and those classified as available for sale are stated at fair value, with any resultant gain or loss, other than impairment losses, being recognised directly in equity. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

The fair value of quoted financial instruments is their bid price at the balance sheet date. The fair value of unquoted equity investments is based on the price of the most recent investment by the Group or a third party, if available, or derived from the present value of forecast future cash flows.

Inventories
Inventory and work-in-progress are stated at the lower of cost and net realisable value. Work-in-progress and manufactured finished goods are valued at production cost. Production cost includes direct production costs and an appropriate proportion of production overheads. A provision is established when the net realisable value of any inventory item is lower than its cost. A 'market comparison' technique is used to fair value inventories acquired through a business combination. The fair value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Trade and other receivables
Trade and other receivables are measured at amortised cost and 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. Other receivables will also include insurance recoveries where we are virtually certain of recovery.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and short-term, highly liquid investments that are readily convertible into a known amount of cash and which are subject to an insignificant risk of changes in value. The Group holds various short-maturity money market funds (see note 24) across numerous financial institutions which meet the IAS 7 criteria to be classified as cash equivalents. In the cash flow statement overdraft balances are included in cash and equivalents.

Current and non-current liabilities
Current liabilities include amounts due within the normal operating cycle of the Group. Deferred income, or 'contract liabilities', is included in trade and other payables and represents amounts invoiced in excess of revenue recognised. Interest-bearing current and non-current liabilities are initially recognised at fair value and then stated at amortised cost with any difference between the cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis. Costs associated with the arrangement of bank facilities or the issue of loans are held net of the associated liability presented in the balance sheet. Capitalised issue costs are released over the estimated life of the facility or instrument to which they relate using the effective interest rate method. If it becomes clear that the facility or instrument will be redeemed early, the amortisation of the issue costs will be accelerated.

35. Basis of preparation and significant accounting policies continued

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event which can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where appropriate, provisions are determined by discounting the expected cash flows at an appropriate discount rate reflecting the level of risk and the time value of money.

Financial instruments

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

Financial assets

Financial assets are classified on the Group's balance sheet as subsequently measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss. This classification is made on the basis of both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial liabilities

Financial liabilities are classified on the Group's balance sheet as subsequently measured at amortised cost except for financial liabilities at fair value through profit and loss. The Group may at initial recognition irrevocably designate a financial liability as measured at fair value through profit or loss if a contract contains one or more embedded derivatives and the host is not an asset within the scope of IFRS 9, or when doing so results in more relevant information.

Impairment of trade receivables

The Group applies the simplified approach when using the expected credit loss (ECL) impairment model for trade receivables. Under the simplified approach the Group always measures the loss allowance at an amount equal to the lifetime expected credit losses for trade receivables. The Group measures the expected credit losses of trade receivables in a way that reflects a probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and supportable information that is readily available at each reporting date about past events, current condition and forecasts of future economic conditions. The ECL's are updated each reporting period to reflect changes in credit risk since initial recognition.

Derivative financial instruments

Derivative financial instruments are initially recognised and thereafter held at fair value, being the market value for quoted instruments or valuation based on models and discounted cash flow calculations for unlisted instruments.

Fair value hedging

Changes in the fair value of derivatives designated as fair value hedges of currency risk or interest rate risk are recognised in the income statement. The hedged item is held at fair value with respect to the hedged risk with any gain or loss recognised in the income statement.

Cash flow hedging

Changes in the fair value of derivatives designated as a cash flow hedge that are regarded as highly effective are recognised in equity. The ineffective portion is recognised immediately in the income statement. Where a hedged item results in an asset or a liability, gains and losses previously recognised in equity are included in the cost of the asset or liability. Gains and losses previously recognised in equity are removed and recognised in the income statement at the same time as the hedged transaction.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at period-end rates. Any resulting exchange differences are taken to the income statement. Gains and losses on designated forward foreign exchange hedging contracts are matched against the foreign exchange movements on the underlying transaction.

The individual financial statements of each Group company are presented in its functional currency. On consolidation, assets and liabilities of overseas subsidiaries, associated undertakings and joint ventures, including any related goodwill, are translated to Sterling at the rate of exchange at the balance sheet date. The results and cash flows of overseas subsidiaries, associated undertakings and joint ventures are translated to Sterling using the average rates of exchange during the period. Exchange adjustments arising from the re-translation of the opening net investment and the results for the period to the period-end rate are taken directly to equity and reported in the statement of comprehensive income.

Post-retirement benefits

The Group provides both defined contribution and defined benefit pension arrangements. The liabilities of the Group arising from defined benefit obligations 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 Group's balance sheet and the Group'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 income statement consists of administrative expenses and the net interest income. There is no service cost due to the fact the plans are closed to future accrual. The net interest income is reported within finance income and the administration cost element is charged as a component of operating costs in the income statement. Actuarial gains and losses and re-measurement gains and losses are recognised immediately in full through the statement of comprehensive income. Contributions to defined contribution plans are charged to the income statement as incurred.

Share-based payments
The Group operates share-based payment arrangements with employees. The fair value of equity-settled awards for share-based payments is determined on grant and expensed straight line over the period from grant to the date of earliest unconditional exercise. The valuation methodology for TSR awards is based on Monte Carlo model to allow for the impact of market related performance criteria and taking into account all non-vesting conditions. The value is expensed straight line over the period from grant to the date of earliest unconditional exercise. The charges for equity settled share-based payments are updated annually for non-market-based vesting conditions.

Share capital
Ordinary share capital of the Company is recorded as the proceeds received, less issue costs. Company shares held by the employee benefit trusts are held at the consideration paid. They are classified as own shares within equity. Any gain or loss on the purchase, sale or issue of Company shares is recorded in equity.

Non-controlling interests
The Group recognises non-controlling interest in an acquired entity either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. For non-controlling interests that the Group holds, the Group elected to recognise the non-controlling interests at its proportionate share of the acquired net identifiable assets.

36. Critical accounting estimates and judgements in applying accounting policies

The following commentary is intended to highlight key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the financial statements in the next financial year.

Estimated goodwill impairment
The Group tests annually whether goodwill has suffered any impairment. This process relies on the use of estimates of the future profitability and cash flows of its cash generating units which may differ from the actual results delivered. In addition, the Group reviews whether identified intangible assets have suffered any impairment. Further details on the sensitivity of the carrying value of goodwill to changes in the key assumptions are set out in note 12. In response to the COVID-19 crisis that started to develop just prior to the Group's current year end, revised financial forecasts for the 2021 fiscal year were prepared by each business unit within the Group and these were used to re-run the impairment testing that had already been performed at an earlier stage.

Estimation of the Group's defined benefit pension net surplus
The Group's defined benefit pension obligations (and hence the net surplus) are based on key assumptions, including discount rates, mortality and inflation. Management exercises its best judgement, in consultation with actuarial advisors, in selecting the values for these assumptions that are the most appropriate to the Group. Small changes in these assumptions at the balance sheet date, individually or collectively, may result in significant changes in the size of the net surplus/deficit. Further details of these assumptions and the sensitivity of the net pension surplus to changes in these assumptions are set out in note 28.

In addition to the sensitivity of the liability side of the net pension surplus (which will impact the value of the net pension surplus) the net pension surplus is also exposed to significant variation due to changes in the fair value of Scheme assets. A specific sensitivity on assets has not been included in note 28 but any change in valuation of assets flows straight through to the value of the net pension surplus e.g. if equities fall by £10m then the net pension surplus falls by £10m. The values of unquoted assets assume that an available buyer is willing to purchase those assets at that value. For the Group's portfolio of assets, the property portfolio of £167.0m and the unquoted equities of £47.3m are the assets with most uncertainty as to valuation as at 31 March 2020 as a consequence of the economic uncertainty caused by the COVID-19 pandemic.

Estimated value of tax assets and liabilities
The Group has significant levels of unused tax losses and surplus interest costs, of which £9.4m has been recognised as a deferred tax asset at 31 March 2020, as set out in note 16. When estimating the appropriate amount that should be recognised, management consider sources of taxable profits including the reversal of deferred tax liabilities and forecast future profits. This estimate is sensitive to similar factors as goodwill, as set out in note 12. Within the current tax payable of £4.1m as at 31 March 2020, management include an estimate of the impact of technical uncertainties associated with tax positions. To the extent that the outcome of a tax audit differs from the tax that has been provided, a material adjustment could arise in a future period. Considering reasonably possible changes in forecast taxable profits and developments with tax authorities, management consider the potential impact of changes in these tax estimates over the next 12 months could range between a £5.1m increase to a £1.1m decrease in net assets.

36. Critical accounting estimates and judgements in applying accounting policies continued

Specific, material judgements made by the Directors in applying the Group's accounting policies are set out below:

Basis of consolidation

The Group comprises certain entities that are operated under the management of a Proxy Board. Details of the Proxy Board arrangements and the powers of the Proxy holders and QinetiQ management are set out in the Corporate Governance section of this Annual Report. IFRS 10 is the accounting standard now applicable in respect of consolidation of entities. This does not specifically deal with proxy situations. However, having considered the terms of the Proxy agreement, the Directors consider that the Group meets the requirements of IFRS 10 in respect of control over such affected entities and, therefore, consolidates these entities in the consolidated accounts. The impact of this specific judgement is full consolidation as opposed to treatment as a 100% associated undertaking. This would reduce Group revenue by a material amount (~£100m per annum) but would have no impact on reported profit, which would include an equivalent amount of profit reported within Other Income as 'Share of profits of joint ventures and associates'.

37. Changes in accounting policies

The note explains the impact of the adoption of two new accounting policies that were effective for the first time in the Group's financial statements for the year ended 31 March 2020:

- IFRS 16 Leases;
- IFRIC 23 'Uncertainty over income tax treatments'.

IFRS 16 'Leases'

The Group has adopted IFRS 16 *Leases* using the fully retrospective method for 2020 and has restated comparatives for the 2019 reporting period, as permitted under the specific provisions in the standard. The reclassifications and the adjustments arising from the new rules are therefore recognised in the opening balance on 1 April 2018. The new accounting policies are disclosed in note 35.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 31 March 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 31 March 2019 was 4%.

For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of the initial application. The measurement principles of IFRS 16 are only applied after that date. The re-measurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 31 March 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 31 March 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has elected not to assess whether a contract is, or contains a lease at the date of initial application, Instead, for contracts entered before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 '*Determining whether an Arrangement contains a Lease'*.

Measurement of lease liabilities

All figures in £ million	2019
Operating lease commitments disclosed as at 31 March 2019	**29.3**
Discounted using the lessee's incremental borrowing rate at the date of initial application	28.1
Add: finance lease liabilities recognised as at 31 March 2019	2.3
Less: short-term leases not recognised as a liability	(0.1)
Lease liability recognised as at 1 April 2019	**30.3**

Comprised of:	
Current lease liabilities	9.7
Non-current lease liabilities	20.6
	30.3

Measurement of right-of-use assets
The associated right-of-use assets for all leases were measured on a fully retrospective basis as if the new rules had always been applied.

Adjustment recognised in the balance sheet on 31 March 2019
The change in accounting policy affected the following items in the balance sheet on 31 March 2019.

- property, plant and equipment – increase by £25.2m (exclusive of £2.5m related to prior year Finance lease)
- deferred tax liabilities – decrease by £0.4m
- lease liabilities – increase by £28m (exclusive of £2.3m related to prior year Finance leases)

The net impact on retained earnings on 31 March 2019 was a decrease of £2.0m.

Lessor accounting
The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases (see note 23) as a result of the adoption of IFRS 16.

QinetiQ Plc has applied IFRS 16 fully retrospectively without using the simplified transitional approach permitted under IFRS 16. The following tables show the adjustments recognised for each individual line item as at 31 March 2020, 31 March 2019 and 1 April 2018. .

Balance sheet (extract)

All figures in £ million	2020 If applying IAS 17	2020 Applying IFRS 16	2020 As presented	2019 As originally presented	2019 Applying IFRS 16	2019 Restated
Assets						
Property, plant and equipment	350.8	24.8	375.6	298.0	25.2	323.2
Deferred tax assets	13.3	–	13.3	7.8	–	7.8
Other assets	1,049.0	–	1,049.0	944.9	–	944.9
	1,413.1	**24.8**	**1,437.9**	**1,205.7**	**25.2**	**1,275.9**
Liabilities						
Trade and other payables	(405.1)	–	(405.1)	(367.1)	–	(367.1)
Other financial liabilities	(0.9)	(27.9)	(28.8)	(3.7)	(28.0)	(31.7)
Deferred tax liability	(101.3)	–	(101.3)	(73.1)	0.4	(72.7)
Other liabilities	(15.6)	–	(15.6)	(25.8)	0.4	(25.4)
	(522.9)	**(27.9)**	**(550.8)**	**(469.7)**	**(27.2)**	**(496.9)**
Net Assets	**890.2**	**(3.1)**	**887.1**	**781.0**	**(2.0)**	**779.0**
Equity						
Retained earnings	685.0	(3.1)	681.9	581.1	(2.0)	579.1
Share capital and other reserves	202.8	–	202.8	197.7	–	197.7
Non-controlling interest	2.4	–	2.4	2.2	–	2.2
Total equity	**890.2**	**(3.1)**	**887.1**	**781.0**	**(2.0)**	**779.0**

Net cash as defined by the Group

All figures in £ million	2020 If applying IAS 17	2020 Applying IFRS 16	2020 As presented	2019 As originally presented	2019 Applying IFRS 16	2019 Restated
Net cash as defined by the Group (see glossary)	**112.6**	**(27.9)**	**84.7**	**188.5**	**(28.0)**	**160.5**

37. Changes in accounting policies continued

Balance sheet (extract)

The impact of adopting IFRS 16 on the Group's opening consolidated balance sheet as at 1 April 2018 is set out below:

All figures in £ million	1 April 2018 As originally presented	Impact of applying IFRS 16	1 April 2018 Restated
Assets			
Property, plant and equipment	269.0	26.4	295.4
Deferred tax assets	6.4	–	6.4
Other current assets	922.6	–	922.6
	1,198.0	**26.4**	**1,224.4**
Liabilities			
Trade and other payables	(353.6)	–	(353.6)
Other financial liabilities	(4.5)	(28.8)	(33.3)
Deferred tax liability	(66.4)	0.4	(66.0)
Other liabilities	(29.2)	–	(29.2)
	(453.7)	**(28.4)**	**(482.1)**
Net Assets	**744.3**	**(2.0)**	**742.3**
Equity			
Retained earnings	552.2	(2.0)	550.2
Share capital and other reserves	191.9	–	191.9
Non-controlling interest	0.2	–	0.2
Total equity	**744.3**	**(2.0)**	**742.3**

Statement of profit or loss (extract)

The impact on the Group's consolidated income statement of adopting IFRS 16 is set out below::

			2020			2019
All figures in £ million	**If applying IAS 17**	**Applying IFRS 16**	**As presented**	**As originally presented**	**Applying IFRS 16**	**Restated**
EBITDA (earnings before interest, tax, depreciation and amortisation)	**173.8**	**10.7**	**184.5**	**156.7**	**9.0**	**165.7**
Depreciation and impairment of property, plant and equipment	(31.3)	(9.7)	(41.0)	(35.8)	(8.0)	(43.8)
Impairment of goodwill	(14.1)	–	(14.1)	–	–	–
Amortisation of intangible assets	(11.8)	–	(11.8)	(7.1)	–	(7.1)
Operating profit	**116.6**	**1.0**	**117.6**	**113.8**	**1.0**	**114.8**
Gain on sale of investment	–	–	–	1.1	–	1.1
Finance income	7.6	–	7.6	9.4	–	9.4
Finance costs	(1.1)	(1.0)	(2.1)	(1.1)	(1.0)	(2.1)
Profit before tax	**123.1**	**–**	**123.1**	**123.2**	**–**	**123.2**
Taxation expense	(16.6)	–	(16.6)	(9.3)	–	(9.3)
Profit for the year attributable to equity shareholders	**106.5**	**–**	**106.5**	**113.9**	**–**	**113.9**
Impact on underling measures of performance						
Underlying operating profit	**132.2**	**1.0**	**133.2**	**123.9**	**1.0**	**124.9**

Statement of cash flows (extract)

The impact on the Group's statement of cash flows of adopting IFRS 16 is set out below:

			2020			2019
All figures in £ million	If applying IAS 17	Applying IFRS 16	As presented	As originally presented	Applying IFRS 16	Restated
Net cash inflow from operations	**155.8**	**10.7**	**166.5**	**125.6**	**9.0**	**134.6**
Others	(8.8)	–	(8.8)	(9.4)	–	(9.4)
Interest paid	(0.7)	(1.0)	(1.7)	(0.7)	(1.0)	(1.7)
Net cash inflow from operating activities	**146.3**	**9.7**	**156.0**	**115.5**	**8.0**	**123.5**
Net cash outflow from investing activities	**(185.5)**	**–**	**(185.5)**	**(121.0)**	**–**	**(121.0)**
Others	(39.0)	–	(39.0)	(57.9)	–	(57.9)
Capital element of lease payments	–	(9.7)	(9.7)	(0.4)	(8.0)	(8.4)
Net cash outflow from financing activities	**(39.0)**	**(9.7)**	**(48.7)**	**(58.3)**	**(8.0)**	**(66.3)**
Decrease in cash and cash equivalents	**(78.2)**	**–**	**(78.2)**	**(63.8)**	**–**	**(63.8)**
Free cash flow (as defined by the Group – see glossary)	49.8	9.7	59.5	35.5	8.0	43.5

IFRIC 23 'Uncertainty over income tax treatments'

This interpretation was published in June 2017 and is required to be applied in the determination of taxable profits / losses and tax attributes, when there is uncertainty over their treatment under IAS 12. The primary impact on QinetiQ's financial statements arises in relation to the provision for potential overseas tax liabilities in territories where the Group does not have a registered taxable presence (i.e. territories to which the Group exports goods or provides short-term services).

The Group previously recorded provisions under IAS 12 reflecting the potential risk of QinetiQ's many activities across many jurisdictions. These provisions have been reassessed and recalculated to meet the more prescriptive threshold for recognition under IFRIC 23, which explicitly requires consideration of each tax jurisdiction individually. Combined with an assessment of other tax reserves, the impact of the adoption of IFRIC 23 in 2020 is a reduction in tax provisions (within current tax payable) of £2.1m.

QinetiQ has chosen to apply the transition approach for adopting IFRIC 23 and not restate comparative information in the first year of adoption. An adjustment, to the value of £2.1m, has been made to retained earnings at the beginning of the first period of adoption (the year to 31 March 2020) as shown in the consolidated statement of changes in equity.

Company balance sheet

As at 31 March

All figures in £ million	Note	2020	2019
Fixed assets			
Investments in subsidiary undertaking	2	482.5	475.0
		482.5	**475.0**
Current assets			
Debtors	3	–	13.2
		–	**13.2**
Current liabilities			
Creditors: amounts falling due within one year	4	(70.6)	(91.8)
Net current liabilities		**(70.6)**	**(78.6)**
Total assets less current liabilities		**411.9**	**396.4**
Net assets		**411.9**	**396.4**
Equity			
Share capital	5	5.7	5.7
Capital redemption reserve		40.8	40.8
Share premium		147.6	147.6
Retained earnings		217.8	202.3
Total equity		**411.9**	**396.4**

The profit for the year ended 31 March 2020 was £47.4m (2019: profit of £21.8m).

The financial statements of QinetiQ Group plc (company number 4586941) were approved by the Board of Directors and authorised for issue on 21 May 2020 and were signed on its behalf by:

Steve Wadey
Chief Executive Officer

David Smith
Chief Financial Officer

Company statement of changes in equity

For the year ended 31 March

All figures in £ million	Share capital	Capital redemption reserve	Share premium	Retained earnings	Total equity
At 1 April 2019	5.7	40.8	147.6	202.3	396.4
Profit for the year	–	–	–	47.4	47.4
Purchase of own shares	–	–	–	(0.7)	(0.7)
Dividend paid	–	–	–	(38.0)	(38.0)
Share-based payments	–	–	–	6.8	6.8
At 31 March 2020	**5.7**	**40.8**	**147.6**	**217.8**	**411.9**
At 1 April 2018	5.7	40.8	147.6	211.0	405.1
Profit for the year	–	–	–	21.8	21.8
Purchase of own shares	–	–	–	(0.7)	(0.7)
Dividend paid	–	–	–	(35.7)	(35.7)
Share-based payments	–	–	–	5.9	5.9
At 31 March 2019	**5.7**	**40.8**	**147.6**	**202.3**	**396.4**

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

Notes to the Company Financial Statements

1. Accounting policies

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

Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with applicable UK Accounting Standards. As permitted by section 408(4) of the Companies Act 2006, a separate profit and loss account dealing with the results of the Company has not been presented.

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

- A cash flow statement and related notes
- Disclosures in respect of capital management
- The effects of new but not yet effective IFRSs
- Disclosures in respect of the compensation of key management personnel
- IAS 24 in respect of related party transactions entered into between two or more members of a group
- IFRS 2 Share Based Payments in respect of Group-settled share-based payments
- Certain disclosures required by IFRS 13 Fair Value Measurement and the disclosures required by IFRS 7.

Investments

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less any impairment in value.

Share-based payments

The cost of share-based payments in respect of employees of Group subsidiaries is charged to those subsidiary undertakings. In the Company financial statements the recoverable from subsidiaries is credited directly to equity. The fair value of equity-settled awards for share-based payments is determined on grant and expensed in subsidiary undertakings (and credited to equity in the Company) on a straight line basis over the period from grant to the date of earliest unconditional exercise. The charges for equity-settled share-based payments are updated annually for non-market-based vesting conditions. Further details of the Group's share-based payment charge are disclosed in note 27 to the Group financial statements.

2. Investments in subsidiary undertakings

As at 31 March

All figures in £ million	2020	2019
Subsidiary undertaking – 100% of ordinary share capital of QinetiQ Group Holdings Limited	424.3	424.3
Capital contributions arising from share-based payments to employees of subsidiaries	58.2	50.7
	482.5	**475.0**

The increase in investments in subsidiary undertakings in 2020 relates to £7.5m of equity-settled schemes during the year.

A list of all subsidiary undertakings of QinetiQ Group plc is disclosed in note 33 to the Group financial statements.

3. Debtors

As at 31 March

All figures in £ million	2020	2019
Amounts owed by Group undertakings	-	13.2

4. Creditors: amounts falling due within one year
As at 31 March

All figures in £ million	2020	2019
Amounts owed to Group undertakings	70.6	91.8

Amounts owed to Group undertakings are unsecured, repayable on demand and bear no interest.

5. Share capital
The Company's share capital is disclosed in note 26 to the Group financial statements.

6. Share-based payments
The Company's share-based payment arrangements are set out in note 27 to the Group financial statements.

7. Parent company guarantees
The Company has provided guarantees to various customers of subsidiaries to the value of £21.0m (2019: £21.0m) in the ordinary course of business.

8. Other information
Directors' emoluments, excluding Company pension contributions, were £4.4m (2019: £4.5m). These emoluments were all in relation to services provided on behalf of the QinetiQ Group with no amount specifically relating to their work for the Company. Details of the Directors' emoluments, share schemes and entitlements under money purchase pension schemes are disclosed in the Remuneration Report.

The remuneration of the Company's auditor for the year to 31 March 2020 was £0.4m (2019: £0.1m), which was for audit of the Group financial statements and Company financial statements and audit related assurance services. No other services were provided by the auditor to the Company.

The monthly average number of employees for the year to 31 March 2020 was nil (2019: nil).

Five Year Record

For the years ended 31 March (unaudited)		2020	2019[2]	2018	2017	2016
EMEA Services	£m	797.4	687.7	651.4	613.5	616.4
Global Products	£m	275.5	223.4	181.6	169.6	139.3
Revenue	**£m**	**1,072.9**	**911.1**	**833.0**	**783.1**	**755.7**
EMEA Services	£m	100.6	96.8	94.3	92.7	93.8
Global Products	£m	32.6	28.1	28.2	23.6	15.1
Underlying operating profit[1]	**£m**	**133.2**	**124.9**	**122.5**	**116.3**	**108.9**
Underlying operating margin[1]	*%*	*12.4*	*13.7*	*14.7*	*14.9*	*14.4*
Operating profit	£m	117.6	114.8	141.0	132.7	75.3
Underlying profit before tax[1]	£m	132.2	124.0	122.1	116.1	108.7
Profit before tax	£m	123.1	123.2	144.8	131.5	97.7
Profit attributable to owners of the Company	£m	106.3	113.9	138.1	123.3	106.1
Underlying basic EPS[1] attributable to owners of the Company	Pence	20.0	19.7	19.3	18.1	16.3
Basic EPS attributable to owners of the Company	Pence	18.7	20.1	24.4	21.5	18.1
Diluted EPS attributable to owners of the Company	Pence	18.6	20.0	24.3	21.3	18.0
Dividend per share	Pence	2.2	6.6	6.3	6.0	5.7
Underlying net cash flow from operations [1]	£m	177.8	135.3	126.5	111.9	133.4
Net cash as defined by the Group	£m	84.7	160.5	266.8	221.9	274.5
Average number of employees		6,267	5,994	6,143	6,114	6,266
Orders excluding LTPA amendments	£m	972.1	776.4	587.2	675.3	659.8

1 Underlying measures are stated before specific adjusting items. Definitions of underlying measures of performance are provided in the glossary on page 183. Underlying financial measures are presented because the Board believes these provide a better representation of the Group's long-term performance trend. For details of specific adjusting items refer to note 4 and note 35 of the financial statements.

2 2019 figures have been restated, where relevant/impacted, due to a change in accounting policy in respect of leases. See note 37 for details.

Foreign exchange

The principal exchange rates affecting the Group were the Sterling to US Dollar exchange rate and the Sterling to Australian Dollar rate.

	12 months to 31 March 2020	12 months to 31 March 2019
£/US$ – opening	1.30	1.40
£/US$ – average	1.27	1.31
£/US$ – closing	1.24	1.30
£/A$ – opening	1.83	1.83
£/A$ – average	1.86	1.80
£/A$ – closing	2.03	1.83

Treasury policy

The Group treasury department works within a framework of policies and procedures approved by the Audit Committee. There is a structured approach to financial risk management, mitigating exposures to currency, liquidity, counterparty and credit risks as outlined in note 24. The policy supports the use of financial instruments to manage and hedge business operations risks that arise on movements in financial, credit or money markets. As part of these policies and procedures, there is strict control on the use of financial instruments. Speculative trading in financial instruments is not permitted.

- Currency risk – The Group's income and expenditure is largely settled in the functional currency of the relevant Group entity. However, where cash flows are denominated in currencies other than the functional currency of the relevant trading entity, the Group has a policy in place to hedge all material transaction exposure at the point of commitment to the underlying transaction. Uncommitted future transactions are not routinely hedged. Where the timing of cash flows differ from the original expectation, the Group will enter into currency swaps to realign the hedge maturity. The maximum permitted hedge period is 5 years. The Group does not hedge translation exposures arising from the consolidation of overseas subsidiaries in foreign currencies.
- Financial credit and liquidity risk – The Group manages liquidity risk to ensure funds are available to meet business needs and maximise return while managing counterparty and credit risks. Investments are permitted with institutions on an Approved Counterparty list and not to exceed the counterparty credit limit. Investments must be held in the currency of the reporting entity except currency deposits or borrowings specifically placed to hedge assets or liabilities with related hedge documentation. Group funding is established to meet the Group's medium and long term financing requirements. Facilities are agreed with a number of financial institutions such that no single institution exerts undue influence on the Group. At the year end the Group had an undrawn revolving credit facility of £275m which expires on 27 September 2024 with an option to extend one further year.

The policies are established to manage and control risk in the treasury environment and to align the treasury goals, objectives and philosophy of the Group.

Tax risk management

QinetiQ's tax strategy, as published on its corporate website, is to ensure compliance with all relevant tax legislation, wherever we do business, whilst managing our effective tax rates and tax cash flows. Tax is managed in alignment with our corporate responsibility strategy in that we strive to be responsible in all our business dealings with a zero tolerance of tax evasion. These principles are applied in a consistent and transparent manner in pursuing the tax strategy and in all dealings with tax authorities around the world.

- Tax planning – QinetiQ manages both effective tax rate (ETR) and cash tax impacts in line with the Board-endorsed tax strategy. External advice and consultation are sought on potential changes in tax legislation in the UK, the US and elsewhere as necessary, enabling the Group to plan for and mitigate potential changes. QinetiQ does not make use of 'off-shore' entities or tax structures to focus taxable profits in jurisdictions that legislate for low tax rates.
- Relationships with tax authorities – QinetiQ is committed to building constructive working relationships with tax authorities based on a policy of full disclosure in order to remove uncertainty in its business transactions and allow the authorities to review possible risks. In the UK, QinetiQ seeks to be open and transparent in its engagement with the tax authorities by sharing with HMRC the methodologies adopted in its tax returns.
- Transfer pricing – QinetiQ does not have a significant level of cross-border activity but this will increase as it pursues its policy of expanding around the globe. Where there is cross-border activity, controls are in place to ensure pricing reflects 'arm's length' principles in compliance with the OECD Transfer Pricing Guidelines and the laws of the relevant jurisdictions. The Group does not, therefore, have a significant exposure to transfer pricing legislation. QinetiQ submits its "Country by Country" report to the UK tax authorities in line with the OECD rules providing insight for tax authorities into its global tax affairs.
- Governance – The Board has approved this approach. The Audit Committee oversees the tax affairs and risks through periodic reviews. The governance framework is used to manage tax risks, establish controls and monitor their effectiveness. The Head of Tax is responsible for ensuring that appropriate policies, processes and systems are in place and that the tax team has the required skills and support to implement this approach.

QinetiQ's corporate tax contribution – QinetiQ is liable to pay tax in the countries in which it operates, principally the UK, the US, Australia, Canada, Germany and Belgium. Changes in tax legislation in these countries could have an adverse impact on the level of tax paid on profits generated by the Group. A significant majority of the Group's profit before tax is generated in the UK. This reflects the fact that the majority of the Group's business is undertaken, and employees are based, in the UK. Total corporation tax payments in the year to 31 March 2020 were £10.0m.

The differential between the taxation expense and the tax paid in the year relates primarily to the timing of the recovery of research and development expenditure credits for which the cash is recovered in the year following the year of account. There is also an impact of deferred tax movements, whereby the income statement bears charges and credits (e.g. in respect of accelerated capital allowances) but for which there is no corporation tax paid in the year. Together, these result in the cash paid being £6.6m less than the total expense charged to the income statement.

Glossary

AGM Annual General Meeting

BBP Bonus Banking Plan

CAGR Compound Annual Growth Rate

C4ISR Command, control, communications, computers, intelligence, surveillance and reconnaissance

COTS Commercial off the shelf

CPI Consumer Price Index

CR Corporate Responsibility

CRC Carbon Reduction Commitment

CSR Corporate Social Responsibility

DE&S MOD's Defence, Equipment and Support organisation

DHS US Department of Homeland Security

DSP Deferred Share Plan

DoD US Department of Defense

EBITDA Earnings before interest, tax, depreciation and amortisation

ED&I Equality, diversity and inclusion

EDP Engineering Delivery Partner

EEG Employee Engagement Group

EMEA Europe, Middle East and Australasia

EPS Earnings per share

ESA European Space Agency

ESOS Energy Savings Opportunity Scheme

EST Engineering, Science and Technical

FAR Federal Acquisition Regulations

FCA Financial Conduct Authority

FMI Foster-Miller, Inc. – the legal entity through which the QNA business operates

Funded order backlog
The expected future value of revenue from contractually committed and funded customer orders

GHG Greenhouse gas

IAS International Accounting Standards

IBDM International Berthing and Docking Mechanism

IFRS International Financial Reporting Standards

IRAD Internal research and development

KPI Key Performance Indicator

LDP Leadership development programme

LIBID London inter-bank bid rate

LIBOR London inter-bank offered rate

LTI Lost time incident

LTPA Long Term Partnering Agreement – 25-year contract established in 2003 to manage the MOD's Test and Evaluation ranges

MDP Modernising Defence Programme

MOD UK Ministry of Defence

MSCA Maritime Strategic Capability Agreement

NCSISS Naval Combat System Integration Support Services

OHSAS Occupational Health and Safety Advisory Services

PDR Performance development review

PBT Profit before tax

PSP Performance Share Plan

QNA QinetiQ North America

QSOS QinetiQ Share Option Scheme

QTS QinetiQ Target Systems

R&D Research and development

RDEC Research and development expenditure credit

SE Strategic Enterprise

SPA Special protection area

SSRO Single Source Regulations Office

SSSI Site of Special Scientific Interest

STEM Science, Technology, Engineering and Maths

T&E Test and Evaluation

T&R Training and Rehearsal

TSR Total shareholder return

UAV Unmanned aerial vehicle

UK Corporate Governance Code
Guidelines of the Financial Reporting Council to address the principal aspects of corporate governance in the UK

UK GAAP
UK Generally Accepted Accounting Practice

Alternative performance measures (APMs)

The Group uses various non-statutory measures of performance, or APMs. Such APMs are used by management internally to monitor and manage the Group's performance and also allow the reader to obtain a proper understanding of performance (in conjunction with statutory financial measures of performance). The APMs used by QinetiQ are set out below:

Measure	Explanation	Note
Organic growth	The level of year-on-year growth, expressed as a percentage, calculated at constant prior year foreign exchange rates, adjusting for business acquisitions and disposals to reflect equivalent composition of the Group	Note 2
Underlying operating profit	Operating profit as adjusted to exclude 'specific adjusting items'	Note 3
Underlying operating margin	Underlying operating profit expressed as a percentage of revenue	Note 3
Underlying net finance income/expense	Net finance income/expense as adjusted to exclude 'specific adjusting items'	Note 7
Underlying profit before/after tax	Profit before/after tax as adjusted to exclude 'specific adjusting items'	Note 4
Underlying effective tax rate	The tax charge for the year excluding the tax impact of 'specific adjusting items' expressed as a percentage of underlying profit before tax	Note 9
Underlying basic and diluted EPS	Basic and diluted earnings per share as adjusted to exclude 'specific adjusting items'	Note 10
Orders	The level of new orders (and amendments to existing orders) booked in the year. Includes share of orders won by joint ventures.	N/A
Backlog, funded backlog or order book	The expected future value of revenue from contractually committed and funded customer orders	N/A
Book to bill ratio	Ratio of funded orders received in the year to revenue for the year, adjusted to exclude revenue from the 25-year LTPA contract due to significant size and timing differences of LTPA order and revenue recognition which may distort the ratio calculation	N/A
Underlying net cash flow from operations	Net cash flow from operations before cash flows of specific adjusting items.	Note 25
Underlying operating cash conversion or cash conversion ratio	The ratio of underlying net cash from operations to underlying operating profit	Note 25
Free cash flow	Underlying net cash flow from operations less net tax and interest payments less purchases of intangible assets and property, plant and equipment. Plus proceeds from disposal of plant and equipment.	Note 25
Net cash	Net cash as defined by the Group combines cash and cash equivalents with other financial assets and liabilities, primarily available for sale investments, derivative financial instruments and finance lease assets / liabilities.	Note 22
Specific adjusting items	Amortisation of intangible assets arising from acquisitions; impairment of property; gains/losses on disposal of property, investments and intellectual property; net pension finance income; pension past service costs; acquisition costs; tax impact of the preceding items and significant non-recurring deferred tax movements.	Note 4

Shareholder Information

Registrar: Equiniti Limited

www.shareview.co.uk
Tel: 0371 384 2021

Shareholding enquiries

The Company's registrar is Equiniti. Enquiries regarding your shareholding, including the following administrative matters, should be addressed to Equiniti:

- Change of personal details such as change of name or address
- Lost share certificates
- Dividend payment enquiries
- Direct dividend payments. You can have your dividends paid directly into a UK bank or building society account by completing a dividend mandate form. The associated dividend confirmation will still be sent to your registered address. If you live outside the UK, Equiniti offers a global payments service which is available in certain countries and could enable you to receive your dividends direct into your bank account in your local currency

Contact details for registrar

By post:

Equiniti Limited, Aspect House, Spencer Road Lancing, West Sussex BN99 6DA

By telephone:

0371 384 2021* for UK calls,
+44 (0)121 415 7576 for calls from outside the UK.

* Lines are open 8.30am to 5.30pm (UK time), Monday to Friday (excluding public holidays in England and Wales).

By email:

You can send an email enquiry securely from Equiniti's website, at help.shareview.co.uk

Online:

Equiniti's website at help.shareview.co.uk (Shareview) includes answers to frequently asked questions and provides key forms for download. Shareview also offers online access to your shareholding where you can manage your account, register for electronic communications, see details of balance movements and complete certain amendments online, such as changes to dividend mandate instructions. You can register at www.shareview.co.uk, click on 'Register' and follow the steps.

Electronic communications

The Company offers shareholders the option to receive documentation and communications electronically, via the Company's website. The wider use of electronic communications enables fast receipt of documents, reduces the Company's printing, paper and postal costs and reduces the Company's environmental impact. Shareholders can register for electronic communications at www.shareview.co.uk and may also cast their vote for the 2020 Annual General Meeting online quickly and easily using the Sharevote service by visiting www.sharevote.co.uk.

Donating shares to charity – ShareGift

Small parcels of shares, which may be uneconomic to sell on their own, can be donated to ShareGift, the share donation charity (registered charity no. 1052686). ShareGift transfers these holdings into their name, aggregates them, and uses the proceeds to support a wide range of UK charities based on donor suggestion. If you would like further details about ShareGift, please visit www.sharegift.org, email help@sharegift.org or telephone them on 020 7930 3737.

Share price

Details of current and historical share prices can be found on the Company's website at www.QinetiQ.com/investors

Analysis of share register at 31 March 2020

By type of holder	Total number of holdings	Percentage of holders	Total number of shares	Percentage issued capital
Individual	5,667	88.94%	5,254,036	0.92%
Institutions and others	705	11.06%	566,503,085	99.08%
Total	**6,372**	**100%**	**571,757,121**	**100%**
By size of holding				
1-500	4,308	67.61%	829,458	0.15%
501-1,000	516	8.10%	414,316	0.07%
1,001-2,500	601	9.43%	1,060,335	0.19%
2,501-5,000	340	5.34%	1,238,820	0.22%
5,001-10,000	152	2.39%	1,110,976	0.19%
10,001-100,000	219	3.44%	7,619,779	1.33%
Over 100,000	236	3.70%	559,483,437	97.85%
Total	**6,372**	**100%**	**571,757,121**	**100%**

Share fraud reporting: www.fca.org.uk/scams
FCA Consumer Helpline: 0800 111 6768

Beware of share fraud

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

How to avoid share fraud

1. Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
2. Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
3. Check the Financial Services Register from www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
4. Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
5. Use the firm's contact details listed on the Register if you want to call it back.
6. Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
7. Search the list of unauthorised firms to avoid at www.fca.org.uk/scams.
8. Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
9. Think about getting independent financial and professional advice before you hand over any money.
10. Remember: if it sounds too good to be true, it probably is!

Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Key dates

14 July 2020	Annual General Meeting
30 September 2020	Half-year financial period end
19 November 2020	Half-year results announcement
February 2021	Trading update (provisional date)
31 March 2021	Financial year end
27 May 2021	Preliminary results announcement (provisional date)

Cautionary statement

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

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

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